SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant /X/
Filed by a Party other than the Registrant / /

Check the appropriate box:

/X/ Preliminary Proxy Statement
/ / Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
/ / Definitive Proxy Statement
/ / Definitive Additional Materials
/ / Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

CHECKFREE CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

/ / No fee required
/ / $125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), 14a-6(i)(2) or Item 22(a)(2) of Schedule 14A.
/ / $500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i)(3).
/X/ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of Securities to which transaction applies:
Common Stock, $.01 par value, of Checkfree Corporation

2) Aggregate number of securities to which transaction applies:
12,600,000

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): $16.125 (average of the high and low prices of Checkfree Common Stock as reported on the Nasdaq National Market on December 13, 1996

4) Proposed maximum aggregate value of transaction:
$203,175,000

5) Total fee paid:
$40,635.00

/ / Fee paid previously with preliminary materials.
/X/ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:
$100.00

2) Form, Schedule or Registration Statement No.:
333-15247

3) Filing Party:
Checkfree Corporation

4) Date Filed:
October 31, 1996

CHECKFREE CORPORATION
4411 East Jones Bridge Rd.

Norcross, Georgia 30092

December __, 1996

Dear Fellow Stockholders:

You are cordially invited to attend the Special Meeting of Stockholders (the "Checkfree Special Meeting") of Checkfree Corporation (the "Company"), which will be held on _________, __________ __, 1997, at _____ _.m. local time. The Checkfree Special Meeting will be held at ____,______________,_____________________.

On September 15, 1996, the Company and Checkfree Acquisition Corporation II ("Acquisition"), a wholly owned subsidiary of the Company, entered into an Agreement and Plan of Merger which was subsequently amended on December __, 1996 (the "Merger Agreement") with Intuit Inc. ("Intuit") and Intuit Services Corporation ("ISC"), pursuant to which Acquisition will merge (the "Merger") with and into ISC and ISC will become a wholly-owned subsidiary of the Company. As a result of the Merger, ISC's sole stockholder will be entitled to receive 12,600,000 shares of Checkfree common stock, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement, in exchange for all of the issued and outstanding shares of capital stock of ISC (the "Merger Consideration"). At the Checkfree Special Meeting, stockholders of the Company will be asked to consider and approve the issuance of Checkfree common stock to ISC pursuant to the Merger Agreement. A copy of the Merger Agreement is attached as Appendix A to the Proxy Statement enclosed herewith.

ISC is a wholly owned subsidiary of Intuit that provides electronic home banking, bill payment and other on-line services to financial institutions and their consumer customers. ISC operates a network of servers that perform the "back-end" computer processing and data storage functions that enable these on-line financial transactions. Since October 1995, ISC's services have been marketed to, and designed primarily for, users of Intuit's Quicken personal finance software program.

Additionally, you are being asked to consider and approve an amendment to the Company's 1995 Stock Option Plan and to adopt the Company's Associate Stock Purchase Plan. If approved, the amendment to the Company's 1995 Stock Option Plan would increase the number of shares of common stock of the Company issuable upon the exercise of stock options under the Company's 1995 Stock Option Plan from 2,630,700 shares to 5,000,000 shares. If adopted, the Company's Associate Stock Purchase Plan would authorize the sale of up to 1,000,000 shares of Checkfree Common Stock to eligible employees.

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AND THE ISSUANCE OF THE MERGER CONSIDERATION, THE AMENDMENT TO THE COMPANY'S 1995 STOCK OPTION PLAN, AND THE ADOPTION OF THE COMPANY'S ASSOCIATE STOCK PURCHASE PLAN AND RECOMMENDS THAT YOU VOTE IN FAVOR OF EACH OF THE PROPOSALS.

Please read carefully the accompanying Transition Report on Form 10-K/A No. 1, Report on Form 10-Q/A No. 1, Notice of Special Meeting of Stockholders and the Proxy Statement and appendices thereto and consider the information contained in them.

The affirmative vote of the holders of a majority of the shares of Checkfree common stock present at the Checkfree Special Meeting is required to approve the issuance of Checkfree common stock pursuant to the Merger and the other actions. Accordingly, your vote is important no matter how large or how small your holdings may be. Whether or not you plan to attend the Checkfree Special Meeting, you are urged to complete, sign, and promptly return the enclosed proxy card to assure that your shares will be voted at the Checkfree Special Meeting. If you attend the Checkfree Special Meeting, you may vote in person if you wish and your proxy will not be used.

Very truly yours,

Peter J. Kight

Chairman of the Board

CHECKFREE CORPORATION

4411 East Jones Bridge Road
Norcross, Georgia 30092

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

_______________________, 1996

Notice is hereby given that a Special Meeting of Stockholders (the "Checkfree Special Meeting") of Checkfree Corporation (the "Company") has been called by the Board of Directors and will be held at ____,_________________, ____ , on _________, __________ __, 1997, at _____ _.m. local time, for the following purposes:

1. To consider and approve the issuance of common stock, $.01 par value, of the Company (the "Checkfree Common Stock") pursuant to the Agreement and Plan of Merger, dated as of September 15, 1996, as amended by Amendment No. 1 thereto, dated December __, 1996 (the "Merger Agreement"). Pursuant to the Merger Agreement, Checkfree Acquisition Corporation II, a Delaware corporation ("Acquisition") and a wholly-owned subsidiary of the Company, would be merged with and into Intuit Services Corporation, a Delaware corporation ("ISC"), and the sole stockholder of ISC would receive up to 12,600,000 shares of Checkfree Common Stock, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement, in exchange for its shares of common stock of ISC, as more fully described in the accompanying Proxy Statement;

2. To consider and act upon a proposed amendment to the Company's 1995 Stock Option Plan to increase the number of shares of Checkfree Common Stock issuable upon exercise of stock options under the Company's 1995 Stock Option Plan from 2,630,700 shares to 5,000,000 shares;

3. To consider and adopt the Company's Associate Stock Purchase Plan which authorizes the sale of up to 1,000,000 shares of Checkfree Common Stock to eligible employees; and

4. To transact any other business which may properly come before the meeting or any adjournment or adjournments thereof. (The Board of Directors is not currently aware of any other business to come before the Checkfree Special Meeting.)

Only holders of Checkfree Common Stock of record at the close of business on November 29, 1996, the record date for the Checkfree Special Meeting, are entitled to notice of and to vote at the Checkfree Special Meeting and any adjournments thereof.

THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" APPROVAL OF THE ISSUANCE OF CHECKFREE COMMON STOCK PURSUANT TO THE MERGER AGREEMENT, "FOR" APPROVAL OF THE AMENDMENT TO THE COMPANY'S 1995 STOCK OPTION PLAN AND "FOR" APPROVAL OF THE COMPANY'S ASSOCIATE STOCK PURCHASE PLAN.

We urge you to execute and return the enclosed proxy as soon as possible in order to ensure that your shares will be represented at the Checkfree Special Meeting. Your proxy may be revoked in the manner described in the accompanying Proxy Statement at any time before it has been voted at the Checkfree Special Meeting. If you attend the Checkfree Special Meeting, you may vote in person, and your proxy will not be used.

Dated: December __, 1996

By Order of the Board of Directors

Peter J. Kight

Chairman of the Board

WHETHER OR NOT YOU PLAN TO ATTEND THE CHECKFREE SPECIAL MEETING, PLEASE SIGN AND MAIL THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE. NO POSTAGE IS NECESSARY IF MAILED IN THE UNITED STATES.

CHECKFREE CORPORATION

PROXY STATEMENT

INTRODUCTION

THE COMPANY

This Proxy Statement and the accompanying proxy card will be furnished to the stockholders of the Company in connection with the solicitation of proxies by the Board of Directors of the Company for the Checkfree Special Meeting to be held at _____ _.m., local time, on ________, _____________ __, 1997, at ____, , , and any adjournments or postponements thereof, to consider and approve: (i) the issuance of 12,600,000 shares of Checkfree Common Stock pursuant to the Merger Agreement, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement, pursuant to which Acquisition will be merged with and into ISC and the sole stockholder of ISC will become a stockholder of the Company; (ii) a proposed amendment to the Checkfree Corporation 1995 Stock Option Plan (the "1995 Stock Option Plan") to increase the number of shares of Checkfree Common Stock issuable upon the exercise of stock options under the 1995 Stock Option Plan from 2,630,700 shares to 5,000,000 shares; and (iii) the adoption of the Checkfree Corporation Associate Stock Purchase Plan (the "Associate Stock Purchase Plan") which authorizes the sale of up to 1,000,000 shares of Checkfree Common Stock to eligible employees. This Proxy Statement and accompanying proxy card will be first sent or given to the stockholders of the Company on or about December __, 1996.

The shares represented by the accompanying proxy card will be voted as directed if the proxy is properly signed and received by the Company prior to the Checkfree Special Meeting. If no directions are made to the contrary on a duly executed and returned proxy, then the proxy will be voted FOR the approval of: (i) the issuance of 12,600,000 shares of Checkfree Common Stock pursuant to the Merger Agreement, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement; (ii) a proposed amendment to the 1995 Stock Option Plan to increase the number of shares of Checkfree Common Stock issuable upon the exercise of stock options under the 1995 Stock Option Plan from 2,630,700 shares to 5,000,000 shares; and (iii) the Associate Stock Purchase Plan which authorizes the sale of up to 1,000,000 shares of Checkfree Common Stock to eligible employees. The proxy may also be used to grant discretionary authority to vote on other matters which may arise at the Checkfree Special Meeting. While management is presently unaware of any such matters, the person or persons designated to vote the shares will cast votes according to their best judgment if any such matters properly come before the Checkfree Special Meeting. Any stockholder giving the enclosed proxy has the power to revoke it at any time prior to the Checkfree Special Meeting by filing with the Secretary of the Company a written notice of revocation or a subsequent proxy relating to the same shares, or by attending the Checkfree Special Meeting and voting in person. Stockholders who attend the Checkfree Special Meeting may vote in person and their proxies will not then be used.

A majority of the outstanding shares of Checkfree Common Stock, represented in person or by proxy, will constitute a quorum at the Checkfree Special Meeting. Abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum at the Checkfree Special Meeting. The affirmative vote of the holders of a majority of the shares of Checkfree Common Stock present in person or by proxy and entitled to vote (assuming the presence of a quorum) at the Checkfree Special Meeting is required to approve (i) the issuance of shares of Checkfree Common Stock pursuant to the Merger Agreement; (ii) the amendment to the 1995 Stock Option Plan; and (iii) the adoption of the Associate

Stock Purchase Plan. Because the matters to be voted on require the affirmative vote of a majority of the shares of Checkfree Common Stock voting on a matter, an abstention or a broker non-vote with respect to such matter will have the same effect as a vote against the matter.

RECORD DATE; SHARES ENTITLED TO VOTE

Only the Company's stockholders of record at the close of business on November 29, 1996 (the "Checkfree Record Date"), will be entitled to vote at the Checkfree Special Meeting. At that date, the Company had 41,505,641 shares of Checkfree Common Stock outstanding and entitled to vote on all matters requiring a vote of the stockholders. These shares were held by approximately 483 holders of record. Each share of Checkfree Common Stock entitles the holder to one vote, exercisable in person or by properly executed proxy, on each matter that comes before the stockholders at the Checkfree Special Meeting.

The Company will bear the cost of the solicitation of proxies, including the charges and expenses of brokerage firms and others, if any, for forwarding solicitation material to beneficial owners of stock. Representatives of the Company may solicit proxies by mail, telegram, telephone, or personal interview.

TABLE OF CONTENTS

THIS PROXY STATEMENT INCORPORATES BY REFERENCE THE COMPANY'S TRANSITION REPORT ON FORM 10-K/A NO. 1 FOR THE SIX MONTHS ENDED JUNE 30, 1996 AND QUARTERLY REPORT ON FORM 10-Q/A NO. 1 FOR THE QUARTER ENDED SEPTEMBER 30, 1996, COPIES OF WHICH WERE FURNISHED TO CHECKFREE'S STOCKHOLDERS PRIOR TO OR CONCURRENTLY WITH THIS PROXY STATEMENT.

SUMMARY

The following is a brief summary of certain information contained elsewhere in this Proxy Statement. This summary is not intended to be complete and is qualified in its entirety by reference to, and should be read in conjunction with, the detailed information and financial statements contained herein and in the exhibits hereto.

THE COMPANY AND ACQUISITION

As used in this Proxy Statement, "Checkfree" is generally used to indicate Checkfree Corporation prior to its acquisition of Servantis Systems Holdings, Inc. on February 21, 1996 (the "Servantis Acquisition") and prior to its acquisition of Security APL, Inc. on May 9, 1996 (the "Security APL Acquisition") (the Servantis Acquisition and the Security APL Acquisition are collectively referred to as the "Acquisitions"). "Servantis" is generally used to indicate Servantis Systems Holdings, Inc. prior to its acquisition by Checkfree, "Security APL" is generally used to indicate Security APL, Inc. prior to its acquisition by Checkfree, and the term the "Company" is used to indicate the combined company following the Acquisitions. This Proxy Statement contains forward-looking statements which involve risks and uncertainties. The Company's or ISC's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors."

THE COMPANY

Checkfree Corporation (the "Company") is a leading provider of electronic commerce services, financial application software and related products for financial institutions and businesses and their customers. The Company services over 780,000 consumers, 1,000 businesses and approximately 850 financial institutions (including the 500 largest banks in the United States). The Company has also signed agreements with over 165 banks to provide electronic home banking services for the customers of those banks. To maximize the efficiency and effectiveness of its product development and distribution strategies, the Company has established several strategic alliances with companies such as AT&T Corporation ("AT&T"), Automatic Data Processing, Inc. ("ADP"), Block Financial Corporation ("Block Financial"), CyberCash, Inc. ("CyberCash"), Electronic Data Systems Corporation ("EDS"), Fiserv, Inc. ("Fiserv"), FiTech, Inc. ("FiTech"), Premiere Communications, Inc. ("Premiere"), Spyglass, Inc. ("Spyglass"), and SPRY, Inc. ("Spry"), an affiliate of CompuServe Corporation ("CompuServe").

The Acquisitions further Checkfree's strategy of providing an expanding range of convenient, secure and cost-effective electronic commerce services and related products to financial institutions and businesses and their customers. Servantis' experience as a provider of electronic commerce and financial application software and services to financial institutions substantially enhances the Company's presence in the financial institutions market of the electronic commerce segment. Security APL's experience as a vendor of portfolio management and software services to institutional investment managers and investment services to consumers enhances the Company's presence in the consumer and financial institutions market of the electronic commerce industry. The integration of Checkfree's electronic transaction processing and remote delivery technology with Servantis' software products and market presence and Security APL's portfolio management and software services has created a single vendor of electronic commerce services and related products to an expanded customer base of financial institutions and businesses and their customers.

Prior to the Servantis Acquisition, the Company operated its business in one business segment, the electronic commerce segment. With the Servantis Acquisition, the Company added financial application software as a second business segment. The electronic commerce segment includes electronic home banking, electronic bill payment, automatic accounts receivable collection, electronic accounts payable processing, investment portfolio management services and investment trading and reporting services. These services are primarily directed to financial institutions and businesses and their customers. The financial application software segment includes end-to-end software products for Automated Clearing House ("ACH") processing, account reconciliation, wire transfer, mortgage loan origination and servicing, lease accounting and debt recovery. These products and services are primarily directed to financial institutions and large corporations.

The Company was incorporated in Ohio in 1981 and reincorporated in Delaware in 1986. The Company has ten direct and indirect wholly owned subsidiaries: Servantis Systems Holdings, Inc., a Delaware corporation; Servantis

Systems, Inc., a Georgia corporation (" Servantis Systems"); Servantis Services, Inc., a Georgia corporation ("Servantis Services"); Checkfree Software Solutions, Inc., a Delaware corporation; Security APL, Inc., an Illinois corporation; Bow Tie Systems, Inc., an Illinois corporation; Checkfree Acquisition Corporation II, a Delaware corporation; Interactive Solutions Corporation, an Oregon corporation; Checkfree Investment Corporation, a Delaware corporation; and RCM Systems, Inc., a Wisconsin corporation. The Company's principal executive offices are located at 4411 East Jones Bridge Road, Norcross, Georgia 30092 and its telephone number is (770) 441-3387. The Company's Internet address is http://www.checkfree.com.

THE SERVANTIS ACQUISITION AND SERVANTIS

On February 21, 1996, Checkfree acquired Servantis for approximately $165.1 million, consisting of the issuance of 5.7 million shares of Checkfree Common Stock valued at $20.00 per share and $42.5 million in cash to repay Servantis' long-term debt, in addition to the assumption of $38.3 million of liabilities. Founded in 1971, Servantis is a leading provider of electronic commerce and financial application software and services for businesses and financial institutions (including the 500 largest banks and over 350 mortgage institutions in the United States). Servantis designs, markets, licenses and supports software products for electronic corporate banking, home banking, financial lending, regulatory compliance and document imaging. In addition, Servantis offers software consulting and remote processing services. The Company accounted for the Servantis Acquisition using the purchase method of accounting.

THE SECURITY APL ACQUISITION AND SECURITY APL

On May 9, 1996, Checkfree acquired Security APL for approximately $53.3 million, consisting of the issuance of 2.8 million shares of Checkfree Common Stock valued at $18.50 per share, and the assumption of $5.5 million of liabilities. Security APL is a leading vendor of portfolio management and software services for institutional investment managers. Security APL has been developing and providing advanced investment analysis systems since it was founded in 1978. Security APL believes that it is the only full-service provider of fully-integrated portfolio management, performance measurement, trading and reporting systems for the investment manager. Security APL's clients include money management firms, bank trust departments, insurance companies and brokerage houses. Security APL added an additional investment information service by establishing its Portfolio Accounting World Wide ("PAWWS") division in August 1994. The PAWWS world-wide web site offers individuals some of the same tools professional money managers have to gather the information they need to make their investment decisions to enter trades and to monitor the status of their investments. Some of the services available through PAWWS include portfolio accounting and allocation, research information provided by various data suppliers, free stock quotes, stock host lists and brokerage services. Currently, Security APL monitors more than 300,000 portfolios for approximately 1,500 portfolio managers at over 150 firms. The Company accounted for the Security APL Acquisition using the purchase method of accounting.

ACQUISITION

Acquisition was incorporated in Delaware in September 1996 and is a wholly owned subsidiary of Checkfree formed for the purpose of facilitating the Merger. The principal executive offices of Acquisition are located at 4411 East Jones Bridge Road, Norcross, Georgia 30092 and its telephone number is (770) 441-3387.

ISC

ISC was incorporated in Delaware on December 2, 1989, under the name "National Payment Clearinghouse, Inc." ISC was acquired by Intuit in July 1994 and later renamed Intuit Services Corporation. Today, ISC is an operations processing facility for Intuit and the online products of other companies. ISC's principal business is to provide online electronic banking and bill payment processing services (including Intuit's online banking and online bill payment services) to approximately 40 financial institutions (including six of the ten largest domestic banks and American Express), their customers, and a variety of merchants. ISC also supports BankNow, an Intuit home banking service that is available on America Online, and banking, bill payment and stock quote services accessible through Microsoft Money. ISC's current operations include data processing and storage, maintenance and development of multiple online connections to other entities (including companies other than Intuit), and telephone support for both customer service and technical support. However, since October 1995 ISC's services have been marketed to and designed primarily for users of Intuit's Quicken personal finance software program. ISC has 190 employees and conducts its operations from two facilities located in Downers' Grove and Aurora, Illinois.

ISC is a Delaware corporation with executive offices located at 2001 Butterfield Road, Suite 800, Downers Grove, Illinois 60515-1050 and its telephone number is (708) 852-4700.

THE CHECKFREE SPECIAL MEETING; RECORD DATE AND VOTE REQUIRED

The Checkfree Special Meeting will be held at ________ _.m., local time, on ________, ________ __, 1997, at ____, , . The close of business on November 29, 1996, has been set as the record date for determining the stockholders of record of the Company entitled to notice of and to vote at the Checkfree Special Meeting and any adjournments or postponements thereof (the "Checkfree Record Date"). At the Checkfree Special Meeting, the stockholders of the Company will be asked to approve proposals which authorize: (i) the issuance of shares of Checkfree Common Stock pursuant to the Merger Agreement; (ii) an amendment to the 1995 Stock Option Plan to increase the number of shares subject to such plan from 2,630,700 shares to 5,000,000 shares; and (iii) to adopt the Associate Stock Purchase Plan. The presence, in person or by proxy, of the holders of a majority of the outstanding shares entitled to vote at the Checkfree Special Meeting is necessary to constitute a quorum at the Checkfree Special Meeting. Abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum at the Checkfree Special Meeting. The affirmative vote of the holders of a majority of the shares of Checkfree Common Stock present in person or by proxy and entitled to vote at the Checkfree Special Meeting is required to approve each matter to be voted upon at the Checkfree Special Meeting. Because the matters to be voted on require the affirmative vote of a majority of the outstanding shares of Checkfree Common Stock voting on a matter, an abstention or a broker non-vote with respect to such matter will have the same effect as a vote against the matter.

THE MERGER; GENERAL TERMS

At the Effective Time of the Merger, Acquisition will, pursuant to the Merger Agreement, be merged with and into ISC, with ISC being the surviving corporation of the Merger and becoming a wholly-owned subsidiary of the Company operating under the corporate name of Checkfree Services Corporation ("Services"). It is currently anticipated that, assuming all conditions to the Merger have been satisfied or waived, the Effective Time will occur on or about ____________ __, 1997. At the Effective Time, by virtue of the Merger and without further action by the stockholders of the Company or ISC, the Certificate of Incorporation and By-laws of Services will be amended as provided in the Merger Agreement will read the same as the Certificate of Incorporation and By-Laws of Acquisition immediately prior to the Effective Time, except for the above-mentioned change of Services' name to "Checkfree Services Corporation." See "THE MERGER."

MERGER CONSIDERATION. In the Merger, all of the outstanding shares of ISC Common Stock shall be converted into the right to receive 12,600,000 fully paid and nonassessable shares of Checkfree Common Stock, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement (the "Merger Consideration"), of which 1,260,000 shares shall be held in escrow. See "THE MERGER -- The Merger Agreement (Merger Consideration Generally)." The closing price per share of Checkfree Common Stock on the Nasdaq National Market on December __, 1996 was $_______.

VOTE REQUIRED. The affirmative vote of the holders of a majority of the shares of Checkfree Common Stock present in person or by proxy and entitled to vote at the Checkfree Special Meeting is necessary to approve the issuance of 12,600,000 shares of Checkfree Common Stock pursuant to the Merger Agreement, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement. As of the Checkfree Record Date, the directors and executive officers of the Company and their affiliates beneficially owned 10,022,557 shares of Checkfree Common Stock (excluding shares subject to stock options), which represent 24.1% of the total issued and outstanding shares of such stock entitled to vote at the Checkfree Special Meeting. See "THE MERGER -- Required Vote."

Approval of the Merger and the Merger Agreement and the transactions contemplated thereby requires the affirmative vote of a majority of the outstanding shares of ISC. In accordance with the Bylaws of ISC and the Delaware GCL, the Merger and the Merger Agreement may be approved and adopted without a stockholder's meeting by the written consent of ISC's sole stockholder. Upon approval of the sole stockholder, no further action is required by such stockholder under the Delaware GCL to approve the Merger and the other transactions contemplated by the Merger Agreement.

In connection with the Merger Agreement, Peter J. Kight, the Company's Chairman of the Board, President and Chief Executive Officer and Mark A. Johnson, the Company's President of Business Services, who beneficially own 14.9% and 3.6%, respectively, of the outstanding shares of the Company's Common Stock, have executed Stockholder Agreements pursuant to which they have agreed to vote their shares of Checkfree Common Stock in favor of the Merger and the issuance of the Merger Consideration and against any proposal that is in opposition to or in competition with the Merger.

CONDITIONS TO THE MERGER. The respective obligations of the Company and ISC to consummate the Merger are subject to the satisfaction of certain conditions, including among others the approval of the Merger and the Merger Agreement by the sole stockholder of ISC; the approval the issuance of 12,600,000 shares of Checkfree Common Stock pursuant to the Merger Agreement, as such number of shares may be adjusted in accordance with the terms of the

Merger Agreement, by the holders of the requisite number of shares of Checkfree Common Stock; the compliance by each of the parties to the Merger Agreement with its obligations thereunder in all material respects and the truth of the representations and warranties made by each of the parties as of the date of the Merger Agreement; the expiration or earlier termination of any waiting period under the HSR Act (as defined below); the absence of any injunction, order, statute or rule preventing the consummation of the Merger as contemplated by the Merger Agreement; the Checkfree Common Stock to be issued in the Merger having been approved for listing on the Nasdaq National Market, subject to notice of issuance; each of the Company and ISC having received an opinion from each other's respective legal counsel; and the Company and Intuit having executed and delivered an Escrow Agreement (as defined below) and a Registration Rights Agreement (as defined below). See "THE MERGER -- The Merger Agreement (Conditions to Consummation of the Merger)."

TERMINATION. The Merger Agreement may be terminated by the mutual written consent of the Boards of Directors of the Company, Intuit and ISC; by Intuit or ISC if the Board of Directors of the Company fails to recommend the approval of the Merger Agreement and the Merger to the Company's stockholders or recommends against the approval of the Merger Agreement or the Merger to the Company's stockholders; by either the Company, on the one hand, or Intuit or ISC, on the other hand, if the conditions to such parties' obligation to consummate the Merger are not satisfied or complied with or waived by March 31, 1997; or by either the Company, on the one hand, or Intuit or ISC, on the other hand, if there has been a material breach of a representation or warranty or of a covenant (which cannot be cured or eliminated) by the other party. See "THE MERGER -- The Merger Agreement (Termination)."

