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, 2000

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 $2,524,575,485 on September 15, 2000.

There were 76,011,344 shares of our Common Stock outstanding on September 15, 2000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Annual Report to Stockholders for the fiscal year ended June 30, 2000 are incorporated by reference in Part II.

Portions of our Proxy Statement for the 2000 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 currently provide electronic billing and payment services for over 3.5 million consumers. Our services are available through over 350 sources, including:

- 23 of the 25 largest 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 58% of all of our bill payments electronically. As of June 30, 2000, we were processing approximately 16 million transactions per month and, for the year ended June 30, 2000, we processed nearly 170 million transactions.

In March 1997, we introduced electronic billing -"E-Bill"-- which enables merchants to deliver billing as well as marketing materials interactively to their customers over the Internet. Through June 30, 2000, we have placed 93 billers into production and are now delivering over 94,000 electronic bills monthly through E-Bill.

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

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 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.

- 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 website 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 United States banks, international banks and corporate treasury operations with automated check and non-check reconciliations in high volume, multi-location environments. Some of the services provided by 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 like regulatory compliance solutions for Form 1099 processing, safe box accounting and other applications.

During the fiscal year June 30, 2000, Electronic Commerce accounted for 69% of our revenues, Investment Services accounted for 18% of our revenues, and Software accounted for 13% of our revenues.

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 sixteen 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 58%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 contracts with 157 billers, which represents the opportunity to deliver over 500 million bills per month. Our goal is to implement over 200 live billers by the end of fiscal 2001, an improvement of at least 115% over the 93 billers in production at June 30, 2000. 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 815 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 over 350 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:

- 23 of the 25 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. We recently 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. Our goal for fiscal 2001 is to achieve and maintain a 4.6 sigma level of quality. Additionally, 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 more than 350 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.;
- NationsBank;
- U.S. Bancorp; and
- Wells Fargo.

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, 2000, we had over 3.5 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.

In April 1998, we announced our intention to divest ourselves of many of our software products and businesses. By September 1998, we sold our item processing, wire transfer and cash management, leasing, mortgage, and imaging software products and businesses.

Our retained 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 allows 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

Portions of the electronic commerce market are becoming increasingly competitive. 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, home banking services in-house. For example, Chase Manhattan Corporation, First Union Corporation and Wells Fargo & Co. recently announced the formation of a new venture called Spectrum that will 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 addition, recently Mastercard International announced that it would begin offer online bill presentment to enable people to receive and pay bills over the Internet by September 2000. A number of relatively small companies, like Travelers Express, recently acquired by Marshall & Ilsley Bank Inc., compete with us in electronic bill payment. As previously announced, we have entered into an agreement to acquire TransPoint and its operations and the transaction closed on September 1, 2000. We also compete for business bill payment customers with ACI and

Deluxe Data, which provide automated clearinghouse processing. We also face increased competition from new 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, including Advent Software, and PORTIA, a division of Thomson Financial. We also compete with service bureau providers like SunGard Portfolio Solutions and FMC Service Bureau.

Software

The computer application software industry is highly competitive. In the financial applications software market, 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.

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)."

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 100 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.

Recently, we announced our initiative to 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 MicroBank for RECON-PLUS for Windows. On October 29, 1997, we entered into a 10-year processing alliance with Integrion Financial Network, L.L.C. to provide financial institutions with a fully integrated, end-to-end, cost effective electronic billing and payment processing service employing Integrion's Gold Message Standard for Electronic Commerce, its Interactive Financial Services platform and our processing infrastructure.

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 815 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 $0.3 million at June 30, 2000, 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 15 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 recently 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 has required the acquisition of, and investment in, extensive hardware and in operating and system software, as well as extensive communications links and systems. The Genesis Project requires substantial engineering and development of proprietary software. Redundancy, anomaly monitoring, and off-site backup and recovery systems are planned as a part of the project. See "Business -- Business Risks (We may experience breakdowns in our payment processing system that could damage customer relations and expose us to)."

The Austin platform was designated to host subscribers using a particular personal financial management product that is not expected to be supported indefinitely. We expect that these financial institutions will migrate these subscribers to different software, which will prompt further migrations to Genesis.

Significant numbers of high-level employees have been and will be hired to facilitate the accomplishment of the Genesis Project, and to manage the integrated site. We intend to operate the legacy platforms without substantial disruption until all of our customers have been migrated to the Genesis platform. To date, over 2 million of our nearly 3 million 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. We recently 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. Our goal for fiscal 2001 is to achieve and maintain a 4.6 sigma level of quality.

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, 2000, our research and development group consisted of approximately 475 employees. Additionally, we use independent third party software development contractors as needed. We spent 19.4% of revenues during the six-month transition period ended June 30, 1996, 18.6% of revenues during the fiscal year ended June 30, 1997, 15.5% of revenues during the fiscal year ended June 30, 1998, 8.4% of revenues during the fiscal year ended June 30, 1999 and 11.5% of revenues during the fiscal year ended June 30, 2000 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 and $7.9 million for the fiscal year ended June 30, 2000. 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:

- 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 EXTRA(R);
- CHECKFREE FREES YOU FROM CHECKS(R);
- CHECKFREE MANAGER(R);
- CHECKFREE WALLET(R);
- CLAS(R);
- CLRS(R);
- CLUB HOOCH(R);
- CPIM(R);
- CSSII(R);
- DASH(R);
- DECISION MANAGER(R);
- DISC and Design(R);
- DISC CHECKBOOK-PLUS(R);
- DISC WORLD$NET(R);
- ECP(R);
- EPOCH(R);
- FASTOCK PC(R);
- FMS(R);
- INTEGRATED DECISION MANAGER(R);
- MAX(R);
- M-VEST(R)
- MOBILEPAY(R);
- MOBIUS GROUP and Design(R);
- MOE(R);
- MOE and Design(R)
- MPREPS(R);
- M-SEARCH(R);
- MSEARCH(R);
- MWATCH(R);
- OMNI(R);
- ORBS(R);
- PAWWS(R);
- PAWTRACKS(R);
- PEP+(R);
- PEP PAPERLESS ENTRY PROCESSING(R);
- PODIUM(R);
- PTT(R);
- QUICKILL(R);
- SBA(R);
- SERVANTIS SYSTEMS(R);
- SERVANTIS WORLD$NET(R);
- STYLE ANALYSIS PLUS(R)
- SUPRRB(R);
- TCM THE CONTROL MACHINE(R);
- THE SECONDARY MARKETER(R);
- THE WAY MONEY MOVES and Design(R);
- TRS(R);
- TST(R); and
- VAULT(R).

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

- CHEQUEFREE; and
- CHECKFREE.

Additionally, we have applied to federally register the following marks:

- BLUEGILL(TM);
- BLUEGILL Logo (Miscellaneous Design)(TM);
- CHECKFREE(SM);
- CHECKFREE CHARITY NET(TM);
- CHECKFREE E-BILL(SM);
- CHECKFREE ELECTRIC MONEY(TM);
- CHECKFREE ELECTRIC MONEY(SM);
- M-PLAN(TM);
- M-PREPS(TM);
- MISSINGMONEY and Design (SM);
- MISSINGMONEY.COM and Design (SM);
- MISSINGMONEY.COM SECUREMATCH (SM);
- MY-BILLS.COM(SM);
- SSI(TM);
- SSI and Design(TM); and
- THE GREAT AMERICAN GIVEBACK(SM).

We have also applied to register the following marks internationally:

- BLUEGILL (Canada);
- BLUEGILL Logo (Canada);
- BLUEGILL (European Community); and
- BLUEGILL Logo (European Community).

