UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For The Year Ended June 30, 2001

Commission File Number: 0-26802

CHECKFREE CORPORATION

(Exact name of Registrant as specified in its charter)

DELAWARE	58-2360335
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4411 EAST JONES BRIDGE ROAD
NORCROSS, GEORGIA 30092
(Address of principal executive offices, including zip code)

(678) 375-3000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, $.01 par value Preferred Stock Purchase Rights

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of our Common Stock held by our non-affiliates was approximately $1,050,442,170 on September 14, 2001.

There were 87,154,357 shares of our Common Stock outstanding on September 14, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Annual Report to Stockholders for the fiscal year ended June 30, 2001 are incorporated by reference in Part II.

Portions of our Proxy Statement for the 2001 Annual Meeting of Stockholders are incorporated by reference in Part III.

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PART I

ITEM 1. BUSINESS.

All references to "we," "us," "our," "CheckFree" or the "Company" in this Annual Report on Form 10-K mean CheckFree Corporation and all entities owned or controlled by CheckFree Corporation, except where it is made clear that the term only means the parent company.

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 provide electronic billing and payment services for over 5.2 million consumers as of June 30, 2001. Our services reach hundreds of sources, either directly or through reseller relationships, including:

- 9 of the 10 largest U.S. banks;
- 8 of the top 10 U.S. brokerage firms;
- Internet portals;
- Internet-based banks;
- Internet financial sites like Quicken.com; and
- Personal financial management software like Quicken and Microsoft Money.

We have developed contracts with over 1,100 merchants nationwide that allows us to remit approximately 64% of all of our bill payments electronically. We processed over 22 million transactions for the month of June 2001 and, for the year ended June 30, 2001, we processed over 231 million transactions.

In March 1997, we introduced electronic billing -- "E-Bill" -- which enables merchants to deliver billing as well as marketing materials interactively to their customers over the Internet. In March 2001, we introduced the latest version of our electronic billing and payment products, "WebPay for Consumers" (or WebPay 3.2), which provides consumers with the ability to receive and pay e-bills over e-mail and to exchange money with each other using e-mail "invitations" to send or receive money. As of June 30, 2001, we have 173 billers in production and are delivering nearly 500,000 electronic bills monthly. Additional biller content became available in the fourth quarter of fiscal 2001 through our ability to deliver bills scraped from biller-direct sites, which added six national credit card bills to the 173 bills available through traditional electronic and billing payment services.

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, assessing 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, it will be sent by check. If the results are not favorable, the remittance will be sent to the merchant by a draft drawn directly on the customer's checking account. In an electronic remittance, the funds are transmitted electronically to the merchant with the 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 is able 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 electronically to approximately 64% by June 2001.

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 system solution includes:

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

Our financial planning software applications include:

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

Our fee-based money manager clients are typically sponsors or managers of wrap money management products or traditional money managers, managing investments of institutions and high net worth individuals. Our portfolios under management have grown to over 1.1 million as of June 30, 2001.

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, which is 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. Given the nature of the process we use to convert billing and/or statement information for use over the Internet, these products are equally marketable in international markets 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 transfers 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 on the automated clearinghouse at the Federal Reserve Commission's web site at http://www.federalreserve.gov. We do not maintain a direct connection with the automated clearinghouse, but rather, clear our electronic transactions through KeyBank, N.A., under the terms of an automated clearinghouse agreement.

- Reconciliation.

  Through our ReconPlus software, we provide U.S. 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 ReconPlus 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 solutions for Form 1099 processing, safe box accounting and other applications.

During the fiscal year June 30, 2001, Electronic Commerce accounted for 70% of our revenues, Investment Services accounted for 16% of our revenues, and Software accounted for 14% of our revenues.

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, BlueGill Technologies, Inc. in April 2000, and MSFDC, L.L.C (TransPoint) in September 2000. In October 2000, we completed the strategic agreement we entered into with Bank of America in April 2000, under which we acquired certain of Bank of America's electronic billing and payment assets.

ELECTRONIC COMMERCE INDUSTRY BACKGROUND

The majority of today's consumer bill payments are completed using traditional paper-based methods. According to the Gartner Group, of the estimated 17 billion consumer bills produced each year, 81% are paid by paper check, 12% are paid by electronic means and 7% by other means. Many traditional financial transactions, however, can now be completed electronically due to the emergence of new communications, computing and security technologies. Many financial institutions and businesses have invested in these technologies and are creating the infrastructure for recording, reporting and executing electronic transactions. We believe the broad impact of the Internet will increase the use of electronic methods to execute financial transactions.

Persistence of Traditional Financial Transaction Processes

Many traditional methods of completing financial transactions still persist, including:

- Paper Checks.

  It is estimated that 65 billion checks were written in the United States in 1998. The use of checks imposes significant costs on financial institutions, businesses and their customers. These costs include the writing, mailing, recording and manual processing of checks.

- Paper Billing.

  It is estimated that over 17 billion paper bills are produced each year, with the cost of submitting a paper bill, including printing, postage and billing inserts, as high as $3.00 per bill.

- Conventional Banking.

  Many financial transactions are conducted in person at banks. Banks incur substantial expenses in providing personnel and physical locations, while bank customers incur transportation costs and personal inconvenience when traveling to a bank facility. Over 90% of the 80 million banking households in the United States are still conducting most of their financial transactions using conventional banking methods.

- Business to Business Payments.

  While consumers bear costs and inconvenience receiving and paying paper bills, businesses experience an even higher level of cost and inefficiency when receiving and paying paper bills. For businesses, issues like discounts for prompt payment, returns, allowances, disputed charges and other adjustments, as well as reconciliation to the business' own records, increase the costs of payment.

The Internet's Role in Driving Electronic Commerce

We believe the broad impact of the Internet is driving financial institutions, businesses and consumers to adopt practices of electronic billing and payment, banking and business-to-business payments. We expect that the growth in these electronic commerce activities will increase the need for services that support secure, reliable and cost-effective financial transactions between and among these market participants. We believe the combination of the following trends is driving adoption of electronic commerce:

- Expanding PC Ownership.

  Declining prices for personal computers and rapid growth in the number of computer-literate consumers are driving increased penetration of personal computers in U.S. homes.

- Increasing Internet Accessibility.

  Reduced communications costs, improved web browsers and faster connection speeds have made the Internet increasingly accessible to consumers and to businesses offering products and services on-line. International Data Corporation estimates that there were 52 million Internet users in the United States at the end of 1998 and that this figure will grow to 136 million by the end of 2002.

- Increasing Acceptance of Electronic Commerce.

  Consumers have grown increasingly comfortable with the security of electronic commerce and are willing to conduct large transactions on-line. International Data Corporation estimates that the total value of goods and services purchased over the Internet in the United States will increase from approximately $26 billion in 1998 to over $269 billion in 2002.

- Emergence of New Industry Participants.

  New businesses have emerged which use the broad adoption of the Internet to compete with traditional businesses. Traditional financial institutions now compete with Internet-based banks, brokerages and other financial services companies. These companies do not offer consumers the possibility of traditional, manual financial transactions and are driving further adoption of electronic commerce.

THE ELECTRONIC SOLUTION

We believe that consumers will move their financial transactions from traditional paper-based to electronic transactions if they have an easy-to-access, easy-to-use, compelling, secure and cost-effective solution for receiving and paying their bills electronically. We believe that, compared with conventional paper-based transactions, electronic transactions cost much less to complete, give rise to far fewer errors and generate far fewer subscriber inquires. We believe that an electronic solution should allow consumers at their access point of choice 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 also believe that these functionalities must be delivered on a platform that:

- is fully supported by end-to-end customer care;
- is available 24 hours a day, 7 days a week; and
- provides the highest level of security, availability and privacy.

Over the past seventeen years, we have developed market leading expertise and technological capability to provide electronic commerce solutions with these functionalities.

THE CHECKFREE ADVANTAGE

Our experience as a leading provider of electronic billing and payment and banking services has facilitated the building of a state of the art infrastructure. We have leveraged this infrastructure by developing a full suite of electronic commerce services, all of which we offer in an integrated fashion through multiple distribution channels.

Infrastructure

Our infrastructure allows consumers to receive and pay both conventional and electronically presented bills and handle traditional banking transactions electronically. The key components of our infrastructure are:

- Connectivity with Merchants.

  We have established electronic connectivity to over 1,100 merchants, which allows us to remit 64% of all of our bill payments electronically. Electronic remittance may be accomplished at a lower cost than remittances using the traditional paper-based method. In addition, electronic remittance significantly reduces payment exceptions and related costs associated with customer care.

- Scalable Genesis Platform.

  Our Genesis platform, completed in 1998, is an internally developed data processing system created by our in-house engineers to process electronic billings and payments. The Genesis platform was designed to be scaled to handle more than 30 million consumers. We have made significant investments in processes and technologies supporting our Genesis platform to ensure that transactions are executed with the highest level of security, reliability and efficiency.

- Connectivity to Billers.

We believe that our ability to provide consumers with access to electronic bills will substantially spur adoption of the electronic solution. By targeting the largest billers in key industries and in selected population centers, we believe we can provide a significant number of bills to most consumers at their access point of choice. We have electronic bill distribution contracts with 271 billers. To encourage billers to utilize our services, we anticipate funding a portion of some billers' set-up costs.

- Experienced Customer Care Staff.

We have approximately 1,040 trained, experienced customer care and merchant services staff that offer seamless end-to-end customer care. We believe that customer care that provides answers to all the questions that consumers may have about their transactions is a critical component of providing a compelling, easy-to-use solution that consumers will ultimately adopt.

Distribution

We believe that consumers are most attracted to an electronic solution that enables them to receive and pay all of their bills at a single site. For many consumers, the site they choose will be their financial institution's website, while others will prefer Internet portals or sites operated by individual merchants. Through contracts with hundreds of sources, we are able to distribute our services to whichever access and aggregation site the consumer prefers. Significant among these contracts are our agreements with:

- 9 of the 10 largest U.S. banks;
- 8 of the top 10 U.S. brokerage firms;
- Internet portals;
- Internet-based banks;
- Internet financial sites like Quicken.com; and
- Personal financial management software like Quicken and Microsoft Money.

OUR BUSINESS STRATEGY

Our business strategy is to provide an expanding range of convenient, secure and cost-effective electronic commerce services and related products to financial institutions, Internet portals, businesses and their customers. We have designed our services and products to take advantage of opportunities we perceive in light of current trends and our fundamental strategy. The key elements of our business strategy are to:

- Drive increased adoption of electronic commerce services by consumers.

We believe that consumers will move their financial transactions from traditional paper-based methods to electronic transactions if they have an easy-to-access, easy-to-use, secure, compelling and cost-effective method for receiving and paying their bills electronically. Our strategy to drive adoption of our electronic services will focus on the following initiatives.

We intend to use the broad adoption of the Internet by consumers to encourage the use of our web-based electronic commerce services by our financial institution and Internet portal customers. To further drive demand, we are also providing our services through Internet portals. This strategy should provide consumers with ready access to easy-to-use, cost-effective applications for receiving and paying their bills electronically. Part of our strategy to drive consumer adoption is working with Internet portals to offer our services to consumers on a free-trial basis. Initially, this strategy will result in foregone revenues, but we anticipate converting a majority of these new customers to fee-based services at the end of the trial period. As consumers continue to adopt electronic commerce services, financial institutions and billers will see greater efficiencies from providing electronic billing and payment services to their customers.

We are proposing new pricing structures to our financial institution customers to facilitate their offering electronic billing and payment to a broad spectrum of consumers. Our traditional financial institution pricing structure was based on subscriber fees, with an average cost to the financial institution of approximately $4 per subscriber per month. Under the old pricing structure, the costs to our financial institution customers grew roughly proportionally to the number of subscribers added, regardless of activity. Our new pricing programs are negotiated individually with each customer and include a monthly fixed fee to the financial institution to cover our infrastructure costs which helps our financial institution customers more accurately predict the costs, a small monthly per subscriber fee and a new fee based on the number of transactions processed by the financial institution. We believe the new pricing structure should allow our financial institution customers to justify promoting the service through free trials and other offers.

Additionally, we believe that financial institutions and Internet portals that offer electronic banking will experience increased customer retention, have a superior marketing channel and be able to offer enhanced customer service.

- Continue to distribute electronic commerce services through multiple channels.

We maintain alliances with market-leading companies to achieve deeper market penetration and have begun an initiative to offer our electronic commerce services through Internet portals. To better reach smaller financial institutions, we have entered into distribution agreements with some independent firms that we believe can more efficiently address the needs of this industry segment. Additionally, by making services available to users of personal financial management software, like Quicken, Microsoft Money and Managing Your Money and of business management software, like QuickBooks, we expand public access to, and awareness of, our services.

- Focus on customer care and technical support.

We believe that providing superior quality and accessible and reliable customer care is essential to establishing and maintaining successful relationships with our customers. We support and service customers through numerous activities, including technical and non-technical support, through help desk, e-mail and facsimile, as well as through service implementation and training. We are enhancing our support of our services through advanced Internet-based communications technologies that enable us to efficiently respond to billing and payment inquiries made by financial institutions, billers and their customers. In anticipation of greater adoption of our electronic commerce services, we are increasing the number of our customer care personnel and focusing on our efficiency in handling customer care inquiries. Additionally, we established a third operational center in Phoenix, Arizona to house customer care and check printing and distribution functions.

- Continue to improve operational efficiency and effectiveness.

We believe that as our business grows and the number of transactions we process increases, we will be able to take advantage of operating efficiencies associated with increased volumes, thereby reducing our unit costs. In fiscal 2000, we began an internal program called the "sigma challenge" which ties employee performance evaluations and compensation to the achievement of process and system improvements. Sigma is a measure of quality typically used by manufacturing firms to minimize defects. The sigma challenge applies sigma measurements as a barometer of our performance on our key metrics of system availability and payment timeliness. Small changes in our performance drive significant sigma movements, focusing our attention on critical tasks and peak performance. The sigma challenge is designed to take our quality performance from 99.0%, or 3.8 sigma, where we began our fiscal year 2000, to 99.9%, or 4.6 sigma, by the end of fiscal 2000. A 4.6 sigma is the quality standard set by the telecommunications industry for delivering their services to businesses and consumers or "dial-tone" quality. By the end of fiscal 2000, we fell slightly below our goal by achieving a quality level of 4.5 sigma. We achieved our goal by achieving 4.6 sigma in fiscal 2001 and now we are working to maintain that level. We expect to derive further operational efficiency and effectiveness by increasing our electronic links with billers, enabling a larger percentage of our consumer transactions to be processed electronically.

- Drive new forms of electronic commerce services.

  Our electronic commerce services are currently applied to banking, billing and payment and brokerage transactions. We believe that new applications will be developed as a result of the growth in electronic commerce generally, and Internet-based commerce specifically. We intend to leverage our infrastructure and distribution to address the requirements of consumers and businesses in these new applications. For example, we plan to leverage our core payment and processing network to accomplish person-to-person and small business payments.

PRODUCTS AND SERVICES

Electronic Commerce

Our electronic commerce services are primarily targeted to consumers through financial institutions and Internet portals. We believe that our services offer significant benefits to financial institutions and Internet portals, including an enhanced electronic relationship with their consumers under which they can market other products and services and, for financial institutions, a lower cost of providing traditional banking and bill payment services. We are continually developing new electronic commerce services and enhancing our existing services for each of our target markets.

We have arrangements with hundreds of sources through which electronic payment services are provided to their customers. The following financial institutions are some of our largest customers of our electronic commerce services, as determined by the number of subscribers:

- Bank of America;
- Bank One;
- Charles Schwab & Co.;
- Chase Manhattan Bank;
- First Union;
- KeyCorp;
- Merrill Lynch & Co.;
- U.S. Postal Service;
- U.S. Bancorp;
- Wells Fargo; and
- Yahoo.

This list of our customers is not exhaustive and may not fully represent our customer base.

Bill Payment and Banking. Our bill payment services enable financial institution and Internet portal customers, as well as direct consumer subscribers to pay bills electronically using a variety of devices like personal computers and touch-tone telephones. Bills paid by consumers using our bill payment services typically include credit card, monthly mortgage and utility bills, but a cornerstone of our services is that we can facilitate electronic payment by consumers to anyone, regardless of whether payment is ultimately made through an electronic or traditional paper method. Consumers can use our services to make any payment electronically from any checking account at any financial institution in the United States. Recurring bills like mortgages can be paid automatically and scheduled in advance, as specified by the consumer. As of June 30, 2001, we had over 5.2 million consumers using our bill payment and home banking services.

We support home electronic banking services for financial institutions and their customers. Among these are balance inquiries, fund transfers, customer service, customer billing and marketing. Our service facilitates on-line reconciliation to personal computer and web-based account registers, matching cleared items with previously entered transactions.

Revenues are generated through contracts with individual financial institutions. We historically negotiated with the financial institution an implementation fee, a base monthly fee per customer account on the service provided, and in some cases, a variable per transaction fee which may decrease based on the volume of transactions. We recently announced the adoption of new pricing programs that include a monthly fixed fee to the financial institution to cover our infrastructure costs which helps our financial institution customers more accurately predict the costs, a small monthly per subscriber fee and a new fee based on the number of transactions processed. Contracts typically have three to five year terms and generally provide for minimum fees if transaction volumes are not met. We utilize direct sales and distribution alliances to market to financial institutions and have the ability to customize services for each institution.

Billing and Payment. Our electronic billing and payment service permits billers to deliver full-color electronic bills to their customers, together with detailed information and electronic promotional inserts. We also offer the opportunity to market interactively, and to use one-to-one marketing techniques. The recipients can use the service to electronically make the payment. We are marketing the service to be incorporated into our electronic banking and bill payment services. We have entered into a variety of arrangements with financial institutions, Internet portals and billers to provide these services and, in some cases, will share revenue derived from billers with the financial institutions and the Internet portals. In the near term, we will offer free-trial periods for our electronic billing and payment services to accelerate the rate of adoption of our services. We believe that billers could eventually achieve substantial savings by utilizing our billing and payment service, but we believe that an even stronger incentive for billers to present bills electronically is the opportunity our system offers for more effective marketing to customers.

Business Payments. We facilitate electronic payments for businesses through our offerings of business bill payment and banking and electronic accounts receivable processing services. As we do for consumers, we enable businesses to make payments to anyone. We employ a direct sales force to market the service through banks and others. Our electronic accounts receivable collections for businesses are provided to health and fitness and various other industries, enabling these businesses to collect monthly fees through electronic funds transfer or credit cards. Services are typically provided under contracts for three years with automatic renewals. For providing collection services, businesses pay us implementation fees, transaction fees and credit card discount fees.

Investment Services

We offer portfolio management and information services for fee-based money managers and financial planners within investment advisory firms, brokerage firms, banks and insurance companies. Our fee-based money manager clients are typically sponsors or managers of wrap money management products or traditional money managers, who manage investments of institutions and high net worth individuals.

Our full range of portfolio management services provides our clients with portfolio management tools, tax lot reporting, trade modeling, performance measurement and reconciliation. Our information services and software allow traditional money managers and consultants to allocate client assets, select and benchmark performance of money managers and report on manager performance. Each of these features allows our clients to avoid spending time on these functions and focus on their key business.

Revenues in our portfolio management services are generated through multiple year agreements that provide for monthly revenue on a volume basis. Revenue from our information services and software is typically generated through annual agreements.

Our integrated outsourced solution utilizes a Unix platform. The system is highly scalable, making us the system of choice for firms managing a large number of portfolios.

Software

We are a leading provider of electronic commerce and financial applications software and services for businesses and financial institutions. We design, market, license and support software products for automated clearinghouse processing, reconciliation and regulatory compliance. In addition, we offer software consulting and training services.

Our financial application software revenues are derived primarily from the sale of software licenses and software maintenance fees. Our software is sold under perpetual licenses, and maintenance fees are received through renewable agreements.

Our software products provide systems that range from back office operations to front-end interface with the clients of our customers. Applications include automated clearinghouse origination and processing reconciliation, regulatory compliance and safe deposit box accounting. While we have no pending agreements to dispose of our remaining software businesses, we do receive offers for them from time to time.

i-Solutions. The i-Solutions product line, which is 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.

Automated Clearinghouse. The automated clearinghouse network was developed in the 1970s to permit the electronic transfer of funds, curtailing the growth in the number of paper checks in circulation. The automated clearinghouse network acts as the clearing facility for routing electronic funds transfer entries between financial institutions. All automated clearinghouse transfers are handled in a standard format established through the National Automated Clearing House Association. More than 15,000 financial institutions participate in the automated clearinghouse system. There are 31 automated clearing houses, which geographically coincide with the twelve Federal Reserve Banks, their branches and processing centers. Our electronic funds transfer products are interrelated and may be used by either businesses or financial institutions depending on the services they offer their customers and employees.

We developed the Paperless Entry Processing System Plus, with 40 of the top 50 originators utilizing the product to process approximately 70% of all automated clearinghouse transactions nationally, it is the most widely used, comprehensive automated clearinghouse processing system in the United States. Paperless Entry Processing System Plus is an on-line, real-time system providing an operational interface for originating and receiving electronic payments through the automated clearinghouse.

Reconciliation. Our reconciliation products allow users to verify and compare their financial records, data and accounts against related information derived from third party sources. RECON-PLUS provides United States banks, international banks and corporate treasury operations with automated check and non-check reconciliations in high volume, multi-location environments. These systems are often tailored so that banks and multi-bank holding companies may deliver reconciliation services meeting the specific needs of corporate customers. Those reconciliation products are also designed for non-banking corporations that perform account reconciliation in-house as well as companies with many branch locations. Services provided by our reconciliation products include:

- automated deposit verification;
- consolidated bank account reconciliations and cash mobilization;
- immediate and accurate funds availability data; and
- improved cash control.

In 1995, we introduced RECON-PLUS for Windows, a client/server based reconciliation system. RECON-PLUS for Windows is most frequently used for internal reconciliation by large businesses, financial service firms, and utilities, including the reconciliation of debit and credit card transactions, checks, automated teller machine transactions, automated clearinghouse transfers and securities transactions.

Our account reconciliation package is one of the most widely used account reconciliation systems in the United States banking industry. The account reconciliation package/service management system which was developed in 1995 to replace and augment the existing package, is a fully integrated on-line and real time system that enables banks to immediately process their customer transactions to produce accurate, timely reconciliations while streamlining back-office processes. The account reconciliation package/service management system also groups accounts across banks within bank holding companies and allows banks to streamline their operations by reconciling their intra-bank transactions.

Other Software Products. We also offer software products and services dealing with safe box accounting and compliance with government regulations.

Licenses. We generally grant non-exclusive, non-transferable perpetual licenses to use our application software at a single site. Our standard license agreements contain provisions designed to prevent disclosure and unauthorized use of our software. License fees vary according to a number of factors, including the types and levels of services we provide. Multiple site licenses are available for an additional fee. In our license agreements, we generally warrant that our products will function in accordance with the specifications set forth in our product documentation. A significant portion of the license fee payable under our standard license agreement is due upon the delivery of the product documentation and software to the customer, with the balance of the license fee due upon installation. The standard license fee for most products covers the installation of our software and maintenance for the first three to twelve months.

Maintenance and Support. Maintenance includes enhancements to our software. Customers who obtain maintenance generally retain maintenance service from year to year. To complement customer support, we frequently participate in user groups with our customers. These groups exchange ideas and techniques for using our products and provide a forum for customers to make suggestions for product acquisition, development and enhancement.