STOCK EXCHANGE LISTING. The shares of Checkfree Common Stock to be issued in the Merger are expected to be listed on the Nasdaq National Market. See "THE MERGER -- Stock Exchange Listing."

ACCOUNTING TREATMENT. The Company intends to account for the Merger using the purchase method of accounting under generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission (the "Commission"). Under the purchase method of accounting, the Company will be treated as the acquiror of ISC and, as a result, the purchase price will be allocated based on the fair value of the assets of ISC acquired and the liabilities assumed. See "THE MERGER -- Anticipated Accounting Treatment."

FEDERAL INCOME TAX CONSEQUENCES. The parties intend that the Merger qualify as a tax-free plan of reorganization in accordance with the provisions of Section 368(a)(1)(A) of the Internal Revenue Code (the "Code") by virtue of the provisions of Section 368(a)(2)(E) of the Code. The parties believe that the value of the Checkfree Common Stock to be issued to Intuit as the sole stockholder of ISC in the Merger is equal to the value of the ISC Common Stock to be surrendered in exchange therefor. The Checkfree Common Stock issued in the Merger will be issued solely in exchange for the outstanding ISC Common Stock, and no transaction other than the Merger represents, provides for or is intended to be an adjustment to, the consideration paid for the ISC Common Stock. No consideration that could constitute "other property" within the meaning of Section 356 of the Code is being paid by the Company for the ISC Common Stock in the Merger.

RECOMMENDATION OF THE COMPANY'S BOARD OF DIRECTORS

The Board of Directors of the Company has unanimously determined that the Merger Agreement and the Merger are advisable and fair and in the best interests of the Company and its stockholders and unanimously recommends that the stockholders of the Company vote in favor of the approval the issuance of 12,600,000 shares of Checkfree Common Stock pursuant to the Merger Agreement, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement. See "THE MERGER -- Background of the Merger" and "-- Reasons for the Merger."

RESTRICTIONS ON TRANSFER OF CHECKFREE COMMON STOCK

If the Merger is consummated, Intuit, as sole stockholder of ISC, will receive Checkfree Common Stock that has not been registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption therefrom, and will not be permitted to transfer its shares of Checkfree Common Stock issued in the Merger except (i) pursuant to an effective registration statement filed pursuant to the Securities Act; or (ii) pursuant to an exemption from the registration requirements of the Securities Act. Pursuant to the Merger Agreement, Intuit will be granted certain demand, piggyback, and shelf registration rights by the Company that will require the Company to register resales of Checkfree Common Stock by Intuit under the Securities Act, in accordance with the terms of an Amended and Restated Registration Rights Agreement (the "Registration Rights Agreement") between the Company and Intuit. See "THE MERGER -- Resales by Affiliates; Registration Rights." It is Intuit's intention, as soon as practicable following effectiveness of the Merger, to reduce its beneficial ownership interest in Checkfree Common Stock to less than twenty percent (20%) of the outstanding Checkfree Common Stock through sales of the shares of Checkfree Common Stock issued in the Merger. Such sales may be made by the exercise of registration rights granted to Intuit in connection with the Merger, through private sales or otherwise.

CERTAIN RELATED TRANSACTIONS

In connection with the Merger Agreement, the Company, ISC and Intuit entered into a certain Services and License Agreement (the "License Agreement"), substantially all the terms of which will become operative upon effectiveness of the Merger. The principal objectives of the License Agreement are to: (i) establish a continuing cooperative relationship between the parties whereby users of certain Intuit software products and services will continue to be able to obtain electronic banking and electronic bill payment services ("banking/billpay services") from ISC or the Company through such Intuit products and services; (ii) provide the means for an orderly transition in the operation and support of several services currently offered by Intuit and ISC that are now interdependent on certain technologies, equipment, facilities, personnel and support services of ISC and Intuit; (iii) set forth the terms on which the Company, ISC and Intuit will cooperate to develop, market, distribute and support certain of their respective products and services; and (iv) provide for the grant of certain technology licenses and mutual support and technical cooperation agreements among the parties designed to maintain connectivity between certain products and services offered by the parties. In partial consideration of several of Intuit's agreements under the License Agreement, ISC will agree to pay Intuit, in addition to certain other fees, the sum of $10 million in cash upon the closing of the Merger and an additional $10 million on or about October 1, 1997 (the "Connectivity Fee"). Certain fees will be payable by Intuit to ISC and the Company under the License Agreement. See "INFORMATION INCORPORATED BY REFERENCE" and "CERTAIN RELATED TRANSACTIONS."

In connection with the Merger Agreement, Peter J. Kight, the Company's Chairman of the Board, President and Chief Executive Officer and Mark A. Johnson, the Company's President of Business Services, who beneficially own 14.9% and 3.6%, respectively, of the outstanding shares of the Company's Common Stock, have executed Stockholder Agreements pursuant to which they have agreed to vote their shares of Checkfree Common Stock in favor of the Merger and the issuance of the Merger Consideration and against any proposal that is in opposition to or in competition with the Merger.

Pursuant to the Merger Agreement, Intuit, as sole stockholder of ISC, will enter into the Registration Rights Agreement with the Company, which provides that the Company will register the shares issued in the Merger on a "shelf" registration and that Intuit may demand that the Company file additional registration statements under the Securities Act registering the Checkfree Common Stock issued in the Merger. See "THE MERGER -- Resales by Affiliates; Registration Rights."

REGULATORY REQUIREMENTS

Pursuant to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"), in connection with the Merger, the Company and ISC each filed a pre-merger notification report with the Federal Trade Commission and the Antitrust Division of the United States Department of Justice. The waiting period under the HSR Act expired on November 1, 1996. See "THE MERGER -- Regulatory Approvals."

RISK FACTORS

Stockholders of the Company should consider the following risks in deciding whether or not to approve the Merger; (i) acquisition related risks; (ii) ISC's financial performance; (iii) integration of Servantis, Security APL and ISC; (iv) management of growth; (v) dilution; (vi) control by principal stockholders; (vii) shares eligible for future resale; and (viii) future capital needs; uncertainty of additional financing.

For a fuller discussion of these and other risks affecting the Company, its business, and the Merger, see "RISK FACTORS."

COMPARATIVE PER SHARE INFORMATION

The following table presents certain historical per share data for the Company and ISC, combined pro forma per share data for the Company, and equivalent ISC pro forma combined data. The ISC historical data is presented for the twelve months ended January 31, 1996, for the six months ended July 31, 1996, and as of and for the three months ended October 31, 1996. The Pro Forma amounts also give effect to the Servantis and Security APL Acquisitions, which were consummated on February 21, 1996, and May 9, 1996, respectively. The following information should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and accompanying notes of the Company set forth in the Company's Transition Report on Form 10-K/A No. 1 and Form 10-Q/A No.1 for the three months ended September 30, 1996, the financial statements and accompanying notes of ISC, and the Unaudited Pro Forma Condensed Combining Financial Information appearing elsewhere in this Proxy Statement. See "INFORMATION INCORPORATED BY REFERENCE," " FINANCIAL STATEMENTS OF ISC," and "UNAUDITED PRO FORMA CONDENSED COMBINING FINANCIAL INFORMATION."

	Year Ended December 31, 1995	Six Months Ended June 30, 1996	Three Months Ended September 30, 1996
THE COMPANY HISTORICAL			
Loss before extraordinary item	$ (0.01)	$ (3.69) (1)	$ (0.19) (1)
Cash dividends declared for common stock	-	-	-
Book value			3.12
ISC HISTORICAL			
Net loss	(103,433.78)	(59,939.34)	(40,970.00)
Cash dividends declared for common stock	-	-	-
Book value (deficiency)			(166,195.44)
THE COMPANY PRO FORMA COMBINED			
Loss before extraordinary item	(0.63) (1)(2)	(0.37) (1)	(0.20) (1)
Cash dividends declared for common stock	-	-	-
Book value			3.23
EQUIVALENT ISC PRO FORMA COMBINED			
Net loss	(79,380.00) (1)(2)	(46,620.00) (1)	(25,200.00)
Cash dividends declared for common stock	-	-	-
Book value			406,980.00

(1) The June 30, 1996 historical Checkfree amounts include a charge of $122.4 million for in-process research and development, or $3.27 per share. The pro forma combining amounts for all periods presented do not include the in-process research and development charge as it is a non-recurring item, nor do the pro forma amounts include the estimated in-process research and development charge of $120 million related to the Merger.

(2) The pro forma combining amounts for the year ended December 31, 1995 include a charge, net of tax, of $0.24 per share ($30,240 per share on an equivalent pro forma basis) for amortization of purchased profits recorded in connection with the Servantis Acquisition and a charge, net of tax, of $0.13 per share ($16,380 per share on an equivalent pro forma basis) for amortization of intangibles for certain connectivity and exclusivity arrangements related to the Merger. Both of these items are fully amortized within twelve months.

MARKET PRICE DATA; DIVIDEND POLICY

The Checkfree Common Stock is traded in the over-the-counter market on the Nasdaq National Market under the symbol "CKFR." There is no established public trading market for ISC Common Stock and, accordingly, market price information is not available for ISC Common Stock. The following table sets forth, for the periods indicated, the high and low sales prices for the Checkfree Common Stock, as reported on the Nasdaq National Market. Information with respect to the Checkfree Common Stock commences on September 28, 1995, when the Checkfree Common Stock was first offered to the public.

	CHECKFREE COMMON STOCK	
CALENDAR PERIOD	HIGH	LOW
Fiscal 1995:		
Third Quarter (September 28 to September 30)	$22.875	$19.75
Fourth Quarter	$29.375	$16.00
Transitional Fiscal 1996:		
First Quarter	$26.375	$16.50
Second Quarter	$ 23.50	$16.875
Fiscal 1997:		
First Quarter	$22.125	$10.75
Second Quarter (through December __, 1996)	$	$

The Company has paid no cash dividends since 1986. The Company presently anticipates that all of its future earnings will be retained for the development of its business and does not anticipate paying cash dividends on Checkfree Common Stock in the foreseeable future. The payment of any future dividends will be at the discretion of the Company's Board of Directors and will be based on the Company's future earnings, financial condition, capital requirements and other relevant factors.

On September 13, 1996, the last full trading day prior to the public announcement of the Merger Agreement, the last sale price per share of Checkfree Common Stock on the Nasdaq National Market was $18.0625 and the high and low trading prices were $18.25 and $17.50, respectively. The closing price per share of Checkfree Common Stock on the Nasdaq National Market on December __, 1996 was $_____. The number of record holders of Checkfree Common Stock as of November 29, 1996, was 483.

Stockholders of the Company are advised to obtain current market quotations for shares of Checkfree Common Stock. No assurance can be given concerning the market price of shares of Checkfree Common Stock before or after the Effective Time. The market price of Checkfree Common Stock will fluctuate between the date of this Proxy Statement and the Effective Time and thereafter.

ISC has paid no cash dividends to date and does not anticipate paying any cash dividends on the ISC Common Stock in the foreseeable future.

RISK FACTORS

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Many of the following important factors discussed below have been discussed in the Company's prior filings with the Securities and Exchange Commission. In addition to the other information in this Proxy Statement, stockholders of the Company should carefully consider the following factors in evaluating the Company and the combined companies before making a decision regarding the vote on the issuance of the Merger Consideration, as well as risk factors affecting the Company and its business generally which are included in "BUSINESS -- Risk Factors" in the Company's Form 10-K/A No. 1. See "INFORMATION INCORPORATED BY REFERENCE."

Acquisition-Related Risks. In September 1996, the Company signed a definitive agreement to acquire ISC for 12,600,000 shares of Checkfree Common Stock. The acquisition is expected to close in January 1997 and will be accounted for as a purchase. While the appraisal for ISC is not yet complete, the Company expects a substantial in-process research and development write-off at the acquisition date, currently estimated at $120 million. In addition, ISC had been incurring operating losses and operating losses are anticipated in 1997. The Company expects it will take 12 to 18 months to integrate ISC's bill payment and home banking operations into the Company's operations. The integration of ISC's operations into the Company's operations will be included in the project to integrate some of the product and service offerings and sales and marketing efforts of Servantis and Security APL into the Company. While the Company believes the integration of ISC, Servantis, Security APL and the Company will result in greater operating efficiencies, a significant amount of effort and resources will be needed for the integration effort. The Company does not currently have a detailed estimate of the cost of the integration plan, but the cost could range from $5 to $10 million. There can be no assurance the Company's integration plan will be completed in the expected time frame or that the Company will realize the operational efficiencies projected as a result of the acquisition.

In the future, the Company may pursue additional acquisitions of complementary service or product lines, technologies or businesses. Future acquisitions by the Company could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and amortization expenses related to goodwill and other intangible assets, any of which could materially adversely affect the Company's business, operating results and financial condition. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies, services and products of the acquired companies, the diversion of management's attention from other business concerns, risks of entering markets in which the Company has no or limited direct prior experience, and the potential loss of key employees of the acquired company. There can be no assurance that some or all of these risks will not apply to the Acquisitions or the Merger. From time to time, the Company evaluates potential acquisitions of businesses, services, products or technologies. However, except for the Merger, the Company has no present commitments or agreements with respect to any material acquisition of other businesses, services, products or technologies. In the event that such an acquisition were to occur, however, there can be no assurance that the Company's business, operating results and financial condition would not be materially adversely affected.

ISC's Financial Performance. For the past two fiscal years, ISC has been an operations facility for Intuit and the on-line products of other companies. The operations conducted by ISC include data processing and storage, maintenance and development of multiple on-line connections to other entities (including companies other than Intuit), and telephone support for both customer service and technical support. ISC has experienced significant losses and fluctuations in its operating results and the Company anticipates that after the Merger, losses and fluctuations attributable to ISC's business will continue. ISC had net losses of $82,832, $1,388,476, $7,366,669, $13,529,897 and $4,097,000 for the periods from August 1, 1993 through July 14, 1994, and July 14, 1994 through July 31, 1994, the years ended July 31, 1995, and July 31, 1996, and the three months ended October 31, 1996, respectively.

Since its acquisition by Intuit in July 1994, ISC has funded its business with capital contributions from Intuit and cash generated from operations. At October 31, 1996, ISC had $1.0 million in cash. Since its acquisition by Intuit, ISC has been heavily dependent upon Intuit for cash funds necessary to offset ISC's operating losses. It is anticipated that if the Merger is consummated, the Company, along with the cash generated from ISC's operations, will be the source of financing for ISC to continue to fund its operations at its present level and fund anticipated cash needs for working capital, capital expenditures and business expansion for the foreseeable future. While the Company anticipates that its available cash resources and funds from operations will be sufficient to meet these needs upon completion of the Merger for both the short-term and through December 31, 1997, the continued funding of ISC's operations will have a negative effect on the Company's cash and cash equivalents. Moreover, there can be no assurance that after the Merger ISC's operations will become profitable.

Integration of Servantis and Security APL. On February 21, 1996, the Company acquired Servantis for approximately $165.1 million, consisting of the issuance of 5.7 million shares of Checkfree Common Stock valued at $20.00 per share (approximately 16% of the Company's total shares outstanding following the Servantis Acquisition) and $42.5 million in cash to repay Servantis' long-term debt, in addition to the assumption of $38.3 million in liabilities. In addition, on May 9, 1996, the Company acquired Security APL for approximately $53.3 million, consisting of the issuance of 2.8 million shares of Checkfree Common Stock valued at $18.50 per share (approximately 7% of the Company's total shares outstanding following the Security APL Acquisition), and the assumption of $5.5 million of liabilities. The successful and timely integration of Checkfree, Servantis, and Security APL is critical to the future financial performance of the Company. The Company currently estimates that the complete integration of the three companies could take several quarters to accomplish. The combination of the three companies will require, among other things, integration of the companies' respective service and product offerings and coordination of their sales and marketing and research and development efforts. While Checkfree, Servantis, and Security APL have focused on markets which utilize financial transaction processing, record-keeping and information delivery, Checkfree has to date acted principally as a provider of services, whereas Servantis and Security APL have focused on the development and support of software systems and services used by financial institutions. In addition, Servantis had greater revenues than Checkfree for the twelve months ended December 31, 1995, and the absorption of a larger company may present a more substantial integration challenge than the acquisition of a smaller company. There can be no assurance that present and potential customers of the Company will continue their recent buying patterns without regard to the Acquisitions, and any significant delay or reduction in orders could have an adverse effect on the Company's near-term business and results of operations. The diversion of the attention of management created by, and any difficulties encountered in, the integration process could have an adverse impact on the revenues and operating results of the Company. In addition, the process of combining the three organizations could have an adverse effect on any or all of the companies' businesses. The difficulty of combining the three companies may be increased by the need to integrate the personnel of and the geographic distance between the three companies. Changes brought about by the Acquisitions may result in the loss of key employees of any or all companies. There can be no assurance that the Company will retain the employees it wants to retain or that the Company will realize any of the other anticipated benefits of the Acquisitions. See "RISK FACTORS -- Acquisition Related Risks."

For transition fiscal 1996, the Company wrote-off $119.4 million of the purchase price for Servantis and Security APL as in process research and development. In addition, as part of the allocation of the purchase price, the Company reduced the deferred revenues on the balance sheets of Servantis at the date of the Servantis Acquisition due to the fact that the anticipated profits included in deferred revenues are reflected in the purchase price of the Servantis Acquisition. As a result, the Company did not recognize revenues or profits of approximately $12.7 million with respect to such reduction in deferred revenues in transition fiscal 1996. The write-off of in-process research and development costs, and the nonrecognition of revenues or profits on certain deferred revenues had a material adverse impact on the Company's financial results in 1996. In addition, with the proposed acquisition of ISC the Company expects a substantial in process research and development write-off in fiscal 1997, which is currently estimated at $120 million.

Management of Growth. The Company is currently experiencing a period of rapid growth which has placed, and could continue to place, a significant strain on its resources. This strain is increased by the Acquisitions and will be further increased if the Company acquires ISC. The Company's key employees have not had experience in managing companies larger than the Company. The Company's ability to manage growth successfully will require the Company to continue to improve its operational, management and financial systems and controls as well as expand its work force. A significant increase in the Company's customer base resulting from the acquisition of ISC as well as the Acquisitions will necessitate the hiring of a significant number of additional customer care and technical support personnel as well as computer software developers and technicians, qualified candidates for which, at the present time, are in short supply. In addition, the expansion and adaptation of the Company's computer infrastructure will require substantial operational, management and financial resources. Although the Company believes that its current computer infrastructure is adequate to meet the needs of its customers in the foreseeable future, there can be no assurance that the Company will be able to expand and adapt its computer infrastructure to meet additional demand on a timely basis, at a commercially reasonable cost, or at all. If the Company's management is unable to manage growth effectively, hire needed personnel, expand and adapt its computer infrastructure or improve its operational, management and financial systems and controls, the Company's business, operating results and financial condition could be materially adversely affected. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" in the Company's Transition Report on Form 10-K/A No. 1.

Dilution. Pursuant to the Merger, Intuit, as sole stockholder of ISC, will experience an immediate and substantial dilution in the net book value per share of Checkfree Common Stock at the Effective Time. Assuming the issuance of 12,600,000 shares of Checkfree Common Stock at the closing price per share of Checkfree Common Stock on December 13, 1996, of $16.00, Intuit will experience a dilution of $12.77 per share to the pro forma combined book value of $3.23 per share.

Control by Principal Stockholders. Upon completion of the Merger (assuming the issuance of 12,600,000 shares of Checkfree Common Stock), the directors, executive officers and principal stockholders of the Company (including Intuit) and their affiliates will collectively own approximately 53.6% of the outstanding Checkfree Common Stock. Upon completion of the Merger, Intuit will own approximately 23.3% of the issued and outstanding Checkfree Common Stock. As a result, these stockholders will be able to exercise influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may have the effect of delaying or preventing a change in control of the Company. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in the Company's Transition Report on Form 10-K/A No. 1.

Shares Eligible for Future Sale; Possible Adverse Effect on Market Price. Upon completion of the Merger (assuming the issuance of 12,600,000 shares of Checkfree Common Stock), there will be 54.1 million shares of Checkfree Common Stock outstanding. Of these shares, 14.0 million shares will be held by nonaffiliates of the Company and are freely tradeable without restriction or further registration under the Securities Act. The holders of the remaining 40.1 million shares are or will be entitled to resell them only pursuant to a registration statement under the Securities Act or an applicable exemption from registration thereunder, such as an exemption provided by Rule 144, Rule 145, or Rule 701 under the Securities Act. Additionally, as of September 30, 1996, the Company had outstanding options to purchase approximately 3.4 million shares of Checkfree Common Stock at a weighted average exercise price of $6.11, of which options for approximately 1.5 million shares of Checkfree Common Stock were exercisable as of September 30, 1996 at a weighted average exercise price of $1.18 per share.

Additionally, the 5.7 million shares of Checkfree Common Stock issued by the Company to the shareholders of Servantis on February 21, 1996 in connection with the Servantis Acquisition are available for resale, subject in certain cases to the quarterly volume limitations of Rules 144 and 145 under the Securities Act. The approximately 2.5 million shares of Checkfree Common Stock issued by the Company to the shareholders of Security APL on May 9, 1996 in connection with the Security APL Acquisition will be available for resale, subject in certain cases to the quarterly volume limitations of Rules 144 and 145 under the Securities Act, after May 9, 1998 except as otherwise provided pursuant to a registration rights agreement between the Company and Security APL's stockholders (the "Security APL Registration Rights Agreement"). The Security APL Registration Rights Agreement provides that shareholders of Security APL will receive three demand registration rights, the first being exercisable after September 1, 1996. The subsequent demand registration rights will be available no earlier than 180 days after the effectiveness of a previous registration period. The shares of Checkfree Common Stock received in the Security APL Acquisition will no longer be registrable after January 9, 1998. During each registration period, the Security APL shareholders who hold in the aggregate more than 50% of the then registrable shares will be able to demand registration of up to 25% of the original number of shares received in the Security APL Acquisition as long as the aggregate price to the public, net any underwriting discounts and commissions, of the registered shares will exceed $5,000,000. In addition to demand registration rights, if at any time or from time to time on or before January 9, 1998, the Company shall determine to register any of its shares, Security APL shareholders will have the opportunity to include their shares in such registration and in any underwriting involved with the registration. These "piggy-back" registration rights are subject to certain limitations, including the right of the Company to exclude shares from an underwritten offering if the managing underwriter determines that market conditions require such limitation.

Further, the 12,600,000 shares of Checkfree Common Stock, as adjusted in accordance with the terms of the Merger Agreement, to be issued by the Company to Intuit in connection with the Merger will be available for resale following the Merger pursuant to the Registration Rights Agreement which grants Intuit certain demand registration rights, "piggy-back" registration rights, and shelf registration rights.

Under the Registration Rights Agreement, Intuit may make one such demand for registration per calendar year commencing in 1997. The minimum number of shares of Checkfree Common Stock requested by Intuit to be registered in each such demand registration is 20% of the shares issued to Intuit in the Merger; PROVIDED, HOWEVER, that the first such request may be for a lesser number of shares as would reduce Intuit's ownership of Checkfree Common Stock to less than 20% of the total Checkfree Common Stock outstanding. If Intuit utilizes the demand registration rights, Intuit shall bear the expense of all discounts, commissions or other amounts payable to underwriters or brokers, if any, with respect to sales by Intuit in connection with such offering, as well as Intuit's pro-rata share of one-half of all other expenses incurred in connection with the registration, including without limitation all federal and "blue sky" registration and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and for Intuit. The Company is not obligated to act on a demand under the Registration Rights Agreement if: (i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act; (ii) within ten (10) days of the receipt of a registration request, the Company gives written notice to Intuit of the Company's intention to file a registration statement for the sale of securities by the Company within 30 days of such request, in which event, (x) Intuit may exercise its piggyback registration rights (as described below), (y) the Company shall employ all reasonable efforts to cause its registration statement to become effective, and (z) if the Company abandons its registration statement, the Company shall renew its best efforts to register the securities that were the subject of Intuit's demand; (iii) during the period starting with the filing of and ending ninety (90) days immediately following the effective date of any registration statement pertaining to securities of the Company (other than a registration of securities in a Rule 145 transaction or with respect to an employee benefit plan); (iv) the Company furnishes Intuit a certificate stating that in the good faith judgment of the Company's Board of Directors it would be seriously detrimental to the Company or its stockholders for a registration statement to be filed in the near future, in which case the Company's obligation to register Intuit's shares of Checkfree Common Stock shall be deferred for up to one hundred and twenty (120) days from the date of receipt of the written request from Intuit (only applicable after March 1, 1997); or (v) less than one hundred and eighty (180) days shall have expired from the effectiveness of a previous registration under the Registration Rights Agreement pursuant to a demand registration or pursuant to a piggyback registration where Intuit had the opportunity to include at least the lesser of (a) five percent of the registrable securities issued to Intuit in the Merger, or (b) all registrable securities the owned by Intuit.

Additionally, under the Registration Rights Agreement, the Company is required to notify Intuit at least twenty (20) days prior to filing a registration statement under the Securities Act for purposes of effecting a public offering of the Company's securities and Intuit may register its shares of Checkfree Common Stock issued in the Merger under such registration statement in certain instances. If Intuit is given the opportunity to include the lesser of 5% of the shares issued in the Merger or all its shares issued in the Merger then owned by Intuit in such a registration statement, then Intuit may not make a demand for registration for one hundred and eighty (180) days after the earlier of the termination of such offering or the effectiveness of such registration statement. If Intuit exercises its piggyback registration rights, Intuit shall bear the cost of all discounts, commissions or other amounts payable to underwriters or brokers and fees and disbursements of counsel for Intuit with respect to sales by Intuit in connection with such offering. All other expenses incurred in connection with a piggyback registration, including without limitation all federal and "blue sky" registration and qualification fees, printers' and accounting fees, and fees and disbursements of counsel for the Company, shall be borne by the Company.