We have conducted preliminary searches for the following marks and are evaluating appropriate action concerning filing applications for the marks:

- APECS CLIENT/SERVER(TM);
- APL(TM);
- CHECKFREE and Design(SM);
- CHECKFREE APECS;(TM);
- CHECKFREE A.R.M.(TM);
- CHECKFREE ARP;
- CHECKFREE ARP/SMS;
- CHECKFREE DEBIT SOLUTIONS(TM);
- CHECKFREE DIRECTCOLLECT;
- CHECKFREE IRS(TM);
- CHECKFREE IRS/SRS(TM);
- CHECKFREE IS MAKING AN ELECTRONIC STATEMENT ON BILLING (SM);
- CHECKFREE LCR(TM);
- CHECKFREE MAGNETS(TM);
- CHECKFREE RECON(TM);
- CHECKFREE RECON-PLUS(TM);
- CHECKFREE RECON SECURITIES(TM);
- CHECKFREE RPS(TM);
- CHECKFREE RRS(TM);
- CHECKFREE SOLUTION SERIES(TM);
- CHECKFREE SOLUTION SERIES STORER(TM);
- CHECKFREE SPECTRUM SERVICE (SM);
- CHECKFREE STORER(TM);
- CHECKFREE TRADE RECON(TM);
- CHECKFREE WEB RECON(TM);
- DYNAMIC SUMMARY(TM);
- ECENTER (SM);
- EVENT TRACKING(TM);
- EXCHANGE(TM);
- FUND EXPEDITE (SM);
- INSTASEND (SM);
- INVOICE LITE (SM);
- JOIN THE CLUB (SM);
- MISSINGCUSTOMERS (SM);
- MONEY ANYWHERE(TM);
- PAYMAIL (SM);
- RECON-SELECT(TM);
- REVOLUTIONIZING THE WAY MONEY MOVES(SM);
- RMS(TM);
- SMS(TM);
- WARP 1 (SM); and
- YOU'VE GOT BILLS (SM).

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; and
- 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, 2000, we employed approximately 2,475 full-time employees, including approximately 770 in systems and research and development, including software development, approximately 815 in customer care, and approximately 890 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, 2001, and beyond, to differ materially from those expressed in any forward-looking statements made by us, or on our behalf.

During fiscal 2000, we also entered into 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, 2001, and beyond, to differ materially from those expressed in any forward-looking statements made by us, or on our behalf:

- On April 28, 2000, we consummated our acquisition of BlueGill Technologies, Inc. pursuant to a merger agreement originally executed on December 21, 1999, whereby the BlueGill stockholders received 4,713,736 shares of our common stock;

- 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 April 28, 2000 we entered into a strategic agreement Bank of America, N.A., whereby Bank of America will receive 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 $326,320,000. 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; and

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

We anticipate having a net loss from operations in fiscal 2001 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, 2000, we invested over $35.6 million in research and development and over $44.8 million 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 2001 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 financial institutions have developed, and others in the future may develop, in-house home banking services similar to ours. For example, in June 1999, Chase Manhattan Corporation, First Union Corporation and Wells Fargo & Co. announced the formation of a new venture called Spectrum that will 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 addition, recently MasterCard International announced that it would begin offering online bill presentment to enable people to receive and pay bills over the Internet by September 2000. We also face increased competition from billers directly presenting bills to their customers electronically and from new 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, Chase Manhattan, First Union and Wells Fargo 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 10% of our total revenue for the year ended June 30, 1999 or for the year ended June 30, 2000. 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, 2000, these three financial institutions accounted for approximately 1.6 million subscribers, or approximately 47% of our total subscriber base. No single customer, however, accounts for more than 10% 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 and 58% of the transactions for the year ended June 30, 2000. 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;
- power loss;
- telecommunications failure;
- unauthorized entry; and
- 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 $310.2 million in the fiscal year ended June 30, 2000, 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 U.S. 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
- 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 15, 1999.

Since December 15, 1999, our stock price has been extremely volatile, trading at a high of $125.63 per share and a low of $28.50 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 1, 2000, we had outstanding 75,997,926 shares of our common stock, of which 53,416,751 shares of our issued and outstanding common stock were held by nonaffiliates. The holders of the remaining 22,581,175 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, 2000, we had an additional 21,100,943 shares of our common stock available for future sale, including:

- outstanding options to purchase 6,826,726 shares of our common stock, of which options for 1,901,676 shares were fully vested and exercisable at an average weighted exercise price of approximately $13.63 per share;
- issued warrants to purchase 10,500,000 shares of our common stock, of which warrants for 1,825,000 shares were fully vested and exercisable at a weighted exercise price of approximately $20.83 per share;
- up to 658,874 shares available for issuance under our Associate Stock Purchase Plan;
- up to 758,786 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, 2000, 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;
- Citibank, N.A., which holds 2,015,500 shares;

- Intuit, Inc., which holds 2,500,000 shares;
- Integrion Financial Network, L.L.C., which with current and former members, collectively holds warrants to purchase up to 8,800,000 shares, 1,800,000 of which are fully vested and exercisable; and
- 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.

Each of Intuit, Integrion, and Bank One may be entitled to registration rights. If Intuit, Integrion or Bank One, 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 have 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 will be limited in their ability to transfer their shares of our common stock during the next three 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. One year after the acquisition is completed, Microsoft, First Data and Citibank 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. In addition, Microsoft and First Data will be 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.

If we complete the strategic agreement, we will issue Bank of America, N.A., an aggregate of 10 million shares of our common stock and warrants to acquire an additional 10 million shares of our common stock.

We have agreed to provide Bank of America with registration rights in connection with the strategic agreement. If 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. One year after the strategic agreement is consummated is completed, 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 will execute 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, 2000, our directors, executive officers and principal stockholders and their affiliates collectively owned approximately 30% 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 ACQUISITIONS OF BLUEGILL AND TRANSPOINT.

WE MAY FAIL TO REALIZE THE ANTICIPATED BENEFITS OF THE TRANSPOINT MERGERS.

The success of the TransPoint mergers will depend, in part, on our ability to realize the anticipated growth opportunities and synergies from combining our and TransPoint businesses. To realize the anticipated benefits of this combination, 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;
- successfully use the anticipated opportunities for cross-promotion and sales of the products and services of CheckFree and TransPoint;
- 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. 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 THAT WILL CAUSE OUR EARNINGS PER SHARE TO DECREASE.

Because we will be accounting for the BlueGill and TransPoint mergers using the purchase method, the mergers will result in a charge to our earnings that will decrease our earnings per share. In connection with the BlueGill merger, we will be required to amortize approximately $253,308,793 of goodwill and other intangible assets over a period of five years or $50,661,759 per year. In connection with the TransPoint mergers, we will be required to amortize approximately $824,977,763 of goodwill and other intangible assets over a period of five years or approximately $164,996,000 per year. Additionally, because we issued shares of our common stock in connection with the both merger agreements, and since historically BlueGill and TransPoint have not been profitable, the BlueGill and TransPoint mergers and related TransPoint commercial transactions 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.

THE SHARES ISSUED PURSUANT TO THE MERGER AGREEMENT AND RELATED TRANSACTIONS WILL RESULT IN IMMEDIATE AND SUBSTANTIAL DILUTION IN OUR PER SHARE EARNINGS AND A SUBSTANTIAL INCREASE IN OUR LOSS FROM OPERATIONS.

The BlueGill merger and the TransPoint mergers, on a pro forma basis, would result in immediate and substantial dilution of per share earnings from $0.18 to ($5.04), or $5.22 per share, for the year ended June 30, 1999 and earnings from ($0.23) to ($3.90) per share, or $3.67 per share, for the nine months ended March 31, 2000. Additionally, the BlueGill merger and the mergers, on a pro forma basis, would increase our loss from operations from $3,733,000 to $476,958,000 for the year ended June 30, 1999 and from $18,413,000 to $349,212,000 for the nine months ended March 31, 2000. The anticipated dilution and the increase in our loss from operations 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 operating profits and losses and per share earnings.

THE BLUEGILL AND TRANSPOINT MERGERS MAY RESULT IN DISRUPTION OF OUR EXISTING BUSINESS, DISTRACTION OF OUR MANAGEMENT AND DIVERSION OF OTHER RESOURCES.

The integration of the BlueGill and TransPoint businesses may take management time and resources that will have to be diverted from the main business of the combined company. This diversion of time and resources could cause the market price of our common stock to decrease. Our management will need to spend their time integrating both BlueGill and TransPoint into our operations. Management will need to focus some of its efforts on the integration of both BlueGill and TransPoint and away from our main business. This could cause our business to suffer. Additionally, we will need to devote resources into the continued development of our business and operations.