COMPETITION

Electronic Commerce

We face significant competition in all of our customer markets. First, we need to switch billers and consumers from paper bills sent by mail and paid by check to electronic bill presentment and payment. Second, a number of banks have developed, and others may in the future develop, electronic billing and payment services in-house. J.P. Morgan Chase, First Union Corporation and Wells Fargo & Co. are partners in a venture called Spectrum that plans to allow individuals and businesses to receive and pay bills electronically. To the best of our knowledge, Spectrum has done limited electronic presentment of bills, and is developing a "pay anyone" capability in conjunction with Metavante, a division of Marshall and Ilsley Bank Inc. Metavante competes directly with us in providing pay anyone solutions to financial services organizations and has recently completed two acquisitions in an effort to strengthen their competitive position. Mastercard International also offers online bill presentment to enable people to receive and pay bills over the Internet. A number of other relatively small companies also compete with us in electronic bill payment. In addition, we face competition from competitors offering billing and payment services utilizing scan and pay technology. These "scan and pay" companies offer a service whereby a consumer's bill is received by the company, scanned to create an electronic image of the bill, and electronically delivered to the consumer who can elect to pay that bill either by writing a paper check or through an electronic transfer of funds. We believe that our competitors, however, will need to make substantial progress to able to offer electronic commerce services comparable to the services we currently offer to our customers through multiple distribution channels.

Because the electronic commerce industry is expected to grow substantially in the coming years, we anticipate continued strong competition, but we believe that the increased attention and credibility this competition will bring to the industry may broaden the market and increase the percentage of financial transactions which are effected by electronic means.

Investment Services

Competition for portfolio services includes two main segments. We compete with providers of portfolio accounting software like Advent Software, and we also compete with service bureau providers like SunGard Portfolio Solutions and Financial Models Company.

Software

The computer application software industry is highly competitive. In the electronic statement creation and financial applications software markets, we compete directly or indirectly with a number of firms, including large diversified computer software service companies and independent suppliers of software products. We believe that there is at least one direct competitor for most of our software products, but no competitor competes with us in all of our software product areas.

Our product lines also have numerous competitors. The RECON-PLUS product competes with Chesapeake, Driscoll and Geac. Our PEP+ products compete with Transaction Systems Architects, Inc. CheckFree i-Solutions' electronic statement and billing creation software products compete primarily with edocs, Inc, and Avolent Software.

We believe that the major factors affecting customer decisions in our market, in addition to price, are product availability, flexibility, the comprehensiveness of offered products, and the availability and quality of product maintenance, customer support and training. Our ability to compete successfully also requires that we continue to develop and maintain software products and respond to regulatory change and technological advances. We believe that we currently compete favorably in the marketplace with respect to these criteria. See "Business -- Business Risks (Competitive pressures we face may have a material adverse effect on us)."

In addition, CheckFree i-Solutions (formerly BlueGill) is expanding into international markets where we may discover new local competitors that have the advantages of existing relationships with customers, local technical support staff, and local language support.

SALES, MARKETING AND DISTRIBUTION

Our sales, marketing and distribution efforts are designed to maximize access to potential customers. We market and support our services both directly and indirectly through a direct sales and technical sales support force of over 220 employees and, to achieve deeper market penetration, through select distribution alliances with companies which are involved in our target customer markets. In order to foster a better understanding of the needs of our larger bank customers, and to help us respond to identified needs, we employ a number of account managers assigned to specific banks. We solicit billers for our electronic billing and payment services through a regionally assigned sales force.

In the electronic commerce segment, we offer our services and related products to the nation's largest financial institutions directly through our sales force, and market to smaller institutions through strategic alliances with companies like EDS, Fiserv, Alltel and Equifax. We currently offer substantially all of our services and related products only to the domestic marketplace.

We also offer our electronic commerce services through Internet portals. We believe that these Internet portals will enhance and speed up the rate of adoption of electronic commerce services by consumers. Part of this strategy contemplates working with Internet portals to offer our services to consumers on a free-trial basis. Initially, this strategy will result in foregone revenue, but we anticipate converting a majority of these new customers to fee-based services at the end of the trial period. Additionally, the distribution of electronic home banking and electronic consumer and business billing and payment services is widened though inclusion or access through front-end personal financial management software, like Quicken, Microsoft Money and Managing Your Money.

We market investment services through our direct sales force. We generate new customers through direct solicitation, user groups and advertisements. We also participate in trade shows and sponsor industry seminars for distribution alliances.

We market financial application software products through our direct sales force and through indirect sales through Alltel banking services. Salespersons have specific product responsibility and receive support from technical personnel as needed. We generate new customers through direct solicitations, user groups, advertisements, direct mail campaigns and strategic alliances. We also participate in trade shows and sponsor industry technology seminars for prospective customers. Existing customers are often candidates for sales of additional products or for enhancements to products they have already purchased.

An element of our strategy is the creation and maintenance of distribution alliances that maximize access to potential customers for our electronic commerce services and related products. We believe that these alliances enable us to offer services and related products to a larger customer base than can be reached through stand-alone marketing efforts. We seek distribution alliances with companies who have maximum penetration and leading reputations for quality with our target customers. To date, we have entered into or are negotiating distribution alliances with several companies, including AT&T, Alltel, EDS, Fiserv, Five Paces, and Home Financial Network. We also have arrangements with SunGard for RECON-PLUS for Windows.

One of the ramifications of this strategy is that we do not, for the most part, have a direct relationship with the end-users of our products. See "Business -- Business Risks (We rely on third parties to distribute our electronic commerce services, which may not result in widespread adoption)."

CUSTOMER CARE AND TECHNICAL SUPPORT

The provision of high quality customer care, technical support and operations is an integral component of our strategy in each business segment. To meet customers' needs most efficiently, our customer care staff is organized into vertical teams that support each of our business segments. These teams, however, share common resources, training and orientation to ensure cost efficiency and consistency of quality standards and measures. From an accessibility standpoint, all customer care teams provide service by phone, e-mail and facsimile. Through advanced communications technology, we have a virtual call center enabling incoming calls to be transparently routed to various physical support sites as volume demands dictate. An important driver of our profit margins is the percentage of transactions we complete electronically. Experience has shown that the demand on customer care resources reduces substantially as the percentage of electronic remittances grows. We have long been a leader in electronic remittance, and our merchant systems group continually establishes and maintains electronic links directly to the internal systems of payees.

The level and types of services we provide vary by customer market. The customer care group, consisting of approximately 1,040 employees, supports payment inquiry, customer service and technical support and interfaces with the merchant systems group to improve posting efficiencies. Representatives in our business customer care group are individually assigned to business customers in order to provide high-level customer service and technical support. Our consumer care group provides various levels of support that depend upon the customer's requirements. This includes providing direct customer care on a private label basis as well as research and support.

In order to maintain the ability to provide quality customer service as our subscriber base increases, we established a third operational center in Phoenix, Arizona to house customer care, check printing and distribution functions. This center, when fully staffed, will house up to 800 associates focused on customer care services.

To maintain our customer care standards, we employ extensive internal monitoring systems and conduct ongoing customer surveys. The feedback from these sources is used to identify areas of strength and opportunities for improvement in customer care and to aid in adjusting resources to a level commensurate with efficient response.

REMITTANCES

Payment Systems. Across our various electronic commerce service offerings, we utilize the Federal Reserve's Automated Clearing House for electronic funds transfers, and the conventional paper check clearing systems for settlement of payments by check or draft. Like other users of these payment clearance systems, we access these systems through contractual arrangements with processing banks. For access to conventional paper check clearing systems, we do not need a special contractual relationship, except for contractual relationships with the processing bank and its customers. These users are subject to applicable federal and state laws and regulations, Federal Reserve Bank operating letters, and the National Automated Clearing House Association Operating Rules. There are risks typically faced by companies utilizing each of these payment clearance systems, and we have our own set of operating procedures and proprietary risk management systems and practices to mitigate credit-related risks. See "Business -- Business Risks (The transactions we process expose us to credit risks)" and "-- Business

Risks (Our business could become subject to increased government regulation, which could make our business more expensive to operate)."

Automated Clearinghouse. The automated clearinghouse is used by banks, corporations and governmental entities for electronic settlement of transactions, direct deposits of payroll and government benefits and payment of bills like mortgages, utility payments and loans. We use the automated clearinghouse to execute some of our customers' payment instructions. Like other users of the automated clearinghouse, we bear credit risk resulting from returned transactions caused by insufficient funds, stop payment orders, closed accounts, frozen accounts, unauthorized use, disputes, theft or fraud. See "Business -- Business Risks (The transactions we process expose us to credit risks)" and "-- Business Risks (Our business could become subject to increased government regulation, which could make our business more expensive to operate)."

Paper Drafts. We use conventional check clearance methods for paper drafts to execute some customers' payment instructions. We bear no credit risk with paper drafts written on a customer's checking account returned for insufficient funds, stop payment orders, closed accounts or frozen accounts. Nonetheless, we may bear other risks for theft or fraud associated with paper drafts due to unauthorized use of our services. When a customer instructs us to pay a bill, we have the ability to process the payment either by electronic funds transfer or by paper draft, drawn on the customer's checking account, on which the customer's pre-authorized signature is laser imprinted. We manage the risk we assume by adjusting the mix of electronic and paper draft transactions in individual cases and overall. Regardless of whether we use paper drafts or electronic funds transfers, we retain all risks associated with transmission errors when we are unable to have erroneously transmitted funds returned by an unintended recipient.

Other Clearance Systems. While we presently utilize the two principal payment clearance systems, we intend to use other clearance systems like automated teller machine networks to provide balance inquiry and fund transfers functions, and other clearance systems that may develop in the future.

Risk Mitigation. Our patented bill payment processing system determines the preferred method of payment to balance processing costs, operational efficiencies and risk of loss. We manage our risks associated with the use of the various payment clearance systems through risk management systems, internal controls and system security. We also maintain a reserve for these risks, which reserve was $0.6 million at June 30, 2001, and we have not incurred losses in excess of 0.93% of our revenues in any of the past five years. As further protection against losses due to transmission errors, we maintain errors and omissions insurance. See "Business -- Business Risks (The transactions we process expose us to credit risks)" and "-- Business Risks (We may be unable to protect our proprietary technology, permitting competitors to duplicate our products and services)."

TECHNOLOGY

Our historical approach to technology has been to utilize a combination of hardware, networks, proprietary software and databases to solve our customer needs and to meet the varying requirements of the electronic commerce market.

Electronic Commerce. Our core technology capabilities were developed to handle settlement services, merchant database services and on-line inquiry services on a traditional mainframe system with direct communications to businesses.

We have implemented a logical, nationwide client-server system. Consumer, business and financial institution customers all act as clients communicating across dial-up telephone lines, private leased lines, various types of networks or the Internet to our computing complex in Norcross, Georgia. Within this complex, there is a wide variety of application servers that capture transactions and route them to our back-end banking, billing and payment applications for processing. The back-end applications are run on IBM mainframes, Tandems or Unix servers.

We have developed proprietary databases within our client-server system, including a financial institution file that allows accurate editing and origination of automated clearinghouse and paper transactions to financial institutions. We have also developed a merchant information file consisting of over 1 million companies that allows accurate editing and initiation of payments to billers. These databases have been constructed over the past 17 years as a result of our transaction processing experience.

Platform Integration: The Genesis Project. In 1998, we integrated the existing legacy data processing sites and platforms operated in Columbus, Ohio, Aurora, Illinois, and Austin, Texas, into our central processing site at our headquarters in Norcross, Georgia. We completed the planned migrations of our customers to the new Genesis platform from our Aurora, Illinois and Columbus, Ohio platforms. We have designated this integration the Genesis Project. The integration required extensive investment in hardware and in operating and system software, extensive communications links and systems, as well as redundancy, anomaly monitoring, and off-site backup and recovery. See "Business -- Business Risks (We may experience breakdowns in our payment processing system that could damage customer relations and expose us to liability)."

In June 2001, we completed the migration of the customers acquired in the TransPoint acquisition to the Genesis platform. Further, we have begun the migration of customers acquired pursuant to the strategic agreement with Bank of America to the Genesis platform and expect to complete that migration by December 2001, with the migration of the Austin platform to follow in early 2002. We intend to operate two legacy platforms: the Austin, platform and Bank of America's California platform, without substantial disruption until all of our customers have been migrated to the Genesis platform.

Redundancy and Back-up Systems. We believe that we have implemented appropriate back-up and recovery procedures to ensure against any loss of data on any platform. To maximize availability, we have redundant computer systems to ensure that financial transaction requests can always be honored. Archival storage is kept on site as well as off site in fireproof facilities. Diesel generators provide power to the computing facilities in the event of a power disruption.

Our operations are dependent on our ability to protect our computer equipment against damage from fire, earthquake, power loss, telecommunications failure or similar event. Although we have contracted for the emergency provision of an alternate site to aid in disaster recovery, this measure will not eliminate the significant risk to our operations from a natural disaster or system failure. Any damage or failure that causes interruptions in our operations could have a material adverse effect on our business, operating results and financial condition. Our property and business interruption insurance may not be adequate to compensate us for all losses that may occur. See "Business -- Business Risks (We may experience breakdowns in our payment processing system that could damage customer relations and expose us to liability)."

Sigma Challenge. In fiscal 2000, we began an internal program called the "sigma challenge" which ties employee performance evaluations and compensation to the achievement of process and system improvements. Sigma is a measure of quality typically used by manufacturing firms to minimize defects. The sigma challenge applies sigma measurements as a barometer of our performance on our key metrics of system availability and payment timeliness. Small changes in our performance drive significant sigma movements, focusing our attention on critical tasks and peak performance. The sigma challenge was designed to take our quality performance from 99.0%, or 3.8 sigma, where we began our fiscal year 2000, to 99.9%, or 4.6 sigma, by the end of fiscal 2000. A 4.6 sigma is the quality standard set by the telecommunications industry for delivering their services to businesses and consumers or "dial-tone" quality. By the end of fiscal 2000, we fell slightly below our goal by achieving a quality level of 4.5 sigma. We achieved our goal by achieving 4.6 sigma in fiscal 2001 and now we are working to maintain that level.

Financial Application Software. Our financial application suite of software products offers a wide range of software addressing both end user access and back room operational systems located in the customer data centers. Every effort is taken to insure that each system is targeted for the appropriate platform to optimize the characteristics of available technology with the business requirements of each application and its market.

Investment Services. Investment Services employs advanced technology for its portfolio management services and utilizes IBM RS/6000's to process the portfolio management software. Services are provided primarily as a service bureau offering with the data center residing at our Chicago office. This data center functions seven days a week, twenty-four hours a day. Clients can obtain access from their personal computers either through a dedicated circuit or through dial-up applications. The Chicago data center is the communication center for more than 160 dedicated links together with four concentration hub sites located in New Jersey, New York, Boston and San Diego. Each of these hub sites supports the concentration of local dedicated links plus dial-up access. In addition to the dedicated private network, clients use frame relay services from several companies to access services.

RESEARCH AND DEVELOPMENT

We maintain a research and development group with a long-term perspective of planning and developing new services and related products for the electronic commerce, financial application software and investment services markets. We have established the following guidelines for pursuing the development of new services:

- distinctive benefits to customers;
- ability to establish a leadership position in the market served;
- sustainable technological advantages; and
- first to market.

We believe that in the emerging electronic commerce market it will be critical to rapidly develop, test and offer new services and enhancements. To that end, our goal for the time period from conceptualization to commercial availability of new services is less than one year. As of June 30, 2001, our research and development group consisted of approximately 680 employees. Additionally, we use independent third party software development contractors as needed. We spent 8.4% of revenues during the fiscal year ended June 30, 1999, 11.5% of revenues during the fiscal year ended June 30, 2000 and 12.8% of revenues during the fiscal year ended June 30, 2001 on research and development. These research and development expenditures have been reduced for capitalized software development costs of $1.3 million in the six-month transition period ended June 30, 1996, none in the fiscal year ended June 30, 1997, $0.7 million in the fiscal year ended June 30, 1998, $7.4 million in the fiscal year ended June 30, 1999, $7.9 million for the fiscal year ended June 30, 2000 and $3.5 million for the fiscal year ended June 30, 2001. We anticipate that we will continue to commit substantial resources to research and development activities for the foreseeable future.

GOVERNMENT REGULATION

We believe that we are not required to be licensed by the Office of the Comptroller of the Currency, the Federal Reserve Board, or other federal or state agencies that regulate or monitor banks or other types of providers of electronic commerce services. The Office of the Comptroller of the Currency, however, periodically audits us, since we are a supplier of products and services to financial institutions. There can be no assurance that a federal or state agency will not attempt to regulate us, which could impede our ability to do business in the regulator's jurisdiction. A number of states have legislation regulating or licensing check sellers, money transmitters or service providers to banks, and we have registered under this legislation in specific instances. We do not believe that any state or federal legislation of this type materially affects us. In addition, through our processing agreements, we agree to comply with the data, recordkeeping, processing, and other requirements of applicable federal and state laws and regulations, Federal Reserve Bank operating letters, and the National Automated Clearing House Association Operating Rules imposed on our processing banks. We may be subject to audit or examination under any of these requirements. Violations of these requirements could limit or further restrict our access to the payment clearance systems or our ability to obtain access to these systems from banks. Further, the Federal Reserve rules provide that we can only access the Federal Reserve's automated clearinghouse through a bank. If the Federal Reserve rules were to change to further restrict our access to the automated clearinghouse or limit our ability to provide automated clearinghouse transaction processing services, our business could be materially adversely affected.

In conducting various aspects of our business, we are subject to laws and regulations relating to commercial transactions generally, like the Uniform Commercial Code, and are also subject to the electronic funds transfer rules embodied in Regulation E, promulgated by the Federal Reserve Board. The Federal Reserve's Regulation E implements the Electronic Fund Transfer Act, which was enacted in 1978. Regulation E protects consumers engaging in electronic transfers, and sets forth the basic rights, liabilities, and responsibilities of consumers who use electronic money transfer services and of financial institutions that offer these services. For us, Regulation E sets forth disclosure and investigative procedures. For consumers, Regulation E establishes procedures and time periods for reporting unauthorized use of electronic money transfer services and limitations on the consumer's liability if the notification procedures are followed within prescribed periods. These limitations on the consumer's liability may result in liability to us.

Given the expansion of the electronic commerce market, it is possible that the Federal Reserve might revise Regulation E or adopt new rules for electronic funds transfer affecting users other than consumers. Congress has held hearings on whether to regulate providers of services and transactions in the electronic commerce market, and it is possible that Congress or individual states could enact laws regulating the electronic commerce market. If enacted, these laws, rules, and regulations could be imposed on our business and industry and could have a material adverse effect on our business, operating results and financial condition. See "Business -- Business Risks (Our business could become subject to increased government regulation, which could make our business more expensive to operate)."

PROPRIETARY RIGHTS

We own the following federally registered trademarks and service marks:

- BANK STREET(R)
- BLUEGILL Logo (Miscellaneous Design)(R)
- CAPS CORPORATE AUTOMATED PAYMENTS SYSTEM(R)
- CEC CENTER FOR ELECTRONIC COMMERCE and Design(R)
- CHECKFREE(R)
- CHECKFREE and Design(R)
- CHECKFREE (Stylized Letters)(R)
- CHECKFREE-BILL and Design(R)
- CHECKFREE EASY(R)
- CHECKFREE ELECTRIC MONEY(R)
- CHECKFREE EXTRA(R)
- CHECKFREE FREES YOU FROM CHECKS(R)
- CHECKFREE MANAGER(R)
- CHECKFREE WALLET(R)
- CLUB HOOCH(R)
- DECISION MANAGER(R)
- INTEGRATED DECISION MANAGER(R)
- M-VEST(R)
- MOBIUS GROUP and Design(R)
- MOBIUS(R)(Stylized)
- M-PLAN(R)
- M-PREPS(R)
- MPREPS(R)
- M-SEARCH(R)
- MSEARCH(R)
- M-VEST(R)
- MWATCH(R)
- M-WATCH(R)
- NETWORK BANKER(R)
- OMNI(R)
- PAWWS(R)
- PAWTRACKS(R)
- PEP+(R)
- PEP PAPERLESS ENTRY PROCESSING(R)
- PODIUM(R)
- PTT(R)
- SBA(R)
- SERVANTIS SYSTEMS(R)
- STYLE ANALYSIS PLUS(R)
- THE WAY MONEY MOVES and Design(R)
- TRANSPORT(R)
- TST(R)
- VAULT(R)

We also own the following foreign service mark registrations in New Zealand:

- CHEQUEFREE
- CHECKFREE

Additionally, the following trademark/service mark applications have been filed in the United States:

- CHECKFREE E-BILL(SM)
- CHECKFREE E-CLUB (SM)
- CHECKFREE E-MONEY (SM)
- CHECKFREE I-BANKER(TM)
- CHECKFREE I-BROKER(TM)
- CHECKFREE I-INSURANCE(TM)
- CHECKFREE I-TELCO(TM)
- CHECKFREE I-UTILITY(TM)
- CHECKFREE PAYANYONE (SM)
- CHECKFREE PAYANYONE WEB (SM)
- CHECKFREE PAYANYONE PHONE SM
- CHECKFREE PAYANYONE WIRELESSSM
- KINGS OF WRAP SM
- MARKET DIRECT SM
- M-PLAN(TM)
- MISSINGCUSTOMERSSM
- MYBILLS.COMSM
- RCM SOLUTIONS SM
- VALID SM

We have also applied to register the following mark internationally:

- BLUEGILL Logo (Canada)

We are also the owner of a multitude of domain name registrations, including:

- billdelivery.com
- billercare.com
- billme.com
- check-free.com
- checkfree.com
- checkfree-ecx.com
- checkfreeva.com
- custcare.com
- ficare.com
- fortracs.com
- getbills.com
- missingcustomer.com
- missingcustomer.net
- missingcustomer.org
- missingcustomers.com
- missingcustomers.net
- missingcustomers.org
- mybills.com
- mybills.net
- mybills.org
- paybills.org
- paymybills.org
- paythebill.com
- rcm2001.com
- stockcontrol.com
- cfree.com

We regard our financial transaction services and related products like our software as proprietary and rely on a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements, and other intellectual property protection methods to protect our services and related products. Although we believe our consumer financial software to be proprietary, we do not depend on our software to compete, but rather on our services to which the software provides access.

We also copyright some of our programs and software documentation and trademark some product names. Our management believes that these actions provide appropriate legal protection for our intellectual property rights in our software products. Furthermore, our management believes that the competitive position for some of our products depends primarily on the technical competence and creative ability of our personnel and that our business is not materially dependent on copyright protection or trademarks See "Business -- Business Risks (We may be unable to protect our proprietary technology, permitting competitors to duplicate our products and services)."

Our United States Letters Patent No. 5,383,113, issued on January 17, 1995, relates to our system and method for electronically providing services including payment of bills and financial analysis. Incorporating the system described in the patent, we can pay any bill from any checking account at any financial institution in the United States on the consumer's behalf by selecting a preferred means of payment from various options described above. See "Business -- Payment Clearance Systems." Our patent expires on January 17, 2012. See "Business -- Competition," "Business -- Business Risks (Competitive pressures we face may have a material adverse effect on us)" and "Business -- Business Risks (We may be unable to protect our proprietary technology, permitting competitors to duplicate our products and services)."