Under the Registration Rights Agreement, as soon as practicable after the Effective Time, the Company shall file a registration statement on Form S-3 for a continuous offering under Rule 415 of the Securities Act covering the registration of all shares of Checkfree Common Stock issued in the Merger (the "Shelf Registered Securities"). The Company shall effect, as soon as practicable, the effectiveness of the registration of the Shelf Registered Securities and shall maintain such effectiveness until the second anniversary of the Effective Time. Intuit's right to offer and sell Shelf Registered Securities shall be subject to the following limitations: (a) for as long as Intuit may be an affiliate of the Company as defined in the Securities Act, the amount of Shelf Registered Securities that may be sold by Intuit in each sale of Shelf Registered Securities, together with all sales of other shares of the Checkfree Common Stock for the account of Intuit within the preceding three months (excluding any sales of the Checkfree Common Stock by Intuit pursuant to the demand and piggy-back registration rights), shall not exceed the greater of (i) one percent (1%) of the shares of Checkfree Common Stock outstanding as shown by the most recent report or statement published by the Company, or (ii) the average weekly reported volume of trading in such securities on all national securities exchanges and/or reported through the automated quotation system of a registered securities association during the four calendar weeks preceding the delivery of notice required below; (b) Intuit shall give the Company written notice of its bona fide intention to sell Shelf Registered Securities at least seven business days in advance of the proposed date of sale, and the Company shall act as soon as practicable to make any necessary filings with the Commission and regulatory bodies as may be necessary to permit the sale of the Shelf Registered Securities; (c) each request to sell Shelf Registered Securities shall be for such number of shares of the Checkfree Common Stock having an aggregate sale price of at least $250,000; and (d) Intuit shall bear all discounts, commissions or other amounts payable to underwriters or brokers and fees and disbursements of counsel for Intuit in connection with sales of Shelf Registered Securities. All other expenses incurred in connection with a sale of Shelf Registered Securities, including, without limitation all federal and "blue sky" registration and qualification fees, printers' and accounting fees, and fees and disbursements of counsel for the Company shall be borne by the Company. If for any reason the shelf registration statement ceases to be effective at any time prior to the second anniversary of the Effective Time, then the Company shall use its best efforts to cause the shelf registration statement (or a new conforming shelf registration statement) to be declared effective by the Commission and remain effective until the second anniversary of the Effective Date.

The Company's obligations to register Checkfree Common Stock issued to Intuit in the Merger will expire (i) when all such shares have been registered and sold by Intuit or (ii) after the fifth anniversary of the Effective Time of the Merger; provided, that if the Company exercises its right described in (iv) above to defer a demand registration requested by Intuit, then the date for expiration of the Registration Rights Agreement will be extended by one year for each time the Company exercises the deferral right. It is Intuit's intention, as soon as reasonably practicable following effectiveness of the Merger, to reduce its beneficial ownership interest in Checkfree Common Stock to less than twenty percent (20%) of the outstanding Checkfree Common Stock through sales of the shares of Checkfree Common Stock issued in the Merger. Such sales may be made through open market sales in accordance with Rule 144 under the Securities Act, by the exercise of registration rights granted to Intuit in connection with the Merger, though private sales or otherwise. See "THE MERGER -- Resales By Affiliates; Registration Rights."

Sales of substantial amounts of Checkfree Common Stock in the public market or the prospect of such sales could adversely affect the market price of Checkfree Common Stock.

Future Capital Needs; Uncertainty of Additional Financing. The Company currently anticipates that its available cash resources and funds from operations will be sufficient to meet its presently anticipated and, upon completion of the Merger, its projected working capital and capital expenditure requirements both for the short-term and through at least December 31, 1997. However, unforeseen capital expenditures required by ISC or substantial operating losses incurred by ISC could require the Company to raise additional funds sooner. The Company may need to raise additional funds through public or private debt or equity financings in order to take advantage of unanticipated opportunities, including more rapid expansion or acquisitions of complementary businesses or technologies, or to develop new or enhanced services and related products or otherwise respond to unanticipated competitive pressures. If additional funds are raised through the issuance of equity securities, the percentage ownership of the then current stockholders of the Company will be reduced and such equity securities may have rights, preferences or privileges senior to those of the holders of Checkfree Common Stock. There can be no assurance that additional financing will be available on terms favorable to the Company, or at all. If adequate funds are not available or are not available on acceptable terms, the Company may not be able to take advantage of unanticipated opportunities, develop new or enhanced services and related products or otherwise respond to unanticipated competitive pressures and the Company's business, operating results and financial condition could be materially adversely affected. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" in the Company's Transition Report on Form 10-K/A No. 1 and "RISK FACTORS -- ISC's Financial Performance."

RECENT DEVELOPMENTS

On August 15, 1996, the Company and SunGard SSI Inc., a wholly-owned subsidiary of SunGard Data Systems Inc. ("SSI"), entered into an Asset Acquisition Agreement whereby the Company through its subsidiaries sold substantially all the assets related to its securities certificate accounting software business (CSSII) (the "SunGard Acquisition"). The SunGard Acquisition was completed on October 1, 1996. The total consideration paid by SSI was $20 million, with $1 million of such consideration held back and payable on April 1, 1998. In addition, SSI assumed certain specified liabilities of Servantis Systems and Servantis Services related to the securities products business. See "INFORMATION INCORPORATED BY REFERENCE."

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF CHECKFREE

The selected consolidated financial data for the six months ended June 30, 1996 and each of the years in the three year period ended December 31, 1995 and as of June 30, 1996 and as of December 31, 1994 and 1995 have been derived from the Company's financial statements included in the Company's Transition Report on Form 10-K/A No. 1 which have been audited by Deloitte & Touche LLP, independent certified public accountants, whose report thereon is included in the Company's Transition Report on Form 10-K/A No. 1. The selected consolidated financial data for the years ended December 31, 1991 and 1992 and as of December 31, 1991, 1992, and 1993 have been derived from audited financial statements of the Company which are not included in the Company's Transition Report on Form 10-K/A No. 1. 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 included in the Company's Transition Report on Form 10-K/A No. 1 and Form 10-Q/A No. 1 for the quarter ended September 30, 1996. See "INFORMATION INCORPORATED BY REFERENCE" and "RECENT DEVELOPMENTS."

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30	
	1991	1992	1993	1994	1995	1995	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					(UNAUDITED)	
STATEMENT OF OPERATIONS:							
Revenues:							
Processing, servicing and merchant discount	$ 16,322	$ 22,201	$ 28,986	$ 38,282	$ 49,330	$ 18,890	$33 ,305
License fees	--	--	--	--	--	4,691	10,970
Maintenance fees	--	--	--	--	--	--	1,978
Other	9,334	--	1,906	984	--	--	4,787
Total revenues	25,65	22,201	30,892	39,266	49,330	23,581	51,040
Expenses:							
Cost of processing, servicing and support	14,800	14,772	19,516	25,787	32,293	15,443	40,352
Research and development	2,960	2,418	3,678	4,826	7,009	3,085	10,177
Sales and marketing	3,566	3,466	3,730	4,553	7,405	3,168	17,513
General and administrative	1,697	1,725	2,466	2,717	4,288	1,953	8,806
In process research and development	--	--	--	--	--	--	122,358
Total expenses	23,023	22,381	29,390	37,883	50,995	23,649	199,206
Income (loss) from operations	2,633	(180)	1,502	1,383	(1,665)	(68)	(148,166)
Interest:							
Income	493	171	165	298	2,135	535	1,659
Expense	(331)	(230)	(279)	(795)	(645)	(330)	(325)
Income (loss) before income taxes	2,795	(239)	1,388	886	(175)	137	(146,832)
Income tax expense (benefit)	1,407	(159)	368	400	40	62	(8,629)
Income (loss) before extraordinary item	1,388	(80)	1,020	486	(215)	75	(138,203)
Extraordinary item	1,094	--	--	--	--	--	(364)
Net income (loss)	$ 2,482	$ (80)	$ 1,020	$ 486	$ (215)	$ 75	$(138,567)
Net income (loss) per common and equivalent share before extraordinary item	$ 0.05	--	$ 0.04	$ 0.02	$ (0.01	$--	$ (3.69)
Net income (loss) per common and equivalent share	$ 0.09	--	$ 0.04	$ 0.02	$ (0.01)	$--	$ (3.70)
Weighted-average common and equivalent shares outstanding	27,153	27,127	26,886	27,103	28,219	29,299	37,420
BALANCE SHEET DATA:							
Working capital	$ 2,884	$ 304	$ 623	$ 11,399	$ 81,792	$ 10,481	$ 45,496
Total assets	9,820	8,059	17,669	30,512	115,642	31,696	196,230
Long-term obligations, less current portion	1,900	1,275	8,968	8,213	7,282	7,735	8,324
Total stockholders' equity	2,985	1,915	2,985	16,372	99,325	16,493	137,675

	THREE MONTHS ENDED SEPTEMBER 30,	
	1995	1996
	(UNAUDITED)	
STATEMENT OF OPERATIONS:		
Revenues:		
Processing, servicing and merchant discount	$ 12,322	$ 20,732
License fees	--	4,892
Maintenance fees	--	3,587
Other	--	3,451
Total revenues	12,322	32,662
Expenses:		
Cost of processing, servicing and support	7,962	25,636

Research and development	1,925	7,484
Sales and marketing	1,766	5,895
General and administrative	1,073	5,910
In process research and development	--	--
Total expenses	12,726	44,925
Income (loss) from operations	(404)	(12,263)
Interest:		
Income	258	519
Expense	(159)	(148)
Income (loss) before income taxes	(305)	(11,892)
Income tax expense (benefit)	(137)	(4,162)
Income (loss) before extraordinary item	(168)	(7,730)
Extraordinary item	--	--
Net income (loss)	$ (168)	$ (7,730)
Net income (loss) per common and equivalent share before extraordinary item	$ (0.01)	$ (0.19)
Net income (loss) per common and equivalent share	$ (0.01)	$ (0.19)
Weighted-average common and equivalent shares outstanding	27,183	41,620
BALANCE SHEET DATA:		
Working capital	$ 80,694	$ 36,710
Total assets	103,531	181,257
Long-term obligations, less current portion	7,447	7,832
Total stockholders' equity	87,359	130,149

SELECTED HISTORICAL FINANCIAL DATA OF ISC

The statement of operations data for the year ended July 31, 1996 and the balance sheet data at July 31, 1996 are derived from financial statements of ISC which have been audited by Ernst & Young LLP, independent auditors. The statement of operations data for the years ended July 31, 1992 and 1993, the periods ended July 14, 1994 and July 31, 1994, the years ended July 31, 1995 and 1996 and the three months ended October 1995 and 1996 are unaudited but have been prepared on the same basis as the audited financial statements and, in the opinion of ISC management, contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations for such periods. The results of operations for the three months ended October 31, 1996 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 1996 or any other period. The selected financial data of ISC set forth below is qualified by reference to, and should be read in conjunction with, the ISC Financial Statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Proxy Statement.

	Predecessor Entity Year Ended July 31, 1992	1993	August 1, 1993 1993 through July 14, 1994	July 15, 1994 through July 31, 1994	Year Ended July 31 1995	1996	Three Months Ended October 31, 1995	1996
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)	
			(in thousands)					
Statement of Operations:								
Net revenue	$1,034	$1,193	$1,450	$ -	$ 3,194	$ 14,331	$1,405	$7,116
Cost of sales	68	125	552	-	1,557	7,795	842	2,025
Amortization of purchased software	-	-	-	-	1,529	1,471	367	-
Costs and Expenses:								
Customer service and technical support	150	180	215	-	498	5,049	609	2,027
Selling and marketing	65	94	184	-	1,479	4,191	669	3,017
Research and development	65	182	383	-	1,650	2,638	939	1,872
General and administrative	509	451	199	-	1,931	4,877	900	1,812
Charge for purchased research and development	-	-	-	1,388	-	-	-	-
Amortization of goodwill and intangibles	-	-	-	-	1,917	1,840	460	460
Costs and Expenses								
Total Costs and Expenses	789	907	981	1,388	7,475	18,595	3,577	9,188
Net loss before tax benefit (provision)	177	161	(83)	(1,388)	(7,367)	(13,530)	(3,381) -	(4,097)
Tax benefit (provision)	-	(12)	-	-	2,078	-	-	-
- - - - - -								
Net income (loss)	$ 177	$ 149	$ (83)	$(1,388)	$(5,289)	$(13,530)	$(3,381)	$(4,097)

	July 31, 1992	July 31, 1993	July 14 1994	July 31, 1994	July 31, 1995	July 31, 1996	October 31, 1996
			(in thousands)				
Balance Sheet:							
Cash	$ 37	$ 173	$ 69	$ 69	$ 135	$ 601	$ 958
Working capital (deficit)	90	234	244	244	(5,504)	(29,757)	(33,032)
Total Assets	201	414	346	8,418	7,094	20,808	20,220
Stockholder's Equity (Net Capital Deficiency)	246	395	312	6,297	1,007	(12,523)	(16,620)

UNAUDITED PRO FORMA COMBINING SELECTED FINANCIAL DATA

The following table sets forth, in summary form, certain unaudited pro forma combining financial data, giving effect to the Merger (which will be accounted for as a purchase) as if it had occurred on September 30, 1996 for balance sheet presentation purposes and as of January 1, 1995 for statement of operations presentation purposes, and the pro forma adjustments described in the Notes to the Unaudited Pro Forma Condensed Combining Financial Information. The ISC financial data included in the pro forma amounts are for the twelve months ended January 31, 1996, for the six months ended July 31, 1996, and as of and for the three months ended September 30, 1996. The pro forma amounts also give effect to the Servantis and Security APL Acquisitions, which were consummated on February 21, 1996, and May 9, 1996. This information should be read in conjunction with the historical financial statements of the Company and ISC, including the respective notes thereto, which are either incorporated in this document by reference or included elsewhere in this Proxy Statement, and in conjunction with the consolidated historical financial data for the Company and ISC and the other pro forma information, including the notes thereto, which are either incorporated in this document by reference or included elsewhere in this Proxy Statement. See "INFORMATION INCORPORATED BY REFERENCE," "RECENT DEVELOPMENTS," "CONSOLIDATED FINANCIAL STATEMENTS OF ISC," and "UNAUDITED PRO FORMA CONDENSED COMBINING FINANCIAL INFORMATION." The pro forma financial data are not necessarily indicative of the future financial position or future results of operations of the combined companies, or the financial position or results of operations of the combined companies that would have actually occurred had the Merger or the adjustments described in the Notes to the Unaudited Pro Forma Condensed Combining Financial Information been consummated at the dates specified.

Unaudited Pro Forma Combining Financial Data
(In thousands, except per share amounts)

	Company Historical Amounts			Company and ISC Combining Pro Forma		
	Year ended December 31, 1995	Six months ended June 30, 1996	Three months ended September 30, 1996	Year ended December 31, 1995	Six months ended June 30, 1996	Three months ended September 30, 1996
STATEMENT OF OPERATIONS DATA:						
Operating revenues, net	$ 49,330	$ 51,040	$ 32,662	$ 117,183	$ 87,697	$ 39,778
Loss from operations	(1,665)	(148,166)(1)	(12,263)	(49,874)(1)(2)	(26,800)(1)	(16,740)(1)
Loss before income taxes	(175)	(146,832)(1)	(11,892)	(47,712)(1)(2)	(25,341)(1)	(16,369)(1)
Loss before extraordinary item	(215)	(138,203)(1)	(7,730)	(31,284)(1)(2)	(20,083)(1)	(10,752)(1)
COMMON SHARE DATA:						
Loss per common share before extraordinary item	$ (0.01)	$ (3.69)(1)	$ (0.19)	$ (0.63)(1)(2)	$ (0.37)(1)	(0.20)(1)
Weighted average shares outstanding	28,219	37,420	41,620	49,313	53,630	54,220
BALANCE SHEET DATA:						
Current assets			$79,106			$73,556
Total assets			181,257			234,279
Current liabilities			42,396			53,633
Long-term obligations, less current portion			7,832			7,832
Total stockholders' equity			130,149			175,362

[FN]

(1) The June 30, 1996 historical Checkfree amounts include a charge of $122.4 million for in-process research and development, or $3.27 per share. The pro forma combined amounts for all periods presented do not include the in-process research and development charge as it is a non-recurring item, nor do the pro forma amounts include the estimated in-process research and development charge of $120 million related to the Merger.

(2) The pro forma combining amounts for the year ended December 31, 1995 include a pre-tax charge of $20 million ($12 million net of tax or $0.24 per share) for amortization of purchased profits recorded in connection with the Servantis Acquisition and a pre-tax charge of $11 million ($6.6 million net of tax or $0.13 per share) for amortization of intangibles for certain connectivity and exclusivity arrangements related to the Merger. Both of these items are fully amortized within twelve months.

THE MERGER

BACKGROUND OF THE MERGER

The Company develops and provides electronic commerce services, financial application software and related products for financial institutions and businesses and their customers. Prior to the Servantis Acquisition and the Security APL Acquisition, the Company's business focused primarily on electronic home banking, electronic bill payment, automatic accounts receivable collection and electronic accounts payable processing. Intuit develops, markets and supports personal finance, small business accounting, tax preparation and other consumer software products, as well as related supplies and electronic financial services designed to enable individuals and small businesses to automate certain financial tasks and better manage their financial affairs. Through ISC, Intuit provides electronic home banking and electronic bill payment services and other on-line services.

Since 1991, the Company and Intuit have had a cooperative business relationship through which users of Intuit's Quicken product have been able to access and use the Company's electronic bill payment services through Quicken. The Company compensates Intuit for enrolling Quicken users in the Company's electronic bill payment service. Beginning in October 1995, Intuit began to offer its own electronic bill payment service through ISC.

The companies believe that the sale of ISC to the Company will enable the Company to leverage its transactions processing experience to realize operational efficiencies that will increase the profitability of ISC's business and encourage more rapid growth of the emerging electronic financial services market. The companies also expect that the combination of ISC's business with the Company's existing operations will enable the combined company to reach a wider customer base and thus strengthen the Company's position in the electronic commerce market. Intuit believes that it is in its best long-term interests to focus the efforts of its management team on Intuit's core business of developing and marketing "front-end" software products and services, including services for the Internet, rather than devoting substantial management time and effort to building ISC's transactions processing business. The Merger enables Intuit to achieve this objective while retaining an indirect interest in ISC's business through an ownership stake in Checkfree Common Stock.

Given their pre-existing commercial relationships, from time to time the Company and Intuit have discussed certain joint business opportunities and possible combinations of aspects of their businesses. In early May 1996, representatives of the Company and Intuit had general informal discussions regarding the possibility that the two companies might work together in some way, including the possibility that the Company might purchase ISC. Later in that same month, officers of both companies met in Dallas, Texas and Chicago, Illinois to continue discussions regarding numerous potential business alternatives and technical issues concerning the bill payment systems of the Company and ISC.

The companies continued to explore several potential transactions and areas of cooperation in a June 20, 1996 telephone conference call between executives of both companies and their respective financial advisors, and in a June 25, 1996 meeting at which Peter Kight and Mark Johnson of the Company and representatives of Alex. Brown, the Company's financial advisor, met with Intuit's Board of Directors at an Intuit Board meeting held in San Francisco, California. On June 30, 1996, William Campbell, James Heeger, William Harris and Rene Lacerte of Intuit and Intuit's financial advisor met with the Company's management team and the Company's financial advisor in Columbus, Ohio to review financial and business information regarding the Company.

In early July 1996, Intuit suspended its discussions with the Company pending completion of an internal strategic planning review regarding Intuit's long-term plans for ISC's electronic banking and bill payment business.

Following completion of Intuit's strategy review, during the week of August 19, 1996, Mr. Harris of Intuit and Mr. Kight of the Company, together with their respective financial advisors, conducted several telephone calls to discuss alternative business propositions and to begin the initial negotiation of the principal terms and structure under which the Company might effect a purchase of ISC. These telephone conferences continued through the week of August 26. During the course of their discussions, the officers of the Company and Intuit, upon the advise of their financial advisors and their review and analysis of ISC and the post-merger entitle combined operations, determined that a purchase price of five times the projected future revenues of ISC for the fiscal year ended July 31, 1997 of $46 million was reasonable for an electronic commerce Company engaging in electronic bill payment. Based on these assumptions, the parties argued to the Merger Consolidation of 12,600,000 shares of the Checkfree Common Stock.

On September 8, 1996, Messrs. Campbell and Harris of Intuit, representatives of DMG Technology Group, Inc., Intuit's financial advisor, and one of its attorneys and officers of ISC met in Columbus, Ohio with the management of the Company, its financial advisors and its attorneys to initiate a mutual due diligence process. Concurrently, the management teams of the companies and their respective financial advisors and attorneys began negotiation of the definitive terms and conditions of the Merger. Negotiations and due diligence reviews resumed in Columbus, Ohio on September 9, 1996, and continued throughout that week through numerous meetings and telephone conference calls between officers of the Company, Intuit and ISC. These talks continued through Sunday, September 15, 1996, when the parties reached agreement on the definitive terms and conditions of the Merger Agreement and related agreements, which were approved by the Board of Directors of Intuit on September 14, 1996, and by the Board of Directors of ISC and the Board of Directors of the Company on the morning of September 15, 1996. The Merger Agreement was executed at approximately 3:00 p.m. Eastern Time on September 15, 1996 and was announced at 4:00 p.m. Eastern Time on September 15, 1996 by Intuit and at 9:00 a.m. Eastern Time on September 16, 1996 by the Company.

Following announcement of the Merger Agreement, the parties and their attorneys continued negotiation of the License Agreement, which was executed on November 22, 1996. On December 18, 1996, the parties agreed to the terms of Amendment No. 1 to the Merger Agreement.

The terms and conditions of the Merger were determined in arms' length negotiations between the management teams and Board of Directors of the Company, Intuit and ISC with advice from their respective financial advisors and lawyers, after evaluations of the current financial condition, earnings potential and market position of the Company and ISC, respectively, as well as the business prospects of the combined company.

THE COMPANY'S REASONS FOR THE MERGER; RECOMMENDATION OF THE COMPANY'S BOARD OF DIRECTORS

The management of the Company believes that the Merger offers significant potential benefits to the Company. ISC provides electronic home banking, bill payment and other on-line services to financial institutions and their customers. To perform these services, ISC operates a network of servers that perform the "back-end" computer processing and data storage functions that enable these on-line financial transactions. Since October 1995, ISC's services have been marketed to and designed primarily for users of Intuit's Quicken personal finance software program. ISC's capability as an electronic commerce service provider is expected to complement and enhance the Company's ability to provide financial institutions with comprehensive, readily marketable electronic commerce products and services and to increase the Company's customer base. Acquisition of ISC offers the Company the opportunity, through integration of both companies' electronic transaction processing and remote delivery technology and the Company's software products and electronic funds transfer and software development expertise, to provide an enhanced range of electronic commerce services and related products for financial institutions, businesses, and their customers. Management believes that financial institutions and businesses, as well as their customers, will with increasing rapidity convert from paper to electronic alternatives for effecting and managing transactions and financial information, and that the acquisition of ISC will enhance the Company's ability to participate in that expanding and increasingly competitive marketplace.

For the reasons described above, the Company's Board of Directors at its meeting held on September 15, 1996 unanimously determined that the Merger and the Merger Agreement are advisable and fair and in the best interests of the Company and its stockholders and have approved the Merger and the Merger Agreement and recommend that holders of Checkfree Common Stock approve the issuance of 12,600,000 shares of Checkfree Common Stock pursuant to the Merger Agreement, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement. Although portions of Alex. Brown's analyses provides: (1) for a possible implied range of enterprise values for ISC from $68.2 million to $139.7 million, and (2) that ISC's contribution to the post-merger entity's gross profits could be low, such analyses do not solely support the recommendation of the Merger, and the Company's Board of Directors upon consideration of the entire Alex. Brown opinion, as well as the reasons set forth in the foregoing paragraph determined that the Merger was advisable and fair to the Company. See "THE MERGER -- Opinion of Checkfree Financial Advisor."

OPINION OF CHECKFREE FINANCIAL ADVISOR

The Company retained Alex. Brown on June 8, 1996 to act as the Company's financial advisor in connection with a possible business transaction with Intuit, including rendering its opinion to the Company's Board of Directors as to the fairness to the Company, from a financial point of view, of the Merger Consideration, when considered with reference to the $20.0 million cash Connectivity Fee to be paid to Intuit for certain agreements and services pursuant to the License Agreement. The Merger Consideration and the Connectivity Fee are collectively referred to below as the "Transaction Consideration."

At the September 15, 1996 meeting of the Company's Board of Directors, representatives of Alex. Brown made a presentation with respect to the Merger and rendered to the Company's Board of Directors its opinion that, as of such date, and subject to the assumptions made, matters considered and limitations set forth in such opinion and summarized below, the Transaction Consideration was fair, from a financial point of view, to the Company. No limitations were imposed by the Company's Board of Directors upon Alex. Brown with respect to the investigations made or procedures followed by it in rendering its opinion.