THE COMPLETION OF THE TRANSPOINT MERGERS MAY CAUSE A BREACH UNDER VARIOUS AGREEMENTS TO WHICH TRANSPOINT IS A PARTY AND POSSIBLY LEAD TO THE TERMINATION OF, OR NONPERFORMANCE UNDER, THESE AND OTHER TRANSPOINT AGREEMENTS.

The completion of the TransPoint mergers may violate the terms of various agreements to which TransPoint is a party. We will attempt to obtain the consent or waiver of the counterparties to these agreements, but we may be unsuccessful in our attempts. In addition, various persons with which TransPoint historically has had business relationships may attempt to be released from, or fail to perform their obligations under, their contracts as a result of the mergers, even if the terms of their contract with TransPoint do not allow a release or nonperformance. If we are not able to obtain consents or waivers from the counterparties to TransPoint's contracts, or if a sufficient number of TransPoint's business partners refuse to perform their obligations, our business, financial condition and results of operations may be adversely affected.

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.

In addition, although the TransPoint merger agreement allows us to attempt to solicit employees of Microsoft and First Data that formerly were primarily engaged in the TransPoint business after the completion of the TransPoint mergers, we may be unable to hire any of these employees. If these employees decide not to work for us, they will be able to work for our competitors or develop a business that competes with us.

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

The marketing agreement with First Data that we will execute upon completion of the mergers 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.

OUR OBLIGATION TO SUPPORT THE TRANSPOINT BILLING AND PAYMENT PLATFORM FOR AT LEAST THREE YEARS MAY DISTRACT OUR MANAGEMENT AND ADVERSELY EFFECT OUR FINANCIAL RESULTS.

Under the TransPoint merger agreement, we have agreed to support TransPoint's billing and payment platform for three years after the closing of the mergers, including allowing TransPoint's customers to renew contracts during the three year period on substantially the same terms. In addition, Microsoft and First Data will not be obligated to assist us with maintaining the TransPoint platform after the one year anniversary of the closing of the mergers. This support of the TransPoint platform may result in a significant diversion of our resources and management from our other business activities and may require us to continue contracts with TransPoint customers that we would otherwise decide not to continue for economic or other reasons.

BECAUSE WE WILL BE A NEWLY-INTEGRATED ENTITY AFTER THE COMPLETION OF THE TRANSPOINT MERGERS, THE HISTORICAL FINANCIAL STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-K MAY BE OF LIMITED VALUE IN EVALUATING OUR FUTURE PERFORMANCE.

The combination of our and TransPoint's businesses will result in a new enterprise that has not operated before as a single integrated unit. The financial information in this Annual Report on Form 10-K concerning our individual operations may be of limited value in evaluating our financial and operating prospects in the future.

AFTER THE MERGER, BLUEGILL MAY NOT ACHIEVE ANTICIPATED REVENUES, EARNINGS OR CASH FLOW.

We can not assure you that BlueGill will achieve its anticipated revenues, earnings or cash flow. Any shortfall may decrease the value and price of our common stock and have an adverse effect on our business or financial condition.

THE TRANSPOINT BUSINESS IS A NEW ENTERPRISE.

The domestic TransPoint entities were formed beginning in June 1997, began limited operations in May 1999 and formally commenced commercial operations of their services in February 2000. Accordingly, the TransPoint business is a new enterprise with a limited history of financial information, especially with respect to results of operations.

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, each of which we will execute in connection with the closing of the mergers, 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.

RISKS OF OUR STRATEGIC AGREEMENT WITH BANK OF AMERICA.

WE MAY FAIL TO REALIZE THE ANTICIPATED BENEFITS OF THE STRATEGIC AGREEMENT.

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

- 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 and Bank of America; and
- while integrating Bank of America's electronic billing and payment assets with our 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 these objectives, we may not realize the anticipated benefits of the strategic agreement. 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 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. Although Bank of America currently lists some 400,000 subscribers to their legacy electronic billing and payment services, we do not know how many of those subscribers actively use those services or how many of those subscribers will migrate to our electronic billing and payment services. 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. We currently serve an additional approximately 400,000 Bank of America customers on our own systems under the terms of a pre-existing contract.

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.

WE ARE REQUIRED TO DEPRECIATE THE ACQUIRED ASSETS OVER THEIR USEFUL LIVES THAT WILL CAUSE OUR EARNINGS PER SHARE TO DECREASE.

Because we will be accounting for the transaction as an asset purchase, the purchase will result in a charge to our earnings that will decrease your earnings per share. We will be required to amortize approximately $412 million over a period of ten years or approximately $41.2 million per year.

We will issue 10 million shares of our common stock in connection with the strategic agreement. Assuming the transaction was completed on July 1, 1998, the strategic agreement would result in immediate and substantial dilution of per share earnings from $0.18 diluted to $(0.48) diluted for the year ended June 30, 1999, and dilution of per share earnings from $(0.23) to $(0.38) for the nine months ended March 31, 2000. The anticipated dilution 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 per share earnings.

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 51,000 square feet in Aurora, Illinois;
- approximately 32,000 square feet in Austin, Texas;
- approximately 30,000 square feet in Owings Mills, Maryland;
- approximately 30,000 square feet in Ann Arbor, Michigan;
- approximately 23,000 square feet in Waterloo, Ontario, Canada;
- approximately 17,000 square feet in Jersey City, New Jersey;
- approximately 14,000 square feet in Downers' Grove, Illinois;
- approximately 10,000 square feet in Chicago, Illinois;
- approximately 3,000 square feet in San Diego, California;
- approximately 3,000 square feet in Ashburn, Virginia;
- approximately 2,000 square feet in Boston, Massachusetts; and
- approximately 1,000 square feet in Houston, Texas.

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.

FISCAL PERIOD	COMMON STOCK PRICE HIGH	LOW
FISCAL 1999		
First Quarter	$ 31.50	$ 8.25
Second Quarter	$ 23.44	$ 5.75
Third Quarter	$ 46.00	$20.63
Fourth Quarter	$ 69.13	$24.50
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 (through September 20, 2000)	$ 72.00	$41.75

On September 20, 2000, the last reported bid price for our common stock on the Nasdaq National Market was $44.06 per share. As of September 20, 2000, there were approximately 686 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 and repurchased shares of our common stock:

DATE	TYPE OF SECURITIES	NUMBER OF SHARES	UNDERWRITER / PURCHASER	CONSIDERATION	EXEMPTION CLAIMED
October 26, 1999	common stock	250,000	Banc One Corporation	$9,562,500	Section 4(2)
August 5, 1999	common stock	12,000	Peter F. Sinisgalli	Grant of restricted stock	Section 4(2)
July 19, 1999	common stock	1,000	John Frech	Grant of restricted stock	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 ,our operating and growth strategy, and Year 2000 issues. 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.

None.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated balance sheets as of June 30, 1999 and 2000 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 1998, 1999 and 2000 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 relating to our 2000 Annual Meeting of Stockholders to be held on November 1, 2000, 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)(i) The following financial statements appearing in our 2000 Annual Report to Stockholders are incorporated herein by reference:

Independent Auditors' Report.

Consolidated Balance Sheets as of June 30, 1999 and 2000.

Consolidated Statements of Operations for each of the three years in the period ended June 30, 2000.

Consolidated Statements of Stockholders' Equity for each of the three years in the period ended June 30, 2000.

Consolidated Statements of Cash Flows for each of the three years in the period ended June 30, 2000.

Notes to the Consolidated Financial Statements.

(1)(ii) The following financial statements of CheckFree Management Corporation are included in this Annual Report on Form 10-K:

Independent Auditors' Report.

Balance Sheets of CheckFree Management Corporation as of June 30, 1999 and 2000.

Statements of Operations of CheckFree Management Corporation for the period from inception (December 8, 1998) through June 30, 1999 and for the fiscal year ended June 30, 2000.

Statements of Stockholder's Equity of CheckFree Management Corporation for the period from inception (December 8, 1998) through June 30, 1999 and for the fiscal year ended June 30, 2000.