Existing intellectual property laws afford only limited protection, and it may be possible for unauthorized third parties to copy our services and related products or to reverse engineer or obtain and use information we regard as proprietary. There can be no assurance that our competitors will not independently develop services and related products that are substantially equivalent or superior to ours. As the technology we use evolves, however, our dependence upon the patented technology continues to decrease.

EMPLOYEES

As of September 1, 2001, we employed approximately 3,300 full-time employees, including approximately 1,080 in systems and research and development, including software development, approximately 1,040 in customer care, and approximately 1,180 in sales and marketing, administration, financial control, corporate services, and human resources. We are not a party to any collective bargaining agreement and are not aware of any efforts to unionize our employees. We believe that our relations with our employees are good. We believe our future success and growth will depend in large measure upon our ability to attract and retain qualified technical, management, marketing, business development and sales personnel.

BUSINESS RISKS

We desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Many of the following important factors discussed below have been discussed in our prior filings with the Securities and Exchange Commission. In addition to the other information in this report, readers should carefully consider that the following important factors, among others, in some cases have affected, and in the future could affect, our actual results and could cause our actual consolidated results of operations for the fiscal year ended June 30, 2002, and beyond, to differ materially from those expressed in any forward-looking statements made by us, or on our behalf.

During fiscal 2001, we closed the following transactions which, in some cases have affected, and in the future could affect, our actual results and could cause our actual consolidated results of operations for the fiscal year ended June 30, 2002, and beyond, to differ materially from those expressed in any forward-looking statements made by us, or on our behalf:

- on September 1, 2000, we consummated our acquisition of TransPoint, a joint venture among Microsoft Corporation, First Data Corporation, Citibank, N.A., and their subsidiaries, pursuant to a merger agreement originally executed on February 15, 2000, whereby Microsoft, First Data, and Citibank received 17,000,000 shares of our common stock; and

- on September 28, 2000 we consummated a strategic agreement with Bank of America, N.A., whereby Bank of America perceived 10,000,000 restricted shares of our common stock and performance-based warrants for the right to acquire an additional 10,000,000 shares of our common stock.

RISKS RELATED TO OUR BUSINESS

THE MARKET FOR OUR ELECTRONIC COMMERCE SERVICES IS EVOLVING AND MAY NOT CONTINUE TO DEVELOP OR GROW RAPIDLY ENOUGH FOR US TO REMAIN CONSISTENTLY PROFITABLE.

If the number of electronic commerce transactions does not continue to grow or if consumers or businesses do not continue to adopt our services, it could have a material adverse effect on our business, financial condition and results of operations. The electronic commerce market is still evolving and currently growing at a rapid rate. We believe future growth in the electronic commerce market will be driven by the cost, ease-of-use and quality of products and services offered to consumers and businesses. In order to consistently increase and maintain our profitability, consumers and businesses must continue to adopt our services.

WE HAVE NOT OPERATED PROFITABLY IN THE PAST AND EXPECT TO EXPERIENCE NET LOSSES IN THE FUTURE.

We have not consistently operated profitably to date. Since our inception, our accumulated losses have totaled approximately $689,455,000. We incurred:

- a loss from operations of $3.7 million and net income of $10.5 million for the fiscal year ended June 30, 1999;

- a loss from operations of $43.4 million and a net loss of $32.3 million for the fiscal year ended June 30, 2000; and

- a loss from operations of $464.7 million and a net loss of $363.1 million for the fiscal year ended June 30, 2001.

We anticipate having a net loss from operations in fiscal 2002 and may experience net losses and may not be able to sustain or increase our profitability in the future. For the fiscal year ended June 30, 2001, we invested over $55.6 million in research and development and over $90.2 million, including a one-time charge of $25.0 million related to our strategic agreement with Bank of America, in sales and marketing. We intend to continue to make significant investments in research and development and sales and marketing. If the investment of our capital is not successful to grow our business, it will have a material adverse effect on our business and financial condition, as well as negatively impact your investment in our business and limit our ability to pay dividends in the future to our stockholders.

OUR FUTURE PROFITABILITY DEPENDS ON UPON OUR ABILITY TO IMPLEMENT OUR STRATEGY SUCCESSFULLY TO INCREASE ADOPTION OF ELECTRONIC BILLING AND PAYMENT METHODS.

Our future profitability will depend, in part, on our ability to implement our strategy successfully to increase adoption of electronic billing and payment methods. Our strategy includes investment of time and money during fiscal 2002 in programs designed to:

- drive consumer awareness of electronic billing and payment;
- encourage consumers to sign up for and use our electronic billing and payment services offered by our distribution partners;
- build our infrastructure to handle seamless processing of transactions;
- continue to develop state of the art, easy-to-use technology; and
- increase the number of billers whose bills we can present and pay electronically.

If we do not successfully implement our strategy, revenue growth will be minimal, and expenditures for these programs will not be justified.

Our investment in these programs will have a negative impact on our short-term profitability. Additionally, our failure to implement these programs successfully or to increase substantially adoption of electronic commerce billing and payment methods by consumers who pay for the services could have a material adverse effect on our business, financial condition and results of operations.

COMPETITIVE PRESSURES WE FACE MAY HAVE A MATERIAL ADVERSE EFFECT ON US.

Electronic commerce is new and evolving rapidly, resulting in a dynamic competitive environment. We face significant competition in our each of our business units, Electronic Commerce, Investment Services and Software businesses. Increased competition or other competitive pressures may result in price reductions, reduced margins or loss of business, any of which could have a material adverse effect on our business, financial condition and results of operations. Further, we expect competition to persist, increase and intensify in the future. First, we need to switch billers and consumers from paper bills sent by mail and paid by check to electronic bill presentment and payment. Second, a number of banks have developed, and others may in the future develop, electronic billing and payment services in-house. J.P. Morgan Chase, First Union Corporation and Wells Fargo & Co. are partners in a venture called Spectrum that plans to allow individuals and businesses to receive and pay bills electronically. To the best of our knowledge, Spectrum has done limited electronic presentment of bills, and is developing a "pay anyone" capability in conjunction with Metavante, a division of Marshall and Ilsley Bank Inc. Metavante competes directly with us in providing pay anyone solutions to financial services organizations and has recently completed two acquisitions in an effort to strengthen their competitive position. Mastercard International also offers online bill presentment to enable people to receive and pay bills over the Internet. A number of other relatively small companies also compete with us in electronic bill payment. In addition, we face competition from competitors offering billing and payment services utilizing scan and pay technology. These "scan and pay" companies offer a service whereby a consumer's bill is received by the company, scanned to create an electronic image of the bill, and electronically delivered to the consumer who can elect to pay that bill either by writing a paper check or through an electronic transfer of funds We cannot assure you that we will be able to compete effectively against financial institutions, Spectrum, MasterCard, billers directly delivering bills to their customers, scan and pay companies or other current and future electronic commerce competitors.

In addition, we cannot assure you that we will be able to compete effectively against current and future competitors in the investment services and software products markets. The markets for our investment services and software products are also highly competitive. In Investment Services, our competition comes primarily from providers of portfolio accounting software. In Software, our competition comes from several different market segments, including large diversified computer software and service companies and independent suppliers of software products. Because there are relatively low barriers to entry, we expect competition in the software market to increase significantly in the future.

Across all of our market segments, many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing, customer service and other resources, greater name recognition and a larger installed base of customers than we do. As a result, these competitors may be able to respond to new or emerging technologies and changes in customer requirements faster and more effectively than we can, or to devote greater resources to the development, promotion and sale of products than we can. If these competitors were to acquire a significant market share, it could have a material adverse effect on our business, financial condition and results of operations.

SOME OF OUR CUSTOMERS MAY COMPETE AGAINST US THAT MAY RESULT IN A LOSS OF REVENUE.

From time to time, some of our customers may compete against us that may have a material adverse effect on our revenues and results of operations. For example, in June 1999, J.P. Morgan Chase, First Union Corporation and Wells Fargo & Co. announced the formation of Spectrum that will allow individuals and businesses to receive and pay bills electronically. Other of our significant customers may in the future decide to compete against us and such competition may have a material adverse affect on our business and financial results.

SECURITY AND PRIVACY BREACHES IN OUR ELECTRONIC TRANSACTIONS MAY DAMAGE CUSTOMER RELATIONS AND INHIBIT OUR GROWTH.

Any failures in our security and privacy measures could have a material adverse effect on our business, financial condition and results of operations. We electronically transfer large sums of money and personal information about consumers, including bank account and credit card information, social security numbers, and merchant account numbers. If we are unable to protect, or consumers perceive that we are unable to protect, or consumers perceive that we are unable to protect, the security and privacy of our electronic transactions, our growth and the growth of the electronic commerce market in general could be materially adversely affected. A security or privacy breach may:

- cause our customers to lose confidence in our services;
- deter consumers from using our services;
- harm our reputation;
- expose us to liability;
- increase our expenses from potential remediation costs; and
- decrease market acceptance of electronic commerce transactions.

While we believe that we utilize proven applications designed for premium data security and integrity to process electronic transactions, there can be no assurance that our use of these applications will be sufficient to address changing market conditions or the security and privacy concerns of existing and potential subscribers.

WE RELY ON THIRD PARTIES TO DISTRIBUTE OUR ELECTRONIC COMMERCE SERVICES, WHICH MAY NOT RESULT IN WIDESPREAD ADOPTION.

We rely on our contracts with financial institutions, businesses, billers, Internet portals and other third parties like Intuit Inc. to provide branding for our electronic commerce services and to market our services to their customers. None of these third parties accounted for more than 11% of our total revenue for the year ended June 30, 2000 or for the year ended June 30, 2001. These contracts are an important source of the growth in demand for our electronic commerce services. If any of these third parties abandon, curtail or insufficiently increase its marketing efforts, it could have a material adverse effect on our business, financial condition and results of operations.

CONSOLIDATION IN THE BANKING INDUSTRY MAY ADVERSELY AFFECT OUR ABILITY TO SELL OUR ELECTRONIC COMMERCE SERVICES, INVESTMENT SERVICES AND SOFTWARE.

Mergers, acquisitions and personnel changes at key financial institutions have the potential adversely to affect our business, financial condition and results of operations. Currently, the banking industry is undergoing large-scale consolidation, causing the number of financial institutions to decline. This consolidation could cause us to lose:

- current and potential customers;
- business opportunities, if combined financial institutions were to determine that it is more efficient to develop in-house home banking services similar to ours or offer our competitors' products or services; and
- revenue, if combined financial institutions were able to negotiate a greater volume discount for, or to discontinue the use of, our products and services.

WE ARE DEPENDENT UPON A SMALL NUMBER OF FINANCIAL INSTITUTION CUSTOMERS FOR A SIGNIFICANT PERCENTAGE OF OUR SUBSCRIBERS.

We rely on our contracts with three key financial institutions for a substantial portion of our subscriber base and the volume of electronic transactions that we process. As of June 30, 2001, these three financial institutions accounted for approximately 2.6 million subscribers, or approximately 50% of our total subscriber base. No single customer, however, accounts for more than 11% of our revenues. The loss of the contract with any of these key financial institutions or a significant decline in the number of transactions processed through them could have a material adverse effect on our business, financial condition and results of operations.

IF WE DO NOT SUCCESSFULLY RENEW OR RENEGOTIATE OUR AGREEMENTS WITH OUR CUSTOMERS, OUR BUSINESS MAY SUFFER.

Our agreements for electronic commerce services with financial institutions generally provide for terms of three to five years. These agreements are renegotiated from time to time when financial institutions migrate from our PC-based platform to our web-based platform. If we are not able to renew or renegotiate these agreements on favorable terms, it could have a material adverse effect on our business, financial condition and results of operations.

The profitability of our Software business depends, to a substantial degree, upon our software customers electing to periodically renew their maintenance agreements. If a substantial number of our software customers declined to renew these agreements, our revenues and profits in this business segment would be materially adversely affected.

OUR FUTURE PROFITABILITY DEPENDS ON AN INCREASE IN THE PROPORTION OF TRANSACTIONS WE PROCESS ELECTRONICALLY.

If we are unable to increase the percentage of transactions that we process electronically, our margins could decrease, which could have a material adverse effect on our business, financial condition and results of operations. We processed electronically 49% of our transactions for the year ended June 30, 1999, 58% of the transactions for the year ended June 30, 2000 and 64% of our transactions for the year ended June 30, 2001. Our future profitability will depend, in part, on our ability to increase the percentage of transactions we process electronically. Compared with conventional paper-based transactions, electronic transactions:

- cost much less to complete;
- give rise to far fewer errors, which are costly to resolve; and
- generate far fewer subscriber inquiries and, therefore, consume far fewer customer care resources.

THE TRANSACTIONS WE PROCESS EXPOSE US TO CREDIT RISKS.

Any losses resulting from returned transactions, merchant fraud or erroneous transmissions could result in liability to financial institutions, merchants or subscribers, which could have a material adverse effect on our business, financial condition and results of operations. The electronic and conventional paper-based transactions we process expose us to credit risks. These include risks arising from returned transactions caused by:

- insufficient funds;
- unauthorized use;
- stop payment orders;
- payment disputes;
- closed accounts;
- theft;
- frozen accounts; and
- fraud.

We are also exposed to credit risk from merchant fraud and erroneous transmissions.

WE MAY EXPERIENCE BREAKDOWNS IN OUR PAYMENT PROCESSING SYSTEM THAT COULD DAMAGE CUSTOMER RELATIONS AND EXPOSE US TO LIABILITY.

A system outage or data loss could have a material adverse effect on our business, financial condition and results of operations. To successfully operate our business, we must be able to protect our payment processing and other systems from interruption by events that are beyond our control. For example, our system may be subject to loss of service interruptions caused by hostile third parties similar to those experienced by many companies operating Internet websites during February 2000 or other instances of deliberate system sabotage. Other events that could cause system interruptions include:

- fire;
- natural disaster;
- unauthorized entry; and
- power loss;
- telecommunications failure;
- computer viruses.

For the fiscal year ended June 30, 1999, we incurred a charge of $2.7 million due to problems accessing and using our system. Without the charge, our loss from operations in our electronic commerce segment would have been $2.8 million compared to the actual $5.5 million we lost. These problems stemmed from system errors we experienced in April 1999 due to system degradation issues in connection with the migration of subscribers to our Genesis platform, which resulted in consumers inability to connect with and transmit data to our processing system. This system failure did not result in the loss of any consumer data.

Although we completed the initial migration of some of our subscribers from our pre-existing data processing platforms to a new system that we call the Genesis platform, we will continue to migrate subscribers from non-Genesis platforms to the Genesis platform at the request of our other customers. Our main processing facility is located in Norcross, Georgia, and we have other processing facilities located in Ohio, Illinois and Texas. During the transition from the pre-existing platforms to the Genesis platform, we may be exposed to loss of data or unavailability of systems due to inadequate back-ups, reduced or eliminated redundancy, or both. Although we regularly back-up our data logs hourly and our overall system daily, as well as take other measures to protect against data loss and system failures, there is still some risk that we may lose critical data or experience system failures. We constantly review our usage and capacity constraints. We have engineered our systems to ensure that we never exceed 80% utilization of capacity at peak processing times. That means that, in general, we average processing at 40% - 50% of capacity, with no peak time consuming more than 80% of the system's resources. As a precautionary measure, we have entered into disaster recovery agreements for the processing systems at all our sites, and we conduct business resumption tests on a scheduled basis. Our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur.

WE MAY EXPERIENCE SOFTWARE DEFECTS AND DEVELOPMENT DELAYS, DAMAGING CUSTOMER RELATIONS, DECREASING OUR POTENTIAL PROFITABILITY AND EXPOSING US TO LIABILITY.

Our electronic commerce services and our software products are based on sophisticated software and computing systems which often encounter development delays, and the underlying software may contain undetected errors or defects. Defects in our software products and errors or delays in our processing of electronic transactions could result in:

- additional development costs;
- diversion of technical and other resources from our other development efforts;
- loss of credibility with current or potential customers;

- harm to our reputation; or
- exposure to liability claims.

In addition, we rely on technologies supplied to us by third parties that may also contain undetected errors or defects that could have a material adverse effect on our business, financial condition and results of operations. Although we attempt to limit our potential liability for warranty claims through disclaimers in our software documentation and limitation-of-liability provisions in our license and customer agreements, we cannot assure you that these measures will be successful in limiting our liability.

WE EXPERIENCE SEASONAL FLUCTUATIONS IN OUR NET SALES CAUSING OUR OPERATING RESULTS TO FLUCTUATE.

We have historically experienced seasonal fluctuations in our net sales, and we expect to experience similar fluctuations in the future. If our net sales are below the expectations of securities analysts and investors due to seasonal fluctuations, our stock price could decrease unexpectedly. Our growth in new electronic commerce subscribers is affected by seasonal factors like holiday-based personal computer sales. These seasonal factors may impact our operating results by concentrating subscriber acquisition and set-up costs, which may not be immediately offset by revenue increases primarily due to introductory service price discounts. Additionally, on-line interactive service subscribers generally tend to be less active users during the summer months, resulting in lower revenue during this period.

Our software sales also have historically displayed seasonal variability, with sales and earnings generally stronger in the quarters ended December 31 and June 30 of each year and generally weaker in the quarters ended September 30 and March 31 of each year. The seasonality in software sales is due, in part, to calendar year-end buying patterns of financial institution customers and our software sales compensation structure, which measures sales performance at our June 30 fiscal year end.

IF WE DO NOT RESPOND TO RAPID TECHNOLOGICAL CHANGE OR CHANGES IN INDUSTRY STANDARDS, OUR SERVICES COULD BECOME OBSOLETE AND WE COULD LOSE OUR CUSTOMERS.

If competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing product and service offerings, proprietary technology and systems may become obsolete. Further, if we fail to adopt or develop new technologies or to adapt our products and services to emerging industry standards, we may lose current and future customers, which could have a material adverse effect on our business, financial condition and results of operations. The electronic commerce industry is changing rapidly. To remain competitive, we must continue to enhance and improve the functionality and features of our products, services and technologies. For example, we are currently migrating our products and services from a PC-based platform to a web-based platform.

OUR INABILITY TO MANAGE GROWTH COULD ADVERSELY AFFECT OUR BUSINESS.

We have experienced rapid growth in our revenues, from $76.8 million in the twelve months ended June 30, 1996 to $433.3 million in the fiscal year ended June 30, 2001, and we intend to continue to grow our business significantly. To support our growth plans, we will have to significantly expand our existing management, operational, financial and human resources and management information systems and controls. If we are not able to manage our growth successfully, we will not grow as planned which could have a material adverse effect on our business, financial condition and results of operations.

WE MAY BE UNABLE TO PROTECT OUR PROPRIETARY TECHNOLOGY, PERMITTING COMPETITORS TO DUPLICATE OUR PRODUCTS AND SERVICES.

Our success and ability to compete is dependent, in part, upon our proprietary technology, which includes our patent for our electronic billing and payment processing system, our source code information for our software products, and our operating technology. We rely primarily on patent, copyright, trade secret and trademark laws to protect our technology. In addition, we have been granted a patent for some features of our electronic billing and payment processing system, which we believe provides some measure of security for our technologies. If challenged, we cannot assure you that our patent will prove to be valid or provide the protection that we need. Further, the source code for our proprietary software is protected both as a trade secret and as a copyrighted work. We generally enter into confidentiality and assignment agreements with our employees, consultants and vendors, and generally control access to and distribution of our software, documentation and other proprietary information.

Because our means of protecting our proprietary rights may not be adequate, it may be possible for a third party to copy, reverse engineer or otherwise obtain and use our technology without authorization. In addition, the laws of some countries in which we sell our products do not protect software and intellectual property rights to the same extent as the laws of the United States. Unauthorized copying, use or reverse engineering of our products could have a material adverse effect on our business, financial condition and results of operations.

A third party could also claim that our technology infringes its proprietary rights. As the number of software products in our target markets increases and the functionality of these products overlap, we believe that software developers may increasingly face infringement claims. These claims, even if without merit, can be time-consuming and expensive to defend. A third party asserting infringement claims against us in the future may require us to enter into costly royalty arrangements or litigation.

OUR BUSINESS COULD BECOME SUBJECT TO INCREASED GOVERNMENT REGULATION, WHICH COULD MAKE OUR BUSINESS MORE EXPENSIVE TO OPERATE.

We believe that we are not required to be licensed by the Office of the Comptroller of the Currency, or OCC, the Federal Reserve Board or other federal agencies that regulate or monitor banks or other types of providers of electronic commerce services. A number of states have legislation regulating or licensing check sellers, money transmitters or service providers to banks, and we have registered under this legislation in specific instances. Because electronic commerce in general, and most of our products and services in particular, are so new, the application of many of these laws and regulations is uncertain and difficult to interpret. The entities responsible for interpreting and enforcing these laws and regulations could amend these laws or regulations or issue new interpretations of existing laws or regulations. Any of these changes could lead to increased operating costs and reduce the convenience and functionality of our products or services, possibly resulting in reduced market acceptance. It is also possible that new laws and regulations may be enacted with respect to the Internet, including taxation of electronic commerce activities. The adoption of any of these laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for our products or services, increase our cost of doing business or could otherwise have a material adverse effect on our business, financial condition and results of operations.

The Federal Reserve rules provide that we can only access the Federal Reserve's automated clearinghouse through a bank. If the Federal Reserve rules were to change to further restrict our access to the automated clearinghouse or limit our ability to provide automated clearinghouse transaction processing services, it could have a material adverse effect on our business, financial condition and results of operations.

OUR QUARTERLY OPERATING RESULTS FLUCTUATE AND MAY NOT ACCURATELY PREDICT OUR FUTURE PERFORMANCE.

Our quarterly results of operations have varied significantly and probably will continue to do so in the future as a result of a variety of factors, many of which are outside our control. These factors include:

- changes in our pricing policies or those of our competitors;
- relative rates of acquisition of new customers;
- seasonal patterns;
- delays in the introduction of new or enhanced services, software and related products by us or our competitors or market acceptance of these products and services; and o other changes in operating expenses, personnel and general economic conditions.

As a result, we believe that period-to-period comparisons of our operating results are not necessarily meaningful, and you should not rely on them as an indication of our future performance. In addition, our operating results in a future quarter or quarters may fall below expectations of securities analysts or investors and, as a result, the price of our common stock may fluctuate.

RISKS RELATED TO OUR COMMON STOCK

OUR COMMON STOCK HAS BEEN VOLATILE SINCE DECEMBER 31, 2000.

Since December 31, 2000, our stock price has been extremely volatile, trading at a high of $57.25 per share and a low of $15.55 per share for the period. The volatility in our stock price has been caused by:

- actual or anticipated fluctuations in our operating results;
- actual or anticipated fluctuations in our subscriber growth;
- announcements by us, our competitors or our customers;
- announcements of the introduction of new or enhanced products and services by us or our competitors;
- announcements of joint development efforts or corporate partnerships in the electronic commerce market;
- market conditions in the banking, telecommunications, technology and other emerging growth sectors;
- rumors relating to our competitors or us; and
- general market or economic conditions.

AVAILABILITY OF SIGNIFICANT AMOUNTS OF OUR COMMON STOCK FOR SALE IN THE FUTURE COULD ADVERSELY AFFECT OUR STOCK PRICE.