THE FULL TEXT OF ALEX. BROWN'S WRITTEN OPINION DATED SEPTEMBER 15, 1996 (THE "ALEX. BROWN OPINION"), WHICH SETS FORTH, AMONG OTHER THINGS, ASSUMPTIONS MADE, MATTERS CONSIDERED AND LIMITATIONS ON THE REVIEW UNDERTAKEN, IS ATTACHED HERETO AS APPENDIX B AND IS INCORPORATED HEREIN BY REFERENCE. THE COMPANY'S STOCKHOLDERS ARE URGED TO READ THE ALEX. BROWN OPINION IN ITS ENTIRETY. THE ALEX. BROWN OPINION IS DIRECTED TO THE COMPANY'S BOARD OF DIRECTORS, ADDRESSES ONLY THE FAIRNESS OF THE TRANSACTION CONSIDERATION TO THE COMPANY FROM A FINANCIAL POINT OF VIEW AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY COMPANY STOCKHOLDER AS TO HOW SUCH STOCKHOLDER SHOULD VOTE AT THE CHECKFREE SPECIAL MEETING. THE ALEX. BROWN OPINION WAS RENDERED TO THE COMPANY'S BOARD OF DIRECTORS FOR ITS CONSIDERATION IN DETERMINING WHETHER TO APPROVE THE MERGER AGREEMENT. THE DISCUSSION OF THE ALEX. BROWN OPINION IN THIS PROXY STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE ALEX. BROWN OPINION.

In connection with the Alex. Brown Opinion, Alex. Brown reviewed certain publicly available financial information and other information concerning the Company, Intuit and ISC and certain internal financial analyses and other information furnished to it by the Company, Intuit and ISC. Alex. Brown also participated in discussions with members of the senior managements of the Company, Intuit and ISC regarding the businesses and prospects of the Company and ISC independently and the combined company. In addition, Alex. Brown (i) reviewed the reported prices and trading activity for the Checkfree Common Stock, (ii) compared certain financial information and stock market information for the Company and ISC with similar information for certain other companies whose securities are publicly traded, (iii) reviewed the financial terms of certain recent business combinations, (iv) reviewed a draft of the Merger Agreement dated September 14, 1996, and (v) performed such other studies and analyses and considered such other factors as it deemed appropriate.

In conducting its review and arriving at its opinion, Alex. Brown assumed and relied upon, without independent verification, the accuracy, completeness and fairness of the information furnished to or otherwise reviewed by or discussed with it for purposes of rendering its opinion. With respect to the information relating to the prospects of the Company and ISC provided to Alex. Brown by the Company, Intuit and ISC, Alex. Brown assumed that such information reflected the best currently available judgments and estimates of the respective managements of the Company, Intuit and ISC as to the likely future financial performances of the Company and ISC and of the combined entity. Alex. Brown did not make an independent evaluation or appraisal of the assets of the Company or ISC, nor has Alex. Brown been furnished with any such evaluation or appraisal. With the Company's Board of Directors' permission, the Alex. Brown Opinion did not address any adjustment to the Merger Consideration that may occur pursuant to Section 2.02 of the Merger Agreement. Alex. Brown also assumed with the Company's Board of Directors' permission that the License Agreement effectively grants rights to connectivity to certain Intuit software products. The Alex. Brown Opinion is based on market, economic and other conditions as they existed and could be evaluated as of the date of the opinion letter.

The following is a summary of the analyses performed and factors considered by Alex. Brown in connection with rendering the Alex. Brown Opinion.

HISTORICAL FINANCIAL POSITION. In rendering its opinion, Alex. Brown reviewed and analyzed the historical and current financial condition of the Company and ISC, which included (i) an assessment of the Company's and ISC's recent financial statements; (ii) an analysis of the Company's and ISC's revenue, growth and operating performance trends; (iii) an assessment of the Company's margin changes and leverage and ISC's margin changes; and (iv) an analysis of the relative growth rates of the Company's different lines of business, including retail services, Servantis software, corporate services and Security APL, and of ISC.

HISTORICAL STOCK PRICE PERFORMANCE. Alex. Brown reviewed and analyzed the daily closing per share market prices and trading volume, for Checkfree Common Stock, from September 28, 1995 to September 13, 1996 and, for Intuit Common Stock, from September 14, 1995 to September 13, 1996. Alex. Brown also compared the closing price of the Checkfree Common Stock on September 13, 1996 of $18.06 to the average closing prices of the Checkfree Common Stock prices of $16.96, $16.65, $14.24, $15.07 and $17.30 over the 5-, 15-, 30-, 60- and 90-day periods ending on September 13, 1996, respectively. Alex. Brown noted that the Transaction Consideration based on each of these closing stock prices was $244.6 million, $230.7 million, $226.8 million, $196.4 million, $206.9 million and $234.9 million, respectively. This information was presented to give the Company's Board of Directors background information regarding the respective stock prices of the Company and Intuit over the periods indicated.

ANALYSIS OF CERTAIN OTHER PUBLICLY TRADED COMPANIES. This analysis examines a company's valuation in the public market as compared to the valuation in the public market of other selected publicly traded companies. Alex. Brown compared certain financial information (based on the commonly used valuation measurements described below) relating to the Company and ISC to certain corresponding information from a group of five publicly traded electronic commerce companies (consisting of First Data Corporation, Harbinger Corporation, Premenos Technology Corp., Quickresponse Services and Sterling Commerce, Inc. (collectively, the "Selected Electronic Commerce Companies")) and from a group of four publicly traded internet software related companies (consisting of Broadvision, Inc., Connect, Inc., E*TRADE Group, Inc. and Open Market, Inc. (collectively, the "Selected Internet Software Companies")). Such financial information included, among other things, (i) ratios of common equity market value as adjusted for debt and cash ("Adjusted Value") to revenues and earnings before interest expense and income taxes ("EBIT"), each for the latest reported 12-month period as derived from publicly available information; and (ii) ratios of Adjusted Value to estimated revenues and EBIT for the Company's fiscal year ending June 30, 1997 ("Fiscal 1997"). The financial information used in connection with the multiples provided below with respect to the Company, the Selected Electronic Software Companies and the Selected Internet Software Companies was based on the latest reported 12-month period as derived from publicly available information and on estimated revenues and EBIT for fiscal 1997 as reported by selected securities research analysts. Alex. Brown noted that, on a trailing 12-month basis, the multiple of Adjusted Value to revenues was 5.1x for the Company, compared to a range of 4.4x to 9.0x, with a mean of 6.9x, for the Selected Electronic Commerce Companies, and a range of 5.5x to 37.9x, with a mean of 23.5x, for the Selected Internet Software Companies, and that the multiple of Adjusted Value to EBIT was not meaningful for the Company. Alex. Brown also noted that, for fiscal 1997, the multiple of Adjusted Value to estimated revenues was 4.3x for the Company, compared to a range of 3.4x to 7.0x, with a mean of 4.9x for the Selected Electronic Commerce Companies, and a range of 6.2x to 9.9x with a mean of 8.0x for the Selected Internet Software Companies, and that the multiple of Adjusted Value to estimated EBIT was not meaningful for the Company. As a result of the foregoing procedures, Alex. Brown noted that the above multiples applied to (i) the trailing 12 month revenues of ISC implied a range of enterprise values of $68.2 million to $139.7 million with a mean of $106.0 million and a median of $97.7 million based on the Selected Electronic Commerce Companies, and a range of $85.2 million to $585.3 million with a mean of $362.6 million and a median of $390.0 million based on the Selected Internet Software Companies, (ii) the estimated Fiscal 1997 revenues of ISC implied a range of enterprise values of $146.5 million to $304.1 million with a mean of $213.8 million and a median of $216.0 million based on the Selected Electronic Commerce Companies, and a range of $268.6 million to $430.2 million with a mean of $349.4 million and a median of $349.4 million based on the Selected Internet Software Companies, and (iii) the $46 million in Fiscal 1997 revenues of ISC contemplated by Section 4.14 of the Merger Agreement (which provides for Intuit, subject to certain conditions, to pay to the Company the amount, if any, by which $46 million exceeds actual ISC Fiscal 1997 revenues) implied a range of enterprise values of $155.0 million to $321.8 million with a mean of $226.2 million and a median of $228.5 million based on the Selected Electronic Commerce Companies, and a range of $284.2 million to $455.1 million with a mean of $369.7 million and a median of $369.7 million based on the Selected Internet Software Companies, in each case versus the Transaction Consideration of $244.6 million (based on the September 13, 1996 closing price of $18.06 of Checkfree Common Stock).

ANALYSIS OF SELECTED MERGER AND ACQUISITION TRANSACTIONS. Alex. Brown reviewed the financial terms, to the extent publicly available, of ten proposed, pending or completed mergers and acquisitions since August 1995 involving high technology companies experiencing relatively high revenue growth rates (the "Selected Transactions"). Alex. Brown noted that there had been no acquisitions of on-line bill payment companies with publicly available financial terms in the recent past and thus that none of the Selected Transactions involved companies in businesses similar to ISC's business. Instead, the Selected Transactions involved acquisitions of companies, in related industries generally, with revenue growth rates similar to ISC's. Alex. Brown calculated various financial multiples based on certain publicly available information for each of the Selected Transactions and compared them to corresponding financial multiples for the Merger. The ten transactions reviewed, in reverse chronological order of public announcement, were: Secure Computing/Enigma Logic (June 26, 1996), Pure Software/Atria Software (June 6, 1996), Secure Computing/Border Network Technologies (May 28, 1996), MFS Communications/UUNet Technologies (April 30, 1996), Cisco Systems/StrataCom (April 21, 1996), Security Dynamics Technologies/RSA Data Security (April 13, 1996), IBM/Tivoli Systems (January 31, 1996), Madge/Teleos (January 27, 1996), Cisco Systems/Grand Junction (September 27, 1995) and ArcSys/Integrated Silicon Systems (August 12, 1995). Alex. Brown noted that the multiple of adjusted purchase price (purchase price adjusted for debt and cash) to trailing 12-month revenues for the Selected Transactions applied to the trailing 12 month revenues of ISC implied a range of enterprise values of $117.0 million to $537.6 million with a mean of $271.8 million and a median of $271.6 million versus the Transaction Consideration of $244.6 million (based on the September 13, 1996 closing price of $18.06 per share of the Checkfree Common Stock). All multiples for the Selected Transactions were based on public information available at the time of announcement of such transaction, without taking into account differing market and other conditions during the period during which the Selected Transactions occurred.

CONTRIBUTION ANALYSIS. Alex. Brown analyzed the relative contributions of the Company and ISC, as compared to Intuit's relative ownership of approximately 22.7% of the outstanding Checkfree Common Stock on a fully diluted basis (Intuit's receipt of a total of $20.0 million in licensing fees therefore not having an effect on this analysis), to the pro forma income statement of the combined company, based on projections of the managements of the Company, Intuit and ISC. This analysis showed that on a pro forma combined basis (excluding (i) the effect of any synergies that may be realized as a result of the Merger, and (ii) non-recurring expenses relating to the Merger), based on the Company's 1996, 1997, 1998 and 1999 fiscal years, the Company and ISC would account for approximately 90.4% and 9.6%, 80.0% and 20.0%, 75.1% and 24.9%, and 73.6% and 26.4%, respectively, of the combined company's pro forma revenue, and approximately 100.0% and 0.0%, 89.6% and 10.4%, 82.9% and 17.1%, and 79.3% and 20.7%, respectively, of the combined company's pro forma gross profit.

Alex. Brown also analyzed the relative contributions of the Company's retail line of business and ISC to the pro forma income statement of the combined company's retail line of business, based on managements' projections for their respective companies. This analysis showed that on a pro forma combined basis (excluding (i) the effect of any synergies that may be realized as a result of the Merger, and (ii) non-recurring expenses relating to the Merger), based on the Company's 1996, 1997, 1998 and 1999 fiscal years, the Company and ISC would account for approximately 67.2% and 32.8%, 53.5% and 46.5%, 53.9% and 46.1%, and 58.6% and 41.4%, respectively, of the combined company's retail line of business pro forma revenue, and approximately 99.8% and 0.2%, 71.9% and 28.1%, 65.4% and 34.6%, and 65.3% and 34.7%, respectively, of the combined company's retail line of business pro forma gross profit.

DISCOUNTED CASH FLOW ANALYSIS. Alex. Brown performed discounted cash flow analyses for ISC. The discounted cash flow approach values a business based on the current value of the future cash flow that the business will generate. To establish a current value under this approach, future cash flow must be estimated and an appropriate discount rate determined. Alex. Brown used estimates of projected financial performance for ISC for the fiscal years 1997 through 2001 prepared by managements of the Company, Intuit and ISC. Alex. Brown aggregated the present value of the cash flows through fiscal 2001 with the present value of a range of terminal values. Alex. Brown discounted these cash flows at discount rates ranging from 20.0% to 27.5%. The terminal value was computed based on perpetuity growth rates ranging from 10.0% to 14.0%. This analysis indicated a range of equity values of $181.4 million to $538.8 million versus the Transaction Consideration of $244.6 million (based on the Company's September 13, 1996 closing price of $18.06 per share).

PRO FORMA COMBINED EARNINGS ANALYSIS. Alex. Brown analyzed certain pro forma effects of the Merger. Based on such analysis, Alex. Brown computed the resulting dilution/accretion to the combined company's EPS estimate for the fiscal years ending June 30, 1997, 1998 and 1999, pursuant to the Merger before and after taking into account any potential cost savings and other synergies that the Company and ISC could achieve if the Merger were consummated and before nonrecurring costs relating to the Merger. Alex. Brown noted that before taking into account any potential cost savings and other synergies and before certain nonrecurring costs relating to the Merger, the Merger would be approximately 37.0%, 264.2% and 16.8% dilutive to the combined company's EPS for the fiscal years ending June 30, 1997, 1998 and 1999, respectively. Alex. Brown also noted that after taking into account potential cost savings and other synergies, and before nonrecurring costs relating to the Merger, the Merger would be approximately 12.4% dilutive to the combined company's EPS for the fiscal year ending June 30, 1997, not meaningful for the fiscal year ending June 30, 1998 and 100.5% accretive to the combined company's EPS for the fiscal year ending June 30, 1999. There can be no assurance that the combined company will be able to realize savings and synergies in the amounts identified, or at all, following the Merger.

Alex. Brown also noted that based on the above analysis, before taking into account any potential cost savings and other synergies and before certain nonrecurring costs relating to the Merger and excluding goodwill, the Merger would be approximately 16.1% and 5.3% dilutive to the combined company's EPS for the fiscal years ending June 30, 1997 and 1998, respectively, and 46.8% accretive to the combined company's EPS for the fiscal year ending June 30, 1999. Alex. Brown also noted that, utilizing the above analysis after taking into account any potential cost savings and other synergies, before certain nonrecurring costs relating to the Merger and excluding goodwill, the Merger would be approximately 8.5% accretive to the combined company's EPS for the fiscal year ending June 30, 1997, not meaningful for the fiscal year 1998 and 164.1% accretive to the combined company's EPS for the fiscal year ending June 30, 1999.

RELEVANT MARKET AND ECONOMIC FACTORS. In rendering its opinion, Alex. Brown considered, among other factors, the condition of the U.S. stock markets, particularly in the technology sector, and the current level of economic activity.

No company used in the analysis of other publicly traded companies nor any transaction used in the analysis of selected mergers and acquisitions summarized above is identical to the Company, ISC or the Merger. Accordingly, such analyses must take into account differences in the financial and operating characteristics of the Selected Electronic Commerce Companies, the Selected Internet Software Companies and the companies in the Selected Transactions and other factors that would affect the public trading value and acquisition value of the Selected Electronic Commerce Companies, the Selected Internet Software Companies and the Selected Transactions, respectively. In particular, the companies in the Selected Transactions were selected based primarily on the basis of their rapid revenue growth, not on the similarity of their operating characteristics.

While the foregoing summary describes all analyses and factors that Alex. Brown deemed material in its presentation to the Company's Board of Directors, it is not a comprehensive description of all analyses and factors considered by Alex. Brown. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to summary description. Alex. Brown believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all analyses and factors, would create an incomplete view of the evaluation process underlying the Alex. Brown Opinion. In performing its analyses, Alex. Brown considered general economic, market and financial conditions and other matters, many of which are beyond the control of the Company, Intuit and ISC. The analyses performed by Alex. Brown are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by such analyses. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty. Additionally, analyses relating to the value of a business do not purport to be appraisals or to reflect the prices at which the business actually may be sold. Furthermore, no opinion is being expressed as to the prices at which shares of Checkfree Common Stock may trade at any future time.

Pursuant to a letter agreement dated September 8, 1996 between the Company and Alex. Brown, the fees to date payable to Alex. Brown have been a $100,000 retainer fee and $500,000 for rendering the Alex. Brown Opinion, which amounts will be credited against the final fee of $2,000,000, payable upon consummation of the Merger. In addition, the Company has agreed to reimburse Alex. Brown for its reasonable out-of-pocket expenses incurred in connection with rendering financial advisory services, including fees and disbursements of its legal counsel. The Company has agreed to indemnify Alex. Brown and its directors, officers, agents, employees and controlling persons, for certain costs, expenses, losses, claims, damages and liabilities related to or arising out of its rendering of services under its engagement as financial advisor.

The Company's Board of Directors retained Alex. Brown to act as its advisor based upon prior advisory work rendered by Alex. Brown to the Company and Alex. Brown's service as co-manager of the initial public offering of Checkfree Common Stock in 1995 and based upon Alex. Brown's qualifications, reputation, experience and expertise. Alex. Brown is an internationally recognized investment banking firm and, as a customary part of its investment banking business, is engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, private placements and valuations for corporate and other purposes. Alex. Brown may actively trade the securities of the Company and Intuit for its own account and for the account of its customers and, accordingly, may at any time hold a long or short position in such securities. Alex. Brown maintains a market in the common stock of the Company and Intuit and regularly publishes research reports regarding the Company, Intuit, the technology industry and the businesses and securities of publicly owned companies in that industry.

REQUIRED VOTE

Under the Delaware GCL, approval of the Merger and the Merger Agreement and the transactions contemplated thereby requires the affirmative vote of the sole stockholder of ISC.

The affirmative vote of the holders of a majority of the shares of Checkfree Common Stock present in person or by proxy at the Checkfree Special Meeting is necessary to approve the issuance of 12,600,000 shares of Checkfree Common Stock pursuant to the Merger Agreement, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement. As of the Checkfree Record Date, the directors and executive officers of the Company and their affiliates beneficially owned 10,022,557 shares of Checkfree Common Stock (excluding shares subject to stock options), which represent 24.1% of the total issued and outstanding shares of such stock entitled to vote at the Checkfree Special Meeting. In connection with the Merger Agreement, Peter J. Kight, the Company's Chairman of the Board, President and Chief Executive Officer and Mark A. Johnson, the Company's President of Business Services, who beneficially own 14.9% and 3.6%, respectively, of the outstanding shares of the Company's Common Stock, have executed Stockholder Agreements pursuant to which they have agreed to vote their shares of Checkfree Common Stock in favor of the Merger and the issuance of the Merger Consideration and against any proposal that is in opposition to or in competition with the Merger.

THE MERGER AGREEMENT

The following is a brief summary of certain provisions of the Merger Agreement, a copy of which is attached as Appendix A to this Proxy Statement and is incorporated herein by reference. Such summary is qualified in its entirety by reference to the Merger Agreement. Stockholders are urged to read the Merger Agreement carefully.

The Merger Agreement provides that, following the approval of the issuance of the Merger Consideration by the stockholders of the Checkfree Common Stock and approval of the Merger by the sole stockholder of ISC and the satisfaction or waiver of the other conditions to the Merger, Acquisition will be merged with and into ISC, with ISC continuing as the surviving corporation of the Merger and becoming a wholly-owned subsidiary of the Company.

Upon the satisfaction or waiver of all conditions to the Merger, the Merger will become effective upon the filing of a certificate of merger by Acquisition and ISC with the Secretary of State of the State of Delaware in accordance with the Delaware GCL. The Effective Time of the Merger is expected to occur on or about __________ __, 1997.

MERGER CONSIDERATION GENERALLY. In the Merger, all outstanding shares of ISC Common Stock shall be converted into the right to receive the Merger Consideration. Subject to the Merger Consideration Adjustment (as defined below), the Merger Consideration will be 12,600,000 shares of Checkfree Common Stock, of which 11,340,000 shares shall be issued to the sole stockholder of ISC Common Stock at the Effective Time and 1,260,000 shares (the "Escrow Shares") shall be held in escrow pursuant to an Escrow Agreement between the Company, Intuit and a third-party escrow agent (the "Escrow Agreement"). The Escrow Shares shall be released from escrow and delivered to the sole stockholder of ISC one (1) year after the Closing Date, subject to the terms of the Escrow Agreement.

MERGER CONSIDERATION ADJUSTMENT. In the event that, after the date of the Merger Agreement and prior to closing of the Merger, ISC incurs, realizes, or otherwise experiences a material adverse change (other than a change arising or resulting, directly or indirectly, from industry conditions or the public announcement of, or the response or reaction of customers, vendors, licensors, investors, ISC employees or others to, the Merger Agreement, the Merger, or any of the agreements or transactions contemplated by the Merger Agreement or entered into in connection with the Merger Agreement or the Merger) in its financial condition, properties, assets, liabilities, business, operations, or results of operations (a "Material Adverse Change"), the Merger Consideration shall be adjusted as follows (the "Merger Consideration Adjustment"): (i) if the Company, Intuit and ISC agree that a Material Adverse Change occurred, but are unable to mutually agree in writing on the amount of a Merger Consideration Adjustment within ten (10) days after the date on which Intuit and ISC receive notice of a Material Adverse Change from the Company, then the amount of the Merger Consideration Adjustment (if any) shall be determined in accordance with the appraisal procedure described below; (ii) if ISC and Intuit do not agree with the Company's claim in any notice that a Material Adverse Change occurred, and Intuit, ISC and the Company have not agreed in writing on the amount of a Merger Consideration Adjustment within ten (10) days after ISC and Intuit receive notice of the Company's claim that a Material Adverse Change occurred, then, within twenty (20) days after receipt of such notice, the parties shall submit to mandatory binding arbitration the sole issue of whether or not such a Material Adverse Change occurred. The arbitration will be conducted by a single arbitrator, mutually selected by the parties, who shall decide only the issue of whether or not a Material Adverse Change occurred in the manner set forth in the notice. The arbitrator's determination as to whether or not such a Material Adverse Change occurred shall be conclusive, final, non-appealable and binding upon each of the parties. If the arbitrator determines that no Material Adverse Change occurred, then no Merger Consideration Adjustment shall be made; and if the arbitrator determines that a Material Adverse Change has occurred, then the amount of the Merger Consideration Adjustment shall be determined by the appraisal procedure described below. There may not be more than one Merger Consideration Adjustment. In the event of a Merger Consideration Adjustment, the Company will not resolicit proxies from its stockholders to approve the Merger Consideration Adjustment or the Merger Consideration, as adjusted.

When the appraisal procedure is required to be used, the amount of the Merger Consideration Adjustment shall be determined as follows: (A) the Company, on the one hand, and Intuit and ISC, on the other hand, shall each select one Qualified Appraiser (as defined below) (the "Selected Appraiser") to determine the amount of the Merger Consideration Adjustment (if any) arising from the Material Adverse Change; and (B) the Company, on the one hand, and Intuit and ISC, on the other hand, shall each give the other written notice (the "Appraiser Notice") of the identity of their respective Selected Appraiser. The Company's Selected Appraiser is called the "Checkfree Appraiser" and the Selected Appraiser of Intuit and ISC is called the "Intuit Appraiser." Each Selected Appraiser shall attempt to determine the amount of the Merger Consideration Adjustment, which, for purposes of such appraisal, shall be the number of shares of Checkfree Common Stock equal to the quotient obtained by dividing (i) the amount (if any) by which the fair market value of ISC was diminished as a result of the Material Adverse Change, by (ii) the average closing price per share of Checkfree Common Stock as reported on the Nasdaq National Market for the five (5) trading days immediately preceding the date of the Merger Agreement (the "Average Share Price"). After a Selected Appraiser has been selected, the Checkfree Appraiser and the Intuit Appraiser shall each deliver to the Company and Intuit a brief written report ("Appraisal Report") setting forth such Selected Appraiser's appraisal and determination of the amount of the Merger Consideration Adjustment and, unless the parties otherwise agree in writing to the amount of the Merger Consideration Adjustment, the Checkfree Appraiser and the Intuit Appraiser shall select a third appraiser (the "Determining Appraiser"). The Determining Appraiser will review the Appraisal Reports and the amount of the Merger Consideration Adjustment will be the amount set forth in the Appraisal Report which is, in the judgment of the Determining Appraiser, the most nearly correct. Notwithstanding the foregoing, if there is only one Selected Appraiser because either the Company, on the one hand, or Intuit and ISC, on the other hand, fail to select its Selected Appraiser, then unless the parties otherwise agree in writing to the amount of the Merger Consideration Adjustment, the amount of the Merger Consideration Adjustment shall conclusively be deemed to be the amount thereof determined by such Selected Appraiser in its Appraisal Report. As used herein, the term "Qualified Appraiser" means an investment banking firm of national or regional reputation that is substantially experienced in representing and valuing software companies in underwritten public offerings and/or merger and acquisition transactions, provided that such investment banking firm and its affiliates do not have a family relationship, or a then-currently active significant business relationship with the party who selected such appraiser, or advised or represented any of the parties in connection with the Merger and the transactions contemplated by the Merger Agreement.

If, prior to the Effective Time, the Company should split or combine the outstanding shares of Checkfree Common Stock, or pay a stock dividend or other stock distribution in Checkfree Common Stock, then the Merger Consideration shall be appropriately adjusted to reflect such split, combination, dividend or other distribution.