Notes to the Financial Statements of CheckFree Management Corporation.

(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 of Merger, dated as of December 20, 1999, among the Company, CheckFree Acquisition Corporation IV, and BlueGill Technologies, Inc. (Reference to Appendix A of Form S-4 Registration Statement (333-32644) and incorporated herein by reference.)
2(b)	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(c)		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.)
3(a)		Restated Certificate of Incorporation of the Company. (Reference is made to Exhibit 3(a) 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(b)	*	Certificate of Ownership and Merger Merging CheckFree Corporation into CheckFree Holdings Corporation.
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.
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).**
13	*	Portions of the Annual Report to Stockholders for the year ended June 30, 2000.
21	*	Subsidiaries of the Company.
23	*	Consent of Deloitte & Touche LLP.
24	*	Power of Attorney.
27	*	Financial Data Schedule.
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 the following Current Reports on Form 8-K since March 31, 2000:

(i) Current Report on Form 8-K/A, dated March 16, 2000, filed with the Securities and Exchange Commission on April 27, 2000 (Items 5 and 7);

(ii) Current Report on Form 8-K, dated April 2, 2000, filed with the Securities and Exchange Commission on April 3, 2000 (Items 5 and 7);

(iii) Current Report on Form 8-K, dated April 27, 2000, filed with the Securities and Exchange Commission on April 27, 2000 (Items 5 and 7);

(iv) Current Report on Form 8-K, dated April 28, 2000, filed with the Securities and Exchange Commission on April 28, 2000 (Items 5 and 7);

- (v) Current Report on Form 8-K, dated April 28, 2000, filed with the Securities and Exchange Commission on May 15, 2000 and amended on July 10, 2000 (Items 2 and 7);
- (vi) Current Report on Form 8-K, dated May 22, 2000, filed with the Securities and Exchange Commission on May 23, 2000 (Items 5 and 7);
- (vii) Current Report on Form 8-K, dated June 6, 2000, filed with the Securities and Exchange Commission on June 7, 2000 (Items 5 and 7);
- (viii) Current Report on Form 8-K, dated July 12, 2000, filed with the Securities and Exchange Commission on July 12, 2000 (Items 5 and 7); and
- (ix) Current Report on Form 8-K, dated August 2, 2000, filed with the Securities and Exchange Commission on August 3, 2000 (Items 5 and 7).

(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.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
CheckFree Management Corporation:

We have audited the accompanying balance sheet of CheckFree Management Corporation (the "Company") as of June 30, 1999 and 2000, and the related statements of operations, stockholders' equity and cash flows for the period from December 8, 1998 (date of inception) to June 30, 1999 and the year ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at June 30, 1999 and 2000, and the results of its operations and its cash flows for the period from December 8, 1998 (date of inception) to June 30, 1999 and the year ended June 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
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Atlanta, Georgia
August 7, 2000

CHECKFREE MANAGEMENT CORPORATION
BALANCE SHEET
JUNE 30, 1999 AND 2000

	1999	2000
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
CURRENT ASSETS:		
Cash	$ 291	$ 4
Related party note receivable, current portion	1,970	3,678
Total current assets	2,261	3,682
RELATED PARTY NOTE RECEIVABLE, less current portion	27,798	23,873
	$ 30,059	$ 27,555
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Related party advance	$ --	$ 250
Accrued claims	318	2,572
Deposit for future claims liability	1,970	3,678
Total current liabilities	2,288	6,500
DEPOSIT FOR FUTURE CLAIMS LIABILITY- Less current portion	27,430	20,708
REDEEMABLE PREFERRED STOCK:		
Class C, 350 authorized shares, $100 par value; 350 shares issued and outstanding	36	36
Class D, 750 authorized shares, $100 par value; 750 shares issued and outstanding	78	78
Total redeemable preferred stock	114	114
STOCKHOLDERS' EQUITY:		
Preferred stock- Class B, 600 authorized shares, $100 par value; 600 shares issued, no amounts outstanding	--	--
Common stock- Class A, 1,900 authorized shares, $100 par value; 1,900 shares issued and outstanding	190	190
Retained earnings	37	43
Total stockholders' equity	227	233
	$ 30,059	$ 27,555

See notes to financial statements

CHECKFREE MANAGEMENT CORPORATION

STATEMENT OF OPERATIONS

	DECEMBER 8, 1998 (DATE OF INCEPTION) TO JUNE 30, 1999	YEAR ENDED JUNE 30, 2000
	(IN THOUSANDS)	
REVENUES:		
Interest income from related party	$ 1,300	$ 2,457
Other interest income	43	18
Total revenues	1,343	2,475
EXPENSES:		
Interest expense on deposit for future claims liability	1,185	2,227
General and administrative	117	235
Total expenses	1,302	2,462
INCOME BEFORE INCOME TAXES	41	13
INCOME TAX EXPENSE	--	--
NET INCOME	41	13
DIVIDENDS ON REDEEMABLE PREFERRED STOCK	4	7
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	$ 37	$ 6

See notes to financial statements

CHECKFREE MANAGEMENT CORPORATION

STATEMENT OF STOCKHOLDERS' EQUITY

	NUMBER OF SHARES OF PREFERRED STOCK	PREFERRED STOCK AT PAR	NUMBER OF SHARES OF COMMON STOCK	COMMON STOCK AT PAR	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	(IN THOUSANDS, EXCEPT SHARE DATA)					
BALANCE - DECEMBER 8, 1998	--	$ --	--	$ --	$ --	$ --
Issuance of preferred stock for cash	600	60	--	--	--	60
Exchange of preferred stock for redeemable preferred stock	(600)	(60)	--	--	--	(60)
Dividends accrued on redeemable preferred stock	--	--	--	--	(4)	(4)
Issuance of common stock for cash	--	--	1,900	190	--	190
Net income	--	--	--	--	41	41
BALANCE- JUNE 30, 1999	--	--	1,900	190	37	227
Net income	--	--	--	--	13	13
Dividends accrued on redeemable preferred stock	--	--	--	--	(7)	(7)
BALANCE- JUNE 30, 2000	--	$ --	1,900	$ 190	$ 43	$ 233

See notes to financial statements

CHECKFREE MANAGEMENT CORPORATION
STATEMENT OF CASH FLOWS

	DECEMBER 8, 1998 (DATE OF INCEPTION) TO JUNE 30, 1999	YEAR ENDED JUNE 30, 2000
	(IN THOUSANDS)	
OPERATING ACTIVITIES:		
Net income	$ 41	$ 13
Net cash provided by operating activities	41	13
INVESTING ACTIVITIES:		
Loan to related party	(30,512)	--
Principal payments received on related party note	743	2,218
Net cash provided by (used in) investing activities	(29,769)	2,218
FINANCING ACTIVITIES:		
Proceeds from assumption of health plan liabilities	30,474	--
Payments made on health plan liabilities	(755)	(2,760)
Advance from related party	--	249
Redeemable preferred stock dividends paid	--	(7)
Proceeds from issuance of common stock	190	--
Proceeds from issuance of preferred stock	110	--
Net cash provided by (used in) financing activities	30,019	(2,518)
NET INCREASE (DECREASE) IN CASH	291	(287)
CASH:		
Beginning of period	--	291
End of period	$ 291	$ 4
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 1,185	$ 2,227
Dividends accrued on redeemable preferred stock	$ 4	$ 7

See notes to financial statements

CHECKFREE MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 1999 AND 2000, FOR THE PERIOD FROM DECEMBER 8, 1998 TO JUNE 30, 1999 AND THE YEAR ENDED JUNE 30, 2000

1. DESCRIPTION OF THE BUSINESS

CheckFree Management Corporation (the "Company") was formed from a plan of recapitalization of RCM Systems, Inc., a wholly owned subsidiary of CheckFree Corporation ("CheckFree"), on December 8, 1998. The Company was formed as a medical claims management subsidiary in order to appropriately minimize, control, and manage the medical claims liabilities of CheckFree and its subsidiaries. As of June 30, 1999 and 2000, CheckFree and its subsidiaries own approximately 63% and 89% of the Company, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements include the results of operations of the Company since its inception date, December 8, 1998, and have been prepared in accordance with accounting principles generally accepted in the United States of America ("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.