The availability for future sale of a substantial number of shares of our common stock in the public market, or issuance of common stock upon the exercise of stock options, warrants or conversion of the notes or otherwise could adversely affect the market price for our common stock. As of September 14, 2001, we had outstanding 87,154,357 shares of our common stock, of which 55,786,564 shares of our issued and outstanding common stock were held by nonaffiliates. The holders of the remaining 31,368,793 shares were entitled to resell them only by a registration statement under the Securities Act of 1933 or an applicable exemption from registration. As of September 1, 2001, we had an additional 23,934,323 shares of our common stock available for future sale, including:

- outstanding options to purchase 7,977,621 shares of our common stock, of which options for 2,901,689 shares were fully vested and exercisable at an average weighted exercise price of approximately $28.24 per share;
- issued warrants to purchase 12,450,000 shares of our common stock, of which warrants for 1,525,000 shares were fully vested and exercisable at a weighted exercise price of approximately $20.81 per share;
- up to 522,915 shares available for issuance under our Associate Stock Purchase Plan;
- up to 627,230 shares available for issuance under our 401(k) Plan; and
- up to 2,356,557 shares of our common stock issuable upon conversion of the notes.

As of September 1, 2001, the following entities hold shares or warrants to purchase shares of our common stock in the following amounts:

- Microsoft Corporation, which holds 8,567,250 shares;
- First Data Corporation, which holds 6,567,250 shares;
- The former members of Integrion Financial Network, L.L.C. collectively hold warrants to purchase up to 1,500,000 shares which are fully vested and exercisable;
- Bank One, which holds 250,000 shares and warrants to purchase 1,000,000 shares and may be entitled to receive warrants to purchase up to 2,000,000 additional shares, none of which are vested or exercisable; and
- Bank of America, which holds 10,000,000 shares and warrants to purchase up to 10,000,000 shares, which warrants are not currently vested.

Each of Bank One and Bank of America may be entitled to registration rights. If Integrion, Bank One or Bank of America, by exercising their registration rights, cause a large number of shares to be registered and sold in the public market, these sales may have an adverse effect on the market price of our common stock.

We also agreed with Microsoft, First Data and Citibank to file a shelf registration statement that would allow continuous resales of the shares that they will receive on the closing date of the acquisition. Although Microsoft and First Data are be limited in their ability to transfer their shares of our common stock during the next two years pursuant to stockholder agreements with us, they will be able to transfer significant portions of their common stock in the future in both registered and unregistered sales. Beginning on September 1, 2001, Microsoft, First Data and Citibank may sell up to the greater of one percent of our average weekly trading volume or one percent of our outstanding common stock in reliance on registration exemptions. In addition, Microsoft and First Data are permitted to a limited extent to engage in hedging transactions with respect to our common stock. Sales of substantial amounts of our common stock by either Microsoft or First Data, or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock.

Beginning on September 28, 2001, Bank of America may be able to sell up to the greater of one percent of our average weekly trading volume or one percent of our outstanding common stock in reliance on registration exemptions. Sales of substantial amounts of our common stock by Bank of America, or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock.

ANTI-TAKEOVER PROVISIONS IN OUR ORGANIZATIONAL DOCUMENTS AND DELAWARE LAW MAKE ANY CHANGE IN CONTROL MORE DIFFICULT.

Our certificate of incorporation and by-laws contain provisions that may have the effect of delaying or preventing a change in control, may discourage bids at a premium over the market price of our common stock and may adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. These provisions include:

- division of our board of directors into three classes serving staggered three-year terms;
- removal of our directors by the stockholders only for cause upon 80% stockholder approval;
- prohibiting our stockholders from calling a special meeting of stockholders;
- ability to issue additional shares of our common stock or preferred stock without stockholder approval;
- prohibiting our stockholders from unilaterally amending our certificate of incorporation or by-laws except with 80% stockholder approval; and
- advance notice requirements for raising business or making nominations at stockholders' meetings.

We also have a stockholder rights plan that allows us to issue preferred stock with rights senior to those of our common stock without any further vote or action by our stockholders. The issuance of our preferred stock under the stockholder rights plan could decrease the amount of earnings and assets available for distribution to the holders of our common stock or could adversely affect the rights and powers, including voting rights, of the holders of our common stock. In some circumstances, the issuance of preferred stock could have the effect of decreasing the market price of our common stock.

We are also subject to provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for five years unless the holder's acquisition of our stock was approved in advance by our board of directors.

In addition, both the commercial alliance agreement with Microsoft and the marketing agreement with First Data, each of which we executed in connection with the closing of the TransPoint acquisition, both allow the termination of the agreement by Microsoft or First Data, as the case may be, under specific change of control circumstances. If either Microsoft or First Data terminates under these circumstances, we will lose a portion of the future revenue guarantees under the applicable agreement. This potential termination event could discourage third parties from acquiring us.

WE ARE SUBJECT TO SIGNIFICANT INFLUENCE BY SOME STOCKHOLDERS THAT MAY HAVE THE EFFECT OF DELAYING OR PREVENTING A CHANGE IN CONTROL.

At September 1, 2001, our directors, executive officers and principal stockholders and their affiliates collectively owned approximately 36% of the outstanding shares of our common stock. As a result, these stockholders are able to exercise significant influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control.

RISKS OF OUR RECENT ACQUISITIONS.

WE MAY FAIL TO REALIZE THE ANTICIPATED BENEFITS OF THE TRANSPOINT MERGERS AND THE STRATEGIC AGREEMENT WITH BANK OF AMERICA.

The success of the TransPoint mergers and the strategic agreement with Bank of America will depend, in part, on our ability to realize the anticipated growth opportunities and synergies from combining our business with the TransPoint business and Bank of America's electronic billing and payment assets. To realize the anticipated benefits of these combinations, our management team must develop strategies and implement a business plan that will:

- effectively combine TransPoint's electronic billing and payment services with our services;
- effectively combine Bank of America's electronic billing and payment assets with our assets and services;
- successfully use the anticipated opportunities for cross-promotion and sales of the products and services of CheckFree, TransPoint and Bank of America;
- successfully retain and attract key employees of the combined company, including operating management and key technical personnel, during a period of transition and in light of the competitive employment market; and
- while integrating the combined company's operations, maintain adequate focus on our core businesses in order to take advantage of competitive opportunities and to respond to competitive challenges.

If our management team is not able to develop strategies and implement a business plan that achieves any these objectives, we may not realize the anticipated benefits of the TransPoint and Bank of America acquisitions. In particular, anticipated growth in revenue, earnings before interest, taxes, depreciation, and amortization, or "EBITDA," and cash flow may not be realized, which would have an adverse impact on us and the market price of our common stock.

WE ARE REQUIRED TO AMORTIZE GOODWILL AND OTHER INTANGIBLE ASSETS THAT WILL CAUSE OUR EARNINGS PER SHARE TO DECREASE.

We accounted for the BlueGill and TransPoint mergers using the purchase method, which has caused us, and will continue to cause us, to record charges to our earnings that will decrease our earnings per share. In connection with the BlueGill merger we carried a balance of goodwill and other intangible assets of $164,143,002 as of June 30, 2001 and expect our resulting amortization expense to be approximately $44,725,000 for the fiscal year ended June 30, 2002. In connection with the TransPoint merger we carried a balance of goodwill and other intangible assets of $1,239,779,544 as of June 30, 2001 and expect our resulting amortization expense to be approximately $339,260,000 for the fiscal year ended June 30, 2002.

As a result of our purchase of the electronic billing and payment assets of Bank of America we carried an intangible asset balance of $236,922,120 as of June 30, 2001 and expect our resulting amortization expense to be approximately $29,830,000 for the fiscal year ended June 30, 2002.

Additionally, because we issued shares of our common stock in connection with both the merger agreements and the asset purchase agreement, and since historically BlueGill and TransPoint have not been profitable, the BlueGill and TransPoint mergers and related TransPoint commercial transactions and the Bank of America asset purchase agreement may cause our earnings per share to decrease. A drop in our earnings per share could have a negative impact on the market price of our common stock. Analysts and investors carefully review a company's earnings per share and often base investment decisions on a company's earnings per share.

In July 2001 the Financial Accounting Standards Board (FASB) issued FAS 142, "Goodwill and Other Intangible Assets." SFAS 142 changes the accounting for goodwill and other intangible assets. Once adopted, goodwill will no longer be subject to amortization over its estimated useful life but will be subject to at least an annual assessment for impairment. Other intangible assets will continue to be amortized over their estimated useful lives. SFAS becomes effective for us on July 1, 2002. While we are still assessing the impact of all the statement provisions on our financial position and results of operations, based on our review to date we expect to have a balance of goodwill of approximately $624,000,000 at June 30, 2002, which we will no longer be required to amortize. This will result in a reduction of goodwill amortization expense of approximately $200,000,000 per year for fiscal years 2003, 2004 and 2005.

MICROSOFT, FIRST DATA, CITIBANK AND THE FORMER EMPLOYEES OF THE TRANSPOINT BUSINESS MAY ENGAGE FREELY IN MANY ACTIVITIES THAT MAY BE COMPETITIVE WITH OUR BUSINESS.

In connection with the completion of the TransPoint mergers, we entered into a commercial alliance agreement with Microsoft and a marketing agreement with First Data. Both of these agreements contain limited covenants of the other party not to compete with us. These covenants, however, contain exceptions that could allow the other parties to engage in activities that could be competitive with our future business. These competitive activities, or the perception by investors that activities by Microsoft and First Data are competitive with our business, could adversely affect our business and the market price of our common stock. The TransPoint mergers did not create any obligation whatsoever on the part of Citibank to refrain from any business activities which are competitive with, or even hostile to, us. Although we would like to expand our business relationship with Citibank, nothing in or about the merger should be interpreted as increasing the likelihood that we will be successful in winning additional business from Citibank, or in preventing Citibank from competing against us.

THE MARKETING AGREEMENT WITH FIRST DATA AND THE COMMERCIAL ALLIANCE AGREEMENT WITH MICROSOFT WILL LIMIT THE FLEXIBILITY OF OUR MANAGEMENT.

The marketing agreement we executed with First Data requires us to purchase payment processing and other products from First Data under specified circumstances, even if our management has other reasons for choosing a different supplier. In addition, the commercial alliance agreement with Microsoft requires the development of our products that are used with products made by Microsoft to conform to specified standards. Accordingly, as a result of these agreements with Microsoft and First Data, our management's flexibility to make business decisions will be limited in various respects.

AS A RESULT OF THE BLUEGILL AND TRANSPOINT MERGERS, WE WILL HAVE AN INCREASED INTERNATIONAL PRESENCE IN WHICH WE HAVE HAD LIMITED BUSINESS EXPERIENCE.

Historically, we have not offered or sold our products and services internationally. International operations are subject to many risks that are difficult or impossible to predict or control, including the following:

- unexpected changes in laws and regulatory requirements;
- longer payment cycles;
- adverse economic or political changes;
- exchange rate risks associated with conversion of foreign currencies to United States dollars;
- potential trade restrictions;
- problems in collecting accounts receivables; and
- potentially adverse tax consequences.

If we are unable to successfully adapt our business operations to these additional risks and requirements, it could have a material adverse effect on our business and financial condition.

ANTI-TAKEOVER PROVISIONS IN THE TRANSPOINT COMMERCIAL AGREEMENTS MAY MAKE A CHANGE IN CONTROL OF OUR COMPANY MORE DIFFICULT.

Both the commercial alliance agreement with Microsoft and the marketing agreement with First Data allow the termination of the agreement by Microsoft or First Data, as the case may be, under specific change of control circumstances. If either Microsoft or First Data terminates under these circumstances, we will lose a portion of the future revenue guarantees under the applicable agreement. These potential termination events could discourage third parties from acquiring us.

WE MAY NOT BE ABLE TO PROVIDE ELECTRONIC BILLING AND PAYMENT SERVICES TO THE BANK OF AMERICA SUBSCRIBERS FOR THE FEES WE AGREED TO IN THE STRATEGIC AGREEMENT WITH BANK OF AMERICA.

The success of the strategic agreement with Bank of America will depend, in part, on our ability to ultimately provide electronic billing and payment services to the Bank of America subscribers at a cost to us that is less than the fees we have agreed to receive. If we are unable to provide electronic billing and payment services to the Bank of America subscribers profitably, the strategic agreement will have a material adverse effect on our business, financial condition and results of operations.

BANK OF AMERICA'S MARKETING EFFORTS MAY NOT BE SUCCESSFUL IN GENERATING ADDITIONAL SUBSCRIBERS FOR OUR ELECTRONIC BILLING AND PAYMENT SERVICES.

If Bank of America's marketing efforts to generate additional subscribers are not successful, it could have a material adverse effect on our business, financial condition and results of operations. In order to realize the benefit of the strategic agreement with Bank of America and to consistently increase and maintain our profitability, we must encourage the existing Bank of America subscribers to actively utilize our billing and payment services, as well as generate additional subscribers from the Bank of America base of customers.

OUR ASSUMPTION OF CERTAIN LONG-TERM LEASEHOLD OBLIGATIONS COULD HAVE AN ADVERSE IMPACT ON OUR RESULTS OF OPERATIONS.

As part of the strategic agreement with Bank of America, we are assuming certain of Bank of America's long-term leasehold obligations which, if we are unable to use the leased premises efficiently in our business (or find a third party to assume the leasehold obligations), could have a material adverse effect on our profitability and results of operations.

OUR ABILITY TO SUCCEED IN TRANSITIONING BANK OF AMERICA'S BILLING AND PAYMENT SERVICES FROM A LEGACY SYSTEM TO OUR SYSTEM IS DEPENDENT ON RETAINING QUALIFIED BANK OF AMERICA EMPLOYEES KNOWLEDGEABLE IN THE OPERATION OF A LEGACY SYSTEM.

The success of the strategic agreement with Bank of America is dependent on our ability to retain qualified Bank of America employees with experience operating Bank of America's billing and payment processing system. Bank of America operates its electronic billing and payment services on a legacy system that we expect to migrate to our processing systems. If we are unable to retain the experienced Bank of America employees through the transition and migration process, we will have to either divert our current employees from other important work or incur a significant expense to hire people qualified to operate a legacy system to assist us with the transition and migration process. Competition for qualified employees is intense and employees qualified to operate a legacy system are in short supply.

ITEM 2. PROPERTIES.

We lease the following office facilities:

- approximately 229,000 square feet in Norcross, Georgia;
- approximately 150,000 square feet in Dublin, Ohio;
- approximately 100,000 square feet in Phoenix, Arizona;
- approximately 77,706 square feet in Aurora, Illinois;
- approximately 45,000 square feet in Houston, Texas;
- approximately 33,000 square feet in Jersey City, New Jersey
- approximately 32,000 square feet in Austin, Texas;
- approximately 30,000 square feet in Ann Arbor, Michigan;
- approximately 29,000 square feet in Waterloo, Ontario, Canada;
- approximately 26,000 square feet in Owings Mills, Maryland;
- approximately 26,000 square feet in San Francisco, California;
- approximately 21,000 square feet in Newark, New Jersey;
- approximately 15,000 square feet in Chicago, Illinois;
- approximately 5,000 square feet in San Diego, California; and

- approximately 2,000 square feet in Boston Massachusetts.

We own a 51,000 square foot conference center in Norcross, Georgia that includes lodging, training, and fitness facilities for our customers and employees. Although we own the building, it is on land that is leased through June 30, 2021. We believe that our facilities are adequate for current and near-term growth and that additional space is available to provide for anticipated growth.

ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings pending against us.

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

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is traded on the Nasdaq National Market under the symbol "CKFR." The following table sets forth the high and low sales prices of our common stock for the periods indicated as reported by the Nasdaq National Market.

	COMMON STOCK PRICE	
FISCAL PERIOD	HIGH	LOW
FISCAL 2000		
First Quarter	$ 44.25	$ 23.13
Second Quarter	$107.50	$ 34.00
Third Quarter	$125.63	$ 55.77
Fourth Quarter	$ 70.75	$ 28.50
FISCAL 2001		
First Quarter	$ 70.88	$ 34.50
Second Quarter	$ 62.50	$ 33.50
Third Quarter	$ 57.25	$ 25.38
Fourth Quarter	$ 43.15	$ 24.06
FISCAL 2002		
First Quarter (through September 20, 2001)	$ 39.68	$ 15.50

On September 20, 2001, the last reported bid price for our common stock on the Nasdaq National Market was $16.99 per share. As of September 14, 2001, there were approximately 688 holders of record of our common stock.

We currently anticipate that all of our future earnings will be retained for the development of our business and do not anticipate paying cash dividends on our common stock for the foreseeable future. In addition, our line of credit does not allow for the payment of cash dividends on our common stock. Our board of directors will determine future dividend policy based on our results of operations, financial condition, capital requirements and other circumstances. During the last ten years, we have not paid cash dividends.

During the past fiscal year, we have issued the following unregistered securities shares of our common stock:

DATE	TYPE OF SECURITIES	NUMBER OF SHARES	UNDERWRITER / PURCHASER	CONSIDERATION	EXEMPTION CLAIMED
September 28, 2000	common stock	10,000,000	Bank of America	Certain electronic billing and payment assets of Bank of America	Section 4(2)

ITEM 6. SELECTED FINANCIAL DATA.

The information required by this item is included under the caption "SELECTED FINANCIAL DATA" in our Annual Report and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required by this item is included under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION" in our Annual Report and is incorporated herein by reference.

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 on Form 10-K include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 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" included elsewhere in this Annual Report on Form 10-K 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 on Form 10-K 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 a representation by us or any other person that our objectives and plans will be achieved. All forward-looking statements made in this Annual Report on Form 10-K are based on information presently available to our management. We assume no obligation to update any forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

With the acquisition of BlueGill in April 2000, we obtained operations in Canada and recently opened offices in the United Kingdom, Singapore and Australia. As a result, we now have assets and liabilities outside the United States that are subject to fluctuations in foreign currency exchange rates. Due to the start up nature of each of these operations, however, we currently utilize the U.S. dollar as the functional currency for all international operations. As these operations begin to generate sufficient cash flow to provide for their own cash flow requirements, we will convert to local currency as the functional currency in each related operating unit as appropriate. Because we utilize the U.S. dollar as the functional currency and due to the immaterial nature of the amounts involved, our economic exposure from fluctuations in foreign exchange rates is not significant enough at this time to engage in forward foreign exchange and other similar instruments.

While our international sales represented less than 2% of our revenue for the year ended June 30, 2001, we now market, sell and license our products throughout the world. As a result, our future revenue could be somewhat affected by weak economic conditions in foreign markets that could reduce demand for our products.

Our exposure to interest rate risk is limited to the yield we earn on invested cash, cash equivalents and investments and interest based revenue earned on products such as our account balance transfer business. Our convertible debt carries a fixed rate, as do any outstanding capital lease obligations. Although our Investment Policy currently prohibits the use of derivatives for trading or hedging purposes, we believe that our limited interest rate risk currently does not warrant the use of such instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated balance sheets as of June 30, 2000 and 2001 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 1999, 2000 and 2001 and the notes to the financial statements, together with the independent auditors' report thereon appear in our Annual Report and are incorporated herein by reference.

Our Financial Statement Schedule and Independent Auditors' Report on Financial Statement Schedule are included in response to Item 14 below.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item is included under the captions "ELECTION OF DIRECTORS," "EXECUTIVE OFFICERS" and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in our Proxy Statement relating to our 2001 Annual Meeting of Stockholders to be held on November 7, 2001 and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is included under the captions "INFORMATION CONCERNING THE BOARD OF DIRECTORS" and "EXECUTIVE COMPENSATION" in our Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item is included under the captions "OWNERSHIP OF COMMON STOCK BY DIRECTORS AND EXECUTIVE OFFICERS" and "OWNERSHIP OF COMMON STOCK BY PRINCIPAL STOCKHOLDERS" in our Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is included under the captions "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" and "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION" in our Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this report:

(1) The following financial statements appearing in our 2001 Annual Report of Stockholders are incorporated herein by reference:

Independent Auditors' Report.

Consolidated Balance Sheets as of June 30, 2000 and 2001.

Consolidated Statements of Operations for each of the three years in the period ended June 30, 2001.

Consolidated Statements of Stockholders' Equity for each of the three years in the period ended June 30, 2001.

Consolidated Statements of Cash Flows for each of the three years in the period ended June 30, 2001.

Notes to the Consolidated Financial Statements.

(2) The following financial statement schedule is included in this Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements contained in the Annual Report:

Schedule II -- Valuation and Qualifying Accounts.

Independent Auditors' Report on Financial Statement Schedule.

Schedules not listed above are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or the notes thereto.

(3) Exhibits:

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
2(a)	Agreement and Plan Merger and Contribution Agreement, dated as of February 15, 2000, among Microsoft Corporation, First Data Corporation, Citibank, N.A., MS II, LLC, First Data, L.L.C., H & B Finance, Inc., First Data International Partner, Inc., MSFDC International, Inc., Citicorp Electronic Commerce, Inc., CheckFree Holdings Corporation, Chopper Merger Corporation, and CheckFree Corporation (Reference is made to Exhibit 2(b) of the Registration Statement on Form S-4 (333-32644) and incorporated herein by reference.)
2(b)	Amended and Restated Agreement and Plan of Merger, dated as of July 7, 2000, among CheckFree Holdings Corporation, Microsoft Corporation, First Data Corporation, Citibank, N.A., H&B Finance, Inc., FDC International Partner, Inc., FDR Subsidiary Corp., MS FDC International, Inc., Citi TransPoint Holdings Inc., TransPoint Acquisition Corporation, Tank Acquisition Corporation, Chopper Merger Corporation, CheckFree Corporation, Microsoft II, LLC and First Data, L.L.C. (Reference is made to Exhibit 2(c) of the Registration Statement on Form S-4 (333-32644) and incorporated herein by reference.)

2(c)	Amended and Restated Strategic Alliance Master Agreement, dated as of April 26, 2000, among CheckFree Holdings Corporation, CheckFree Services Corporation and Bank of America, N.A. (Reference is made to Appendix A to the Company's Proxy Statement for the Special Meeting of Stockholders held on September 28, 2000, and incorporated herein by reference).
3(a)	Amended and Restated Certificate of Incorporation of the Company. (Reference is made to Exhibit 4(e) to the Registration Statement on Form S-8 (Registration No. 333-50322), filed with the Securities and Exchange Commission on November 20, 2000, and incorporated herein by reference.)
3(b)	Certificate of Ownership and Merger Merging CheckFree Corporation into CheckFree Holdings Corporation. (Reference is made to Exhibit 3(b) to the Company's Form 10-K for the year ended June 30, 2000, filed with the Securities and Exchange Commission on September 26, 2000, and incorporated herein by reference.)
3(c)	By-Laws of the Company. (Reference is made to Exhibit 3(b) to the Current Report on Form 8-K, dated December 22, 1997, filed with the Securities and Exchange Commission on December 30, 1997, and incorporated herein by reference.)
3(d)	Form of Specimen Stock Certificate. (Reference is made to Exhibit 3(d) to the Company's Form 10-K for the year ended June 30, 2000, filed with the Securities and Exchange Commission on September 26, 2000, and incorporated herein by reference.)
4(a)	Articles FOURTH, FIFTH, SEVENTH, EIGHTH, TENTH AND ELEVENTH of the Company's Restated Certificate of Incorporation (contained in the Company's Restated Certificate of Incorporation filed as Exhibit 3(a) hereto) and Articles II, III, IV, VI and VIII of the Company's By-Laws (contained in the Company's By-Laws filed as Exhibit 3(b) hereto).
4(b)	Rights Agreement, dated as of December 16, 1997, by and between the Company and The Fifth Third Bank, as Rights Agent. (Reference is made to Exhibit 4.1 to Amendment No. 1 to Registration Statement on Form 8-A, filed with the Securities and Exchange Commission on May 12, 1999, and incorporated herein by reference.)
10(a)	CheckFree Corporation Amended and Restated Associate Stock Purchase Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended (Registration No. 333-21795), filed with the Securities and Exchange Commission on January 14, 1998, and incorporated herein by reference.)
10(b)	CheckFree Corporation Amended and Restated 1995 Stock Option Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended (Registration No. 33-98446), filed with the Securities and Exchange Commission on January 9, 1998, and incorporated herein by reference.)
10(c)	CheckFree Corporation Amended and Restated 1993 Stock Option Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended (Registration No. 33-98442), filed with the Securities and Exchange Commission on January 9, 1998, and incorporated herein by reference.)
10(d)	CheckFree Corporation Amended and Restated 1983 Non-Statutory Stock Option Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended (Registration No. 33-98440), filed with the Securities and Exchange Commission on January 9, 1998, and incorporated herein by reference.)