ESCROW AGREEMENT. In connection with the Merger Agreement, the Company and Intuit will enter into the Escrow Agreement pursuant to which the Escrow Shares shall be placed in escrow with a third-party escrow agent (the "Escrow Agent"). Pursuant to the Merger Agreement, Intuit's maximum aggregate lifetime liability to indemnify the Company shall not exceed thirty-five percent (35%) of the amount obtained by multiplying the number of shares of Checkfree Common Stock constituting the Merger Consideration, as adjusted by the Merger Consideration Adjustment, by the Average Share Price. Under the Escrow Agreement, if on or prior to the first (1st) anniversary of the closing of the Merger, the Company claims to be entitled to indemnification for any claims pursuant to the Merger Agreement (a "Claim") and the Company seeks to recover for such indemnification by having Escrow Shares canceled and returned to the Company, then the Company may, in addition to giving Intuit written notice of such claim as provided in the Merger Agreement (a "Claim Notice"), promptly notify the Escrow Agent in writing of the claim. The Company is also required to notify Intuit and the Escrow Agent in writing (the "Escrow Share Notice") of the bona fide number of Escrow Shares that the Company in good faith believes should be cancelled and delivered to it as a result of the Claim (the "Claimed Escrow Shares"), which number of shares is determined by dividing the amount of the claim by the Average Share Price. Unless Intuit shall notify Escrow Agent and the Company, within thirty (30) days after Intuit's receipt of both the Claim Notice and the Escrow Share Notice, of Intuit's objection to the delivery to the Company of the number of Claimed Escrow Shares, the Escrow Agent shall, promptly following the expiration of such thirty (30) day notice period, deliver to the Company stock certificates for the number of Escrow Shares equal to the Claimed Escrow Shares, with related stock powers transferring the number of Claimed Escrow Shares to the Company. To the extent that Escrow Shares are so delivered to the Company, the Claim and the Company's right to indemnification therefor, shall be satisfied. As used herein, the term "Contested Claim" means any Claim of the Company for indemnification under the Merger Agreement that is contested by Intuit.

In the event that Intuit shall notify the Escrow Agent of its objection to the delivery of Escrow Shares to the Company as provided herein, the Escrow Agent shall continue to hold such Escrow Shares until the earlier of: (i) the date on which the Escrow Agent receives written instructions signed by both the Company and Intuit to deliver to the Company or Intuit, as applicable, a specified number of Escrow Shares (the "Agreed Shares"), upon receipt of which instructions the Escrow Agent shall deliver the Agreed Shares to the Company and/or Intuit, as provided in such written instructions; (ii) the date the Escrow Agent receives a copy of the award of the arbitrator as to the disposition of a Contested Claim as a result of an arbitration pursuant to the Escrow Agreement (as described below); or (iii) the date the Escrow Agent receives instructions pursuant to a final order of a court of competent jurisdiction with respect to the disposition of such Escrow Shares; PROVIDED, HOWEVER, that notwithstanding the foregoing, upon the first anniversary of the closing of the Merger (the "Release Date"), the Escrow Agent shall release from escrow to Intuit the stock certificates for all of the Escrow Shares then held in escrow hereunder less (i) any Escrow Shares previously delivered to the Company or awarded (but not yet delivered) to the Company in satisfaction of a Contested Claim pursuant to an award of an arbitrator rendered in an arbitration pursuant to the Escrow Agreement; and (ii) any Escrow Shares that are potentially subject to delivery to the Company as a result of any then pending but unresolved arbitration or litigation of a Contested Claim pursuant to the Escrow Agreement. Any Escrow Shares held as result of clause (ii) above will be released to the Company and/or Intuit, as applicable, in accordance with the resolution of such Contested Claim or Claims by (i) an arbitration award of an arbitrator in accordance with the Escrow Agreement or (ii) a written settlement agreement executed by the Company and Intuit regarding the disposition of such Escrow Shares.

Each Contested Claim under the Escrow Agreement for which the Company seeks recovery from the Escrow Shares shall be promptly settled by mandatory binding arbitration as provided herein. The final decision of the arbitrator will be furnished to the Escrow Agent, the Company and Intuit in writing and will constitute a conclusive determination of the issues in question, binding upon the Company and Intuit. The Escrow Agent shall have no responsibility or obligation to participate in any such arbitration as a party thereto.

Notwithstanding any provision of the Escrow Agreement requiring or permitting the Company to satisfy claims by obtaining cancellation of the Escrow Shares, if the Company for any reason becomes entitled under the Escrow Agreement to receive and cancel any Escrow Shares in satisfaction of a claim, then Intuit, at its sole option and discretion, may instead elect to satisfy all or any portion of such claim with a cash payment to the Company in lieu of such forfeiture of Escrow Shares. Similarly, nothing contained in the Escrow Agreement or in the Merger Agreement shall be construed to require the Company to seek recovery of a claim, in whole or in part, from Escrow Shares. The Company shall have the absolute right, in its sole discretion, to pursue its rights under the Merger Agreement without reference to such rights as it may have under the Escrow Agreement, as it may elect; provided, that (unless Intuit consents otherwise) any claim by the Company to recover Escrow Shares must be resolved by arbitration pursuant to the Escrow Agreement or by a written settlement agreement executed by the Company and Intuit.

ISC COMMON STOCK. At the Effective Time, the outstanding shares of ISC Common Stock issued and outstanding immediately prior thereto will be canceled and converted into the right to receive an aggregate of 12,600,000 shares of Checkfree Common Stock, as such number of shares may be adjusted in accordance with the terms of the Merger Agreement, subject to the terms of the Merger Agreement and the Escrow Agreement.

FRACTIONAL SHARES. No certificates or scrip representing fractional shares of Checkfree Common Stock will be issued upon the surrender for exchange of certificates held by the sole stockholder of ISC, and such fractional share interests will not entitle the owner thereof to vote or to any rights of a stockholder of the Company.

CONVERSION OF ACQUISITION COMMON STOCK. At the Effective Time, each share of common stock, $.01 par value, of Acquisition that is issued and outstanding immediately prior to the Effective Time will, by virtue of the Merger, automatically and without any action on the part of the holder thereof, be converted into and become one validly issued, fully paid and nonassessable share of ISC Common Stock.

TREASURY STOCK. At the Effective Time, each share of the capital stock of ISC that is held in the treasury of ISC, if any, will be canceled and retired and no capital stock of the Company, cash or other consideration shall be paid or delivered in exchange therefor.

CONDITIONS TO CONSUMMATION OF THE MERGER. The respective obligations of the Company, Acquisition, Intuit, and ISC to consummate the Merger are subject to the fulfillment or waiver by the parties of certain conditions, including: (i) the approval and adoption by the requisite vote of the sole stockholder of ISC and the stockholders of the Company of the Merger, the Merger Agreement and/or the issuance of the Merger Consideration; (ii) the expiration or earlier termination of any waiting period under the HSR Act (which expired on November 1, 1996); (iii) the absence of any effective preliminary or permanent injunction or other order, decree or ruling issued by any court of competent jurisdiction nor any statute, rule, regulation or order entered, promulgated or enacted by any governmental, regulatory or administrative agency or authority that would prevent the consummation of the Merger; (iv) the execution and delivery by Intuit and the Company of the Escrow Agreement; and (v) the execution and delivery by Intuit and the Company of the Registration Rights Agreement.

The obligations of Intuit and ISC to consummate the Merger are further subject to the satisfaction or waiver of certain additional conditions, including the following: (i) the Company and Acquisition shall have performed and complied in all material respects with all their obligations, covenants, and agreements required to be performed and complied with by them under the Merger Agreement; (ii) the representations and warranties made by the Company and/or Acquisition in the Merger Agreement shall not, as of September 15, 1996 (the "Agreement Date") have been incorrect, untrue or false in any respect that failed to correctly state facts in existence on the Agreement Date that constituted a Material Adverse Effect (as defined below) on the properties, assets, financial condition, operating results or business of the Company, taken as a whole, as of the Agreement Date; (iii) Intuit and ISC shall have received a certificate from the Chief Executive Officer of the Company and Acquisition, to the effect that the conditions set forth in items (i) and (ii) above have been satisfied; (iv) the shares of Checkfree Common Stock to be issued in the Merger shall have been approved for listing on the Nasdaq National Market, subject to official notice of issuance; and (v) Intuit and ISC shall have received the opinion of Porter, Wright, Morris & Arthur, counsel to the Company and Acquisition, with respect to certain matters. As used herein, the term "Material Adverse Effect" shall mean a material adverse effect on the properties, assets, financial condition, operating results or business of the party referred to, taken as a whole;

provided, however, that the term "Material Adverse Effect" shall not include any such material adverse effect arising or resulting, directly or indirectly, from industry conditions or the public announcement of, or the response or reaction of customers, vendors, licensors, investors, employees or others to, the Merger Agreement, the Merger, or any of the agreements or transactions contemplated by the Merger Agreement or entered into in connection with the Merger.

The obligations of the Company and Acquisition to consummate the Merger are further subject to the satisfaction or waiver of certain additional conditions, including the following: (i) ISC and Intuit shall have performed and complied in all material respects with all their obligations, covenants, and agreements required to be performed and complied with by them under the Merger Agreement; (ii) the representations and warranties made by Intuit and/or ISC in the Merger Agreement, shall not, as of the Agreement Date, have been incorrect, untrue or false in any respect that failed to correctly state facts in existence on the Agreement Date that constituted a Material Adverse Effect on the properties, assets, financial condition, operating results or business of ISC, taken as a whole, as of the Agreement Date; (iii) the Company shall have received a certificate from the Chief Executive Officer and the Chief Financial Officer of Intuit and ISC, to the effect that the conditions set forth in paragraphs (i) and (ii) above have been satisfied; (iv) the Company shall have received a certificate from the Chief Executive Officer and the Chief Financial Officer of each of Intuit and ISC, to the effect that the ISC has not incurred, realized, or otherwise experienced a Material Adverse Change; provided, however; the existence of such Material Adverse Change will not entitle the Company to terminate the Merger Agreement (and the absence of a Material Adverse Change will not be a condition to consummation of the Merger); (vi) the Company shall have received all consents from third parties required by the Merger Agreement; and (vii) the Company and Acquisition shall have received the opinion of Fenwick & West LLP, counsel to Intuit and ISC, with respect to certain matters.

REPRESENTATIONS AND WARRANTIES. In the Merger Agreement, ISC has made certain representations and warranties relating to, among other things: (i) its corporate organization and qualification; (ii) its subsidiaries; (iii) its capitalization; (iv) its corporate power and authority relative to the Merger Agreement; (v) the absence of conflicts with its constituent documents and material agreements; (vi) filings required to be made with and consents required to be obtained from governmental entities in connection with the transactions contemplated by the Merger Agreement; (vii) certain of its financial statements; (viii) the absence of certain events or the incurrence of certain liabilities or obligations (since July 31, 1996); (ix) the accuracy of information provided by ISC for inclusion herein; (x) pending or threatened litigation; (xi) title to properties and assets; (xii) real property interests; (xiii) intellectual property rights; (xiv) labor matters; (xv) severance arrangements; (xvi) the filing of tax returns and payment of taxes; (xvii) compliance with laws; (xviii) employee benefits matters; (xix) environmental matters; (xx) certain personal property; (xxi) certain material agreements; (xxii) insurance; (xxiii) the absence of agreements by ISC with respect to a merger or a sale of substantially all its assets; (xxiv) claims against officers and directors; (xxv) customers and suppliers; (xxvi) improper and other payments; (xxvii) brokers and finders' fees; (xxviii) accounts receivable and advances; (xxix) examinations by the Officer of the Comptroller of the Currency; and (xxx) the accuracy of its written statements in, and furnished in connection with, the Merger Agreement. In the Merger Agreement, Intuit has made certain representations and warranties relating to, among other things: (i) its corporate organization; (ii) its ownership of ISC; (iii) its corporate power and authority relative to the Merger Agreement; (iv) the absence of conflicts with its constituent documents and material agreements; (v) filings required to be made with and consents required to be obtained from governmental entities in connection with the transactions contemplated by the Merger Agreement; (vi) the accuracy of certain information; (vii) brokers and finders' fees; and (viii) the accuracy of its written statements in, and furnished in connection with, the Merger Agreement. In the Merger Agreement, the Company has made certain representations and warranties relating to, among other things: (i) its corporate organization and qualification; (ii) its subsidiaries; (iii) its capitalization; (iv) its corporate power and authority relative to the Merger Agreement; (v) the absence of conflicts with its constituent documents and material agreements; (vi) filings required to be made with and consents required to be obtained from governmental entities in connection with the transactions contemplated by the Merger Agreement; (vii) its SEC filings and the financial statements contained therein; (viii) the absence of certain changes or events; (ix) the accuracy of certain information provided by it for inclusion herein; (x) the lack of registration rights; (xi) brokers and finders' fees; (xii) title to its property and assets; (xiii) intellectual property rights; (xiv) environmental matters; (xv) insurance; (xvi) the absence of agreements by the Company with respect to a merger or a sale of substantially all its assets; and (xvii) claims against officers and directors. In the Merger Agreement, Acquisition has made certain representations and warranties relating to, among other things: (i) its corporate organization and qualification; (ii) its capitalization; (iii) its corporate power and authority relative to the Merger Agreement; (v) the absence of conflicts with its constituent documents and material agreements; (vi) filings required to be made with and consents required to be obtained from governmental entities in connection with the transactions contemplated by the Merger Agreement; and (vi) the purpose for which Acquisition was formed.

NO SOLICITATION OF TRANSACTIONS. In the Merger Agreement, Intuit and ISC have agreed that neither they nor any of their subsidiaries nor any of their respective affiliates, directors, officers, employees, representatives, advisors or agents shall, directly or indirectly, encourage, solicit or initiate any discussions, submissions of proposals or offers or negotiations with, or, subject to the fiduciary obligations of the respective Boards of Directors of Intuit and ISC under applicable law as advised by counsel, participate in any negotiations or discussions with, provide any information or data of any nature whatsoever to, otherwise cooperate in any other way with, or assist, participate in, facilitate or encourage any effort or attempt by, any person, other than the Company and its affiliates, representatives and agents, concerning any merger, consolidation, sale of substantial assets, sale of shares or capital stock or other equity securities, recapitalization, debt restructuring or similar transaction involving ISC (such transactions being hereinafter referred to as "Alternative Transactions"). Intuit and ISC have agreed to immediately notify the Company if any proposal, offer, inquiry or other contact is received by, any information is requested from, or any discussions or negotiations are sought to be initiated or continued with, ISC in respect of an Alternative Transaction, and shall, in any such notice to the Company, indicate the identity of the offeror and the terms and conditions of any proposals or offers or the nature of any inquiries or contacts, and thereafter shall keep the Company informed of the status of any such discussions or negotiations. ISC shall not release any third party from, or waive any provision of, any confidentiality or standstill agreement to which ISC is a party. The Merger Agreement does not prohibit Intuit from participating in any merger or other business combination that does not involve the transfer of ISC Common Stock or ISC assets; PROVIDED, HOWEVER, that any third party acquiror of Intuit expressly consents to abide by the terms, conditions and obligations of the Merger Agreement.

CERTAIN AGREEMENTS AND COVENANTS. Pursuant to the Merger Agreement, ISC has agreed that it will conduct its business only in the ordinary course consistent with past practice and has made certain covenants that prohibit or limit, without the consent of the Company, among other things: (i) the sale, pledge, disposal, or other encumbrance of any property or assets of ISC, except inventory and nonmaterial assets; (ii) the amendment of its certificate of incorporation or by-laws; (iii) the split, combination, or re-classification of any of its outstanding capital stock; (iv) the declaration, setting aside or payment of any dividends; (v) the redemption, purchase, acquisition, or offer to acquire, of any shares of its capital stock; (vi) the incorporation or other formation or creation of any subsidiary; (vii) material changes in ISC's equipment or technology; (vii) the issuance, sale, pledge, or disposition of, or agreement to issue, sell, pledge, or dispose of, any stock of, or securities convertible or exchangeable for, or any option, warrant or right of any kind to acquire any shares of its capital stock of any class or other property or assets; (viii) the acquisition of any corporation, partnership, or other business organization or division thereof or any material amount of assets; (ix) the incurrence or guarantee by ISC of any indebtedness for borrowed money other than in the ordinary course of business or the refinancing of any such indebtedness or the issuance or sale of any debt securities; (ix) the entry into or modification of any material contract, lease, agreement, or commitment of ISC; (xi) the termination, modification, assignment, waiver, release, or relinquishment of any material contract right or the amendment of any material right or claim of ISC; (xii) the discharge, satisfaction, settlement, or compromise of any material claim, action, suit or proceeding pending or threatened against ISC; (xiii) the making of any loan, advance or capital contribution to, or investment in, any other person by ISC, except as may be required under agreements in effect as of the date of the Merger Agreement, and upon prior notice to the Company; (xiv) the alteration through merger, liquidation, reorganization, restructuring, or in any other manner its corporate structure or ownership; (xv) the violation or failure to perform, in any material respect, any obligation imposed upon ISC by any applicable law, order, decree, ordinance, government rule or regulation, or conciliation agreement; (xvi) the granting of any increase in the salary or other compensation of, or the amendment of any employee benefit plan applicable to, the directors, officers or employees of ISC, except reasonable and ordinary salary increases of employees who are not directors or executive officers of ISC, or the granting of any bonus to any employee or the entry into any employment agreement or making of any loan to, or the entry into any material transaction of any other nature with any employee of ISC; (xvii) the taking of any action to institute any new severance or termination pay practices with respect to any director, officer, or employee of ISC or to increase the benefits payable under its severance or termination pay practices; and (xviii) the adopting or amending, in any material respect, any plan for the benefit or welfare of any of its directors, officers or employees of ISC except as contemplated in the Merger Agreement or required under applicable law or regulation.

In addition, ISC has agreed to use its best efforts to maintain its relationships with suppliers, customers, clients and others having business dealings with ISC and, if and as requested by the Company or Acquisition, (i) ISC shall use its best efforts to make reasonable arrangements for representatives of the Company to meet with customers and suppliers of ISC and (ii) ISC shall schedule meetings of representatives of the Company with employees of ISC. ISC has agreed to provide to the Company a draft of any federal income tax return or material state, local or foreign tax return (other than state or local sales and use taxes) required to be filed on behalf of ISC or any subsidiary of ISC between the date of the Merger Agreement and the Effective Time at least 15 days prior to the date on which such return is due.

REVENUE MAKE-UP. If the Merger is consummated, then as soon as reasonably practicable after July 31, 1997, the Company shall deliver to Intuit ISC's unaudited statement of operations for the twelve-month period beginning on August 1, 1996 and ending on July 31, 1997 (such twelve-month period being hereinafter called the "Revenue Period"), prepared by the Company in accordance with generally accepted accounting principles consistently applied and consistent with ISC's revenue recognition policies for its fiscal year ended July 31, 1996 (such unaudited statement of operations is hereinafter called the "Revenue Statement"). As used herein, the term "Gross Revenues" means ISC's total gross revenues derived during the Revenue Period determined in accordance with generally accepted accounting principles consistently applied and consistent with ISC's revenue recognition policies for its fiscal year ended July 31, 1996. ISC and the Company shall maintain complete and accurate books and records relating to the determination of Gross Revenues.

If ISC's Gross Revenues are less than Forty-Six Million Dollars ($46,000,000), then, PROVIDED that (i) the Company and ISC have, at all times after the Effective Time, used their respective good faith efforts to maximize the Gross Revenues of ISC during the Revenue Period; (ii) ISC has not discontinued or disposed of any material portion of its business or assets (as such exist immediately prior to the Effective Time); (iii) the Company has fully and timely paid to Intuit all fees required to be paid to Intuit under the License Agreement; and (iv) Intuit has received from ISC the Revenue Statement stating that the ISC's Gross Revenues for the Revenue Period are less than Forty-Six Million Dollars ($46,000,000), Intuit shall, within sixty-five (65) days after its receipt of the Revenue Statement, pay to the Company, in cash, a sum equal to Forty-Six Million Dollars ($46,000,000) minus the amount of the Gross Revenues (the "Revenue Make-Up Payment"), subject to exercise of audit rights described below. Within thirty (30) days after it receives the Revenue Statement, Intuit may request an audit of ISC's and the Company's records pertaining to the determination of the Gross Revenues by Intuit (the "Audit") by giving ISC and the Company written notice (the "Audit Notice"). If the Audit reveals that the Gross Revenues are higher than indicated in the Revenue Statement, then the amount of the Revenue Make-Up Payment shall be reduced to the sum equal to Forty-Six Million Dollars ($46,000,000) minus the Gross Revenues as determined by the Audit.

TERMINATION. The Merger Agreement may be terminated by the mutual written consent of the Boards of Directors of the Company, Intuit, and ISC; by Intuit or ISC if the Board of Directors of the Company fails to recommend the approval of the Merger Agreement and the Merger and the issuance of the Merger Consideration to the Company's stockholders or recommends against the approval of the Merger Agreement or the Merger and the issuance of the Merger Consideration to the Company's stockholders; by either the Company or Acquisition, on the one hand, or Intuit or ISC, on the other hand, if the conditions to such parties' obligation to consummate the Merger are not satisfied or complied with by March 31, 1997; or by either the Company, on the one hand, or Intuit or ISC, on the other hand, if a representation or warranty made in the Merger Agreement (as qualified by the schedules and other disclosures given pursuant to the Merger Agreement) by the other party, was, as of the Agreement Date, incorrect, untrue or false in any respect that failed to correctly state facts in existence as of the Agreement Date and which constituted a Material Adverse Effect on the Agreement Date.

EXCHANGE OF CERTIFICATES

KeyCorp Shareholder Services, Inc. (the "Exchange Agent") will deliver to the sole stockholder of ISC the Merger Consideration (subject to the holdback of and adjustments to the Merger Consideration in accordance with the terms of the Merger Agreement and the Escrow Agreement), a letter of transmittal ("Letter of Transmittal") and instructions for its use in effecting the surrender of certificates representing shares of ISC Common Stock in exchange for certificates representing shares of Checkfree Common Stock and cash in lieu of fractional shares thereof.

Upon surrender of a certificate to the Exchange Agent, together with a duly executed Letter of Transmittal and any other required documents, the sole stockholder of ISC will be entitled to receive, in exchange therefor, a certificate representing the 12,600,000 shares of Checkfree Common Stock (subject to the holdback of, and adjustments to, the Merger Consideration in accordance with the terms of the Merger Agreement and Escrow Agreement) and a check representing cash in lieu of any fractional shares of Checkfree Common Stock. No interest will be paid or will accrue on any amount payable upon surrender of the certificates previously representing ISC Common Stock.

After the Effective Time, each certificate evidencing ISC Common Stock, until so surrendered and exchanged, will be deemed, for all purposes, to evidence only the right to receive the consideration into which such shares have been converted in the Merger.

STOCK EXCHANGE LISTING

A notification will be filed to list on the Nasdaq National Market the Checkfree Common Stock issuable in connection with the Merger. Listing of such shares of Checkfree Common Stock to be issued in the Merger, subject to official notice of issuance, is a condition precedent to consummation of the Merger.

REGULATORY APPROVALS

Pursuant to the requirements of the HSR Act, in connection with the Merger, the Company and ISC each filed a pre-merger notification report with the Federal Trade Commission and the Antitrust Division of the United States Department of Justice. The HSR Act waiting period expired on November 1, 1996.

ANTICIPATED ACCOUNTING TREATMENT

The Company intends to account for the Merger using the purchase method of accounting under generally accepted accounting principles and the rules and regulations of the Commission. Under the purchase method of accounting, the Company will be treated as the acquiror of ISC and, as a result, the purchase price will be allocated based on the fair value of the assets of ISC acquired and the liabilities assumed.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of the principal federal income tax consequences of the Merger to the sole stockholder of ISC. The discussion is based on laws, regulations, rulings and decisions currently in effect. The discussion does not take account of rules that are applicable to the sole stockholder of ISC that are subject to special treatment under the Code, including without limitation, insurance companies, dealers in securities, financial institutions, tax-exempt investors, foreign investors and stockholders who acquired shares pursuant to the exercise of an employee stock option or otherwise as compensation. The discussion also does not address state, local or foreign tax consequences of the Merger. No rulings have been or will be requested from the Internal Revenue Service with respect to the tax consequences of the Merger.

GENERAL. The parties intend that the Merger qualify as a tax-free plan of reorganization in accordance with the provisions of Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended (the "Code") by virtue of the provisions of Section 368(a)(2)(E) of the Code. The parties believe that the value of the Checkfree Common Stock to be issued to Intuit as the sole stockholder of ISC in the Merger is equal to the value of the ISC Common Stock to be surrendered in exchange therefor. The Checkfree Common Stock issued in the Merger will be issued solely in exchange for the outstanding ISC Common Stock, and no other transaction other than the Merger represents, provides for or is intended to be an adjustment to, the consideration paid for the ISC Common Stock. Except for cash paid in lieu of fractional shares, no consideration that could constitute "other property" within the meaning of Section 356 of the Code is being paid by the Company for the ISC Common Stock in the Merger.

RECEIPT OF CHECKFREE COMMON STOCK. The sole stockholder of ISC will not recognize gain or loss upon receipt of Checkfree Common Stock in the Merger (except for cash in lieu of fractional shares as described below) in exchange for all shares of ISC Common Stock owned by it for federal income tax purposes. The tax basis of the Checkfree

Common Stock received in such an exchange will be equal to the basis of the ISC Common Stock exchanged therefor (except for the basis attributable to any fractional shares of Checkfree Common Stock for which cash is paid, as discussed below).

CASH RECEIVED IN LIEU OF FRACTIONAL SHARES. The sole stockholder of ISC, upon receipt of cash in the Merger in lieu of a fractional share interest in Checkfree Common Stock, will be treated for federal income tax purposes as having received such fractional share interest and sold it for the cash received. Such stockholder will recognize gain or loss as of the Effective Time equal to the difference between the amount of cash received and the portion of the stockholder's adjusted tax basis in the shares of ISC Common Stock exchanged for the fractional share interest that is deemed sold. Such gain or loss will be capital gain or loss if the stockholder holds the ISC Common Stock exchanged for the fractional share as a capital asset and will be long-term capital gain or loss if such ISC Common Stock is considered to have been held for more than one year at the Effective Time.