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. The Company held no cash equivalents at June 30, 1999 or 2000.

Deposit for Future Claims Liability- The Company accounts for the deposit for future claims liability under deposit accounting as set forth in Statement of Position ("SOP") 98-7, "Deposit Accounting & Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk" issued by the Accounting Standards Executive Committee. Under deposit accounting, the Company recorded the cash received from CheckFree Corporation as a deposit liability. As the Company makes payments of medical claims, they record a reduction in the accrued deposit for future claims liability. The deposit liability account is also adjusted by calculating the effective yield on the deposit to reflect the actual medical claim payments to date and expected future medical claims, with a corresponding credit or charge to interest income or expense.

Comprehensive Income - The Company reports Comprehensive Income in accordance with the provisions of 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. There were no components of other comprehensive income applicable to the Company for the periods ended June 30, 1999 or 2000.

Recent Accounting Pronouncements.- In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which requires that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet. SFAS No. 133 will be effective for the Company's first quarter of fiscal 2001. SFAS 133 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 such, the adoption of SFAS 133 on July 1, 2000 will not have a material impact on results of operations or other comprehensive income.

CHECKFREE MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS- (CONTINUED)

3. RELATED PARTY NOTE RECEIVABLE

On December 30, 1998, the Company loaned $30,511,871 to CheckFree Services Corporation ("CheckFree Services") and received a promissory note calling for principal and interest payments to be made monthly commencing February 1, 1999. The note matures on March 1, 2005 and bears interest at 8.51% per annum. CheckFree Services is a stockholder in the Company and is a wholly owned subsidiary of CheckFree. Interest income on the note amounted to $1,300,000 and $2,458,000 for the periods ended June 30, 1999 and 2000, respectively.

Principal payments due on the note are as follows (in thousands):

FISCAL YEAR ENDING JUNE 30,	
2001	$ 3,678
2002	4,800
2003	6,099
2004	7,552
2005	5,422
Total	$27,551

At June 30, 1999 and 2000, the estimated fair value of the note receivable approximates the carrying value based on currently available instruments with similar interest rates and remaining maturities.

4. DEPOSIT FOR FUTURE CLAIMS LIABILITY

On December 21, 1998, the Company and CheckFree Services entered into an exchange agreement whereby CheckFree Services contributed cash of $30,507,860 in exchange for 350 shares of Class C Redeemable Preferred Stock and the Company agreed to unconditionally assume and undertake to pay certain health plan liabilities of CheckFree Services . The health plan liabilities recorded by the Company were based on the present value (at an assumed discount rate of 8.51%) of claims estimated to be incurred over a five-year period commencing January 1, 1999. Estimated annual claim liability reduction is as follows (in thousands):

FISCAL YEAR ENDING JUNE 30,	
2001	$ 3,678
2002	4,800
2003	6,099
2004	7,552
2005	2,257
Total	$24,386

CHECKFREE MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS- (CONTINUED)

5. REDEEMABLE PREFERRED STOCK

The holders of Class C, and Class D Redeemable Preferred Stock have certain rights, privileges and preferences, which include the following:

Dividends- The holders are entitled to receive dividends before any dividend is declared or paid on shares of Class A Common Stock. Such dividends are cumulative and are payable at times determined by the Board of Directors.

Voting Rights-The holders are entitled to one vote per share and each class has certain rights with respect to election of the Company's Board of Directors.

Redemption - On or after January 1, 2004, the Company may, at its option, redeem the shares of Class C and Class D preferred stock for cash, the amount of which is determined by the "Formula Value", plus any accrued but unpaid dividends. The "Formula Value" provides for the price to be par value plus a percentage of the increase in the Company valuation from the inception date, not to exceed a per share price of $500.

On or after January 1, 2005, the holders of Class C and Class D preferred stock may require the Company to redeem their shares for cash, the amount of which is determined by the Formula Value defined above, plus any accrued but unpaid dividends. At June 30, 1999 the redemption value of the preferred stock is approximately equal to its carrying value.

Liquidation Preference - In the event of liquidation, dissolution or winding up of the Company, holders of Class C and Class D preferred stock are entitled to receive, prior to and in preference to any distributions to the holders of Class B preferred stock or Class A common stock, an amount determined by the Formula Value, plus any accrued but unpaid dividends.

A summary of redeemable preferred stock activity for the periods ended June 30, 1999 and 2000 is as follows (in thousands):

	CLASS C	CLASS D	TOTAL
Issuance of redeemable preferred stock	$ 35	$ 75	$ 110
Dividends accrued	1	3	4
Redeemable preferred stock at June 30, 1999....	36	78	114
Dividends paid	(2)	(5)	(7)
Dividends accrued	2	5	7
Redeemable preferred stock at June 30, 2000....	$ 36	$ 78	$ 114

6. CAPITAL STOCK

The Company's capital stock consists of the following:

Class A Common Stock- Holders of the stock are entitled to one vote per share and have certain rights with respect to election of the Company's Board of Directors.

Class B Preferred Stock- The holders of Class B, Preferred Stock have certain rights, privileges and preferences, which include the following:

Dividends- The holders are entitled to receive dividends before any dividend is declared or paid on shares of Class A Common Stock. Such dividends are cumulative and are payable at times determined by the Board of Directors.

CHECKFREE MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS- (CONTINUED)

Voting Rights- The holders are entitled to one vote per share and each class has certain rights with respect to election of the Company's Board of Directors.

Liquidation Preference - In the event of liquidation, dissolution or winding up of the Company, subject to the redeemable preferred stock preferences, holders of Class B preferred stock are entitled to receive an amount equal to the par value plus any accrued but unpaid dividends.

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

7. 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 basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company files separate federal and state tax returns. Accordingly, the income tax provisions included in the Statement of Operations have been determined as if the Company was a separate taxpayer.

Income tax expense differs from the amounts computed by applying the U.S. federal statutory income tax rate of 34 percent to income before income taxes as a result of the following (in thousands):

	DECEMBER 8, 1998 (DATE OF INCEPTION) TO JUNE 30, 1999	YEAR ENDED JUNE 30, 2000
Federal and state tax at statutory rates	$ 14	$ (236)
Deductible medical claims	(257)	(1,126)
Change in valuation allowance	243	1,362
Total	$ --	$ --

At June 30, 1999 and 2000, the Company's deferred tax assets were as follows (in thousands):

	JUNE 30, 1999	JUNE 30, 2000
Deferred tax assets- net operating loss carryforwards	$ 243	$ 1,605
Valuation allowance	(243)	(1,605)
Total	$ --	$ --

At June 30, 2000, the Company's has approximately $4,011,000 of state and federal net operating loss carryforwards that expire in 2019. A valuation allowance has been recorded due to the uncertainty of the realizability of the net operating loss carryforwards.

CHECKFREE MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS- (CONTINUED)

8. OTHER RELATED PARTY TRANSACTIONS

On December 21, 1998, the Company entered into an Administrative Services Agreement (the "Agreement") with CheckFree . Under the terms of the Agreement, CheckFree receives a monthly administrative fee for services provided to the Company. The Agreement calls for annual fee increases of 4% and carries a two-year initial term, with an automatic renewal clause. Total amounts paid under the agreement for the periods ended June 30, 1999 and 2000 amounted to $115,000 and $235,000, respectively.

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 25, 2000

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 25th day of September, 2000.

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.	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	Director
*Mark A. Johnson ------------------------------------- Mark A. Johnson	Director
------------------------------------- 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

Exhibit 3(b)

CERTIFICATE OF OWNERSHIP AND MERGER
MERGING
CHECKFREE CORPORATION
INTO
CHECKFREE HOLDINGS CORPORATION

(Pursuant to Section 253 of the
General Corporation Law of Delaware)

CheckFree Holdings Corporation, a Delaware corporation (the "Corporation"), does hereby certify:

FIRST: That the Corporation is incorporated pursuant to the General Corporation Law of the State of Delaware.

SECOND: That the Corporation owns all of the outstanding shares of each class of capital stock of CheckFree Corporation, a Delaware corporation.