10(e)	CheckFree Corporation Second Amended and Restated 1983 Incentive Stock Option Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended (Registration No. 33-98444), filed with the Securities and Exchange Commission on January 9, 1998, and incorporated herein by reference.)
10(f)	Form of Indemnification Agreement. (Reference is made to Exhibit 10(a) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(g)	Schedule identifying material details of Indemnification Agreements substantially identical to Exhibit 10(f). (Reference is made to Exhibit 10(g) to the Company's Form 10-K for the year ended June 30, 1997, filed with the Securities and Exchange Commission on September 26, 1997, and incorporated herein by reference.)
10(h)	Noncompete, Nondisclosure, and Assignment Agreement, dated February 1, 1990, between Peter J. Kight and the Company. (Reference is made to Exhibit 10(i) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(i)	Noncompete, Nondisclosure, and Assignment Agreement, dated February 1, 1990, between Mark A. Johnson and the Company. (Reference is made to Exhibit 10(j) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(j)	ACH Operations Agreement, dated April 1, 1994, between the Company and Society National Bank. (Reference is made to Exhibit 10(ii) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(k)	Merchant Processing Agreement, dated March 13, 1995, between the Company and Society National Bank. (Reference is made to Exhibit 10(jj) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(l)	Executive Employment Agreement between the Company and Peter J. Kight. (Reference is made to Exhibit 10(z) to the Company's Form 10-K for the year ended June 30, 1997, filed with the Securities and Exchange Commission on September 26, 1997, and incorporated herein by reference.)
10(m)	Executive Employment Agreement between the Company and Lynn D. Busing. (Reference is made to Exhibit 10(f) to the Form 10-Q for the quarter ended March 31, 1996, filed with the Securities and Exchange Commission, and incorporated herein by reference.)
10(n)	Agreement for ACH Services between the Company and The Chase Manhattan Bank, N.A., dated as of July 1, 1996. (Reference is made to Exhibit 10(qqq) to the Form 10-K for the transition period ended June 30, 1996, filed with the Securities and Exchange Commission, and incorporated herein by reference.)
10(o)	Loan and Security Agreement, dated as of May 13, 1997, among KeyBank National Association, the Company, CheckFree Software Solutions, Inc., CheckFree Services Corporation, Security APL, Inc., Servantis Systems, Inc., and Servantis Services, Inc. (Reference is made to Exhibit 10(ee) to the Company's Form 10-K for the year ended

		June 30, 1997, filed with the Securities and Exchange Commission on September 26, 1997, and incorporated herein by reference.)
10(p)		First Amendment to Loan and Security Agreement by and between KeyBank National Association, as Lender, and CheckFree Corporation, as Borrower, dated as of December 9, 1998. (Reference is made to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 1999, filed with the Securities and Exchange Commission on May 17, 1999, and incorporated herein by reference.)
10(q)		CheckFree Corporation Incentive Compensation Plan. (Reference is made to Exhibit 10(ff) to the Company's Form 10-K for the year ended June 30, 1997, filed with the Securities and Exchange Commission on September 26, 1997, and incorporated herein by reference.)
10(r)		Form of Stockholder Agreement entered into between the Company and each of Microsoft Corporation and First Data Corporation. (Reference is made to Exhibit 10(ff) of the Company's Registration Statement on Form S-4 (Registration No. 333-41098) filed with the Securities and Exchange Commission on July 10, 2000 and incorporated herein by reference).**
10(s)		Form of Registration Rights Agreement entered into between the Company and each of Microsoft Corporation and First Data Corporation. (Reference is made to Exhibit 10(gg) of the Company's Registration Statement on Form S-4 (Registration No. 333-41098) filed with the Securities and Exchange Commission on July 10, 2000 and incorporated herein by reference).**
10(t)		Form of Registration Rights Agreement entered into between the Company and Citibank, N.A. (Reference is made to Exhibit 10(hh) of the Company's Registration Statement on Form S-4 (Registration No. 333-41098) filed with the Securities and Exchange Commission on July 10, 2000 and incorporated herein by reference).**
10(u)		Form of Commercial Alliance Agreement entered into between the Company and Microsoft Corporation. (Reference is made to Exhibit 10(ff) of the Company's Amendment No. 1 to the Registration Statement on Form S-4 (Registration No. 333-32644) filed with the Securities and Exchange Commission on April 18, 2000 and incorporated herein by reference).**
10(v)		Form of Marketing Agreement entered into between the Company and First Data Corporation. (Reference is made to Exhibit 10(gg) of the Company's Amendment No. 1 to the Registration Statement on Form S-4 (Registration No. 333-32644) filed with the Securities and Exchange Commission on April 18, 2000 and incorporated herein by reference).**
10(w)		Amendment No. 2 to the Rights Agreement, dated September 30, 2000, between CheckFree Corporation and the Fifth Third Bank, as Rights Agent. (Reference is made to Exhibit 99 to Current Report on Form 8-K, dated September 30, 2001, filed with the Securities and Exchange Commission on October 3, 2000 and incorporated herein by reference).
10(x)		CheckFree Corporation Third Amended and Restated 1995 Stock Option Plan. (Reference is made to Exhibit 4(d) to the Registration Statement on Form S-8 (Registration No. 333-50322), filed with the Securities and Exchange Commission on November 20, 2000, and incorporated herein by reference.)
13	*	Portions of the Annual Report to Stockholders for the year ended June 30, 2001.

21	*	Subsidiaries of the Company.
23	*	Consent of Deloitte & Touche LLP.
24	*	Power of Attorney.
99	*	Financial Statement Schedule and Independent Auditors' Report.

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* Filed with this report.

** Portions of this Exhibit have been given confidential treatment by the Securities and Exchange Commission.

(b) REPORTS ON FORM 8-K.

We filed no Current Reports on Form 8-K since March 31, 2001.

(c) EXHIBITS.

The exhibits to this report follow the Signature Page.

(d) FINANCIAL STATEMENT SCHEDULES.

The financial statement schedule and the independent auditors' report thereon are included in Exhibit 99 to this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHECKFREE CORPORATION

Date: September 26, 2001

By: /s/ DAVID E. MANGUM

David E. Mangum, Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on our behalf and in the capacities indicated on the 26th day of September, 2001.

Signature	Title
*Peter J. Kight Peter J. Kight	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
*David E. Mangum David E. Mangum	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
*Gary A. Luoma, Jr. Gary A. Luoma, Jr.	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)
*William P. Boardman William P. Boardman	Director
*James D. Dixon James D. Dixon	Director
*Henry C. Duques Henry C. Duques	Director
*Mark A. Johnson Mark A. Johnson	Director
*Lewis C. Levin Lewis C. Levin	Director
*Eugene F. Quinn Eugene F. Quinn	Director
*Jeffrey M. Wilkins Jeffrey M. Wilkins	Director

*By: /s/ Curtis A. Loveland

Curtis A. Loveland,
Attorney-in-Fact

SELECTED FINANCIAL DATA

The selected consolidated financial data for the years ended June 30, 1999, 2000 and 2001 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 years ended December 31, 1997 and 1998 have been derived from audited financial statements of the Company which are not included in this Annual Report. 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.

	1997	1998	1999	2000	2001
STATEMENT OF OPERATIONS:					
Revenues:					
Processing, servicing and merchant discount	$ 104,522	$ 159,255	$ 201,059	$ 261,621	$ 362,051
License fees	33,088	28,952	15,975	16,818	30,180
Maintenance fees	22,567	25,848	17,746	18,752	21,332
Other	16,268	19,809	15,351	13,004	19,757
Total revenues	176,445	233,864	250,131	310,195	433,320
Expenses					
Cost of processing, servicing and support	102,721	129,924	146,704	182,540	255,528
Research and development	32,869	36,265	21,085	35,631	55,621
Sales and marketing	32,670	28,839	32,354	44,782	90,283
General and administrative	18,707	20,677	31,466	40,931	50,474
Depreciation and amortization	24,919	24,999	24,630	42,830	427,495
In-process research and development	140,000	719	2,201	6,900	18,600
Charge for stock warrants	--	32,827	--	--	--
Exclusivity amortization	5,958	2,963	--	--	--
Total expenses	357,844	277,213	258,440	353,614	898,001
Net gain on dispositions of assets	6,250	36,173	4,576	--	--
Income (loss) from operations	(175,149)	(7,176)	(3,733)	(43,419)	(464,681)
Interest:					
Income	2,153	3,464	2,799	7,689	15,415
Expense	(834)	(632)	(618)	(8,027)	(13,154)
Loss on investments	--	--	--	--	(16,077)
Income (loss) before income tax	(173,830)	(4,344)	(1,522)	(43,757)	(478,497)
Income tax expense (benefit)	(12,017)	(641)	(12,009)	(11,437)	(115,362)
Net income (loss)	$ (161,813)	$ (3,703)	$ 10,457	$ (32,320)	$ (363,135)
Diluted income (loss) per common share	$ (3.44)	$ (0.07)	$ 0.18	$ (0.61)	$ (4.49)
Equivalent number of shares outstanding	46,988	55,087	56,529	53,367	80,863
BALANCE SHEET DATA:					
Working capital	$ 20,002	$ 78,238	$ 24,245	$ 178,761	$ 142,661
Total assets	223,836	250,112	252,761	713,114	2,183,953
Long-term obligations, less current portion	8,401	6,467	3,882	173,236	176,541
Total stockholder's equity	148,644	183,854	186,903	445,894	1,732,186

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 provide electronic billing and payment services for over 5.2 million consumers as of June 30, 2001. Our services reach hundreds of sources, either directly or through reseller relationships, including:

- 9 of the 10 largest U.S. banks;
- 8 of the top 10 U.S. brokerage firms;
- Internet portals;
- Internet-based banks;
- Internet financial sites like Quicken.com; and
- Personal financial management software like Quicken and Microsoft Money.

We have developed contracts with over 1,100 merchants nationwide that allows us to remit approximately 64% of all of our bill payments electronically. We processed over 22 million transactions for the month of June 2001 and, for the year ended June 30, 2001, we processed over 231 million transactions.

In March 1997, we introduced electronic billing --"E-Bill"-- which enables merchants to deliver billing as well as marketing materials interactively to their customers over the Internet. In March 2001, we introduced the latest version of our electronic billing and payment products, "WebPay for Consumers" (or WebPay 3.2), which provides consumers with the ability to receive and pay e-bills over e-mail and to exchange money with each other using e-mail "invitations" to send or receive money. As of June 30, 2001, we have 173 billers in production and are delivering nearly 500,000 electronic bills monthly. Additional biller content became available in the fourth quarter of fiscal 2001 through our ability to deliver bills scraped from biller-direct sites, which added six national credit card bills to the 173 bills available through traditional electronic and billing payment services.

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, assessing 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, it will be sent by check. If the results are not favorable, the remittance will be sent to the merchant by a draft drawn directly on the customer's checking account. In an electronic remittance, the funds are transmitted electronically to the merchant with the 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 is able 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 electronically to approximately 64% by June 2001.

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 system solution includes:

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

Our financial planning software applications include:

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

Our fee-based money manager clients are typically sponsors or managers of wrap money management products or traditional money managers, managing investments of institutions and high net worth individuals. Our portfolios under management have grown to over 1.1 million as of June 30, 2001.

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, which is a set of electronic billing software products developed for various industry segments, was added through our 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. Given the nature of the process we use to convert billing and/or statement information for use over the Internet, these products are equally marketable in international markets 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 transfers 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 on the automated clearinghouse at the Federal Reserve Commission's web site at http://www.federalreserve.gov. We do not maintain a direct connection with the automated clearinghouse, but rather, clear our electronic transactions through KeyBank, N.A., under the terms of an automated clearinghouse agreement.

- Reconciliation.

  Through our ReconPlus software, we provide U.S. 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 ReconPlus 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 solutions for Form 1099 processing, safe box accounting and other applications.

During the fiscal year June 30, 2001, Electronic Commerce accounted for 70% of our revenues, Investment Services accounted for 16% of our revenues, and Software accounted for 14% of our revenues.

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, BlueGill Technologies, Inc. in April 2000, and MSFDC, L.L.C (TransPoint) in September 2000. In October 2000, we completed the strategic agreement we entered into with Bank of America in April 2000, under which we acquired certain of Bank of America's electronic billing and payment assets.

RESULTS OF OPERATIONS

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

	YEAR ENDED JUNE 30,		
	1999	2000	2001
Total revenues	100.0%	100.0%	100.0%
Expenses:			
Cost of processing, servicing and support	58.7	58.8	59.0
Research and development	8.4	11.5	12.8
Sales and marketing	12.9	14.4	20.8
General and administrative	12.6	13.2	11.7
Depreciation and amortization	9.8	13.8	98.7
In-process research and development	0.9	2.2	4.3
Total expenses	103.3	114.0	207.2
Net gain on dispositions of assets	1.8	--	--
Loss from operations	(1.5)	(14.0)	(107.2)
Interest:			
Income	1.1	0.2	3.6
Expense	(0.2)	(0.3)	(3.1)
Loss on investments	--	--	(3.7)
Loss before income taxes	(0.6)	(14.1)	(110.4)
Income tax benefit	(4.8)	(3.7)	(26.6)
Net income (loss)	4.2%	(10.4)%	(83.8)%

YEARS ENDED JUNE 30, 2000 AND 2001

Revenues. Our total revenue increased by 40%, from $310.2 million for the year ended June 30, 2000 to $433.3 million for the year ended June 30, 2001. The increase in revenue resulted from the acquisition of BlueGill in April 2000, the acquisition of TransPoint in September 2000, our strategic alliance with Bank of America in October 2000, and underlying revenue growth in the mid 20% range on a year over year basis. Overall revenue growth was driven primarily by an increase in subscribers in our Electronic Commerce business from 3.5 million at June 30, 2000 to just over 5.2 million at June 30, 2001 (0.3 million of which were added from Bank of America in

October 2000), an increase in portfolios managed in our Investment Services business from approximately 950,000 at June 30, 2000 to over 1.1 million at June 30, 2001, and incremental revenue from the BlueGill acquisition in our Software business. Refer to SEGMENT INFORMATION later in this commentary for further information regarding results of our three business segments.

Our processing and servicing revenue increased by 38%, from $261.6 million for the year ended June 30, 2000 to $362.1 million for the year ended June 30, 2001. Our acquisition of TransPoint included a five-year strategic agreement with Microsoft and a five-year marketing agreement with First Data Corporation, each of which includes minimum quarterly revenue guarantees, as does our ten-year strategic agreement with Bank of America. In each case, actual subscriber revenue is below minimums as of June 30, 2001 and, as a result, overall subscriber based revenue growth will correlate less directly with subscriber growth until Bank of America-related and TransPoint-related subscribers generate sufficient revenue to exceed the quarterly minimums. Net of the incremental revenue from these agreements, underlying growth in processing and servicing revenue increased by 25% on a year over year basis. Growth in underlying processing and servicing revenue is driven by the previously mentioned growth in subscribers in our Electronic Commerce business and portfolios managed in our Investment Services business. Additionally, we now have 173 billers in production, including 30 that were added through the TransPoint acquisition, that presented nearly 500,000 bills in the month ended June 30, 2001. This has increased significantly from the 94 billers that presented about 94,000 bills in June 2000. In the month ended June 30, 2001, we processed over 22 million transactions, an increase of 38% compared to the 16 million transactions we processed in the month of June 2000. As mentioned in previous reports, we are offering a transaction based pricing model for our largest customers, and when combined with strategic agreements operating below minimum quarterly revenue thresholds, it will become increasingly difficult to correlate revenue solely to the number of subscribers, with transactions processed becoming an additional revenue indicator.

Our license fee revenue increased by 79%, from $16.8 million for the year ended June 30, 2000 to $30.2 million for the year ended June 30, 2001. Growth in license revenue is primarily attributable to new revenue resulting from our acquisition of BlueGill in April 2000. We achieved modest license revenue growth in the mid single digits from our more mature software product lines in the year ended June 30, 2001. Although we anticipate continued growth in license revenue, we expect current economic conditions to have a dampening effect on the rate of growth, at least in the near term.

Our maintenance revenue increased by 14%, from $18.8 million for the year ended June 30, 2000 to $21.3 million for the year ended June 30, 2001. We have achieved modest increases in maintenance revenue as a result of our acquisition of BlueGill. This line of billing software, however, is new and our related annual maintenance revenue is just now beginning to grow as customers complete their initial maintenance period and we begin to establish a renewal maintenance base. Additionally, since last year, we modified our maintenance revenue recognition policy. While we continue to recognize maintenance revenue ratably over the related service period, we now delay the onset of revenue recognition until cash is received, as opposed to estimating renewals in advance of cash receipt. Although this change caused some initial timing differences between the quarters ended September 30, 2000 and December 31, 2000, we do not expect any significant timing impact going forward. Customer retention rates in our more mature businesses continue to exceed 80% and price increases did not have a material impact on maintenance revenue in the year ended June 30, 2001.

Our other revenue, which consists mostly of consulting fees, increased by 52%, from $13.0 million for the year ended June 30, 2000 to $19.8 million for the year ended June 30, 2001. Growth in other revenue is driven by increased consulting fees resulting from our BlueGill acquisition and increases related to biller implementations in our Electronic Commerce business. We placed 50 additional billers into production in the year ended June 30, 2001, bringing our total to 173.

Cost of processing, servicing and support. Our cost of processing, servicing and support was $182.5 million, or 58.8% of total revenue for the year ended June 30, 2000, and was $255.5 million, or 59.0% of total revenue for the year ended June 30, 2001. Cost of processing, servicing and support as a percentage of servicing only revenue (total revenue less license fees) was 62.2% for the year ended June 30, 2000, and 63.3% for the year ended June 30, 2001. As previously mentioned, we acquired TransPoint in September 2000 and the electronic billing and payment assets of Bank of America in October 2000. As a result of these transactions, we have supported two additional billing and payment processing platforms for much of the year ended June 30, 2001. Although expected, this has resulted in an increase in our cost of processing as a percentage of servicing only revenue as the acquired platforms are less efficient than our Genesis processing platform. We completed the conversion of TransPoint subscribers and billers to the Genesis processing platform in the quarter ended June 30, 2001. We completed the conversion of a portion of the Bank of America East operations in the quarter ended March

31, 2001, which includes subscribers in Georgia, Tennessee, Florida, Missouri, Arkansas, Iowa, Kansas, Arizona, New Mexico, North Carolina, South Carolina, Virginia, Maryland, and the District of Columbia. The remaining Bank of America subscribers, referred to as Bank of America West, are expected to be converted in the quarter ended December 31, 2001, with the remainder of legacy Bank of America subscribers converting from our Austin processing platform in the following quarter. Until the final conversion is completed, we will continue to experience higher than normal incremental processing costs, but at a decreasing rate, as new subscriber transactions are processed on the more efficient Genesis processing system. Somewhat masked by less efficient incremental costs resulting from TransPoint and Bank of America are underlying improvements in efficiency and processing quality within Genesis. Our ratio of electronic payments to total payments has improved from approximately 58% at June 30, 2000 to about 64% as of June 30, 2001. Electronic payments carry a significantly lower variable cost per unit than paper based transactions and are far less likely to result in a costly customer claim.

Research and Development. Our research and development costs were $35.6 million, or 11.5% of total revenue for the year ended June 30, 2000, and were $55.6 million, or 12.8% of total revenue for the year ended June 30, 2001. Adjusted for capitalized development costs of $7.9 million for the year ended June 30, 2000 and $4.9 million for the year ended June 30, 2001, our gross expenditures for research and development were $43.5 million, or 14.0% of total revenue for the year ended June 30, 2000, and $60.5 million, or 14.0% of total revenue for the year ended June 30, 2001. As a result of our acquisition of BlueGill, we added a large number of software development engineers and we have continued to invest heavily in our i-Solutions electronic billing software line of products. In addition, we released WebPay for Consumers, or WebPay 3.2, on our Genesis processing platform in our Electronic Commerce business in March 2001. This product offering provides consumers the ability to receive and pay e-bills over e-mail and to exchange money with each other using e-mail "invitations" to send or receive money. While we plan to continue 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, we expect that research and development will decline as a percentage of revenue in future periods.

Sales and Marketing. Our sales and marketing costs were $44.8 million, or 14.4% of total revenue for the year ended June 30, 2000, and were $90.3 million, or 20.8% of total revenue for the year ended June 30, 2001. The terms of our strategic agreement with Bank of America called for us to provide $25.0 million at closing to help support an agreed upon two-year $45.0 million marketing campaign by Bank of America. Because we cannot directly impact the specific nature, timing or extent of the use of the marketing funds, we expensed the entire $25.0 million as a period cost in the quarter ended December 31, 2000. Net of this one-time charge, sales and marketing costs were $65.3 million, or 15.0% of total revenue for the year ended June 30, 2001. We initiated specific marketing programs during fiscal 2001 to provide direct assistance to our Consumer Service Provider and biller customers in designing effective marketing and advertising campaigns geared toward accelerated consumer adoption of electronic billing and payment services. In addition to the marketing programs, the increase in our sales and marketing expenses are the result of increased sales and marketing staff resulting from the BlueGill acquisition, royalty costs resulting from the TransPoint acquisition, costs associated with the launch of the new i-Solutions product line, and further investments in core marketing and communications areas in support of the continued growth of the business.

General and Administrative. Our general and administrative expenses were $40.9 million or 13.2% of total revenue for the year ended June 30, 2000, and were $50.5 million, or 11.7% of total revenue for the year ended June 30, 2001. While we have incurred incremental facility and administrative staff costs in support of the BlueGill, TransPoint, and Bank of America transactions, and in support of the overall growth of the Company, our general and administrative costs as a percentage of revenue continue to decline due to the inherent leverage in our existing business model.

Depreciation and Amortization. Depreciation and amortization cost increased from $42.8 million for the year ended June 30, 2000 to $427.5 million for the year ended June 30, 2001. The significant increase is the direct result of amortization of intangible assets from the acquisitions of BlueGill and TransPoint, and the purchase of the electronic billing and payment assets from Bank of America. Net of intangible asset amortization from all acquisitions, our depreciation costs related solely to fixed assets, increased from $24.3 million for the year ended June 30, 2000 to $34.1 million for the year ended June 30, 2001. The increase in fixed asset related amortization is the result of fixed assets obtained in the BlueGill and TransPoint acquisitions, and increasing capital expenditures for data processing equipment, related software and new and improved facilities in support of the continued growth of the business.