BACKUP WITHHOLDING. Under federal income tax law concerning "backup withholding," the Company will be required to withhold, and will withhold, 31% of any cash payments to which the sole stockholder of ISC is entitled pursuant to the Merger unless the holder provides its taxpayer identification number and certifies that such number is correct or otherwise establishes that the holder is an exempt holder (such as a corporation or certain foreign individuals, partnerships or trusts). Each holder should sign the Substitute Form W-9 included as part of the Transmittal Letter (or in the case of a nonresident alien or foreign entity, a Form W-8) to prevent backup withholding.

RESALES BY AFFILIATES; REGISTRATION RIGHTS

If the Merger is consummated, Intuit, as sole stockholder of ISC, will receive Checkfree Common Stock that has not been registered under the Securities Act in reliance upon an exemption therefrom, and will not be permitted to transfer its shares of Checkfree Common Stock issued in the Merger except (i) pursuant to an effective registration statement; or (ii) pursuant to an exemption from the registration requirements of the Securities Act. The Company shall be entitled to place appropriate legends on the certificates evidencing the Checkfree Common Stock to be received by ISC's sole stockholder pursuant to the terms of the Merger, and to issue appropriate stock transfer instructions to the transfer agent for Checkfree Common Stock, to the effect that the shares received or to be received by ISC's sole stockholder pursuant to the Merger may only be sold, transferred or otherwise conveyed pursuant to an effective registration statement under the Securities Act or pursuant to an exemption from registration provided under the Securities Act. The foregoing restrictions on the transferability of Checkfree Common Stock shall apply to all purported sales, transfers and other conveyances of the shares received or to be received by ISC's sole stockholder pursuant to the Merger, whether or not ISC's sole stockholder has exchanged its certificates previously evidencing shares of ISC Common Stock.

The 12,600,000 shares of Checkfree Common Stock, as adjusted in accordance with the terms of the Merger Agreement, to be issued by the Company to Intuit in connection with the Merger will be available for resale following the Merger pursuant to the Registration Rights Agreement which grants Intuit certain demand registration rights, "piggyback" registration rights, and shelf registration rights.

Under the Registration Rights Agreement, Intuit may make one such demand for registration per calendar year commencing in 1997. The minimum number of shares of Checkfree Common Stock requested by Intuit to be registered in each such demand registration is 20% of the shares issued to Intuit in the Merger; PROVIDED, HOWEVER, that the first such request may be for a lesser number of shares as would reduce Intuit's ownership of Checkfree Common Stock to less than 20% of the total Checkfree Common Stock outstanding. If Intuit utilizes the demand registration rights, Intuit shall bear the expense of all discounts, commissions or other amounts payable to underwriters or brokers, if any, with respect to sales by Intuit in connection with such offering, as well as Intuit's pro-rata share of one-half of all other expenses incurred in connection with the registration, including without limitation all federal and "blue sky" registration and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and for Intuit. The Company is not obligated to act on a demand under the Registration Rights Agreement if: (i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act; (ii) within ten (10) days of the receipt of a registration request, the Company gives written notice to

Intuit of the Company's intention to file a registration statement for the sale of securities by the Company within 30 days of such request, in which event, (x) Intuit may exercise its piggyback registration rights (as described below), (y) the Company shall employ all reasonable efforts to cause its registration statement to become effective, and (z) if the Company abandons its registration statement, the Company shall renew its best efforts to register the securities that were the subject of Intuit's demand; (iii) during the period starting with the filing of and ending ninety (90) days immediately following the effective date of any registration statement pertaining to securities of the Company (other than a registration of securities in a Rule 145 transaction or with respect to an employee benefit plan); (iv) the Company furnishes Intuit a certificate stating that in the good faith judgment of the Company's Board of Directors it would be seriously detrimental to the Company or its stockholders for a registration statement to be filed in the near future, in which case the Company's obligation to register Intuit's shares of Checkfree Common Stock shall be deferred for up to one hundred and twenty (120) days from the date of receipt of the written request from Intuit (only applicable after March 1, 1997); or (v) less than one hundred and eighty (180) days shall have expired from the effectiveness of a previous registration under the Registration Rights Agreement pursuant to a demand registration or pursuant to a piggyback registration where Intuit had the opportunity to include at least the lesser of (a) five percent of the registrable securities issued to Intuit in the Merger, or (b) all registrable securities the owned by Intuit.

Additionally, under the Registration Rights Agreement, the Company is required to notify Intuit at least twenty (20) days prior to filing a registration statement under the Securities Act for purposes of effecting a public offering of the Company's securities and Intuit may register its shares of Checkfree Common Stock issued in the Merger under such registration statement in certain instances. If Intuit is given the opportunity to include the lesser of 5% of the shares issued in the Merger or all its shares issued in the Merger then owned by Intuit, in such a registration statement, then Intuit may not make a demand for registration for one hundred and eighty (180) days after the earlier of the termination of such offering or the effectiveness of such registration statement. If Intuit exercises its piggyback registration rights, Intuit shall bear the cost of all discounts, commissions or other amounts payable to underwriters or brokers and fees and disbursements of counsel for Intuit with respect to sales by Intuit in connection with such offering. All other expenses incurred in connection with a piggyback registration, including without limitation all federal and "blue sky" registration and qualification fees, printers' and accounting fees, and fees and disbursements of counsel for the Company, shall be borne by the Company.

Under the Registration Rights Agreement, as soon as practicable after the Effective Time, the Company shall file a registration statement on Form S-3 for a continuous offering under Rule 415 of the Securities Act covering the registration of the Shelf Registered Securities. The Company shall effect, as soon as practicable, the effectiveness of the registration of the Shelf Registered Securities and shall maintain such effectiveness until the second anniversary of the Effective Time. Intuit's right to offer and sell Shelf Registered Securities shall be subject to the following limitations: (a) for as long as Intuit may be an affiliate of the Company as defined in the Securities Act, the amount of Shelf Registered Securities that may be sold by Intuit in each sale of Shelf Registered Securities, together with all sales of other shares of the Checkfree Common Stock for the account of Intuit within the preceding three months (excluding any sales of the Checkfree Common Stock by Intuit pursuant to the demand and piggy-back registration rights), shall not exceed the greater of (i) one percent (1%) of the shares of Checkfree Common Stock outstanding as shown by the most recent report or statement published by the Company, or (ii) the average weekly reported volume of trading in such securities on all national securities exchanges and/or reported through the automated quotation system of a registered securities association during the four calendar weeks preceding the delivery of notice required below; (b) Intuit shall give the Company written notice of its bona fide intention to sell Shelf Registered Securities at least seven business days in advance of the proposed date of sale, and the Company shall act as soon as practicable to make any necessary filings with the Commission and regulatory bodies as may be necessary to permit the sale of the Shelf Registered Securities; (c) each request to sell Shelf Registered Securities shall be for such number of shares of the Checkfree Common Stock having an aggregate sale price of at least $250,000; and (d) Intuit shall bear all discounts, commissions or other amounts payable to underwriters or brokers and fees and disbursements of counsel for Intuit in connection with sales of Shelf Registered Securities. All other expenses incurred in connection with a sale of Shelf Registered Securities, including, without limitation all federal and "blue sky" registration and qualification fees, printers' and accounting fees, and fees and disbursements of counsel for the Company shall be borne by the Company. If for any reason the shelf registration statement ceases to be effective at any time prior to the second anniversary of the Effective Time, then the Company shall use its best efforts to cause the shelf registration statement (or a new conforming shelf registration statement) to be declared effective by the Commission and remain effective until the second anniversary of the Effective Date.

The Company's obligations to register Checkfree Common Stock issued to Intuit in the Merger will expire (i) when all such shares have been registered and sold by Intuit or (ii) after the fifth anniversary of the Effective Time of the Merger; provided, that if the Company exercises its right described in (iv) above to defer a demand registration requested by Intuit, then the date for expiration of the Registration Rights Agreement will be extended by one year for each time the Company exercises the deferral right. It is Intuit's intention, as soon as reasonably practicable following effectiveness of the Merger, to reduce its beneficial ownership interest in Checkfree Common Stock to less than twenty percent (20%) of the outstanding Checkfree Common Stock through sales of the shares of Checkfree Common Stock issued in the Merger. Such sales may be made through open market sales in accordance with Rule 144 under the Securities Act, by the exercise of registration rights granted to Intuit in connection with the Merger, though private sales or otherwise

CERTAIN RELATED TRANSACTIONS

In connection with the Merger Agreement, the Company, ISC and Intuit entered into the License Agreement, substantially all the terms of which will become operative upon effectiveness of the Merger. The principal objectives of the License Agreement are to: (i) establish a continuing cooperative and services relationship between the parties whereby users of certain Intuit software products and services will continue to be able to obtain electronic banking/billpay services from ISC or the Company through such Intuit products and services; (ii) provide the means for an orderly transition in the operation and support of several services currently offered by Intuit and ISC that are now interdependent on certain technologies, equipment, facilities, personnel and support services of ISC and Intuit; (iii) set forth the terms on which the Company, ISC and Intuit will cooperate to develop, market, distribute and support certain of their respective products and services; and (iv) provide for the grant of certain technology licenses and mutual support and technical cooperation agreements among the parties designed to maintain connectivity between certain products and services offered by the parties. See "INFORMATION INCORPORATED BY REFERENCE." The principal terms of the License Agreement are summarized below.

Under the License Agreement, unless the parties otherwise mutually agree, for a period of at least three (3) years following the Effective Time of the Merger, subject to extension (the "Connectivity Term"), ISC and the Company will: (i) incorporate in their banking/billpay services certain Intuit software communications and/or connectivity protocols ("protocols") that will enable ISC's and the Company's banking/billpay services to be used through Intuit software products and services, including "Quicken" and "QuickBooks" and Intuit's "BankNOW" service; (ii) support features included in certain Intuit protocols and use reasonable efforts to support other data standards Intuit may develop; and (iii) offer their banking/billpay services to users of certain Intuit products and services on terms no less favorable than such services are offered to third parties. In addition, until the earlier of termination of the Connectivity Term or five (5) years after the Effective Time of the Merger, ISC will cause its computer processing facilities to support software protocols used in certain Intuit products and services and Intuit's OpenExchange protocols for electronic commerce activities. ISC will also cooperate with Intuit and offer support to users of Intuit products that use ISC's and/or the Company's banking/billpay services. In addition, during the Connectivity Term, ISC and the Company will authorize Intuit to resell ISC's and the Company's banking/billpay services directly to Intuit customers who use such services through features incorporated in Quicken and other Intuit "front-end" products.

During the Connectivity Term, Intuit will: (i) agree to implement and support certain protocols of ISC and the Company (or, if the parties so agree, Intuit's OpenExchange protocol) in all versions of Quicken released in the Fall of 1997 that contain banking or bill payment features; (ii) use reasonable efforts to implement and support protocols used by ISC and the Company in certain Intuit front-end products; (iii) share certain technical information with ISC and the Company necessary to enable them to develop products and services that utilize Intuit protocols; and (iv) provide support to users of Intuit products that utilize ISC's or the Company's banking/billpay services at mutually agreed service levels. Until the earlier of termination of the Connectivity Term or the fifth (5th) anniversary of the Effective Time of the Merger, Intuit will also offer banking/billpay services through designated Intuit products to financial institutions who use ISC's or the Company's banking/billpay services. Under the Agreement, Intuit will also grant ISC and the Company certain license rights to connect their banking and bill payment services to end-users through designated Intuit front-end products, including providing such services to or through a financial institution or bank for resale to end-users where such financial institution has an existing agreement with Intuit authorizing it to provide such services.

Under the License Agreement, the Company will also grant Intuit a license to use of Security APL's SECAPL Portfolio Management software and services so as to enable Intuit to make such services available from an Intuit world wide web site.

Intuit and ISC will also agree on certain terms under which they will provide each other with support for certain services and operations. ISC and Intuit will also agree that, from the Effective Time of the Merger through July 31, 1997, Intuit will conduct certain marketing activities on behalf of ISC's electronic banking and bill payment services, with the nature of such marketing activities to be determined by Intuit in its discretion. In addition, from the Effective Time of the Merger until July 31, 1997, Intuit will continue to provide customer and technical support for ISC's banking/billpay services.

Under the License Agreement, the parties mutually agree to grant each other certain non-exclusive, royalty-free licenses to use internally certain aspects of each other's technology solely for the purposes of fulfilling their obligations under the License Agreement and to use certain trademarks of each other in connection with the performance of their obligations under the License Agreement. In addition, Intuit will grant to the Company and ISC the exclusive right to provide banking/billpay services for Intuit's front-end products through the new version releases of such products scheduled in 1997, as well as certain non-exclusive rights to connect to Intuit's front-end products and services. The parties also agree to cooperate in other ways in order to mutually support and promote each other's businesses.

In consideration of several of Intuit's agreements under the License Agreement, ISC will agree to pay Intuit, in addition to certain other fees, the sum of $10 million in cash upon the closing of the Merger and an additional $10 million on or about October 1, 1997.

In connection with the Merger Agreement, Peter J. Kight, the Company's Chairman of the Board, President and Chief Executive Officer and Mark A. Johnson, the Company's President of Business Services, who beneficially own 14.9% and 3.6%, respectively, of the outstanding shares of the Company's Common Stock, have executed Stockholder Agreements pursuant to which they have agreed to vote their shares of Checkfree Common Stock in favor of the Merger and against any proposal that is in opposition to or in competition with the Merger.

Pursuant to the Merger Agreement, Intuit, as sole stockholder of ISC, will enter into a Registration Rights Agreement with the Company, which grants Intuit certain demand registration rights, "piggy-back" registration rights, and shelf registration rights. See "THE MERGER -- Resales by Affiliates; Registration Rights."

UNAUDITED PRO FORMA CONDENSED COMBINING FINANCIAL INFORMATION

The following unaudited pro forma condensed combining financial information, including the notes thereto, is qualified in their entirety by reference to, and should be read in conjunction with, the historical consolidated financial statements of the Company set forth in the Company's Transition Report on Form 10-K/A No. 1 and the historical financial statements of ISC which are included elsewhere in this Proxy Statement. Effective February 21, 1996 and May 9, 1996, the Company completed its acquisitions of Servantis and Security APL, respectively. These Acquisitions were both accounted for as purchases. The unaudited pro forma condensed combining statement of operations for the year ended December 31, 1995 combines the results of operations of Checkfree, Servantis, and Security APL for the year ended December 31, 1995 with ISC's results of operations for the twelve months ended January 31, 1996. The unaudited pro forma condensed combining statement of operations for the six months ended June 30, 1996 combines the Company's results of operations for such period with the results of operations of Servantis and Security APL prior to the Acquisitions, and the results of operations of ISC for the six months ended July 31, 1996. The unaudited pro forma condensed combining statement of operations for the three months ended September 30, 1996 combines the results of operations of the Company for the three months ended September 30, 1996, with ISC's results of operations for the three months ended October 31, 1996. The unaudited pro forma condensed combining statements of operations for all periods give effect to the Acquisitions and the Merger as if they had occurred on January 1, 1995, the beginning of the earliest period presented. The unaudited pro forma condensed combining balance sheet combines the Company's balance sheet at September 30, 1996 with ISC's balance sheet as of October 31, 1996, giving effect to the Merger as if it has occurred on September 30, 1996. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred had the Acquisitions and Merger been consummated at the beginning of the period presented, nor is it necessarily indicative of future operating results or financial position. See "INFORMATION INCORPORATED BY REFERENCE."

UNAUDITED PRO FORMA CONDENSED COMBINING BALANCE SHEET
AS OF SEPTEMBER 30, 1996
(IN THOUSANDS)

	HISTORICAL AMOUNTS CHECKFREE	HISTORICAL AMOUNTS ISC	PRO FORMA ADJUSTMENTS	TOTAL
Assets:				
Current assets:				
Cash and short term investments	$ 28,002	$ 958	$ (9,347)(9)	$ 19,613
Accounts receivable	29,540	2,712	--	32,252
Assets held for sale	19,628	--	--	19,628
Prepaid expenses and other	1,936	137	--	2,073
Total Current Assets	79,106	3,807	(9,347)	73,566
Property and equipment-net	37,103	15,558	--	52,661
Capitalized software, net	32,375	--	--	32,375
Intangible assets, net	26,865	855	42,149(9)	69,869
Other noncurrent assets	5,808	--	--	5,808
Total Assets	$181,257	$ 20,220	$ 32,802	$234,279
Liabilities and Stockholders' Equity:				
Current liabilities:				
Accounts payable and accrued and other liabilities	15,555	1,666	9,571(9)	26,792
Payable to parent	--	35,174	(35,174)(11)	--
Current portion of long-term obligations	1,231	--	--	1,231
Deferred revenues	17,790	--	--	17,790
Deferred income taxes	7,820	--	--	7,820
Total Current Liabilities	42,396	36,840	(25,603)	53,633
Accrued rent and other	310	--	--	310
Deferred income taxes	570	--	(3,428)(9)	(2,858)
Long-term obligations, less current portion	7,832	--	--	7,832
Total liabilities	51,108	36,840	(29,031)	58,917
Stockholders' equity	130,149	(16,620)	61,833(9)(10)	175,362
Total Liabilities and Stockholders' Equity	$181,257	$ 20,220	$ 32,802	$234,279

See Notes to Unaudited Pro Forma Condensed Combining Financial Information

UNAUDITED PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1995
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	HISTORICAL AMOUNTS CHECKFREE	HISTORICAL AMOUNTS SERVANTIS	PRO FORMA ADJUSTMENTS	HISTORICAL AMOUNTS SECURITY APL	PRO FORMA ADJUSTMENTS	SUBTOTAL BEFORE ISC
OPERATING REVENUES, NET	$49,330	$66,675	$(20,701)(5)	$15,670	$ --	$110,974
OPERATING EXPENSES:						
COST OF PROCESSING, SERVICING, AND SUPPORT	$30,293	$24,610	$ --	$ 7,041	$ --	$ 61,944
RESEARCH AND DEVELOPMENT	$ 6,892	$13,483	$ --	$ 1,756	$ --	$ 22,131
SALES AND MARKETING	$ 7,261	$ 6,879	$ --	$ 1,553	$ --	$ 15,693
GENERAL AND ADMINISTRATIVE	$ 4,064	$11,537	$ --	$ 1,967	$ --	$ 17,568
DEPRECIATION AND AMORTIZATION	$ 2,485	$11,097	$ 3,223(2)	$ 1,454	$2,574(7)	$ 20,833
TOTAL OPERATING EXPENSES	$50,995	$67,606	$ 3,223	$13,771	$2,574	$138,169
INCOME (LOSS) FROM OPERATIONS	$(1,665)	$ (931)	$(23,924)	$ 1,899	$(2,574)	$(27,195)
OTHER INCOME (EXPENSE):						
INVESTMENT INCOME	$ 2,135	$ 471	$ --	$ 201	$ --	$ 2,807
INTEREST EXPENSE	$ (645)	$(3,490)	$ 3,490(3)	$ --	$ --	$ (645)
	$ 1,490	$(3,019)	$ 3,490	$ 201	$ --	$ 2,162
INCOME (LOSS) BEFORE INCOME TAXES	$ (175)	$(3,950)	$(20,434)	$ 2,100	$(2,574)	$(25,033)
INCOME TAX EXPENSE (BENEFIT)	$ 40	$(1,236)	$ (7,720)(4)	$ 96	$ 120(8)	$ (8,700)
NET INCOME (LOSS)	$ (215)	$(2,714)	$(12,714)	$ 2,004	$(2,694)	$(16,333)
PREFERRED STOCK DIVIDENDS	$ --	$ (797)	$ 797(3)	$ --	$ --	$ --
NET INCOME (LOSS) APPLICABLE TO COMMON SHARES	$ (215)	$(3,511)	$(11,917)	$ 2,004	$(2,694)	$(16,333)
NET INCOME (LOSS) PER COMMON SHARE	$ (0.01)					
WEIGHTED AVERAGE SHARES OUTSTANDING	28,219		5,672(1)		2,822(6)	

	HISTORICAL AMOUNTS ISC	PRO FORMA ADJUSTMENTS	TOTAL
OPERATING REVENUES, NET	$ 6,209	$ --	$117,183
OPERATING EXPENSES:			
COST OF PROCESSING, SERVICING, AND SUPPORT	$ 4,940	$ --	$ 66,884
RESEARCH AND DEVELOPMENT	$ 2,288	$ --	$ 24,419
SALES AND MARKETING	$ 2,876	$ --	$ 18,569
GENERAL AND ADMINISTRATIVE	$ 3,083	$ --	$ 20,651
DEPRECIATION AND AMORTIZATION	$ 4,649	$ 11,052(12)	$ 36,534
TOTAL OPERATING EXPENSES	$ 17,836	$ 11,052	$167,057
INCOME (LOSS) FROM OPERATIONS	$(11,627)	$(11,052)	$(49,874)
OTHER INCOME (EXPENSE):			
INVESTMENT INCOME	$ --	$ --	$ 2,807
INTEREST EXPENSE	$ --	$ --	(645)
	$ --	$ --	$ 2,162
INCOME (LOSS) BEFORE INCOME TAXES	$(11,627)	$(11,052)	$(47,712)
INCOME TAX EXPENSE (BENEFIT)	$ (1,284)	$ (6,444)(13)	$(16,428)
NET INCOME (LOSS)	$(10,343)	$ (4,608)	$(31,284)
PREFERRED STOCK DIVIDENDS	$ --	$ --	$ --
NET INCOME (LOSS) APPLICABLE TO COMMON SHARES	$(10,343)	$ (4,608)	$(31,284)
NET INCOME (LOSS) PER COMMON SHARE			$ (0.63)
WEIGHTED AVERAGE SHARES OUTSTANDING		12,600(10)	49,313

See Notes to Unaudited Pro Forma Condensed Combining Financial Information

UNAUDITED PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 1996
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	HISTORICAL AMOUNTS CHECKFREE	PRE-ACQUISITION SERVANTIS AND SECURITY APL AND PRO FORMA ADJUSTMENTS	SUBTOTAL BEFORE ISC	HISTORICAL AMOUNTS ISC	PRO FORMA ADJUSTMENTS	TOTAL
OPERATING REVENUES, NET	$ 51,040	$ 26,434	$ 77,474	$ 10,223	$ --	$ 87,697
OPERATING EXPENSES:						
COST OF PROCESSING, SERVICING, AND SUPPORT	35,368	9,903	45,271	5,816	--	51,087
RESEARCH AND DEVELOPMENT	9,825	1,577	11,402	1,333	--	12,735
SALES AND MARKETING	17,337	3,174	20,511	2,068	--	22,579
GENERAL AND ADMINISTRATIVE	7,321	3,455	10,776	2,659	--	13,435
IN PROCESS RESEARCH AND DEVELOPMENT	122,358	(122,358)	--	--	--	--
DEPRECIATION AND AMORTIZATION	6,997	3,301	10,298	4,340	23(12)	14,661
TOTAL OPERATING EXPENSES	199,206	(100,948)	98,258	16,216	23	114,497
INCOME (LOSS) FROM OPERATIONS	(148,166)	127,382	(20,784)	(5,993)	(23)	(26,800)
OTHER INCOME (EXPENSE):						
INVESTMENT INCOME	1,659	125	1,784	--	--	1,784
INTEREST EXPENSE	(325)	--	(325)	--	--	(325)
	1,334	125	1,459	--	--	1,459
INCOME (LOSS) BEFORE INCOME TAXES	(146,832)	127,507	(19,325)	(5,993)	(23)	(25,341)
INCOME TAX EXPENSE (BENEFIT)	(8,629)	5,105	(3,524)	--	(1,734)(13)	(5,258)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	$(138,203)	$ 122,402	$(15,801)	$ (5,993)	$ 1,711	$ (20,083)
INCOME (LOSS) PER COMMON SHARE	$ (3.69)					$ (0.37)
WEIGHTED AVERAGE SHARES OUTSTANDING	37,420	3,610			12,600(10)	53,630

See Notes to Unaudited Pro Forma Condensed Combining Financial Information

UNAUDITED PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1996
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Historical Amounts Checkfree	Historical Amounts ISC	Pro Forma Adjustments	Total
Operating Revenues, net	$ 32,662	$ 7,116	$ -	$39,778
Operating expenses:				
Cost of processing, servicing, and support	21,753	2,893	-	24,592
Research and development	7,205	1,801	-	9,006
Sales and marketing	5,755	2,946	-	8,701
General and administrative	4,812	1,740	-	6,502
In process research and development	-	-	-	-
Depreciation and amortization	5,400	1,887	380 (12)	7,667
Total operating expenses	44,925	11,213	380	56,518
Loss from operations	(12,263)	(4,097)	(380)	(16,740)
Other income (expense):				
Investment income	519	-	-	519
Interest expense	(148)	-	-	(148)
	371	-	-	371
Loss before income taxes	(11,892)	(4,097)	(380)	(16,369)
Income tax expense (benefit)	(4,162)	-	(1,455) (13)	(5,617)
Loss before extraordinary item	$ (7,730)	$(4,097)	$ (1,075)	$(10,752)
Loss per common share	$ (0.19)			$ (0.20)
Weighted average shares outstanding	41,620		12,600 (10)	54,220

See Notes to Unaudited Pro Forma Condensed Combining Financial Information

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINING FINANCIAL INFORMATION

1. Adjustment to reflect the issuance of 5,671,726 shares of the Company's common stock in exchange for all shares of Servantis' common and preferred stock.

2. Adjustment to reflect additional depreciation and amortization expense associated with the increase in fair value of the Servantis assets acquired over their historical basis.

3. Adjustment to eliminate Servantis' interest expense to reflect the pay-off of long-term debt, and elimination of Servantis' preferred stock dividends.