THIRD: That the Corporation, by the following resolutions of its Board of Directors, duly adopted on the 24th day of July, 2000, determined to merge into itself CheckFree Corporation on the conditions set forth in such resolutions:

WHEREAS, this Corporation lawfully owns all the outstanding shares of CheckFree Corporation (the "Subsidiary"), a corporation organized and existing under the laws of Delaware;

WHEREAS, the Board of Directors deems it to be in the best interests of this Corporation and its stockholders that the Subsidiary be merged with and into this Corporation as of August 3, 2000 (the "Effective Date");

WHEREAS, it is intended that the merger be considered a tax-free plan of liquidation of the Subsidiary pursuant to Section 338 of the Internal Revenue Code of 1986, as amended;

WHEREAS, the Board of Directors deems it to be in the best interest of this Corporation and its stockholders that the Corporation's Certificate of Incorporation be amended to change the name of the Corporation to CheckFree Corporation, pursuant to the authority granted by Section 253 of the General Corporation Law of Delaware, as of the Effective Date.

NOW, THEREFORE, BE IT RESOLVED, that this Corporation merge into itself its Subsidiary and assume all of said Subsidiary's liabilities and obligations as of the Effective Date;

FURTHER RESOLVED, that pursuant to the authority granted by Section 253 of the General Corporation Law of Delaware, the name of this Corporation is CheckFree Corporation as of the Effective Date;

FURTHER RESOLVED, that the appropriate officers of this Corporation be and they hereby are directed to make, execute, and acknowledge a certificate of ownership and merger setting forth a copy of the resolutions to merge Subsidiary into this Corporation and to assume Subsidiary's liabilities and obligations on the date of adoption thereof and to file the same in the office of the Secretary of State of Delaware;

FURTHER RESOLVED, that the appropriate officers of this Corporation are hereby authorized to do any and all things and to take any and all actions, including executing, delivering, acknowledging, filing, recording, and sealing all documents, certificates, statements, or other instruments, and the making of any expenditures, which they deem necessary or advisable in order to carry out the intent and purposes of these resolutions.

CHECKFREE HOLDINGS CORPORATION

By: /s/Peter J. Kight

Peter J. Kight
Chairman and Chief Executive Officer

ATTEST:

By: /s/Curtis A. Loveland

Curtis A. Loveland, Secretary

Exhibit 3(d)

CHECKFREE CORPORATION

NUMBER SHARES

C-

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

CUSIP 162813 1 09

COMMON SHARES

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE COMMON SHARES, $.01 PAR VALUE OF

------------------ CHECKFREE CORPORATION ------------------

transferable on the books of the corporation by the holder of this certificate in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the corporation and the facsimile signatures of its duly authorized officers.

Dated CHECKFREE CORPORATION

Secretary Chairman of the Board

AUTHORIZED SIGNATURE

COUNTERSIGNED AND REGISTERED:
FIFTH THIRD BANK
(CINCINNATI, OHIO) TRANSFER AGENT

CHECKFREE CORPORATION

WILL MAIL TO ANY OF ITS STOCKHOLDERS, WITHOUT CHARGE WITHIN FIVE DAYS AFTER RECEIPT OF WRITTEN REQUEST THEREFOR A COPY OF THE EXPRESS TERMS OF THE SHARES REPRESENTED BY THIS CERTIFICATE AND OF SUCH OTHER CLASS OR CLASSES AND SERIES OF SHARES, IF ANY, WHICH THE COMPANY MAY BE AUTHORIZED TO ISSUE AT ANY TIME SUCH REQUEST IS MADE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as if though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common
TEN ENT - as tenants by the entities
JT TEN - as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT-__________________ Custodian _________________________
(Cust) (Minor)
under Uniform Gifts to Minors
Act _______ ____
(State)

Abbreviations in addition to those in the above list may also be used

For value received,______________________ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE:

[______________________________________]________________________ _____________

____ _____________
Please print or typewrite name and address of assignee

____ _____________

____ _____________

____ _______Shares

represented by the within Certificate, and do hereby irrevocably constitute and

appoint____

____ ________________________ Attorney

to transfer the said shares on the books of the within-named Corporation with full power of substitution in the premises.

Dated, ____________________________

_____________________ __________________
NOTICE: The signature to this assignment must correspond with the name as written upon the face of the certificate, in every particular without alteration or enlargement, or any change whatever.

____

THIS SPACE MUST NOT BE COVERED IN ANY WAY

This certificate also represents Rights that entitle the holder hereof to certain rights as set forth in a Rights Agreement by and between the Corporation and Fifth Third Bank, as Rights Agent (the "Rights Agreement"), the terms and conditions of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of the Corporation.

Under certain circumstances specified in the Rights Agreement, such Rights will be represented by separate certificates and will no longer be represented by this certificate. Under certain circumstances specified in the Rights Agreement, Rights beneficially owned by certain persons may become null and void. The Corporation will mail to the record holder of this certificate a copy of the Rights Agreement without charge promptly following receipt of a written request therefor.

Exhibit 13

SELECTED FINANCIAL DATA

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

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

- Electronic Commerce;
- Investment Services; and
- Software

Our Electronic Commerce business provides services that allow consumers to:

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

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

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

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

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

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

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

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

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

Our portfolio management systems solution includes:

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

Our financial planning software applications include:

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

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

- i-Solutions

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

- Electronic Funds Transfer.

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

- Reconciliation

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

- Other

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

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

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

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

RESULTS OF OPERATIONS

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

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

YEARS ENDED JUNE 30, 1999 AND 2000

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

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

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

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

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

Cost of Processing, Servicing and Support. Our processing, servicing and support costs consist primarily of data processing costs, customer care, technical support, third party transaction fees and consulting delivery costs. Our cost of processing, servicing and support was $146.7 million or 58.7% of total revenue for the year ended June

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

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

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

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

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

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

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

Our interest expense increased from $0.6 million for the year ended June 30, 1999, to $8.0 million for the year ended June 30, 2000. The increase is due primarily to $172.5 million of 6 1/2% convertible subordinated notes that we issued in November 1999. None of the convertible debt had been converted into shares of our common stock as of June 30, 2000.

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

YEARS ENDED JUNE 30, 1998 AND 1999

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SEGMENT INFORMATION

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

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

YEARS ENDED JUNE 30, 1999 AND 2000

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

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

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

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

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

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

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

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

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

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

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

YEARS ENDED JUNE 30, 1998 AND 1999

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

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

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

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

	SUMMARY OF CASH FLOWS FOR YEAR ENDED JUNE 30,		
	1998	1999	2000
	(In thousands)		
Cash flow provided by (used in) operating activities	$(11,673)	$ 25,571	$ 21,016
Cash flow provided by (used in) investing activities	12,767	(16,217)	(108,935)
Cash flow provided by (used in) financing activities	3,355	(33,443)	203,547
Net increase (decrease) in cash and cash equivalents	$ 4,449	$(24,089)	$ 115,628

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

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

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

From a financing perspective, we received $166.9 million of net proceeds from the issuance of $172.5 million in 6 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 represented net proceeds from trading securities transactions, which are reflected as operating in nature for accounting purposes.