In-Process Research and Development. In the quarter ended June 30, 2000, we incurred $6.9 million of in-process research and development costs in relation to our acquisition of BlueGill. In the quarter ended September

30, 2000, we incurred $18.6 million of in-process research and development costs in relation to our acquisition of TransPoint. Please refer to the Notes to Consolidated Financial Statements included herein for a detailed discussion of these charges.

Interest. Our interest income increased from $7.7 million for the year ended June 30, 2000 to $15.4 million for the year ended June 30, 2001. Our balance of cash and invested assets was $207.6 million at June 30, 2000 and $256.1 million at June 30, 2001. Although interest rates have declined throughout the year ended June 30, 2001, we have seen a significant increase in average invested assets from $116.1 million at June 30, 2000 to $231.9 million at June 30, 2001. While cash and invested assets fluctuate quarter to quarter, the primary transactions influencing our cash and investment balances were the $97.2 million we received in cash as part of the TransPoint acquisition in September 2000 and the $35.0 million of cash we used in connection with our asset purchase agreement with Bank of America.

Our interest expense increased from $8.0 million for the year ended June 30, 2000 to $13.2 million for the year ended June 30, 2001. While we also incur interest expense on leases, the increase in interest expense is due primarily to the $172.5 million of 6 1/2% convertible subordinated notes we issued in November 1999, which created slightly over 7 months of interest expense in the year ended June 30, 2000 and 12 months of interest expense in the year ended June 30, 2001. None of the 6 1/2% convertible debt had been converted to shares of our common stock as of June 30, 2001.

Loss on Investments. Due to overall market conditions, certain of our investments have incurred an "other than temporary" decline in market value. As a result, in the year ended June 30, 2001, we recorded charges of $16.1 million to appropriately reflect the decline in value of these investments.

Income Taxes. We recorded an income tax benefit of $11.4 million with an effective rate of 26.1% for the year ended June 30, 2000 and an income tax benefit of $115.4 million with an effective rate of 24.1% for the year ended June 30, 2001. The reported effective rates differ from the blended statutory rate of 40% in both periods due to certain non-deductible goodwill, in-process research and development and other non-deductible expenses, offset somewhat by jobs credits and tax exempt interest income.

YEARS ENDED JUNE 30, 1999 AND 2000

Revenues. Our total 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. 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 715,000 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.

Our 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 were not generating revenue during this free period, we did not count them in our active subscriber base. Additionally, we had 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 was up significantly from just over 13,000 per month at June 30, 1999. 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 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.

Our 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 was 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.

Our other revenue 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 was 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 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 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 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 saw improvements from the leverage inherent in converting the majority of our subscribers from two legacy systems to our Genesis processing system. These improvements, however, were offset by E-Bill implementation costs as we continued 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 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 was 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. Our 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 accounted for $2.3 million of the increase, we increased our sales staff to sign additional billers in support of our electronic billing offerings, and we increased program management staff in support of new non-subscriber based products designed to leverage our existing electronic payment infrastructure.

General and Administrative. Our 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, 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.

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 $116.1 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 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 1/2% convertible subordinated notes that we issued in November 1999 which resulted in just over seven months of interest expense in the year ended 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.

SEGMENT INFORMATION

The following table sets forth our operating revenue and operating income by industry segment for the periods noted. Charges identified as purchase accounting amortization, in-process research and development, a one time marketing charge, 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,		
	1999	2000	2001
		(IN THOUSANDS)	
Operating Revenue:			
Electronic Commerce	$ 169,443	$ 213,391	$ 301,532
Investment Services	39,304	54,792	69,613
Software	41,384	42,012	62,175
Total Operating Revenue	$ 250,131	$ 310,195	$ 433,320
Operating Income (Loss):			
Operating Income (Loss) Excluding Specific Items:			
Electronic Commerce	$ (3,126)	$ (18,248)	$ (13,083)
Investment Services	11,250	15,830	20,347
Software	15,931	10,536	837
Corporate	(23,348)	(26,120)	(35,746)
Specific Items:			
Purchase accounting amortization	(393,436)	(6,815)	(18,517)
In-process research and development	(2,201)	(6,900)	(18,600)
One time marketing charge	--	--	(25,000)
Net gain on dispositions of assets	4,576	--	--
Total Operating Loss	$ (3,733)	$ (43,419)	$(464,681)

In order to provide a meaningful analysis of the underlying performance of our business segments, for each period presented we have separated the effect of purchase accounting amortization, in-process research and development costs and significant one-time charges related to our various business and asset acquisitions and divestitures.

YEARS ENDED JUNE 30, 2000 AND 2001

Revenue in our Electronic Commerce business increased by 41%, from $213.4 million for the year ended June 30, 2000 to $301.5 million for the year ended June 30, 2001. Net of approximately $35.0 million of incremental revenue provided from TransPoint and Bank of America as described below, underlying revenue in our Electronic Commerce business grew in the mid 20% range. The primary driver of this underlying revenue growth was an increase in subscribers from 3.5 million at June 30, 2000 to just over 5.2 million at June 30, 2001, 0.3 million of which were added from Bank of America in October 2000.

We completed our acquisition of TransPoint in September 2000 and, with this acquisition, became the preferred provider of electronic billing and payment services to customers offered through Microsoft's MSN and Money Central product offerings. The agreement with Microsoft provides guaranteed revenue of $120 million over a five-year period, which commenced in January 2001. Additionally, as part of the TransPoint acquisition, we received $60 million of guaranteed revenue and/or cost saving opportunities through First Data Corporation over a five-year period, which began in September 2000. Effective October 1, 2000, we completed a strategic agreement with Bank of America, the largest bank in the U.S., to offer electronic billing and payment services to its customer base. This ten-year agreement provides annual revenue guarantees of $50 million ($12.5 million on a quarterly basis) and Bank of America has agreed to invest $45 million over a two year period to promote the awareness and adoption of electronic billing and payment services by their customers. We had been processing certain transactions for Bank of America before the strategic alliance was completed and, therefore, the $50 million annual revenue guarantee should not be considered entirely incremental to our underlying revenue. We did, however, add 300,000 incremental subscribers to our subscriber base upon completion of the agreement. In each of these agreements, actual subscriber revenue is below minimums as of June 30, 2001, and as a result, overall subscriber based revenue growth will correlate less closely with the growth in the number of subscribers until Bank of America and Microsoft subscribers generate sufficient subscriber revenue to exceed the quarterly minimums.

To date, we have signed 241 named billers to our E-Bill electronic billing product offering. Combined with the 30 net new billers we assumed with the TransPoint acquisition, this brings our signed biller total to 271. We now have 173 billers in production that delivered nearly 500,000 electronic bills in the month ended June 30, 2001. Our acquisition of BlueGill is expected to facilitate our efforts to provide quality billing content by simplifying and accelerating the process of taking bills from paper to electronic. Also, we are adding bill aggregation technology to our Genesis platform and currently plan to add access to up to 30 additional billers through "bill scraping" over the course of calendar 2001, which will be available to our consumer service provider partners as they upgrade to Web Pay for Consumers. As of June 30, 2001, we are distributing six popular credit card bills through scraping technology for a total consumer choice of among 179 electronic bills. We believe that a complete, integrated round trip electronic billing and payment experience for an average of six to ten bills per customer per month is an important factor in driving subscriber growth. As of June 30, 2001, we estimate that the average consumer has the potential to receive from five to eight electronic bills, and by the end of the calendar year, we expect to extend that number to eight to ten electronic bills for consumers in major strategic marketing areas throughout the United States.

When combining subscriber growth within guaranteed revenue minimums and increasing electronic billing revenue with a transaction based pricing model available to our largest bill payment customers, it has become more difficult to correlate revenue solely to the number of subscribers, with transactions processed becoming an additional key indicator. During the month ended June 30, 2001, we processed over 22 million transactions, compared to about 16 million in the quarter ended June 30, 2000.

The operating loss in our Electronic Commerce segment, excluding purchase accounting amortization, a one time marketing charge of $25.0 million, and in-process research and development, has improved from $18.2 million for the year ended June 30, 2000 to $13.1 million for the year ended June 30, 2001. As a result of the TransPoint acquisition and the purchase of Bank of America's electronic billing and payment assets, we have supported two additional and less efficient billing and payment processing platforms for most of fiscal 2001. Although expected, this has resulted in a significant increase in our cost of processing, servicing and support during the year. We completed the conversion of TransPoint subscribers and billers to the Genesis processing platform in the quarter ended June 30, 2001. We completed the conversion of a portion of the Bank of America East subscribers within the quarter ended March 31, 2001. The remaining Bank of America subscribers, referred to internally as

Bank of America West, are expected to be converted in the quarter ended December 31, 2001 with the remainder of legacy Bank of America subscribers converting from our Austin processing platform in the following quarter. Until the final conversion is completed, we will continue to experience higher than normal incremental processing costs, but at a decreasing rate, as new subscriber transactions are processed on the more efficient Genesis processing system. Somewhat masked by less efficient incremental costs resulting from TransPoint and Bank of America are underlying improvements in efficiency and processing quality within Genesis. Our ratio of electronic payments to total payments has improved from approximately 58% at June 30, 2000 to about 64% as of June 30, 2001. Electronic payments carry a significantly lower variable cost per unit than paper based transactions and are far less likely to result in a costly customer claim. We have also incurred additional sales and marketing and general and administrative expenses as a result of the two transactions. Throughout fiscal 2001, we have continued to focus attention on the following four areas within our Electronic Commerce business:

- delivery of an increasing number of bills electronically over the Internet;

- extension of the payment capabilities of our Genesis infrastructure while continuing to deliver market-leading quality and cost efficiency;

- co-marketing programs designed to bring billers and channel partners together to strengthen incentives and value delivered to consumers; and

- expansion of the number of sites where consumers can receive and pay bills.

While there are no guarantees as to the timing or extent of accelerated adoption of electronic billing and payment services, we believe that with our recent transactions with BlueGill, TransPoint and Bank of America, along with other previously described strategic alliances, we are better positioned to maintain our market leadership position throughout an accelerated growth cycle should it occur.

Revenue in our Investment Services business increased by 27%, from $54.8 million for the year ended June 30, 2000 to $69.6 million for the year ended June 30, 2001. Growth in this business is due primarily to an increase in portfolios managed from approximately 950,000 at June 30, 2000 to over 1.1 million at June 30, 2001. Much of the revenue growth has occurred in retail versus institutional accounts that carry a lower unit price. During the quarter ended March 31, 2001, the business released a significantly enhanced version of M-Search, a money manager database system, and APL-ASP, an innovative and flexible new portfolio management services offering for start-up and break away money managers. When combined with the emergence of Internet-based wrap services, which is creating a highly visible new distribution channel for money managers and brokers, these product enhancements and new distribution channel opportunities could fuel further growth for our Investment Services business.

Operating income in our Investment Services business, net of purchase accounting amortization, increased by 29%, from $15.8 million for the year ended June 30, 2000 to $20.3 million for the year ended June 30, 2001. Although much of our revenue growth has occurred in retail versus institutional accounts that carry a lower unit price, which in turn places downward pressure on margins as the cost to process this business is not proportionally lower, we have been able offset this pressure with efficiencies elsewhere in the business, as our operating margins have remained consistent year over year.

Revenue in our Software business increased by 48%, from $42.0 million for the year ended June 30, 2000 to $62.2 million for the year ended June 30, 2001. The growth in software revenue is primarily attributable to the acquisition of BlueGill, now operating as CheckFree i-Solutions, as revenue in our more mature software businesses has increased modestly on a year over year basis. Growth from i-Solutions sales has come from successful efforts both domestically and internationally. While we expect software revenue to continue to grow, current market conditions have placed a dampening effect on the rate of growth in the near term.

Operating income in our Software business, net of purchase accounting amortization, has declined from $10.5 million for the year ended June 30, 2000 to $0.8 million for the year ended June 30, 2001. As expected, the operations acquired from BlueGill have provided downward pressure on operating margins throughout fiscal 2001 as we have invested significantly in this emerging product line. The electronic billing and statement software product line acquired from BlueGill provides significant synergies to the electronic billing and payment products within our Electronic Commerce business. Investments in this area are expected to facilitate our efforts to provide high quality billing content, and simplify and accelerate the process of taking bills and statements from paper to electronic form.

Our Corporate segment represents costs for legal, human resources, finance and various other unallocated overhead expenses. Our Corporate segment incurred operating expenses of $26.1 million or 8.4% of total revenue for the year ended June 30, 2000 and $35.7 million or 8.2% of total revenue for the year ended June 30, 2001. Although we continue to add corporate resources in support of the growth of the business, our overhead costs as a percentage of revenue have begun to decline, and are starting to reflect the expected leverage in our business model.

The purchase accounting amortization line represents amortization of intangible assets resulting from all of our various acquisitions from 1996 forward. The total amount of purchase accounting amortization has increased from $18.5 million for the year ended June 30, 2000 to $393.4 million for the year ended June 30, 2001. The increases are the result of intangible assets created by the acquisitions of BlueGill in April 2000 and TransPoint in September 2000 and the acquisition of the electronic billing and payment assets of Bank of America effective in October 2000. For comparative purposes, the breakout of purchase accounting amortization by segment is as follows (in thousands):

	FOR THE YEAR ENDED JUNE 30,		
	1999	2000	2001
Electronic Commerce	$ 2,364	$ 2,371	$328,072
Investment Services	3,157	4,920	5,369
Software	1,294	11,226	59,995
Total	$ 6,815	$ 18,517	$393,436

In the quarter ended June 30, 2000, we incurred $6.9 million of in-process research and development costs related to the acquisition of BlueGill and, in the quarter ended September 30, 2000, we incurred $18.6 million of in-process research and development costs as a result of the acquisition of TransPoint. Please refer to the Notes to Consolidated Financial Statements included herein for a complete description of the in-process research and development charges.

The one time marketing charge took place in the quarter ended December 31, 2000. Our strategic alliance with Bank of America called for us to provide $25.0 million of cash at closing to help support a two-year $45.0 million marketing campaign by Bank of America. Because we do not have the ability to directly impact the specific nature, timing or extent of the use of the funds, we expensed the $25.0 million as a period cost in the quarter ended December 31, 2000. Additionally, because we do not market directly to subscribers but rather leave that to our various consumer service provider customers, we have separated this charge from ongoing operations as an unusual, non-recurring event.

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 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.

As of June 30, 2000, we had signed 157 billers to our E-Bill electronic billing product offering, and we had 93 billers in production that presented approximately 94,000 bills in the final month of fiscal 2000. The number of bills we presented electronically had increased by 52% since the month ended March 31, 2000 and was up significantly from just over 13,000 per month at June 30, 1999. As of June 30, 2000, we had the potential to process an average of four to five bills per month for our existing customer base. 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, net of purchase accounting amortization, increased from $3.1 million for the year ended June 30, 1999, to $18.2 million for the year ended June 30, 2000. 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 these charges, the operating loss in our Electronic Commerce segment would have been $0.4 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 improved from 49% at June 30, 1999 to 58% at June 30, 2000. Additionally, we saw improvements from the leverage inherent in converting two-thirds of our subscribers from two legacy systems to our Genesis processing system. However, as subscribers signed up for electronic billing and payment offerings through portals and other sponsors that offer free trial periods, we incurred the variable costs associated with processing transactions from these customers with no revenue to offset the costs.

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 was 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 fiscal 2000 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, net of purchase accounting amortization, increased from $11.3 million for the year ended June 30, 1999 to $15.8 million for the year ended June 30, 2000. On a pro forma basis, adjusting for the Mobius Group acquisition, operating income increased from $11.8 million for the year ended June 30, 1999 to $15.8 million for the year ended June 30, 2000. As indicated earlier, much of the portfolio growth over the year had occurred in retail versus institutional accounts that carried a lower unit price, which placed downward pressure on margins as the cost to process this business was 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, net of purchase accounting amortization, declined from $15.9 million for the year ended June 30, 1999 to $10.5 million for the year ended June 30, 2000. The decrease in operating income reflects investments in new initiatives such as the 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 had been assigned to a 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 and the acquisition of BlueGill in April 2000 provided a few months of loss from operations due to significant investment inherent in this new business.

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. On an adjusted basis, our corporate overhead as a percentage of revenue continued to decrease.

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 (in thousands):

	SUMMARY OF CASH FLOWS FOR THE YEAR ENDED JUNE 30,		
	1999	2000	2001
Cash flow provided by (used in) operating activities	$ 25,571	$ 21,016	$ (234)
Cash flow used in investing activities	(16,217)	(108,935)	(26,888)
Cash flow provided by (used in) financing activities	(33,443)	203,547	23,170
Net increase (decrease) in cash and cash equivalents	$ (24,089)	$ 115,628	$ (3,952)

As of June 30, 2001, we have $160.1 million in cash, cash equivalents and short-term investments on hand and an additional $96.0 million in long-term investments. Our balance sheet reflects a current ratio of 2.11 and working capital of $142.7 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 million line of credit.

For the year ended June 30, 2001, we used $0.2 million of cash flow from operations. Of this amount, $6.7 million represents net proceeds from trading securities transactions, which GAAP requires us to reflect in cash flow from operations. Also of note, included in cash used in operations was a one time $25.0 million cash marketing charge related to our strategic alliance with Bank of America.

From an investing perspective, we used $41.7 million of cash for the purchase of property and software and we capitalized $4.9 million of software development costs. We used $67.0 million for the net purchase of held-to-maturity securities and we capitalized another $10.3 million of strategic agreement costs. Finally, we received $96.6 million in cash and cash equivalents through the purchase of TransPoint, net of related acquisition costs.

From a financing perspective, we received $15.7 million in proceeds from the exercise of common stock warrants. We received an additional $6.9 million from the exercise of options from our employee stock option plan and $4.4 million from the purchase of stock from our employee stock purchase plan. Finally, we used $3.8 million of cash for principal payments under capital lease obligations.

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 1/2% 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 million 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.

INFLATION

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

MARKET RISK

With the acquisition of BlueGill in April 2000, weobtained operations in Canada and recently opened offices in the United Kingdom, Singapore and Australia. As a result, we now have assets and liabilities outside the United States that are subject to fluctuations in foreign currency exchange rates. Due to the start up nature of each of these operations, however, we currently utilize the U.S. dollar as the functional currency for all international operations. As these operations begin to generate sufficient cash flow to provide for their own cash flow requirements, we will convert to local currency as the functional currency in each related operating unit as appropriate. Because we utilize the U.S. dollar as the functional currency and due to the immaterial nature of the amounts involved, our economic exposure from fluctuations in foreign exchange rates is not significant enough at this time to engage in forward foreign exchange and other similar instruments.

While our international sales represented less than 2% of our revenue for the year ended June 30, 2001, we now market, sell and license our products throughout the world. As a result, our future revenue could be somewhat affected by weak economic conditions in foreign markets that could reduce demand for our products.

Our exposure to interest rate risk is limited to the yield we earn on invested cash, cash equivalents and investments and interest based revenue earned on products such as our account balance transfer business. Our convertible debt carries a fixed rate, as do any outstanding capital lease obligations. Although our Investment Policy currently prohibits the use of derivatives for trading or hedging purposes, we believe that our limited interest rate risk currently does not warrant the use of such instruments.

RECENT ACCOUNTING PRONOUNCEMENTS

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets." SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. In addition, it requires application of the provisions of SFAS 142 for goodwill and other intangible assets related to any business combinations completed after June 30, 2001, but prior to the adoption date of SFAS 142. SFAS 142 changes the accounting for goodwill and other intangible assets. Goodwill will no longer be subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. All other acquired intangibles will be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, or exchanged, regardless of our intent to do so. Other intangibles will be amortized over their useful lives.

SFAS 142 becomes effective for us on July 1, 2002. We are still assessing the impact of all the statement provisions on our financial position and results of operations; however, based on our review to date, we expect the following significant impacts:

- Upon adoption, we will be required to reclassify approximately $2 million of unamortized workforce in place intangible assets into goodwill.

- Upon adoption, the balance of goodwill and workforce in place is expected to be $624 million and we will discontinue amortizing these assets at that time. The resulting reduction in amortization expense is estimated at approximately $200 million for each of our fiscal years 2003 and 2004, and approximately $192 million for our 2005 fiscal year.

- We will be required to perform a transitional goodwill impairment test as of July 1, 2002. The impairment test will require us to: (1) identify our reporting units, (2) determine the carrying value of each reporting unit by assigning assets and liabilities, including existing goodwill and intangible assets, to those reporting units, and (3) determine the fair value of each reporting unit. If the carrying value of any reporting unit exceeds its fair value, we will determine the amount of any goodwill impairment through a detailed fair value analysis of each of the assigned assets (excluding goodwill). At this time, we do not anticipate any charge resulting from the transitional impairment test; however, due to the extensiveness of the efforts involved, that test has not yet been performed. Under the provisions of SFAS 142, we are required to complete the test before December 31, 2002.

- Following the transitional impairment test, our goodwill balances will be subject to annual impairment tests using the same process described above. If any impairment is indicated as a result of the annual test, an impairment charge would be recorded as part of income from operations.