4. Adjustment to reflect income tax effects of taxable, pre-tax pro forma adjustments at the statutory rate.

5. Adjustment to reflect the impact in operating revenues for purchased profits. The impact of purchased profits of $20 million is fully amortized within the first twelve months after the Servantis Acquisition.

6. Adjustment to reflect the issuance of 2,822,325 shares of the Company's common stock in exchange for all shares of Security APL's common stock.

7. Adjustment to reflect additional amortization expense associated with the increase in fair value of the Security APL assets over their historical basis.

8. Adjustment to reflect income tax effects of taxable, pre-tax pro forma adjustments at the statutory rate and the impact of federal taxes on Security APL's historical amounts. Prior to the Security APL Acquisition, Security APL was an S corporation.

9. Adjustments to reflect the change in net assets for the Merger based upon preliminary estimates of fair market value as follows:

(In thousands)	
Checkfree common stock	$165,375
Net present value of cash to be paid upon closing ($10 million) and on October 1, 1997 ($10 million), pursuant to the Services and License Agreement plus estimated	21,756
acquisition costs	--------
Total purchase price	$187,131
	=======
Allocation of purchase price:	
In-process research and development	120,000
Other intangibles	43,004
Property and equipment	15,558
Deferred income taxes	3,428
Other, net	2,141

	184,131
Cash infusion from Intuit	3,000
Total	$187,131

10. Adjustment to reflect the issuance of 12,600,000 shares of the Company's common stock at $13.13 per share in exchange for all shares of ISC's common stock, net of stock registration costs of $162,000 and the elimination of ISC's stockholders' equity. The value per share reflects an estimated 30% illiquidity discount for the stock issued pursuant to the Merger.

11. Adjustment to reflect ISC's payable to parent, which will be forgiven on the Merger date.

12. Adjustment to reflect additional amortization expense associated with the increase in fair value of ISC assets acquired over their historical basis. The connectivity and exclusivity intangible asset of $11 million is fully amortized within the first twelve months of the Merger.

13. Adjustment to reflect income tax effects of taxable, pre-tax pro forma adjustments at the statutory rate and the impact of income taxes on ISC's historical amounts.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINING FINANCIAL STATEMENTS

Note A: The unaudited pro forma condensed combining balance sheet of the Company and ISC has been prepared as if the Merger was completed as of September 30, 1996 and was accounted for as a purchase. The total purchase price of $187.1 million was allocated to assets acquired and liabilities assumed based upon ISC's October 31, 1996 balance sheet. Actual balance sheets of the Company and ISC will be combined as of the effective date of the Merger.

The allocation of the ISC purchase price among the identifiable tangible and intangible assets and purchased research and development is based on preliminary estimates of the fair market value of those assets. Final determination of the allocation of the purchase price will be based on independent appraisals expected to be completed shortly after the Merger is consummated. Accordingly, final amounts could differ from those used herein.

Purchased research and development was identified and valued through interviews and analysis of data concerning each developmental project. Expected future cash flows of each developmental project were discounted to present value taking into account risks associated with the inherent difficulties and uncertainties in completing the project, and thereby achieving technological feasibility, and risks related to the viability of and potential changes in future target markets. The above analysis and valuation resulted in a value of $90.6 million for purchased research and development for Servantis, $28.8 million for Security APL, and a preliminary estimate of $120.0 million for ISC, which have not yet reached technological feasibility and do not have alternative future uses.

Note B: The Company's statement of operations for the year ended December 31, 1995 has been combined with the Servantis and Security APL statements of operations for the year ended December 31, 1995, along with the ISC statement of operations for the twelve months ended January 31, 1996. The Company's statement of operations for the six month period ended June 30, 1996 has been combined with the Servantis and Security APL statements of operations prior to the Acquisitions, along with the ISC statement of operations for the six months ended July 31, 1996. The Company's statement of operations for the three months ended September 30, 1996 has been combined with the ISC statement of operations for the three months ended October 31, 1996. Actual income statements of the Company, Servantis and Security APL were combined at the effective date of the Acquisitions, and actual income statements of the Company and ISC will be combined from the effective date of the Merger, with no retroactive restatement. The unaudited pro forma condensed combining financial statements, including the notes thereto, should be read in conjunction with the historical consolidated financial statements of the Company and ISC, which are included elsewhere in this Proxy Statement.

Note C: The unaudited pro forma condensed combining statements of operations for the Company, Servantis, Security APL and ISC have been prepared as if the Acquisitions and the Merger were completed as of January 1, 1995, the beginning of the earliest period presented. The unaudited pro forma combined net loss per share is based on the weighted average number of common shares of the Company common stock outstanding during the periods, adjusted to give effect to shares assumed to be issued had the Acquisitions and the Merger taken place as of January 1, 1995.

Note D: The unaudited pro forma condensed combining statements of operation do not include the value of the $90.6 million, $28.8 million and $120.0 million (no income tax effect) of purchased research and development arising from the Servantis Acquisition, the Security APL Acquisition and the estimate of the Merger, respectively, as they are material, nonrecurring charges. Likewise, an extraordinary loss of $365,000 (net of income tax benefit of $205,000) arising from the extinguishment of certain Servantis debt as part of the Servantis Acquisition has not been reflected in the unaudited pro forma condensed combining statements of operations.

CHECKFREE CORPORATION

GENERAL

The Company is a leading provider of electronic commerce services, financial application software and related products for financial institutions and businesses and their customers. The Company services over 780,000 consumers, 1,000 businesses and approximately 850 financial institutions (including the 500 largest banks in the United States). The Company has also signed agreements with over 165 banks to provide electronic home banking services for the customers of those banks. To maximize the efficiency and effectiveness of its product development and distribution strategies, the Company has established several strategic alliances with companies such as AT&T, ADP, Block Financial, CyberCash, EDS, Fiserv, FiTech, MasterCard, Premier, Spyglass and Spry.

The Acquisitions further Checkfree's strategy of providing an expanding range of convenient, secure and cost-effective electronic commerce services and related products to financial institutions and businesses and their customers. Servantis' experience as a provider of electronic commerce and financial application software and services to financial institutions substantially enhances the Company's presence in the financial institutions market of the electronic commerce segment. Security APL's experience as a vendor of portfolio management and software services to institutional investment managers and investment services to consumers enhances the Company's presence in the consumer and financial institutions market of the electronic commerce industry. The integration of Checkfree's electronic transaction processing and remote delivery technology with Servantis' software products and market presence and Security APL's portfolio management and software services has created a single vendor of electronic commerce services and related products to an expanded customer base of financial institutions and businesses and their customers.

Prior to the Servantis Acquisition, the Company operated its business in one business segment, the electronic commerce segment. With the Servantis Acquisition, the Company added financial application software as a second business segment. The electronic commerce segment includes electronic home banking, electronic bill payment, automatic accounts receivable collection, electronic accounts payable processing, investment portfolio management services and investment trading and reporting services. These services are primarily directed to financial institutions and businesses and their customers. The financial application software segment includes end-to-end software products for ACH processing, account reconciliation, wire transfer, mortgage loan origination and servicing, lease accounting and debt recovery. These products and services are primarily directed to financial institutions and large corporations.

THE SERVANTIS ACQUISITION AND SERVANTIS

On February 21, 1996, Checkfree acquired Servantis for approximately $165.1 million, consisting of the issuance of 5.7 million shares of Checkfree Common Stock valued at $20.00 per share and $42.5 million in cash to repay Servantis' long-term debt, in addition to the assumption of $38.3 million of liabilities. Founded in 1971, Servantis is a leading provider of electronic commerce and financial application software and services for businesses and financial institutions (including the 500 largest banks and over 350 mortgage institutions in the United States). Servantis designs, markets, licenses and supports software products for electronic corporate banking, home banking, financial lending, regulatory compliance and document imaging. In addition, Servantis offers software consulting and remote processing services. In addition, Servantis offers software consulting and remote processing services. The Company accounted for the Servantis Acquisition using the purchase method of accounting.

THE SECURITY APL ACQUISITION AND SECURITY APL

On May 9, 1996, Checkfree acquired Security APL for approximately $53.3 million, consisting of the issuance of 2.8 million shares of Checkfree Common Stock valued at $18.50 per share, and the assumption of $5.5 million of liabilities. Security APL is a leading vendor of portfolio management and software services for institutional investment managers. Security APL has been developing and providing advanced investment analysis systems since it was founded in 1978. Security APL believes that it is the only full-service provider of fully-integrated portfolio management, performance measurement, trading and reporting systems for the investment manager. Security APL's clients include money management firms, bank trust departments, insurance companies and brokerage houses. Security APL added an additional investment information service by establishing its PAWWS division in August 1994. The PAWWS worldwide web site offers individuals some of the same tools professional money managers have to gather the information they need to make their investment decisions to enter trades and to monitor the status of their investments. Some of the services available through PAWWS include portfolio accounting and allocation, research information provided by various data suppliers, free stock quotes, stock host lists and brokerage services. Currently, Security APL monitors more than 300,000 portfolios for approximately 1,500 portfolio managers at over 150 firms. The Company accounted for the Security APL Acquisition using the purchase method of accounting.

ACQUISITION

Acquisition was incorporated in Delaware in September 1996 and is a wholly owned subsidiary of the Company formed for the purpose of facilitating the Merger. Immediately after the consummation of the Merger and effective as of the Effective Time, Acquisition will be merged with and into ISC, ISC will survive the Merger and become a wholly owned subsidiary of the Company, and the separate existence of Acquisition will cease.

The current sole director of Acquisition is Peter J. Kight. Mr. Kight is also a director and executive officer of Checkfree. Upon consummation of the Merger, the number of directors of ISC will remain at one.

The current executive officers of Acquisition are as follows:

Peter J. Kight..................	President
Mark A. Johnson................	Executive Vice President
James S. Douglass...............	Vice President
John M. Stanton.................	Treasurer and Assistant Secretary
Curtis A. Loveland..............	Secretary
Robert J. Tannous...............	Assistant Secretary

OTHER INFORMATION

Checkfree Common Stock is traded in the over-the-counter market under the Nasdaq symbol "CKFR." Since information regarding the Company is readily available to investors, the Commission permits this document to be abbreviated by incorporating information regarding the Company by reference to certain reports and other documents filed with the Commission. See "INFORMATION INCORPORATED BY REFERENCE." Other than as described herein, there have been no material changes in the affairs of the Company since the filing of its Report on Form 10-Q/A No. 1 for the quarter ended September 30, 1996, that have not been described in a subsequent report filed with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

EXECUTIVE COMPENSATION

The following table sets forth certain information regarding compensation paid during the period from July 1, 1995 through June 30, 1996 to the Company's Chief Executive Officer and each of the Company's other executive officers whose annual salary and bonus exceeded $100,000 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
				AWARDS	
NAME AND PRINCIPAL POSITION	YEAR(1)	SALARY ($)	BONUS ($)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION ($)(2)
PETER J. KIGHT	1996	250,000	33,000	1,000	0
President, Chief Executive Officer,	1995	248,173	33,000	0	0
and Chairman of the Board	1994	154,615	79,333	0	0
MARK A. JOHNSON	1996	161,538	13,500	1,000	1,820
President of Business Services	1995	154,711	38,000	0	1,698
	1994	138,077	20,000	0	1,365
MARK D. PHELAN	1996	155,000	23,300	0	899
Executive Vice President of	1995	154,904	47,800	0	1,763
Corporate Services	1994	149,615	29,800	0	1,831
HOWARD S. BAULCH(3)	1996	129,904	11,813	0	2,781
Executive Vice President of Systems,	1995	124,904	35,000	0	2,541
Support and Development	1994	51,231	12,500	263,070	0
JAMES M. GARRETT(4)	1996	51,162	108,750	25,000	0
Executive Vice President of					
Sales and Marketing					

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(1) Reference to 1996 is for the period from July 1, 1995 to June, 30, 1996, while reference to 1995 and 1994 is for the period from January 1 to December 31 for those respective years.

(2) Includes matching contribution to the Company's 401(k) Plan.

(3) Mr. Baulch was employed by the Company effective July 28, 1994.

(4) Mr. Garrett was employed by the Company effective February 21, 1996 and resigned in July 1996.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth certain information concerning the grant of stock options to the Named Executive Officers under the 1995 Stock Option Plan:

Individual Grants (1)

(a)	(b)	(c)	(d)	(e)	(f)(g)	
Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Sh)	Expiration Date	Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms (1)(2)	
					5%$	10%$
Peter J. Kight	1,000	0.2%	19.38	04/19/06	$12,188	$30,887
Mark A. Johnson	1,000	0.2%	19.38	04/19/06	$12,188	$30,887
Mark D. Phelan	0	-	-	-	-	-
Howard S. Baulch	0	-	-	-	-	-
James M. Garrett	25,000	5.0%	21.88	02/21/06	$344,005	$871,777

(1)This table covers the period from July 1, 1995 to June 30, 1996.

(2)The dollar amounts in these columns are the product of (a) the difference between (1) the product of the per-share market price at the date of grant and the sum of 1 plus the assumed rate of appreciation (5% and 10%) compounded over the term of the option (ten years) and (2) the per-share exercise price and (b) the number of shares underlying the grant.

(3)The appreciation rates stated are arbitrarily assumed, and may or may not reflect actual appreciation in the stock price over the life of the option. Regardless of any theoretical value which may be placed on a stock option, no increase in its value will occur without an increase in the value of the underlying shares. Whether such an increase will be realized will depend not only on the efforts of the recipient of the option, but also upon conditions in the Company's industry and market area, competition, and economic conditions, over which the optionee may have little or no control.

AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUE TABLE

The following table provides certain information regarding the number and value of stock options held by the Company's Named Executive Officers at June 30, 1996.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END ($)(1)	
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Peter J. Kight	-0-	-0-	315,684	211,456	5,986,947	3,991,298
Mark A. Johnson	-0-	-0-	72,812	49,542	1,386,705	924,482
Mark D. Phelan	105,355	1,960,393	300,089	-0-	5,715,195	-0-
Howard S. Baulch	-0-	-0-	-0-	210,456	-0-	4,008,135
James M. Garrett	-0-	-0-	1,974	26,316	36,233	24,155

(1) Represents the total gain which would be realized if all in-the-money options held at year end were exercised, determined by multiplying the number of shares underlying the options by the difference between the per share option exercise price and the per share fair market value at year end (19.875 on June 28, 1996). An option is in-the-money if the fair market value of the underlying shares exceeds the exercise price of the option.

The following Compensation Committee Report and Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

REPORT OF THE STOCK OPTION AND COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Stock Option and Compensation Committee has the authority and responsibility to determine and administer the Company's officer compensation policies and to establish the salaries of executive officers, the formula for bonus awards to executive officers, and the grant of stock options to executive officers and other key employees under the Company's 1995 Stock Option Plan. The Stock Option and Compensation Committee consists solely of independent directors of the Company who are not eligible to receive any stock options under the 1995 Stock Option Plan, except pursuant to any formulas provided in the plan. In general, the philosophy of the Stock Option and Compensation Committee is to attract and retain qualified executives, reward current and past individual performance, provide short-term and long-term incentives for superior future performance, and relate total compensation to individual performance and performance of the Company.

The determination of executive officer base salaries for transition fiscal 1996, including increases to base salaries, was based primarily on subjective factors, such as the Stock Option and Compensation Committee's perception of individual performance and the executive officer's contribution to the overall performance of the Company, and not on specific criteria. No specific weight was given to any of these factors because each of these factors was considered significant and the relevance of each varies depending upon an officer's responsibilities. These factors were also taken into account when the Stock Option and Compensation Committee established Peter J. Kight's salary at $250,000 for transition fiscal 1996.

The purposes of the Company's 1995 Stock Option Plan is to provide long-term incentives to key employees and motivate key employees to improve the performance of the Company's Common Stock. Stock option awards are considered annually by the Stock Option and Compensation Committee. The value of the stock options awarded is entirely dependent upon the Company's stock performance over a period of time.

The number of shares of the Company's Common Stock subject to the options granted during transition fiscal 1996 was determined based on a subjective evaluation of the past performance of the individual, the total compensation being paid to the individual, the individual's scope of responsibility, and the anticipated value of the individual's contribution to the Company's future performance. No specific weight was given to any of these factors. Although information as to the options awarded to each executive officer during previous years was reviewed by the Stock Option and Compensation Committee, the Stock Option and Compensation Committee did not consider the total amount of options held by an officer in determining the size of an option awarded for transition fiscal 1996.

Each stock option awarded during transition fiscal 1996 had an exercise price equal to the fair market value of the underlying Common Stock of the Company on the date of the grant. The options granted during transition fiscal 1996 vest and become exercisable at the rate of 20% per year if the option holder remains employed at the time of vesting and terminate ten (10) years from the date of grant. All options granted during transition fiscal 1996 to employees are subject to certain forfeiture restrictions.

The Budget Reconciliation Act of 1993 amended the Code to add Section 162(m) which bars a deduction to any publicly held corporation for compensation paid to a "covered employee" in excess of $1,000,000 per year. The Compensation Committee does not believe that this law will impact the Company in the near term because the current level of compensation for each of the Company's executive officers is well below the $1,000,000 salary limitation.

STOCK OPTION AND COMPENSATION COMMITTEE

George R. Manser
Eugene F. Quinn
(For transition fiscal 1996)

PERFORMANCE GRAPH

COMPARISON OF CUMULATIVE TOTAL RETURN
AMONG THE COMPANY, THE NASDAQ STOCK MARKET - US INDEX

AND THE S&P COMPUTER SOFTWARE & SERVICES INDEX

The following Performance Graph compares the performance of the Company with that of the Nasdaq Stock Market - US Index and the S&P Computer Software & Services Index, which is a published industry index. The comparison of the cumulative total return to stockholders for each of the periods assumes that $100 was invested on September 27, 1995 (the effective date the Company's Common Stock was registered under the Securities Exchange Act of 1934, as amended), in the Common Stock of the Company, and in the Nasdaq Stock Market - US Index and the S&P Computer Software & Services Index and that all dividends were reinvested.

	Checkfree Corporation	S&P	NASDAQ
9/95	100	100	100
12/95	107.5	103.7257	100.9016
6/96	99.375	132.0183	113.65

INTUIT SERVICES CORPORATION

ISC was originally incorporated in Delaware on December 2, 1989 under the name "National Payment Clearinghouse, Inc." ISC was acquired by Intuit in July 1994 and later renamed Intuit Services Corporation. At the time of the acquisition, ISC processed the online banking transactions of users of Microsoft Money software for four banks who offered online banking to Microsoft Money users. Following the acquisition, Intuit expanded ISC's business, constructed a network hub (which is capable of routing multiple simultaneous connections to different services available through ISC) and added security features designed to protect transmitted date and to authenticate users before they are permitted to access bank information.

Today, ISC is an operations facility for Intuit and the online products of other companies. The operations conducted by ISC include data processing and storage, maintenance and development of multiple online connections to other entities (including companies other than Intuit), and telephone support for both customer service and technical support. All online products serviced by ISC use the same basic architecture for communicating with ISC, which is known as the "hub." The hub performs the routing and support of all requests made by the online product software (or the "client") and is also responsible for maintaining security for all communications sessions. Each product requires data storage and some processing and these functions are performed by servers maintained by ISC. Once the hub determines the type of request from the client, it routes the request to the appropriate server for the product in question, and a communications session between the client and server is established.

ISC's principal business is to provide online electronic banking and bill payment processing services (including Intuit's Online Banking and Online Bill Payment services) to approximately 40 financial institutions (including six of the ten largest domestic banks and American Express) and their customers, and to a variety of merchants. ISC also supports BankNOW(TM), an Intuit home banking service that is available on America Online, and Microsoft Money. ISC's online banking and online bill payment business is described more fully below.

Online Banking. Online banking provides bank customers with the ability to download account statement data from their bank, perform transfers of funds from one account to another account at the same bank, and to send customer service questions to their banks via electronic mail. ISC currently supports online banking for over 40 institutions. On a daily basis, ISC receives the customer statement information as of the previous day as well as any electronic mail messages. All of this information is stored on ISC's computers so that when the customer dials in to receive information, the hub only needs to access the appropriate ISC server. ISC performs all customer service, bank and technical support.

Online Bill Payment. Online bill payment allows a consumer to issue a payment instruction for the payment of any bill. ISC processes the payment request and determines and executes the appropriate means of remittance delivery. The remittance methods currently available through ISC are: paper check via United States mail, paper check via overnight messenger; and electronically, through various connections maintained and established by ISC. The printing of the paper checks is performed by an outside entity, which ISC manages. ISC will also determine if a better address or method exists for making the payment than what the customer originally instructed; for instance, if the payee has a different address or accepts electronic payments. In addition to the above services, online bill payment also permits customers to send electronic mail messages and payment inquiries to billing entities. ISC is responsible for following up with and resolving all such inquiries, and performs customer service, billing and technical support for this service.

In addition to these services, ISC currently supports the following Intuit services: Quicken Affinity Card download, American Express Card download, Portfolio Price Update, Quicken Financial Network ("QFN"), Intuit Online Marketplace, Intuit Online registration, and Investor Insight(TM). These electronic financial services are all features accessible by the current versions of Intuit's Quicken product, although QFN and Investor Insight can be used without Quicken. Following the Merger, Intuit will retain all rights to these online financial services, but in order to provide a smooth transition for these businesses after the Company's purchase of ISC, pursuant to the License Agreement, ISC would continue to provide the back-end processing for these Intuit financial services under Intuit server protocols in exchange for fees from Intuit. See "CERTAIN RELATED TRANSACTIONS."

ISC has approximately 190 employees and conducts its operations from two facilities located in Downers' Grove and Aurora, Illinois.

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

OVERVIEW

ISC was originally incorporated in Delaware on December 2, 1989 under the name "National Payment Clearinghouse, Inc." ISC was acquired by Intuit in July 1994 and later renamed Intuit Services Corporation. At the time of the acquisition, ISC processed the online banking and online bill payment transactions of users of Microsoft Money software for four banks who offered online services to Microsoft Money users and operated a telephone-based bill payment service and had approximately 20,000 customers for its telephone bill payment services and approximately 5,000 customers who were users of Microsoft Money. Following the acquisition, Intuit expanded ISC's business, constructed ISC's network hub (which is capable of routing multiple simultaneous connections to different services available through ISC), and added security features designed to protect transmitted data and to authenticate users before granting them access to bank information and, as of October 31, 1996, the number of users served by ISC had grown to approximately 460,000 users, including approximately 330,000 Quicken users and approximately 110,000 Microsoft Money users. From Intuit's acquisition of ISC to date, the capital expenditures required for the expansion of ISC's business were funded by Intuit and have totaled approximately $20 million in the aggregate. These expenditures were used to expand ISC's business to include Quicken and accommodate a significantly increased number of Microsoft Money users and included expenditures for the development of a network hub and a fully redundant network infrastructure and increased processing capacity. In addition, Intuit has funded operating losses of ISC for fiscal 1995, fiscal 1996 and the three months ended October 31, 1996 of approximately $5.3 million, $13.6 million and $4.1 million, respectively. Without regard to the proposed acquisition by the Company, ISC does not believe that it will require substantial future capital expenditures to maintain and service its current level of business, however, in the event that products served by ISC experience a significant increase in users or in the event ISC were to provide processing services for other products, significant capital expenditures could be required to service any increased business. There can be no assurance that ISC will ever achieve or maintain profitability. Furthermore, as a result of the historical capital expenditures and equipment purchases made subsequent to Intuit's acquisition of ISC in order to expand ISC's business to serve additional users, customers and products, ISC's costs of sales and gross profit will, in the future, be adversely affected by depreciation charges relating to these expenditures and purchases.

Today, ISC is an operations facility for Intuit and the online products of other companies. ISC's principal business is to provide online electronic banking and bill payment processing services (including Intuit's online banking and online bill payment services in Quicken) to approximately 40 financial institutions (including six of the ten largest domestic banks and American Express), their customers, and a variety of merchants. ISC also supports BankNOW, an Intuit home banking and bill payment service available through America Online, and banking, bill payment and stock quote services that are accessible through Microsoft Money. ISC's current operations include data processing and storage, maintenance and development of multiple online connections to other entities (including companies other than Intuit), and telephone and electronic mail support for both customer service and technical support.

A substantial majority of ISC's net revenue to date has been derived from online banking and online bill payment services through Quicken, which accounted for approximately 72% of net revenue in the year ended July 31, 1996 and 69% of net revenue for the three months ended October 31, 1996. ISC expects that online banking and online bill payment revenues through Quicken will continue to account for a substantial majority of its total revenues for the foreseeable future.

The business of providing online banking and bill payment services is relatively new and a decline in demand for, or failure to achieve broad market acceptance of, electronic banking or bill payment services, whether as a result of competition, technological change or otherwise, would have a material adverse effect on ISC's business, operating results and financial condition. A decline in net revenue from these services could also have a material adverse effect on sales of other ISC services. ISC's future financial performance will depend in part on the successful development, introduction and customer acceptance of its other existing services and services that it may introduce in the future. There can be no assurance that ISC will continue to be successful in marketing any of its current or new services.

The market for ISC's services is highly competitive, and ISC may experience increasing pricing pressures from its current competitors and new market entrants. Any material reduction in the price of ISC's services would materially adversely affect ISC's business, operating results and financial condition. In particular, because the continued operation of ISC's transaction processing facilities involves a relatively high level of fixed costs, ISC may be unable to reduce its operating expenses in a timely manner in response to price reductions and lower revenues, which would have a material adverse effect on ISC's operating results.

ISC has experienced significant fluctuations in its operating results and anticipates that these fluctuations will continue. Operating results may fluctuate due to factors such as the demand for ISC's services, the timing of introduction of new services and price reductions by ISC and its competitors, ISC's ability to develop and market new services, the timing and amount of sales and marketing expenditures, the existence of technological difficulties in processing systems and general economic conditions. Accordingly, ISC believes that period-to-period comparisons of its results of operations may not be meaningful and should not be relied upon as any indication of ISC's future performance.