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

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

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

INFLATION

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

/s/ Deloitte & Touche LLP
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Atlanta, Georgia
August 7, 2000

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 1999 AND 2000

	1999	2000
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,446	$ 128,074
Investments	10,266	56,548
Accounts receivable, net	45,660	58,308
Prepaid expenses and other assets	7,800	12,813
Deferred income taxes	6,513	9,733
Total current assets	82,685	265,476
PROPERTY AND EQUIPMENT, Net	69,823	93,214
OTHER ASSETS:		
Capitalized software, net	20,059	37,189
Goodwill, net	32,280	213,305
Other intangible assets, net	13,595	37,975
Investments	1,875	23,003
Deferred income taxes	21,920	29,248
Other noncurrent assets	10,524	13,704
Total other assets	100,253	354,424
	$ 252,761	$ 713,114

	1999	2000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 9,634	$ 10,158
Accrued liabilities	26,971	43,958
Current portion of long-term obligations	1,640	5,955
Deferred revenue	20,195	26,644
Total current liabilities	58,440	86,715
ACCRUED RENT AND OTHER	3,536	7,269
OBLIGATIONS UNDER CAPITAL LEASES- Less current portion	3,882	736
CONVERTIBLE SUBORDINATED NOTES	--	172,500
COMMITMENTS (Note 20)		
STOCKHOLDERS' EQUITY:		
Preferred stock- 15,000,000 authorized shares, $.01 par value; no amounts issued or outstanding	--	--
Common stock- 150,000,000 authorized shares, $.01 par value; issued 57,305,659 and 63,957,859 shares, respectively; outstanding 51,756,278 and 58,414,035 shares, respectively	518	584
Additional paid-in-capital	480,385	771,892
Less:		
Accumulated deficit	(294,000)	(326,320)
Unearned compensation	--	(262)
Total stockholders' equity	186,903	445,894
	$ 252,761	$ 713,114

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	NUMBER OF SHARES OF COMMON STOCK	COMMON STOCK AT PAR	ADDITIONAL PAID-IN CAPITAL	NUMBER OF SHARES OF TREASURY STOCK	TREASURY STOCK AT COST	UNEARNED COMPENSATION	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
				(IN THOUSANDS, EXCEPT SHARE DATA)				
BALANCE- JUNE 30, 1997	55,546,321	$555	$454,850	(1,041,552)	$ (6,007)	$ --	$(300,754)	$148,644
Net loss	--	--	--	--	--	--	(3,703)	(3,703)
Stock options exercised	708,661	8	2,204	--	(47)	--	--	2,165
Employee stock purchases	109,857	1	1,572	--	--	--	--	1,573
401(k) match	--	--	--	78,257	1,692	--	--	1,692
Warrants issued	--	--	32,827	--	--	--	--	32,827
Tax benefit associated with exercise of stock options	--	--	656	--	--	--	--	656
BALANCE- JUNE 30, 1998	56,364,839	564	492,109	(963,295)	(4,362)		(304,457)	183,854
Net income							10,457	10,457
Stock options exercised	354,758	3	1,605	--	--	--	--	1,608
Employee stock purchases	48,748	1	968	48,631	1,070	--	--	2,039
401(k) match	--	--	--	74,981	963	--	--	963
Treasury stock acquired	--	--	--	(4,709,698)	(31,336)	--	--	(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	--	--	--	--	18,000
Tax benefit associated with exercise of stock options	--	--	1,318	--	--	--	--	1,318
BALANCE- JUNE 30, 1999	51,756,278	518	480,385	--	--	--	(294,000)	186,903
Net loss	--						(32,320)	(32,320)
Stock options and warrants exercised	1,795,785	18	35,224	--	--	--	--	35,242
Employee stock purchases	99,010	1	2,285	--	--	--	--	2,286
401(k) match	36,226	--	1,059	--	--	--	--	1,059
Issuance of common stock pursuant to acquisition	4,713,736	47	239,447	--	--	--	--	239,494
Issuance of restricted stock	13,000	--	333	--	--	(333)	--	--
Amortization of unearned compensation	--	--	--	--	--	71	--	71
Tax benefit associated with exercise of stock options and warrants	--	--	13,159	--	--	--	--	13,159
BALANCE- JUNE 30, 2000	58,414,035	$584	$771,892	--	$ --	$(262)	$(326,320)	$445,894

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 1998, 1999 AND 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

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

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

Company determines whether software costs fall under the provisions of SFAS 86 or SOP 98-1 and accounts for them as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REVENUE RECOGNITION

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

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

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

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

- Other - Other revenue consists primarily of consulting and training services. Consulting revenue is recognized principally on a percentage-of-completion basis and training revenue is recognized upon delivery of the related service.

Estimated losses, if any, on contracts are provided for when probable. Estimated loss provisions are based on excess costs over the revenues earned from the contract. Credit losses, if any, are contemplated in the establishment of our allowance for doubtful accounts.

EXPENSE CLASSIFICATION

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

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

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

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

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

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

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

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

2. ACQUISITIONS AND DISPOSITIONS

BLUEGILL

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

	INTANGIBLE ASSET (IN THOUSANDS)	USEFUL LIFE
Goodwill	$191,072	5.0 yrs
Tradename	15,100	1.0 yr
Existing product technology	13,700	3.7 yrs
Customer list	10,600	5.0 yrs
Workforce in place	2,600	3.0 yrs
Covenants not to compete	1,200	1.0 yr

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

At the acquisition date, BlueGill had five general technologies that had not demonstrated technological or commercial feasibility. They included print and extraction technology, data management engine technology, API technology, Web Applications and payment or OFX technology. The in-process technology has no alternative use in the event that the products do not prove to be feasible. These development efforts fall within the definition of In-Process Research and Development ("IPR&D") contained in SFAS 2.

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

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

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

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

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

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

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

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

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

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

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

	ESTIMATED STAGE OF COMPLETION	ESTIMATED COMPLETION DATE	EXPECTED COST TO COMPLETE	VALUATION
			(IN THOUSANDS)	
Print / Extraction	38%	December 2000	$ 748	$1,900
Data Management Engine	19%	November 2000	110	1,300
APIs	46%	November 2000	703	2,300
Web Applications	50%	July 2000	183	1,400
Payments / OFX	10%	December 2000	333	0
Total			$2,077	$6,900

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

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

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

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

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

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

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

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

MOBIUS

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

	INTANGIBLE ASSET (In thousands)	USEFUL LIFE
Goodwill	$10,552	10.0 yrs
Customer base	4,429	8.0 yrs
Tradenames	3,709	10.0 yrs
Existing product technology	1,864	5.0 yrs
Workforce	940	3.0 yrs

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

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

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

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

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

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

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

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

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

	ESTIMATED STAGE OF COMPLETION	EXPECTED RELEASE	EXPECTED COST TO COMPLETE	VALUATION
			(IN THOUSANDS)	
M-Plan:				
Retirement and Estate Planning Module..	92%	May 1999	$ 49	$ 693
Cash Flow, Tax and Education Module ...	64%	December 1999	208	183
M-Search Revision	56%	September 1999	176	1,218
M-Vest Revision	20%	September 1999	220	107
Total			$653	$2,201

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

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

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

AMTI

On October 3, 1997, the Company acquired certain assets of Advanced Mortgage Technologies, Inc. ("AMTI") for cash of $1.0 million. The acquisition was treated as a purchase for accounting purposes, and accordingly, the assets and liabilities were recorded based on their fair values at the date of the acquisition. Of the total purchase price,

$0.2 million was allocated to goodwill and $0.1 million to other identifiable intangible assets. Additionally, $0.7 million was allocated to in-process research and development, which was charged to operations at the time of the acquisition.

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

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

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

DISPOSITIONS

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

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

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

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

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

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

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

3. INVESTMENTS

Investments consist of the following (in thousands):

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

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

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
JUNE 30, 1999:				
Corporate bonds	$ --	$ --	$--	$ --
Commercial paper	--	--	--	--
Certificates of deposit	--	--	--	--
U.S. Government and federal agency obligations	1,875	--	(14)	1,861
Money market funds	5,944	--	--	5,944
Held-to-Maturity investments	7,819	--	(14)	7,805
Less: amounts classified as cash equivalents	(5,944)	--	--	(5,944)
Total Held-to-Maturity Investments	$ 1,875	$ --	$ (14)	$ 1,861
JUNE 30, 2000:				
Corporate bonds	$ 50,824	$ --	$(148)	$ 50,676
Commercial paper	68,886	211	--	69,097
Certificates of deposit	29,981		(86)	29,895
U.S. Government and federal agency obligations	2,824	4	(18)	2,810
Money market funds	10,474		--	10,474
Held-to-Maturity investments	162,989	215	(252)	162,952
Less: amounts classified as cash equivalents	(101,269)	(215)	19	(101,465)
Total Held-to-Maturity Investments	$ 61,720	$ --	$(233)	$ 61,487

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

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

	AMORTIZED COST	FAIR VALUE
Due in one year or less	$49,888	$49,722
Due after one year through five years ..	11,832	11,765
	$61,720	$61,487

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

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

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

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

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

5. INCOME TAXES

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

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

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

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

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

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

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

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

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

6. PROPERTY AND EQUIPMENT

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

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

7. INTANGIBLE ASSETS

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

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

8. ACCRUED LIABILITIES

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

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

9. LINE OF CREDIT

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

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

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

10. CONVERTIBLE SUBORDINATED NOTES

On November 29, 1999, the Company issued $172.5 million of 6 1/2% convertible subordinated notes that are due on December 1, 2006. Interest on the notes is payable on June 1 and December 1 of each year, commencing June 1, 2000. The notes may be converted, at the holder's option, into 13.6612 shares of common stock per $1,000 of note value and the Company may redeem the notes at any time on or after December 1, 2002. At June 30, 2000, none of the notes had been converted to common stock. Interest expense on the notes amounted to $7,307,000 for the year ended June 30, 2000.