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, 2001 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, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 1999, 2000, and 2001. 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, 2000 and 2001, and the results of their operations and their cash flows for the years ended June 30, 1999, 2000, and 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
August 3, 2001

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	YEAR ENDED JUNE 30, 2000	YEAR ENDED JUNE 30, 2001
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 128,074	$ 124,122
Investments	56,548	35,930
Accounts receivable, net	58,308	88,818
Prepaid expenses and other assets	12,813	8,681
Deferred income taxes	9,733	13,725
Total current assets	265,476	271,276
PROPERTY AND EQUIPMENT, Net	93,214	109,226
OTHER ASSETS:		
Capitalized software, net	37,189	187,021
Goodwill, net	213,305	820,169
Strategic agreements, net	--	643,212
Other intangible assets, net	37,975	47,118
Investments	23,003	96,042
Deferred income taxes	29,248	--
Other noncurrent assets	13,704	9,889
Total other assets	354,424	1,803,451
	$ 713,114	$ 2,183,953
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 10,158	$ 19,084
Accrued liabilities	43,958	60,090
Current portion of long-term obligations	5,955	4,528
Deferred revenue	26,644	44,913
Total current liabilities	86,715	128,615
ACCRUED RENT AND OTHER	7,269	4,758
DEFERRED INCOME TAXES	--	141,853
OBLIGATIONS UNDER CAPITAL LEASES- Less current portion	736	4,041
CONVERTIBLE SUBORDINATED NOTES	172,500	172,500
COMMITMENTS (Note 21)		
STOCKHOLDERS' EQUITY:		
Preferred stock- 15,000,000 and 50,000,000 authorized shares, respectively, $0.01 par value; no amounts issued or outstanding	--	--
Common stock- 150,000,000 and 500,000,000 authorized shares, respectively, $0.01 par value: issued 63,957,859 and 92,472,299 shares, respectively; outstanding 58,414,035 and 86,928,475 shares, respectively	584	869
Additional paid-in-capital	771,892	2,420,957
Accumulated deficit	(326,320)	(689,455)
Unearned compensation	(262)	(185)
Total stockholders' equity	445,894	1,732,186
	$ 713,114	$ 2,183,953

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED JUNE 30, 1999	2000	2001
	(IN THOUSANDS, EXCEPT SHARE DATA)		
REVENUES:			
Processing and servicing	$ 201,059	$ 261,621	$ 362,051
License fees	15,975	16,818	30,180
Maintenance fees	17,746	18,752	21,332
Other	15,351	13,004	19,757
Total revenues	250,131	310,195	433,320
EXPENSES:			
Cost of processing, servicing and support	146,704	182,540	255,528
Research and development	21,085	35,631	55,621
Sales and marketing	32,354	44,782	90,283
General and administrative	31,466	40,931	50,474
Depreciation and amortization	427,495	24,630	42,830
In-process research and development	2,201	6,900	18,600
Total expenses	258,440	353,614	898,001
Net gain on dispositions of assets	4,576	--	--
LOSS FROM OPERATIONS	(3,733)	(43,419)	(464,681)
OTHER:			
Interest income	2,799	7,689	15,415
Interest expense	(618)	(8,027)	(13,154)
Loss on investments	--	--	(16,077)
LOSS BEFORE INCOME TAXES	(1,552)	(43,757)	(478,497)
INCOME TAX BENEFIT	(12,009)	(11,437)	(115,362)
NET INCOME (LOSS)	$ 10,457	$ (32,320)	$ (363,135)
BASIC EARNINGS (LOSS) PER SHARE:			
Net income (loss) per common share	$ 0.20	$ (0.61)	$ (4.49)
Equivalent number of shares	52,444,375	53,367,339	80,863,100
DILUTED EARNINGS (LOSS) PER SHARE:			
Net income (loss) per common share	$ 0.18	$ (0.61)	$ (4.49)
Equivalent number of shares	56,529,165	53,367,339	80,863,100

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT SHARE DATA)

	NUMBER OF SHARES OF COMMON STOCK	COMMON STOCK AT PAR	ADDITIONAL PAID-IN CAPITAL	NUMBER OF SHARES OF TREASURY STOCK	TREASURY STOCK AT COST
BALANCE- JUNE 30, 1998	56,364,839	$ 564	$ 492,109	(963,295)	$ (4,362)
Net income	--	--	--	--	--
Stock options exercised	354,758	3	1,605	--	--
Employee stock purchases	48,748	1	968	48,631	1,070
401(k) match	--	--	--	74,981	963
Treasury stock acquired	--	--	--	(4,709,698)	(31,336)
Treasury stock retired	(5,549,381)	(55)	(33,610)	5,549,381	33,665
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	--	--
Net loss	--	--	--	--	--
Stock options and warrants exercised .	1,369,885	14	22,609	--	--
Employee stock purchases	92,721	1	3,623	--	--
401(k) match	51,834	--	2,487	--	--
Issuance of common stock pursuant to acquisition	27,000,000	270	1,601,723	--	--
Amortization of unearned compensation	--	--	--	--	--
Tax benefit associated with exercise of stock options and warrants	--	--	18,623	--	--
BALANCE- JUNE 30, 2001	86,928,475	$ 869	$ 2,420,957	--	--

(IN THOUSANDS, EXCEPT SHARE DATA)

	UNEARNED COMPENSATION	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
BALANCE- JUNE 30, 1998	$ --	$ (304,457)	$ 183,854
Net income	--	10,457	10,457
Stock options exercised	--	--	1,608
Employee stock purchases	--	--	2,039
401(k) match	--	--	963
Treasury stock acquired	--	--	(31,336)
Treasury stock retired	--	--	--
Issuance of common stock pursuant to acquisition	--	--	18,000
Tax benefit associated with exercise of stock options	--	--	1,318
BALANCE- JUNE 30, 1999	--	(294,000)	186,903
Net loss	--	(32,320)	(32,320)
Stock options and warrants exercised .	--	--	35,242
Employee stock purchases	--	--	2,286
401(k) match	--	--	1,059
Issuance of common stock pursuant to acquisition	--	--	239,494
Issuance of restricted stock	(333)	--	--
Amortization of unearned compensation	71	--	71

Tax benefit associated with exercise

of stock options and warrants	--	--	13,159
BALANCE- JUNE 30, 2000	(262)	(326,320)	445,894
Net loss	--	(363,135)	(363,135)
Stock options and warrants exercised .	--	--	22,623
Employee stock purchases	--	--	3,624
401(k) match	--	--	2,487
Issuance of common stock pursuant to acquisition	--	--	1,601,993
Amortization of unearned compensation	77	--	77
Tax benefit associated with exercise of stock options and warrants	--	--	18,623
BALANCE- JUNE 30, 2001	$ (185)	$ (689,455)	$ 1,732,186

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED JUNE 30,		
	1999	2000	2001
	(IN THOUSANDS)		
OPERATING ACTIVITIES:			
Net income (loss)	$ 10,457	$ (32,320)	$(363,135)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Write off of in-process research and development	2,201	6,900	18,600
Loss on investments	--	--	16,077
Depreciation and amortization	24,630	42,830	427,495
Deferred income tax provision	(11,437)	(115,362)	854
Net (gain) loss on dispositions of assets	(4,576)	--	--
Net loss on sale of property and equipment	--	--	56
Purchases of investments- Trading	(10,416)	(19,002)	(12,369)
Proceeds from maturities and sales of investments, net- Trading	24,683	22,608	19,029
Change in certain assets and liabilities (net of acquisitions and dispositions):			
Accounts receivable	(6,976)	(14,499)	(30,510)
Prepaid expenses and other	1,434	644	1,688
Accounts payable	988	(4,153)	8,926
Accrued liabilities and other	(2,194)	20,259	16,808
Deferred revenue	1,739	9,188	10,698
Income tax accounts	(17,253)	(2)	1,765
Net cash provided by (used in) operating activities	25,571	21,016	(234)
INVESTING ACTIVITIES:			
Purchase of property and software	(40,444)	(39,495)	(41,701)
Proceeds from sale of assets	18,435	--	2,257
Proceeds from repayment of note receivable	14,882	--	--
Capitalization of software development costs	(8,031)	(7,576)	(4,927)
Purchase of business, net of cash acquired	(190)	9,152	96,599
Capitalization of strategic agreement costs	--	--	(10,279)
Purchases of investments- Held to maturity	(1,875)	(70,796)	(145,997)
Proceeds from maturities and sales of investments- Held to maturity	1,006	9,780	79,041
Purchase of other investments	--	(10,000)	(1,881)
Net cash provided by (used in) investing activities	(16,217)	(108,935)	(26,888)
FINANCING ACTIVITIES:			
Principal payments under capital lease obligations	(3,327)	(1,495)	(3,847)
Escrow deposit associated with capital lease obligation	(3,637)	--	--
Proceeds from stock options exercised	2,926	9,721	6,940
Proceeds from employee stock purchase plan	1,931	2,903	4,374
Purchase of treasury stock	(31,336)	--	--
Proceeds from sale of stock and exercise of warrants	--	25,515	15,703
Proceeds from issuance of convertible subordinated notes	--	166,903	--
Net cash provided by (used in) financing activities	(33,443)	203,547	23,170
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,089)	115,628	(3,952)
CASH AND CASH EQUIVALENTS:			
Beginning of period	36,535	12,446	128,074
End of period	$ 12,446	$ 128,074	$ 124,122

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 1999, 2000 AND 2001

NOTE 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 19 for a description of the Company's business segments.

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.

USE OF ESTIMATES - The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("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 has certain investments in debt and equity securities that are classified as either 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". At June 30, 2000 and 2001, the Company does not have any investments classified as available-for-sale. 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.

The Company has certain other investments that are accounted for under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of earnings and additional investments.

The Company has received equity instruments in connection with agreements with certain partners. In such cases, the Company's initial cost is determined based on the estimated fair value of the equity instruments received. Subsequent changes in the fair value of these equity instruments are accounted for in accordance with the investment policies noted above.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

OTHER FINANCIAL INSTRUMENTS - On July 1, 2000, the Company adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which requires that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet 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, did not have a material impact on the Company's financial position or results of operations.

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 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. 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.

INTANGIBLE ASSETS - The costs of identified intangible assets are generally 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. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", the Company periodically reviews long-lived assets, including identifiable intangibles and goodwill related to those assets, to evaluate whether events or changes in circumstances have occurred that would indicate that the carrying amount of the asset may not be recoverable. If this review indicates that the remaining useful life of goodwill or other intangible assets requires revision or that the asset is not recoverable, the carrying amount is reduced by the estimated shortfall of cash flows on a discounted basis.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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.

ADVERTISING COSTS - The Company expenses advertising costs as incurred in accordance with SOP 97-3, "Reporting on Advertising Costs". Advertising expenses were not significant for the years ended June 30, 1999 and 2000. Advertising expense for the year ended June 30, 2001 was $29,925,000 and includes $25,000,000 provided to Bank of America in connection with the Strategic Agreement described in Note 3.

COMPREHENSIVE INCOME - Where applicable, the Company reports comprehensive income in accordance with 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 include all changes in equity during a period except those resulting from investments by and distributions to shareowners. The components of other comprehensive income applicable to the Company would be unrealized holding gains or losses on the Company's available-for-sale securities and certain transactions associated with derivative instruments. There were no available-for-sale securities held or derivative instrument transactions during the years ended June 30, 1999, 2000 and 2001. As a result, there were no components of comprehensive income applicable to the Company during the years ending June 30, 1999, 2000 and 2001.

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 19 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 US 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 losses for the year ended June 30, 2001 and the period from April 28, 2000 to June 30, 2000 were not significant.

RECENT ACCOUNTING PRONOUNCEMENTS - On July 20, 2001, the Financial Accounting Standards Board (FASB) issued SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets." SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. In addition, it requires application of the provisions of SFAS 142 for goodwill and other intangible assets related to any business combinations completed after June 30, 2001, but prior to the adoption date of SFAS 142. SFAS 142 changes the accounting for goodwill and other intangible assets. Upon adoption, goodwill will no longer be subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. All other acquired intangibles will be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, or exchanged, regardless of the Company's intent to do so. Other intangibles will be amortized over their useful lives.

SFAS 142 becomes effective for the Company on July 1, 2002. The Company is still assessing the impact of all the Statement provisions on its financial position and results of operations, however, based on its review to date, the Company expects the following significant impacts:

- Upon adoption, the Company will be required to reclassify approximately $2 million of unamortized workforce in place intangible assets into goodwill.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

- Upon adoption, the balance of goodwill and workforce in place is expected to be $624 million and the Company will discontinue amortizing these assets at that time. The resulting reduction in amortization expense is estimated at approximately $200 million for each of the Company's fiscal years 2003 and 2004, and approximately $192 million for the Company's 2005 fiscal year.

- The Company will be required to perform a transitional impairment test as of July 1, 2002. This impairment test will require the Company to (1) identify its reporting units, (2) determine the carrying value of each reporting unit by assigning assets and liabilities, including existing goodwill and intangible assets, to those reporting units, and (3) determine the fair value of each reporting unit. If the carrying value of any reporting unit exceeds its fair value, then the amount of any goodwill impairment will be determined through a fair value analysis of each of the assigned assets (excluding goodwill) and liabilities.

  At this time, the Company does not anticipate any charge resulting from the transitional impairment test, however, due to the extensiveness of the efforts involved, that test has not yet been performed. Under the provisions of SFAS 142, the Company is required to complete the test before December 31, 2002.

- Following the transitional impairment test, the Company's goodwill balances will be subject to annual impairment tests using the same process described above. If any impairment is indicated as a result of the annual test, an impairment charge would be recorded as part of income from operations.

RECLASSIFICATIONS - Certain amounts in the prior years' financial statements have been reclassified to conform to the 2001 presentation.

REVENUE RECOGNITION

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 existing accounting standards 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, became effective for the fourth quarter of the Company's 2001 fiscal year. The adoption of SAB No. 101 did not have an impact on the Company's results of operations or financial position.

- 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 $11,846,000, $21,485,000 and $30,186,000 for the years ended June 30, 1999, 2000 and 2001, 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 - Upon receipt of payment, 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.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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.

NOTE 2. ACQUISITIONS AND DISPOSITIONS

TRANSPOINT

On September 1, 2000, the Company acquired MSFDC, L.L.C. (TransPoint) for a total of $1.4 billion, consisting of 17,000,000 shares of common stock valued at $1.4 billion and $2 million of acquisition costs. 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 intanbiles assets and their respective future lives are as follows:

	INTANGIBLE ASSET	USEFUL LIFE
	(IN THOUSANDS)	
Goodwill	$780,545	5.0 yrs
Strategic agreements	495,000	5.0 yrs
Existing product technology	209,300	3.0 yrs
Customer list	29,000	3.0 yrs
Tradename	28,300	1.0 yr

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

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

At the acquisition date, TransPoint had four technologies under development that had not demonstrated technological feasibility. These technologies include Biller Integration System and Communications, Service Center, Delivery Applications and Payment Systems Interface. The in-process technologies have no alternative use in the event that the proposed technologies do not prove to be feasible. These development efforts fall within the definition of In-Process Research and Development ("IPR&D") contained in SFAS No. 2.

BIS / COMMUNICATIONS TECHNOLOGY - The Biller Integration System ("BIS") is provided to the biller to run on-site and supplies the web-hosting for the biller. The BIS helps implement the templates and develop the look and feel for marketing components. The BIS also includes automation interfaces, EI interfaces, and the console. The following features of the BIS / Communications technology were under development:

- Remote access or the Remote BIS Console, which will allow Biller operators and administrators to perform selected gateway operations from remote machines using a Web-based interface to the BIS;

- International enhancements, which are fixes to the BIS system to correct incompatibilities with international currency and date settings; and

- Platform updates that will support installation of the BIS gateway on the Windows 2000 Server platform.

SERVICE CENTER TECHNOLOGY - The Service Center connects the TransPoint servers to the BIS on the biller site, the automated clearinghouse, other third-party servers, and the individual consumer. The Service Center includes the database and operational functions as well. The following features of the Service Center were under development:

- E-mail notification currently uses an internal Microsoft server. The system is being modified to incorporate the industry standard allowing the use of any server environment to send data over the Internet. In addition, service-generated e-mail messages will be in HTML format (rather than plain text) for a richer customer experience.

- SysAdmiral upgrade, in which the installation scripts for the service center are being upgraded to support the latest version of SysAdmiral.

DELIVERY APPLICATIONS - The Delivery Applications generate the actual web pages through its user interface. This technology creates not only the TransPoint consumer site, but also the operations, corporate, and support sites. The following features of the Delivery Applications were under development:

- Passport Integration / Authorization, in which the security and authentication systems of the TransPoint service will be modified to use Microsoft Passport for user authentication. In addition, the user interface will be modified to allow migration of existing user accounts to Microsoft Passport.

- User Registration Improvement, in which consumer registration is being modified significantly, with the goal of retaining new consumers. Changes include sending consumers to the Microsoft Passport Web site to obtain a Passport account, and condensing the number of screens in registration. In addition, new consumers are permitted greater access to the system and features as they await identity and payment account verification.

- Recurring Payments, whereby consumers will now be able to set up automatic "pay anyone" payments recurring at set intervals, and automatic rules-based handling of electronic bills by payee.

- Batch Enabling, whereby biller operators and administrators will now be able to enable statement batches directly from the TransPoint Operations site. A new "Enable Batch" button will be added to the Preview Statements screen on the TransPoint Operations site.

- Reporting Upgrades, in which a variety of user-interface upgrades are underway to improve performance of the reporting subsystem, improve the reporting content available to billers, and increase the overall reliability of the TransPoint system.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

- Payment Center User Interface Improvements, which includes a variety of user interface improvements to fix minor UI issues, enhance accessibility options, and improve overall site usability.

PAYMENT/INTERFACE - The Payment Interface technology connects the Service Center to the ACH, Original Depository Financial Institutions, and other third-party servers as well as processing all payment and settlement information. The following features of the Payment / Interface technology were under development:

- Microsoft Money Download, in which this feature is being rearchitected and reimplemented in its entirety to correct incompatibilities between the existing Microsoft Money download feature and the newest version of Microsoft Money.

- Credit Card Payments, which provides code that allows the TransPoint system to support the use of credit cards for payment settlement.

There are risks and uncertainties associated with the completion of these in-process technologies. These risks include:

- Not Technologically Feasible. - The acquired IPR&D had not demonstrated technological or commercial feasibility as of the transaction date for TransPoint. Significant risks exist because TransPoint 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 IPR&D 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 realize any value from the sale of the technology to another party.

- No Alternative Future Use. - The acquired IPR&D consists of TransPoint'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 uses for the in-process work in the event that the product does not become feasible for the Company. The development effort for the acquired IPR&D does not possess an alternative future use for the Company under the terms of SFAS No. 2.

If the TransPoint project underway fails, there will be 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.

The following table represents information regarding the status of the various in-process research and development projects acquired (as of the date of acquisition):

	ESTIMATED STAGE OF COMPLETION	ESTIMATED COMPLETION DATE	EXPECTED COST TO COMPLETE	VALUATION
			(IN THOUSANDS)	
BIS / Communications	80%	October 2000	$ 100	$ 1,200
Service Center	80%	October 2000	121	5,900
Delivery Applications	80%	October 2000	396	9,500
Payment / Interface	80%	October 2000	100	2,000
Total			$ 717	$18,600

The method used to allocate the purchase consideration to IPR&D 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 IPR&D 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 IPR&D 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 TransPoint'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 projects' development and commercialization are as set forth by management. The discount rate used in this analysis is an after tax rate of 24%.

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	USEFUL LIFE
	(IN THOUSANDS)	
Goodwill	$191,072	5.0 yrs
Tradename	15,100	1.0 yrs
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.

In connection with the acquisition of BlueGill Technologies, the Company recorded a charge of $6.9 million for purchased IPR&D. This charge related to five technologies which had not demonstrated technological or commercial feasibility as of the transaction date. They were print and extraction technology, data management engine technology, API technology, web application technologies and payment/OFX technology. As of the acquisition date, the Company estimated that these projects ranged from 10% to 50% complete, that an aggregate of $2.1 million would be required to complete these five projects, and that, depending upon the project, product revenues would begin in mid-to-late 2000. An after-tax discount rate of 25% was used in this analysis. As of June 30, 2001, these projects were substantially complete.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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, and new version of M-Search and a new version of M-Vest. As of the acquisition date, the Company estimated that these projects ranged from 20% to 92% complete, that an aggregate of $0.7 million would be necessary to complete these four projects, and product revenues would begin on dates ranging from May 1999 to December 1999. An after-tax discount rate of 20% was used in this analysis. As of June 30, 2001, these projects were substantially complete.

PRO FORMA INFORMATION

The unaudited pro forma results of operations of the Company for the year ended June 30, 2000 and 2001, assuming the acquisitions occurred at the beginning of each period are as follows (in thousands):

	YEAR ENDED JUNE 30, 2000	YEAR ENDED JUNE 30, 2001
Total revenues	$ 316,830	$ 433,329
Net income (loss)	$(406,582)	$(402,193)
Basic and Diluted earnings per share:		
Net income (loss) per common share	$ (5.42)	$ (4.80)
Equivalent number of shares	75,078	83,797

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 $18.6 million arising from the TransPoint acquisition in 2001 and $6.9 million arising from the BlueGill acquisition in 2000. 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.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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.

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.

NOTE 3. STRATEGIC AGREEMENT

Effective October 1, 2000, the Company completed a previously announced 10-year strategic agreement with Bank of America, whereby the Company acquired the electronic billing and payment assets of Bank of America and will provide electronic billing and payment services to Bank of America's customer base in exchange for 10 million shares of the Company's common stock valued at approximately $253 million and $35 million of cash. Of the cash portion of the purchase price, $25 million was provided to help support an agreed upon two year $45 million marketing campaign by Bank of America. Because the Company cannot directly impact the specific nature, timing or extent of the use of the marketing funds, the entire $25 million was expensed upon completion of the agreement. This amount is included in sales and marketing expense in the accompanying consolidated statement of operations for the year ended June 30, 2001.

The values ascribed to intangible assets acquired as a result of the agreement and their respective useful lives are as follows:

	INTANGIBLE ASSET	USEFUL LIFE
	(IN THOUSANDS)	
Strategic agreement	$249,424	10.0 yrs
Existing product technology	7,659	1.5yrs
Workforce	3,173	3.0yrs

The agreement provides for a revenue guarantee of $500 million to the Company over the next 10 years. Bank of America also has the ability to earn warrants on up to 10 million additional shares upon achievement of certain milestones more fully described in Note 16.

As a result of the agreement, as of June 30, 2001, Bank of America owns 11.5% of the Company. The following amounts related to Bank of America are included in the Company's consolidated financial statements for the periods indicated (in thousands):

	JUNE 30,	
	2000	2001
Current assets:		
Accounts receivable, net	$2,219	$9,655
Total current assets	$2,219	$9,655
Current liabilities:		
Accounts payable	$ --	$5,983
Accrued liabilities	--	2,111
Deferred revenues	241	477
Total current liabilities	$ 241	$8,571

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

	YEAR ENDED JUNE 30,		
	1999	2000	2001
Revenues:			
Processing and servicing	$10,369	$14,796	$42,503
License fees	109	2	1,187
Maintenance fees	112	209	460
Other	122	142	337
Total revenues	$10,712	$15,149	$44,487
Expenses:			
Cost of processing, servicing and support	$ --	$ --	$23,154
Sales and marketing	--	--	25,000
Total expenses	$ --	$ --	$48,154

Revenues and accounts receivable relate primarily to electronic billing and payment services provided to Bank of America. Accounts payable, accrued liabilities and cost of processing expenses relate to reimbursements to Bank of America in connection with a transition services agreement in place while the Company completes the conversion of Bank of America customers to its processing platform.

NOTE 4. INVESTMENTS

Investments consist of the following (in thousands):

	JUNE 30,	
	2000	2001
Held-to-Maturity	$ 162,989	$ 239,507
Trading	6,660	--
Other investments	11,171	3,296
Less: Amounts classified as cash equivalents	(101,269)	(110,831)
Total investments	$ 79,551	$ 131,972

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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, 2000:				
Corporate bonds	$ 50,824	$ --	$ (148)	$ 50,676
Asset-backed securities	--	--	--	--
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
JUNE 30, 2001:				
Corporate bonds	$ 75,627	$ 226	$ (404)	$ 75,449
Asset-backed securities	29,259	74	--	29,333
Commercial paper	51,186	43	(9)	51,220
Certificates of deposit	--	--	--	--
U.S. Government and federal agency obligations	22,466	254	--	22,720
Money market funds	60,969	--	--	60,969
Held-to-Maturity investments	239,507	597	(413)	239,691
Less: amounts classified as cash equivalents	(110,831)	--	--	(110,831)
Total Held-to-Maturity Investments	$ 128,676	$ 597	$ (413)	$ 128,860

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, 2001 by contractual maturity or repricing date are as follows (in thousands):

	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 35,930	$ 36,097
Due after one year through five years	92,746	92,763
	$128,676	$128,860

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 are accounted for under the cost method and include the following (in thousands):

	JUNE 30, 2000	JUNE 30, 2001
Common stock and warrants	$11,171	$ 2,198
Convertible debenture	--	1,000
Preferred stock	--	98
Total other investments	$11,171	$ 3,296

Common stock and warrants consist primarily of the Company's strategic investment in BillServ.com common stock, which is subject to certain trading restrictions. The remainder of common stock and warrants, convertible debenture, and preferred stock investments are in non-publicly traded e-billing related companies. The convertible debenture bears interest at 6.5% per annum and is payable in full on September 12, 2003. Interest is paid on December 31 and June 30 each year. The debenture agreement allows the Company, at its option, to convert the note into common shares of the issuer, the number of which is dependent upon the valuation of the issuer at that time. Conversion into common stock is automatic if the issuer completes an initial public offering.

During the year ended June 30, 2001, the Company recorded a loss on certain of its investments accounted for under the cost method. The loss was the result of the Company's evaluation of any other-than-temporary decline in the value of these investments. In performing this evaluation the Company considered various factors including any decline in market price, where available, the investee's financial condition, results of operations, operating trends and other financial ratios. Based on these factors, the Company recorded a loss of $16,077,000.

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	JUNE 30,	
	2000	2001
Trade accounts receivable	$46,609	$76,973
Unbilled trade accounts receivable	10,302	8,875
Other receivables	5,400	5,933
Total	62,311	91,781
Less allowance for doubtful accounts	4,003	2,963
Accounts receivable, net	$58,308	$88,818

Trade accounts receivable represents amounts billed to customers. Revenue is recognized and customers are billed under service agreements as the services are performed. Unbilled trade accounts receivable result primarily from extended payment terms on software license agreements. 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.

NOTE 6. 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.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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

	YEAR ENDED JUNE 30,		
	1999	2000	2001
Current:			
Federal	$ (10,555)	$ --	$ --
State and local	(2,308)	--	--
Total current	(12,863)	--	--
Deferred federal and state	854	(11,437)	(115,362)
Total income tax benefit..	$ (12,009)	$ (11,437)	$(115,362)

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

	YEAR ENDED JUNE 30,		
	1999	2000	2001
Computed "expected" tax benefit	$ (543)	$ (15,315)	$(167,243)
Nondeductible in-process research and development of acquired businesses	770	2,415	6,510
Nondeductible intangible amortization	60,346	1,137	3,572
State and local taxes, net of federal income tax benefits	(1,741)	(1,636)	(14,917)
Loss from medical benefits subsidiary	(10,665)	--	--
Other, net	(967)	(473)	(58)
Total income tax benefit	$ (12,009)	$ (11,437)	$(115,362)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2000 and 2001 are as follows (in thousands):

	JUNE 30,	
	2000	2001
Deferred tax assets:		
Federal and state net operating loss carryforwards..	$ 32,219	$ 72,972
Federal and state tax credit carryforwards..........	3,867	4,300
Allowance for bad debts and returns.................	1,774	1,278
Accrued compensation and related items..............	5,429	1,420
Stock warrants	19,331	21,484
Property and equipment..............................	--	602
Other investments...................................	--	3,335
Deferred revenue....................................	--	2,749
Reserve accruals....................................	3,558	8,172
Total deferred tax assets	66,178	116,312
Deferred tax liabilities:		
Capitalized software	(12,792)	(69,864)
Property and equipment..............................	(1,850)	--
Deferred revenue....................................	(49)	--
Intangible assets	(11,526)	(174,482)
Prepaid expenses....................................	(980)	(94)
Total deferred tax liabilities	(27,197)	(244,440)
Net deferred tax asset (liabilities)	$ 38,981	$(128,128)

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

At June 30, 2001, the Company has approximately $187,693,000 of state and $181,672,000 of federal net operating loss carryforwards available, expiring in 2009 to 2015 and 2009 to 2021, respectively. Additionally, at June 30, 2001, the Company has approximately $812,000 of state and $3,723,000 of federal tax credit carryforwards available, expiring in 2008 to 2011 and 2009 to 2021, 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.

NOTE 7. PROPERTY AND EQUIPMENT

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

	JUNE 30,	
	2000	2001
Land and land improvements	$ 4,944	$ 4,944
Building and building improvements	39,992	50,732
Computer equipment and software licenses	101,662	132,850
Furniture and equipment	14,071	16,894
Total	160,669	205,420
Less accumulated depreciation and amortization	67,455	96,194
Property and equipment, net	$ 93,214	$109,226

Depreciation expense totaled $17,801,000, $22,915,000 and $30,442,000 for the years ended June 30, 1999, 2000 and 2001, respectively.

NOTE 8. INTANGIBLE ASSETS

The components of the Company's various intangible assets are as follows (in thousands):

	JUNE 30,	
	2000	2001
Capitalized Software:		
Product technology from acquisitions and strategic agreement	$ 35,427	$ 252,378
Internal development costs	16,799	21,771
Total	52,226	274,149
Less: accumulated amortization	15,037	87,128
Capitalized software, net	$ 37,189	$ 187,021
Goodwill:		
Goodwill	$ 230,550	$1,009,834
Less: accumulated amortization	189,665	17,245
Goodwill, net	$ 213,305	$ 820,169
Strategic agreements:		
Strategic agreements	$ --	$ 744,424
Less: accumulated amortization	--	101,212
Strategic agreements, net	$ --	$ 643,212

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Other intangible assets:		
Workforce	$ 8,771	$ 11,944
Tradenames	19,668	47,968
Customer base	16,358	45,358
Covenants not to compete	1,200	1,200
Total	45,997	106,470
Less accumulated amortization	8,022	59,352
Other intangible assets, net	$ 37,975	$ 47,118

Significant additions to intangible assets resulted from the acquisitions and strategic agreement described in Notes 2 and 3, respectively.

Amortization of intangible assets totaled $6,829,000, $19,915,000 and $397,053,000 for the years ended June 30, 1999, 2000 and 2001, respectively.

NOTE 9. ACCRUED LIABILITIES

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

	JUNE 30,	
	2000	2001
Compensation and benefits	$25,288	$33,141
Other	18,670	26,949
Total	$43,958	$60,090

NOTE 10. LINE OF CREDIT

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 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.

On February 20, 2001, the Company executed an amendment to the working capital line-of-credit agreement dated January 2000 to extend the term of the line through December 30, 2003. In addition, certain financial covenants contained in the agreement were changed to reflect acquisitions made during the fiscal year.

No amounts were outstanding under the line at June 30, 2000 and 2001.

NOTE 11. 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, 2001, none of the notes had been converted to common stock. Interest expense on the notes for the years ended June 30, 2000 and 2001 was $7,307,000 and $12,119,000, respectively.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

NOTE 12. 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 were 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, 2000 Consolidated Balance Sheet.

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, 2000	JUNE 30, 2001
Equipment and software licenses	$3,654	$8,122
Less accumulated depreciation and amortization	2,585	3,190
Property under capital leases, net	$1,069	$4,932

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,	
2002	$1,610
2003	1,610
2004	1,610
2005	1,364
2006	177
Thereafter	--
Total future minimum lease payments	6,371
Less amount representing interest	1,231
Net future minimum lease payments	$5,140

NOTE 13. 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, 1999, 2000 and 2001, was $13,413,000, $19,095,000 and $26,519,000, respectively.

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

FISCAL YEAR ENDING JUNE 30,	
2002	$ 23,625
2003	20,159
2004	14,465
2005	8,866
2006	8,077
Thereafter	44,703
Net future minimum lease payments	$119,895

NOTE 14. 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 $1,218,000, $2,886,000 and $3,528,000, for the years ended June 30, 1999, 2000 and 2001, 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, 2000 and 2001 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, 2000 and 2001 Consolidated Balance Sheets. Total expense under the DCP for the periods ended June 30, 2000 and 2001 amounted to $162,000 and $77,000, 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. The administrator reviews all claims filed and authorizes the payment of benefits. The Company has stop-loss insurance coverage on all individual claims exceeding $150,000. 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 $4,430,000, $7,359,000, and $11,116,000 for the years ended June 30, 1999, 2000 and 2001, 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, 2000 and 2001, the Company accrued $2,513,000 and $4,061,000, 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. The Company owns a controlling interest in the subsidiary, and therefore, the accompanying consolidated financial statements include the subsidiary's results of operations.

NOTE 15. CAPITAL STOCK

On November 1, 2000, the Company's stockholders approved an increase in the number of authorized shares of the Company from 165,000,000 to 550,000,000, consisting of 500,000,000 shares of common stock, $.01 par value, 48,500,000 shares of preferred stock, $.01 par value, and 1,500,000 shares of Series A Junior Participating Cumulative Preferred Stock, $.01 par value. The preferred stock may be issued in one or more series and may be established with 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.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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.

NOTE 16. TRANSACTIONS INVOLVING EQUITY INSTRUMENTS

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 and again in November of 2000, 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 and not more than 12,000,000 shares, respectively. 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, 2001, 4,100,085 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, 1998 to June 30, 2001:

	YEAR ENDED					
	JUNE 30, 1999		JUNE 30, 2000		JUNE 30, 2001	
	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	4,365,562	$ 15.23	5,196,600	$ 18.69	6,161,785	$ 30.86
Granted	1,575,057	36.40	1,476,957	74.45	2,049,049	46.71
Assumed with BlueGill acquisition	--	--	637,746	4.31	--	--
Exercised	(354,758)	4.56	(794,778)	12.32	(635,205)	10.92
Cancelled	(389,261)	16.12	(354,740)	27.16	(447,488)	34.24
Outstanding - End of period	5,196,600	$ 18.69	6,161,785	$ 30.86	7,128,141	$ 36.96
Options exercisable at end of period	1,394,269	$ 9.00	1,850,887	$ 13.58	2,588,418	26.40
Weighted average per share value of options granted during the year		$ 17.65		$ 48.16		$ 32.06

The following table summarizes information about options outstanding at June 30, 2001:

RANGE OF EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
		WEIGHTED AVERAGE		WEIGHTED AVERAGE	
	NUMBER	REMAINING CONTRACTUAL LIFE	EXERCISE PRICE	NUMBER	EXERCISE PRICE
$ 0.01 - $ 15...........................	2,401,968	5.5	$ 8.55	1,353,596	$ 6.16
$15.01 - $ 30.00........................	461,833	6.7	22.24	308,218	22.49
$30.01 - $ 60.00........................	3,467,498	8.8	45.24	702,933	43.95
$60.01 - $ 90.00........................	275,050	8.6	77.43	48,070	79.54
$90.01 - $120.00........................	521,792	8.5	104.50	175,601	104.50
	7,128,141		$ 36.96	2,588,418	$ 26.40

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, 1999, 2000 and 2001, respectively: dividend yield of 0% in all periods; expected volatility of 49%, 83% and 98%; risk-free interest rates of 5.87%, 6.30%, and 5.62%; and expected lives of two 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, 48,748 shares were issued in January of 1999, 46,819 in July of 1999, 52,191 in January of 2000 and 34,941 in July of 2000, 56,901 in January of 2001 and 79,058 in July of 2001 from employees' salary withholdings from the respective previous six-month period. As of June 30, 2001 there were 601,973 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:

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

	December 31, 1998	June 30, 1999	December 31, 1999	June 30, 2000	December 31, 2000	June 30, 2001
Fair value of options	$ 7.18	$ 5.51	$ 8.93	$ 29.15	$ 11.63	$ 9.28
Assumptions:						
Risk-free interest rate	4.9%	4.9%	5.8%	5.8%	4.4%	4.4%
Expected life	3 months	3 months	3 months	3 months	3 months	3 months
Volatility	49.0%	49.0%	83.4%	83.4%	98.2%	98.2%
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,		
	1999	2000	2001
Pro forma net income (loss)	$ 1,032	$ (54,030)	$ (402,340)
Pro forma net income (loss) per share; Basic and Diluted	$ 0.02	$ (1.01)	$ (4.98)

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, 36,226 shares in August of 1999 and 51,834 shares in August 2000 to fund its 401(k) match that had accrued during the years ended June 30, 1998, 1999 and 2000, respectively. As of June 30, 2001 there were 758,702 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 2000, the Company completed an agreement to acquire various electronic billing and payment assets from Bank of America in exchange for 10 million shares of the Company's common stock. Bank of America has the ability to earn warrants on up to 10 million additional shares, eight million of which vest upon achievement of specific levels of subscriber adoption of electronic billing and payment services and separately, two million upon achievement of specific levels of electronic bills presented to those subscribers. Upon the vesting of these warrants becoming probable, 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.

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 the vesting becoming probable, 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%. Any shares acquired by the strategic partner under the terms of this agreement are subject to certain transfer and other restrictions. During each of the fiscal years ended June 30, 2000 and 2001 the strategic partner exercised 750,000 of the vested options and 1,500,000 remain outstanding. During the year ended June 30, 2001, the strategic partner's business was dissolved and therefore does not have the ability to earn any of the remaining seven million warrants.

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.

In accordance with the terms of a joint marketing agreement, a strategic partner has warrants to purchase up to 650,000 shares of the Company's Common Stock should the partner attain certain customer acquisition targets.

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, 2001 was $35.07 per share. Please refer to Note 11 for further information regarding the convertible subordinated notes.

NOTE 17. 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, 1999			Year Ended June 30, 2000			Year Ended June 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$ 10,457	52,444	$ 0.20	$ (32,320)	53,367	$ (0.61)	(363,135)	80,863	(4.49)
Effective of dilutive securities:									
Options and warrants	--	4,085		--	--		--	--	
Convertible notes	--	--		--	--		--	--	
Diluted EPS	$ 10,457	56,529	$ 0.18	$ (32,320)	53,367	$ (0.61)	$(363,135)	80,863	$ (4.49)

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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 is 6,157,241 and 5,561,894 for the years ended June 30, 2000 and 2001, respectively. The after-tax effect of interest expense on the convertible subordinated notes of approximately $4,384,000 and $9,198,000 for the years ended June 30, 2000 and 2001, respectively, has not been added back to the numerator, as its effect would be anti-dilutive.

NOTE 18. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	YEAR ENDED JUNE 30, (IN THOUSANDS)		
	1999	2000	2001
Interest paid	$ 618	$ 5,982	$ 12,119
Income taxes paid (received), net	$ 1,688	$ (229)	$ (1,442)
Supplemental disclosure of non-cash investing and financing activities:			
Capital lease additions and purchase of other long-term assets	$ 3,379	$ 5,688	$ 5,716
Stock funding of 401(k) match	$ 963	$ 1,059	$ 2,487
Purchase price of business acquisitions	$ 19,100	$ 239,900	$ 1,351,649
Issuance of common stock and stock options pursuant to acquisitions	(18,000)	(240,000)	(1,350,083)
Liabilities assumed	(887)	--	
Cash acquired in acquisitions	(23)	(9,052)	(97,200)
Acquisition costs paid in prior period	--	--	(965)
Net cash paid (received)	$ 190	$ (9,152)	$ (96,599)

NOTE 19. 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. Segment operating income (loss) excludes intangible asset amortization, in-process research and development costs and significant one-time charges related to various business and asset acquisitions. 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, 1999, 2000 and 2001 (in thousands):

	YEAR ENDED JUNE 30,		
	1999	2000	2001
Revenues:			
Electronic Commerce	$ 169,443	$ 213,391	$ 301,532
Software	41,384	42,012	62,175
Investment Services	39,304	54,792	69,613
Total	$ 250,131	$ 310,195	$ 433,320
Operating income (loss):			
Electronic Commerce	$ (3,126)	$ (18,248)	$ (13,083)
Software	15,931	10,536	837
Investment Services	11,250	15,830	20,347
Corporate	(23,348)	(26,120)	(35,746)
Purchase accounting amortization	(6,815)	(18,517)	(393,436)
One time marketing charge	--	--	(25,000)
In-process research and development	(2,201)	(6,900)	(18,600)
Net gain on disposition of assets	4,576	--	--
Total Operating Loss	$ (3,733)	$ (43,419)	$ (464,681)
Identifiable assets:			
Electronic Commerce	$ 80,223	$ 102,220	$ 1,603,069
Software	34,194	273,120	206,746
Investment Services	49,098	47,246	50,113
Corporate	89,246	290,528	324,025
Total	$ 252,761	$ 713,114	$ 2,183,953
Capital expenditures:			
Electronic Commerce	$ 9,258	$ 18,299	$ 28,355
Software	1,189	1,773	2,938
Investment Services	4,764	2,868	6,771
Corporate	25,233	16,555	9,317
Total	$ 40,444	$ 39,495	$ 47,381
Depreciation and amortization:			
Electronic Commerce	$ 14,214	$ 19,282	$ 350,277
Software	2,069	12,317	62,485
Investment Services	5,336	7,634	9,421
Corporate	3,011	3,597	5,312
Total	$ 24,630	$ 42,830	$ 427,495

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

No single customer accounted for 10% or more of consolidated revenues for the years ended June 30, 1999 and 2000. For the year ended June 30, 2001, one customer accounted for $44.5 million of consolidated revenues. Revenues for that customer were generated through the Electronic Commerce and Software segments. Foreign sales for the years ended June 30, 1999 and 2000 were insignificant. Foreign sales, based on the location of the customer, for the year ended June 30, 2001 were $7,636,000.

Long-lived assets by geographic area are as follows (in thousands):

	YEAR ENDED JUNE 30,	
	2000	2001
United States	$ 380,695	$1,804,275
Other	988	2,471
Total.....	$ 381,683	$1,806,746

NOTE 20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following quarterly financial information for the years ended June 30, 2000 and 2001 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 2000				
Total revenue	$ 69,020	$ 72,969	$ 79,706	$ 88,500
Loss from operations	(6,365)	(6,275)	(5,773)	(25,006)
Net loss	(3,936)	(3,969)	(3,873)	(20,542)
Basic earnings per share:				
Net 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 loss per common share	$ (0.08)	$ (0.08)	$ (0.07)	$ (0.36)
Equivalent number of shares	51,848	52,200	52,716	56,721
FISCAL 2001				
Total revenue	$ 90,757	$ 107,721	$ 113,069	$ 121,773
Loss from operations	(76,363)	(150,570)	(123,255)	(114,493)
Net loss	(58,358)	(116,022)	(101,067)	(87,688)
Basic earnings per share:				
Net loss per common share	$ (0.91)	$ (1.34)	$ (1.17)	$ (1.01)
Equivalent number of shares	64,216	86,286	86,682	86,774
Diluted earnings per share:				
Net loss per common share	$ (0.91)	$ (1.34)	$ (1.17)	$ (1.01)
Equivalent number of shares	64,216	86,286	86,682	86,774

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

NOTE 21. COMMITMENTS

In March 2001 the Company amended an existing 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 amended agreement amount to $11 million over the next five years.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

NOTE 22. 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, 2000 and 2001, the Company and its subsidiaries own approximately 89% of CheckFree Management Corporation. In previous years, due to the relative value of the total assets of CheckFree Management Corporation to the total consolidated assets of the Company, we were required to provided separate financial statements for and disclose certain financial information about CheckFree Management Corporation. As of June 30, 2001, the assets of CheckFree Management Corporation represent less than 2% of the total consolidated assets of the Company, and therefore, separate financial statements and financial disclosures are not deemed significant.

Exhibit 21

Subsidiaries of CheckFree Corporation:

CheckFree Services Corporation, a Delaware corporation
CheckFree Investment Corporation, a Delaware corporation
CheckFree Management Corporation, a Wisconsin corporation
CheckFree i-Solutions, Inc., a Delaware corporation
CheckFree i-Solutions International, Inc., a Michigan corporation*
CheckFree i-Solutions Corporation, an Ontario corporation*
CheckFree i-Solutions Australia Pty. Ltd., a Victoria, Australia proprietary company
CheckFree i-Solutions Limited, a United Kingdom private limited company
CheckFree International Partner Inc., a Delaware corporation
CheckFree Finance, Inc., a Washington corporation
CheckFree TransPoint Holdings Inc., a Delaware corporation
CheckFree International, L.P., a Delaware limited partnership*
CheckFree, L.L.C., a Delaware limited liability company*
TransPoint Technology & Services, L.L.C., a Delaware limited liability company**
TransPoint, L.L.C., a Delaware limited liability company**
TransPoint Accounting, L.L.C., a Delaware limited liability company***

*indicates second tier subsidiary
**indicates third tier subsidiary
***indicates fourth tier subsidiary

Exhibit 23

DELOITTE
& TOUCHE

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements (Nos. 33-98440, 33-98444, 33-98442, 33-98446, 333-21799, 333-21795, 333-70599, 333-35812, 333-35814, and 333-50322) on Form S-8 and the Registration Statements (Nos. 333-94757 and 333-50494) on Form S-3 of CheckFree Corporation of our reports dated August 3, 2001, appearing in and incorporated by reference in the Annual Report on Form 10-K of CheckFree Corporation for the year ended June 30, 2001.

Deloitte & Touche LLP

Atlanta, Georgia
September 26, 2001

Exhibit 24

POWER OF ATTORNEY

Each director and/or officer of CheckFree Corporation (the "Corporation") whose signature appears below hereby appoints Peter J. Kight, Peter F. Sinisgalli, and Curtis A. Loveland as the undersigned's attorneys or any of them individually as the undersigned's attorney, to sign, in the undersigned's name and behalf and in any and all capacities stated below, and to cause to be filed with the Securities and Exchange Commission (the "Commission"), the Corporation's Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended June 30, 2001, and likewise to sign and file with the Commission any and all amendments to the Form 10-K, and the Corporation hereby also appoints such persons as its attorneys-in-fact and each of them as its attorney-in-fact with like authority to sign and file the Form 10-K and any amendments thereto granting to each such attorney-in-fact full power of substitution and revocation, and hereby ratifying all that any such attorney-in-fact or the undersigned's substitute may do by virtue hereof.

IN WITNESS WHEREOF, we have hereunto set our hands this 9th day of August, 2001.

Signature	Title
/s/ Peter J. Kight --------------------------------- Peter J. Kight	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
/s/ David E. Mangum --------------------------------- David E. Mangum	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Gary A. Luoma, Jr. --------------------------------- Gary A. Luoma, Jr.	Senior Vice President - Finance and Accounting, Chief Accounting Officer and Assistant Secretary (Principal Accounting Officer)
/s/ William P. Boardman --------------------------------- William P. Boardman	Director
/s/ James D. Dixon --------------------------------- James D. Dixon	Director
/s/ Henry C. Duques --------------------------------- Henry C. Duques	Director
/s/ Mark A. Johnson --------------------------------- Mark A. Johnson	Director
/s/ Lewis C. Levin --------------------------------- Lewis C. Levin	Director
/s/ Eugene F. Quinn --------------------------------- Eugene F. Quinn	Director
/s/ Jeffrey M. Wilkins --------------------------------- Jeffrey M. Wilkins	Director

Exhibit 99

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of CheckFree Corporation and subsidiaries as of June 30, 2000 and 2001, and for the years ended June 30, 1999, 2000 and 2001, and have issued our report thereon dated August 3, 2001; such financial statements and report are included in your 2001 annual report to stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of CheckFree Corporation and subsidiaries, listed in Item 14. This financial statement schedule is the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
August 3, 2001

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED JUNE 30, 1999, 2000 AND 2001

	BALANCE AS OF BEGINNING OF PERIOD	AMOUNT ASSUMED IN BUSINESS COMBINATION	CHARGES TO COSTS AND EXPENSES	CHARGES TO OTHER DEDUCTIONS	DEDUCTIONS	BALANCE AS OF END OF PERIOD
Allowance for Doubtful Accounts						
1999	3,470	309	1,246	-	595	4,430
2000	4,430	268	2,615	-	3,310	4,003
2001	4,003	--	50	-	1,090	2,963
Reserve for Returns and Chargebacks						
1999	1,944	--	1,932	-	2,212	1,664
2000	1,664	--	4,212	-	3,471	2,405
2001	2,405	--	3,847	-	1,589	4,663