11. OBLIGATIONS UNDER CAPITAL LEASES

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

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

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

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

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

FISCAL YEAR ENDING JUNE 30,	
2001	$3,253
2002	390
2003	373
2004	62
Total future minimum lease payments	4,078
Less amount representing interest	101
Net future minimum lease payments	$3,977

12. OPERATING LEASES

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

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

FISCAL YEAR ENDING JUNE 30,	
2001	$ 18,600
2002	16,784
2003	12,975
2004	11,389
2005	9,888
Thereafter	76,170
Net future minimum lease payments	$145,806

13. EMPLOYEE BENEFIT PLANS

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

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

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

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

14. COMMON STOCK

Employee Plans

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

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

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

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

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

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

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
		WEIGHTED AVERAGE		WEIGHTED AVERAGE	
RANGE OF EXERCISE PRICE	NUMBER	REMAINING CONTRACTUAL LIFE	EXERCISE PRICE	NUMBER	EXERCISE PRICE
$ 0.01 - $ 15.00	3,125,547	6.8	$ 8.38	1,322,634	$ 4.62
$15.01 - $ 30.00	517,989	7.5	21.25	194,033	22.76
$30.01 - $ 60.00	1,713,631	9.1	43.80	334,220	43.72
$60.01 - $ 90.00	252,950	9.5	80.15	--	--
$90.01 - $120.00	551,668	9.5	104.50	--	--
	6,161,785		$ 30.86	1,850,857	$13.58

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

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

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

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

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

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

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

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

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

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

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

Stock Related Transactions With Third Parties

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

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

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

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

Convertible Subordinated Notes

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

15. PREFERRED STOCK

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

16. EARNINGS PER SHARE

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

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

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

17. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

18. BUSINESS SEGMENTS

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

- Electronic Commerce - Electronic commerce provides services that allow consumers to receive electronic bills through the Internet, pay bills received electronically or in paper form to anyone, and perform ordinary banking transactions including balance inquiries, transfers between accounts and on-line statement reconciliation. These services are primarily directed to financial institutions, Internet financial sites, personal financial management software providers and the customers of these businesses.

- Software - Software includes software products and related services for electronic billing, ACH processing and account reconciliation. These products and services are primarily directed to large corporations and financial institutions.

- Investment Services - Investment services includes investment portfolio management services and investment trading and reporting services. These products and services are primarily directed to fee based money managers and financial planners who manage investments of institutions and high net worth individuals.

- Corporate - Corporate services include human resources, legal, accounting and various other of the Company's unallocated overhead charges.

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

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

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

	YEAR ENDED JUNE 30,		
	1998	1999	2000
Revenues:			
Electronic Commerce	$137,972	$169,443	$213,391
Software	66,143	41,384	42,012
Investment Services	29,749	39,304	54,792
Total	$233,864	$250,131	$310,195
Operating income (loss):			
Electronic Commerce	$(39,423)	$ (5,490)	$(20,619)
Software - including charges for acquired in-process research and development of $719 in 1998 and $6,900 in 2000	48,854	18,083	(7,590)
Investment Services - including charge for acquired in-process research and development of $2,201 in 1999	5,040	5,892	10,910
Corporate	(21,647)	(22,218)	(26,120)
Total	$ (7,176)	$ (3,733)	$(43,419)
Identifiable assets:			
Electronic Commerce	$ 70,192	$ 80,223	$102,220
Software	39,346	34,194	273,120
Investment Services	21,187	49,098	47,246
Corporate	119,387	89,246	290,528
Total	$250,112	$252,761	$713,114
Capital expenditures:			
Electronic Commerce	$ 19,532	$ 9,258	$ 18,299
Software	2,197	1,189	1,773
Investment Services	895	4,764	2,868
Corporate	5,315	25,233	16,555
Total	$ 27,939	$ 40,444	$ 39,495
Depreciation and amortization:			
Electronic Commerce	$ 9,964	$ 14,214	$ 19,282
Software	6,051	2,069	12,317
Investment Services	4,558	5,336	7,634
Corporate	4,426	3,011	3,597
Total	$ 24,999	$ 24,630	$ 42,830

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

19. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

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

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

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

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

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

20. COMMITMENTS

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

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

21. GUARANTOR FINANCIAL INFORMATION

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

FISCAL 1999:

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 1999
(IN THOUSANDS)

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

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

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 1999
(IN THOUSANDS)

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

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

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 1999
(IN THOUSANDS)

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

(1) Elimination of CheckFree Corporation's investment in subsidiaries, including the minority interest of CheckFree Management Corporation.
FISCAL 2000:

FISCAL 2000:

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2000
(IN THOUSANDS)

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

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

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2000
(IN THOUSANDS)

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

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

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2000
(IN THOUSANDS)

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

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

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

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

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

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

In December 1998, the Company entered into a Stockholders' Agreement with each holder of common and preferred stock. The agreement restricts the sale or transfer of any shares of stock without express written consent of all stockholders. In addition, the agreement provides that the holder of the Class A Common Stock, CheckFree Corporation, is subject to capital calls when and if the Board of Directors determines that the

Company will have a cash shortfall for any quarter. Through June 30, 1999 and 2000, no additional capital contributions were required.

22. SUBSEQUENT EVENTS

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

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 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

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, and 333-35814) on Form S-8 and the Registration Statement (No. 333-94757) on Form S-3 of CheckFree Corporation of our reports dated August 7, 2000, appearing in and incorporated by reference in the Annual Report on Form 10-K of CheckFree Corporation for the year ended June 30, 2000.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
August 7, 2000

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, 2000, 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 20th day of September, 2000.

Signature	Title
/s/Peter J. Kight Peter J. Kight	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
/s/David Mangum David Mangum	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/Gary A. Luoma, Jr. Gary A. Luoma, Jr.	Vice President, 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
Henry C. Duques	Director
/s/Mark A. Johnson Mark A. Johnson	Director
Lewis C. Levin	Director
/s/George R. Manser George R. Manser	Director
/s/Eugene F. Quinn Eugene F. Quinn	Director
/s/Jeffrey M. Wilkins Jeffrey M. Wilkins	Director

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1,000

YEAR
JUN-30-2000
JUL-01-1999
JUN-30-2000
128,074
56,548
62,311
(4,003)
0
265,476
160,669
(67,455)
713,114
86,715
172,500
0
0
584
445,310
713,114
0
310,195
0
353,614
0
0
8,027
(43,757)
(11,437)
(32,320)
0
0
0
(32,320)
(0.61)
(0.61)

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, 1999 and 2000, and for the years ended June 30, 1998, 1999 and 2000, and have issued our report thereon dated August 7, 2000; such financial statements and report are included in your 2000 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
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Atlanta, Georgia
August 7, 2000

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED JUNE 30, 1998, 1999 AND 2000

	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						
1998....................	4,217	-	3,441	-	4,188	3,470
1999....................	3,470	309	1,246	-	595	4,430
2000....................	4,430	268	2,615	-	3,310	4,003
Reserve for Returns and Chargebacks						
1998....................	1,226	-	2,080	-	1,362	1,944
1999....................	1,944	-	1,932	-	2,212	1,664
2000....................	1,664	-	4,212	-	3,471	2,405