Subsequent to Intuit's acquisition of ISC, Intuit began performing certain services for ISC, including general management, accounting, cash management and other administrative services. The amounts charged for these services have been determined based on proportional cost allocations and have been agreed to by the managements of ISC and Intuit. In the opinion of ISC's management, the allocation methods used are reasonable. Such allocations, however, are not necessarily indicative of the costs that would have been incurred had ISC continued to operate independent of Intuit. No formal agreement currently exists which specifies the nature of services to be provided by Intuit to ISC, or the charges for such services. Therefore, these amounts are not necessarily indicative of the future charges that may be incurred by ISC.

RESULTS OF OPERATIONS

ISC was acquired by Intuit on July 15, 1994. With the exception of the charge for purchased research and development of $1.4 million, operating activity during the period between July 15, 1994 and July 31, 1994, which is included in the results of operations of National Payment Clearinghouse, Inc. (the "Predecessor"), was not significant. The charge of $1.4 million has not been reflected in the percentages below. The following table sets forth certain selected financial information as a percentage of ISC's net revenue for the periods indicated:

As a Percentage of Net Revenue

	Predecessor Entity August 1, 1993 through July 14, 1994	Year Ended July 31 1995	1996	Three Months Ended October 30 1995	1996
Net Revenue	100%	100%	100%	100%	100%
Cost of sales	38	49	54	60	28
Amortization of purchased software	--	48	10	26	-
Gross profit	62	3	35	14	72
Costs and expenses					
Customer service and technical support	15	16	35	48	28
Selling and marketing	13	46	29	43	42
Research and development	26	52	18	67	28
General and administrative	14	60	34	64	25
Amortization of goodwill and intangibles	-	60	13	33	6
Total operating expenses	68	234	130	255	129
Net loss before tax benefit	(6)	(231)	(94)	(241)	(58)
Tax benefit	-	65	-	-	-
Net loss	(6)%	(166)%	(94)%	(241)%	(58)%

NET REVENUE

ISC's net revenue is comprised primarily of fees received from financial institutions for providing online banking, bill payment processing and other services. Service revenues are recognized in the month the services are provided. Net revenue from development agreements is recognized upon achievement of contractual milestones.

ISC's net revenue increased 120% from $1.5 million for the period from August 1, 1993 to July 15, 1994 (the "Predecessor Period") to $3.2 million for the fiscal year ended July 31, 1995 ("Fiscal 1995"), by 349% to $14.3 million for the fiscal year ended July 31, 1996 ("Fiscal 1996") and increased by 406% from $1.4 million for the three months ended October 31, 1995 to $7.1 million for the three months ended October 31, 1996. The increase from the Predecessor Period to Fiscal 1995 was due primarily to the introduction of online banking and bill payment services with four financial institutions through Microsoft Money. The increase from Fiscal 1995 to Fiscal 1996 was due primarily to the introduction of online banking and bill payment services through Quicken as well as the addition of approximately 35 financial institutions to ISC's program. The increase from the three months ended October 31, 1995 to the three months ended October 31, 1996 was due primarily to the increased number of users served by ISC resulting from the introduction of online banking and bill payment services through Quicken on October 24, 1995. In Fiscal 1995, Fiscal 1996, and the three months ended October 31, 1996, approximately 13%, 72%, and 69%, respectively, of net revenue was derived from Intuit products.

ISC derives nearly half its net revenue from five participating financial institutions, including Wells Fargo Bank (after taking into account its acquisition of First Interstate Bank) which accounted for approximately 17% and 25.9% of ISC's net revenue for Fiscal 1996 and the three months ended October 31, 1996. Two customers, Chemical Bank and Chase Manhattan Bank, have announced their intention to merge. Had this merger been effective during Fiscal 1996, the combined entity would have accounted for approximately 20% and 13.5% of ISC's net revenue in Fiscal 1996 and the three months ended October 31, 1996. ISC performs credit evaluations of its customers and to date has not experienced any significant losses. However, the insolvency of a financial institution customer could materially adversely affect the Company's revenue streams for a period of time. To date, ISC has not recognized any net revenue from international sales or operations.

COST OF SALES AND GROSS PROFIT

Cost of sales includes telecommunications expense, payment remittance costs (both for payments made electronically and by paper draft), personnel expenses, depreciation of processing equipment and amortization of purchased technology. Cost of sales, including amortization of purchased software, increased 460% from $0.6 million, or 38% of net revenue, for the Predecessor Period to $3.1 million, or 49% of net revenue, for Fiscal 1995, increased 200% to $9.3 million, or 54% of net revenue, for Fiscal 1996 and increased by 182% from $1.2 million, or 86% of net revenue, for the three months ended October 31, 1995 to $2.0 million, or 28% of net revenue, for the three months ended October 31, 1996. The increase in Fiscal 1995 was due to the commencement of online banking and bill payment through Microsoft Money, investment in additional processing capacity to connect more financial institutions, handle a higher volume of transactions and to provide processing capability for Quicken and the amortization of purchased technology as a result of the acquisition by Intuit. The increases in Fiscal 1996 and the three months ended October 31, 1996 were primarily due to significantly higher online banking and bill payment transaction volumes, which resulted in increased communications costs and customer remittance costs, and continued investment in processing capacity to handle a substantial increase in the number of users served by ISC. Excluding acquisition-related amortization costs, cost of sales would have increased 167% from $0.6 million for the Predecessor Period to $1.6 million for Fiscal 1995 and increased 388% to $7.8 million for Fiscal 1996. ISC had no amortization costs charged to cost of goods sold during the three months ended October 31, 1996.

As a result of the above factors, and as a result of an approximately $1.5 million expense in both Fiscal 1995 and Fiscal 1996 representing amortization of purchased technology incurred in connection with the acquisition of the Predecessor by Intuit (the "Purchase"), gross profit decreased from $0.9 million, or 62% of net revenue, for the Predecessor Period, to $0.1 million, or 3% of net revenue, for Fiscal 1995, increased to $5.1 million, or 35% of net revenue, for Fiscal 1996 and increased from $0.2 million or 14% of net revenue, for the three months ended October 31, 1995 to $5.1 million, or 72% of net revenue, for the three months ended October 31, 1996. The decrease in gross profit as a percentage of net revenue from the Predecessor Period to Fiscal 1995 was due primarily to the amortization of purchased software of approximately $1.5 million in Fiscal 1995 and to a lesser extent, to the increased cost of sales for Fiscal 1995 described above. Without this expense, gross profit would have been approximately $1.7 million, or approximately 52% of net revenue for Fiscal 1995. The increase in gross profit as a percentage of net revenue from Fiscal 1995 to Fiscal 1996 was due to a decrease from approximately 47.9% to approximately 10.3% of net revenue in the amount of amortization of purchased software as a percentage of net revenue for Fiscal 1996, and significantly higher net revenue offset by the increased cost of sales described above. The increase in gross profit as a percentage of net revenue from the three months ended October 31, 1995 to the three months ended October 31, 1996 was due primarily to a decrease from 26% to 0% of net revenue in the amount of amortization of purchased software as a percentage of net revenue for the three months ended October 31, 1996, and significantly higher net revenue offset by the increased cost of sales described above. In the future, gross profit may be adversely affected by several factors including price reductions, competition, increases in cost of sales (including higher telecommunication and/or postage rates), depreciation charges relating to historical capital expenditures and equipment purchases, changes in customer preferences, significant increases in the number of users served by ISC or changes in processing or other technology required for ISC's business. Currently, without regard to the acquisition by the Company, ISC does not anticipate that cost of sales will increase at rates as high as historical rates because of the non-recurring nature of a significant portion of the expenses charged to cost of sales in the prior two fiscal years.

COSTS AND EXPENSES

Customer Service and Technical Support. Customer service and technical support expenses consist of personnel, equipment and communication costs required to respond to financial institution and end user customer questions via telephone and electronic mail. Customer service and technical support expenses increased from $0.2 million, or 15% of net revenue, in the Predecessor Period, to $0.5 million, or 16% of net revenue, for Fiscal 1995 and by approximately 913% to $5.0 million, or 35% of net revenue, for Fiscal 1996 and increased by 233% from $0.6 million, or 43% of net revenue, for the three months ended October 31, 1995 to $2.0 million, or 28% of net revenue, for the three months ended October 31, 1996. The increase in Fiscal 1995 was due primarily to a larger customer base brought about by the addition of new services. The substantial increase in Fiscal 1996 was due primarily to significant growth in the number of financial institutions and end user customers supported as a result of the introduction of online banking and bill payment services through Microsoft Money and Quicken and the increase from the three months ended October 31, 1995 for the three months ended October 31, 1996 was due primarily to the growth in users supported as a result of the introduction of online banking and bill payment services through Quicken in late October 1995.

Selling and Marketing. Selling and marketing expenses consist primarily of salaries, commissions, consulting, advertising and customer meeting expenses and general costs. Selling and marketing expenses increased by approximately 708% from $0.2 million, or 13% of net revenue, for the Predecessor Period to $1.5 million, or 46% of net revenue, for Fiscal 1995, and by 183% to $4.2 million, or 29% of net revenue, for Fiscal 1996 and increased by 351% from $0.7 million, or 43% of net revenue, for the three months ended October 31, 1995 to $3.0 million, or 42% of net revenue for the three months ended October 31, 1996. The increase from 1994 to 1995 was due primarily to efforts to enlist financial institution participation in the online banking and bill payment services, while the increase from Fiscal 1995 to Fiscal 1996 was due primarily to the establishment of a product management infrastructure, a dedicated sales force and advertising programs to stimulate demand for the Company's services. The increase from the three months ended October 31, 1995 to the three months ended October 31, 1996 was due primarily to an increase in the number of sales and marketing personnel and additional marketing programs launched after the introduction of online banking and bill payment services through Quicken in late October 1995.

Research and Development. Research and development expenses consist primarily of salaries and other personnel-related expenses, consulting, supplies, and depreciation for development equipment and general costs. Research and development expenses increased 331% from $0.4 million, or 26% of net revenue, for the Predecessor Period to $1.6 million, or 52% of net revenue, for Fiscal 1995, by 60% to $2.6 million, or 18% of net revenue, for Fiscal 1996 and increased by 111% from $0.9 million, or 67% of net revenue, for the three months ended October 31, 1995 to $1.9 million, or 27% of net revenue, for the three months ended October 31, 1996. These increases were due primarily to higher staffing necessary to build and maintain the online banking and bill payment processing architecture.

Research and development expenditures are charged to operations as incurred. Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" ("SFAS 86"), requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on ISC's product development process, technological feasibility is established when a product is available for general release to customers. As such, capitalized costs have been immaterial to date.

General and Administrative. General and administrative expenses consist primarily of salaries and bonuses for administrative and executive personnel, expense for doubtful accounts, fees for professional and legal services, Intuit corporate overhead allocations and allocated facilities costs. General and administrative expenses increased 869% from $0.2 million, or 14% of net revenue, for the Predecessor Period to $1.9 million (of which $1.4 million represented ISC's allocable share of Intuit corporate allocations for Fiscal 1995), or 60% of net revenue, by 153% to $4.9 million (of which $1.8 million represented ISC's allocable share of Intuit corporate allocations for Fiscal 1996), or 34% of net revenue, and increased by 100% from $0.9 million (of which $0.7 million represented ISC's allocable share of Intuit corporate allocations for such period), or 64% of net revenue, for the three months ended October 31, 1995 to $1.8 million (of which $1.2 million was charged by Intuit as ISC's allocable share of Intuit corporate allocations for such period had Intuit not accounted for ISC as a discontinued operation), or 25% of net revenue, for the three months ended October 31, 1996. The increase in Fiscal 1995 was due primarily to the inclusion of Intuit corporate allocations, the increase in Fiscal 1996 was due to an additional facility resulting from rapid growth in ISC staffing levels and the increase from the three months ended October 31, 1995 to the three months ended October 31, 1996 was due primarily to an increase in the amount of ISC's allocable share of Intuit corporate allocations and, to a lesser extent, an increased number of admininstrative personnel.

NET LOSS BEFORE TAX BENEFIT

As a result of the above factors and as a result of an approximately $1.9 million expense representing amortization of goodwill and intangibles incurred in connection with the Purchase, net loss before tax benefit increased from $0.1 million, or (6%) of net revenue for the Predecessor Period to $7.4 million, or (230%) of net revenue for Fiscal 1995. The net loss before tax benefit for the Predecessor Period and Fiscal 1995 does not include a charge of approximately $1.4 million representing purchased research and development, which charge was incurred during the period from July 15, 1994 to July 31, 1994. Had such amount been included in the Predecessor Period, net loss for the Predecessor Period would have instead increased to $1.5 million. Net loss increased to $13.5 million, or (94%) of net revenue for Fiscal 1996 as a result of the above factors, and as a result of an approximately $1.8 million expense representing amortization of goodwill and intangibles incurred in connection with the Purchase. Net loss decreased from $3.4 million, or (241%) of net revenue for the three months ended October 31, 1995 to $2.5 million, or (58%) of net revenue for the three months ended October 31, 1996 as a result of the above factors. Included in Net loss for the three months ended October 31, 1995 and 1996 is an expense of approximately $.5 million representing amortization of goodwill and intangibles incurred in connection with the Purchase.

ISC expects to incur expenses representing amortization of a customer list and goodwill incurred in connection with the Purchase of approximately $840,000 over the next two fiscal quarters. ISC also expects to incur expenses representing amortization of payments under contracts not to compete and anticipates it will amortize the remaining goodwill and intangibles balance of $474,000 over the following twelve fiscal quarters. ISC expects to continue to incur significant operating losses in the near future.

TAXES

The tax benefit in the financial statements for Fiscal 1995 presents ISC on a stand-alone basis. The losses of ISC have been benefited by Intuit on a consolidated basis. Had ISC benefited these losses, ISC would have had deferred tax assets of approximately $0.4 million and $5.0 million as of July 31, 1995 and 1996. These deferred tax assets would have been fully offset by a valuation allowance in both years.

LIQUIDITY AND CAPITAL RESOURCES

Prior to its acquisition, ISC financed its operations and met its capital expenditure requirements primarily from internally generated funds. Since its acquisition by Intuit in July 1994, ISC has funded its business with capital contributions from Intuit and cash generated from operations. At October 31, 1996, ISC had $1.0 million in cash. Since its acquisition by Intuit, ISC has been heavily dependent upon Intuit for cash funds necessary to offset ISC's operating losses. Although ISC does not expect to make the same level of expenditures it incurred in expanding its business during fiscal 1995 and fiscal 1996, it still anticipates experiencing operating losses in the future and incurring additional capital expenditures. Absent such continued funding, ISC would, in the near future, need to secure other significant sources of financing, in addition to cash generated from operations, to continue to fund its operations at their present level and fund anticipated cash needs for working capital, capital expenditures and business expansion for the foreseeable future.

Operating activities used net cash of $3.5 million, $5.8 million, and $3.8 million for Fiscal 1995, Fiscal 1996 and for the three months ended October 31, 1996, respectively. Investing activities used net cash of $2.0 million, $18.1 million and $1.1 million for Fiscal 1995. Fiscal 1996 and for the three months ended October 31, 1996, respectively, in order to purchase the equipment and systems necessary to support a rapidly expanding base of online banking and bill payment customers. Financing activities generated cash of $5.6 million, $24.4 million and $5.2 million for Fiscal 1995, Fiscal 1996 and for the three months ended October 31, 1996, respectively, from increased funding of operations by Intuit.

ISC's principal commitments as of October 31, 1996 consist of obligations under leases for its facilities in Downers Grove and Aurora, Illinois.

Without taking into account the Company's proposed acquisition of ISC, ISC expected capital expenditures for Fiscal 1997 to be at approximately $6.5 million, of which approximately $1.0 million were made during the three months ended October 31, 1996, substantially all of which will be for the purchase of computer equipment and software to scale with anticipated growth of ISC's business.

AMENDMENT TO THE COMPANY'S 1995 STOCK OPTION PLAN

The proposed amendment to the 1995 Stock Option Plan would increase the number of shares of Checkfree Common Stock subject to the plan from 2,630,700 shares to 5,000,000 shares. Approval of this amendment requires the affirmative vote of the holders of a majority of the shares of Checkfree Common Stock represented at the Checkfree Special Meeting. THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDMENT TO THE 1995 STOCK OPTION PLAN.

1995 STOCK OPTION PLAN

The Company's Board of Directors believes that providing selected persons with an opportunity to invest in the Company will give them additional incentive to increase their efforts on behalf of the Company and will enable the Company to attract and retain the best available associates, officers, directors, consultants and advisers. The description in this Proxy Statement of the 1995 Stock Option Plan is included solely as a summary, does not purport to be complete and is qualified in its entirety by the Amended and Restated 1995 Stock Option Plan attached hereto as Appendix C. The Company's Board of Directors has approved an amendment to the 1995 Stock Option Plan to increase the number of shares of Checkfree Common Stock reserved for issuance upon the exercise of options granted under the 1995 Stock Option Plan from 2,630,700 shares to 5,000,000 shares. The Company's Board of Directors has approved the increase of the shares of Checkfree Common Stock subject to the 1995 Stock Option Plan in view of the recent increases in the number of employees of the Company after the Acquisitions and the anticipated increases as a result of the Merger.

The 1995 Stock Option Plan was adopted by Checkfree's Board of Directors on August 8, 1995 and approved by the stockholders as of August 8, 1995. The amendment increasing the number of shares of Checkfree Common Stock issuable under the 1995 Stock Option Plan was adopted by Checkfree's Board of Directors on October 18, 1996. The 1995 Stock Option Plan provides for the grant of options to key associates, officers, directors, consultants and advisers who render services to the Company The options may be either Incentive Options or Nonqualified Options.

The 1995 Stock Option Plan is administered by the Stock Option and Compensation Committee of the Board of Directors, which is authorized, subject to the provisions of the 1995 Stock Option Plan, to determine to whom and at what time the stock options may be granted, the designation of the option as either an Incentive Option or Nonqualified Option, the per share exercise price, the duration of each option, the number of shares subject to each option, any restrictions on such shares, the rate and manner of exercise and the timing and form of payment.

An Incentive Option may not have an exercise price less than fair market value of the Common Stock on the date of grant or an exercise period that exceeds ten years from the date of grant and is subject to certain other limitations which allow the optionholder to qualify for favorable tax treatment. None of these restrictions applies to the grant of Nonqualified Options, which may have an exercise price less than the fair market value of the underlying Common Stock on the date of grant and may be exercisable for an indeterminate period of time. The Stock Option and Compensation Committee also has discretion under the 1995 Stock Option Plan to make cash grants to optionholders that are intended to offset a portion of the taxes payable upon exercise of Nonqualified Options or on certain dispositions of shares acquired under Incentive Options.

The exercise price of the option may be paid in cash or, with the consent of the Stock Option and Compensation Committee, (i) by delivery of previously acquired shares of Common Stock valued at their fair market value on the date they are tendered, (ii) by delivery of a full recourse promissory note for the portion of the exercise price in excess of the par value of the shares subject to the option, the terms and conditions of which will be determined by the Stock Option and Compensation Committee, and in cash for the par value of the shares, (iii) by any combination of the foregoing methods, or (iv) by delivery of written instructions to forward the notice of exercise to a broker or dealer and to deliver to a specified account a certificate for the shares purchased upon exercise of the option and a copy of irrevocable instructions to the broker or dealer to deliver the purchase price of the shares to the Company.

An option is not transferable except by will or by the laws of descent and distribution and may be exercised, during the lifetime of the optionee, only by the optionee or by the optionee's guardian or legal representative.

Any option granted under the 1995 Stock Option Plan will terminate automatically (i) 30 days after the employee's termination of employment with the Company (other than by reason of death or disability or for cause), and (ii) one year after the employee's death or termination of employment by reason of disability unless the option expires earlier by its terms. Options not exercisable as of the date of a change in control of the Company will become exercisable immediately as of such date. The 1995 Stock Option Plan terminates on August 8, 2005, unless earlier terminated by the Board of Directors.

As of September 30, 1996, options to purchase an aggregate of 1,632,545 shares of Checkfree Common Stock (net of options canceled) had been granted pursuant to the 1995 Stock Option Plan, options to purchase 323,550 shares had been exercised, options to purchase 1,308,995 shares remained outstanding, and only 998,155 shares remained available for future grant. As of September 30, 1996, the market value of all shares of Checkfree Common Stock subject to outstanding options under the 1995 Stock Option Plan and all of the Company's stock option plans were approximately $26,179,900 and $68,628,440, respectively (based upon the closing sale price of the Checkfree Common Stock as reported on the Nasdaq National Market on September 30, 1996 of $20.00 per share). During the 1995 fiscal year and the transition period ended June 30, 1996, options covering 40,423 shares and 902,651 shares, respectively, of Checkfree Common Stock were granted to employees of the Company under the 1995 Stock Option Plan. Shares underlying presently exercisable, but unexercised, options will constitute outstanding shares of Checkfree Common Stock for purposes of calculating the Company's net income per share. The market value of the 5,000,000 shares of Checkfree Common Stock to be subject to the 1995 Stock Option Plan was approximately $100,000,000 as of September 30, 1996.

As of September 30, 1996, the following current directors and executive officers named in the Company's Transition Report on Form 10-K/A No. 1 for the six months ended June 30, 1996 had been granted options under the 1995 Stock Option Plan as follows:

NAME	NUMBER OF OPTIONS GRANTED	AVERAGE EXERCISE PRICE PER SHARE
Peter J. Kight	1,000	$19.38
Mark A. Johnson	1,000	$19.38
James S. Douglass	100,000	$11.25
Kenneth J. Benvenuto	219,742	$11.58
John M. Stanton	13,000	$18.32
Lynn D. Busing	68,290	$14.67
Geoffrey D. Gill	8,816	$9.80
Claude A. Thomas	20,000	$23.63
William P. Boardman	15,000	$14.56

Since adoption of the 1995 Stock Option Plan: (i) all current executive officers, as a group, have been granted options under the 1995 Stock Option Plan covering 431,848 shares of Checkfree Common Stock which represents approximately 26.5% of the total number of options granted pursuant to the 1995 Stock Option Plan; (ii) all directors who are not executive officers, as a group, have been granted options under the 1995 Stock Option Plan covering 15,000 shares of Checkfree Common Stock which represents approximately 0.9% of the total number of options granted pursuant to the 1995 Stock Option Plan; and (iii) all current employees, excluding executive officers, as a group, have been granted options under the 1995 Stock Option Plan covering 1,185,697 shares of Checkfree Common Stock which represents approximately 72.6% of the total number of options granted pursuant to the 1995 Stock Option Plan.

FEDERAL INCOME TAX CONSEQUENCES

The 1995 Stock Option Plan permits the granting of Incentive Stock Options as well as Non-Statutory Stock Options. Generally, no income is recognized when either type of option is granted to the optionholder, but the subsequent tax treatment differs widely.

Non-Statutory Stock Options. Upon the exercise of a Non-Statutory Stock Option, the excess of the fair market value of the shares on the date of exercise over the option price is compensation to the optionholder at the time of the exercise. The tax basis for the shares purchased is their fair market value on the date of exercise. Any gain or loss realized upon a later sale of the shares for an amount in excess of or less than their tax basis will be taxed as capital gain or loss, respectively, with the character of the gain or loss (short-term or long-term) depending upon how long the shares were held since exercise.

Incentive Stock Options. Generally, no regular taxable income is recognized upon the exercise of an Incentive Stock Option. The tax basis of the shares acquired will be the exercise price. In order to receive this favorable treatment, shares acquired pursuant to the exercise of an Incentive Stock Option may not be disposed of within two years after the date the option was granted, nor within one year after the exercise date (the "Holding Periods"). If the shares are sold before the end of the Holding Periods, the amount of that gain which equals the lesser of the difference between the fair market value on the exercise date and the option price or the difference between the sale price and the option price is taxed as ordinary income and the balance, if any, as short-term or long-term capital gain, depending upon how long the shares were held. If the Holding Periods are met, all gain or loss realized upon a later sale of the shares for an amount in excess of or less than their tax basis will be taxed as a long-term capital gain or loss, respectively.

Alternative Minimum Tax. For purposes of determining the optionholder's alternative minimum taxable income subject to the alternative minimum tax, the exercise of an Incentive Stock Option by an optionholder will result in the recognition of taxable income at the time of the exercise of the option in an amount equal to the excess of the fair market value of the shares on the exercise date over the option price. The alternative minimum tax is paid only to the extent it exceeds an individual's regular tax. It is imposed at a rate of 26% on the first $175,000 of alternative minimum taxable income in excess of the applicable exemption amount and at a rate of 28% for any alternative minimum taxable income over that amount. The exemption amount is phased out for higher income taxpayers.

Exercise with Previously-Owned Shares. All options granted under the 1995 Stock Option Plan may be exercised with payment either in cash or, if authorized in its sole discretion by the Company's Board of Directors, in previously-owned shares of Checkfree Common Stock at their then fair market value, or in a combination of both. When previously-owned shares ("Old Shares") are used to purchase shares ("New Shares") upon the exercise of an Incentive Stock Option or a Non-Statutory Stock Option, no gain or loss is recognized by the optionholder to the extent that the total value of the Old Shares surrendered does not exceed the total value of all of the New Shares received. If, as would almost always be the case, the value of the New Shares exceeds the value of the Old Shares, the excess amount is not regular taxable income to the optionholder, if the option exercised is an Incentive Stock Option and the Holding Periods discussed above are met for the Old Shares at the time of exercise. The New Shares would also be subject to the Holding Periods discussed above. On the other hand, if the option exercised is a Non-Statutory Stock Option, the excess amount is taxable as ordinary income.

Checkfree Deduction. No tax deduction is available to the Company in connection with the exercise of an Incentive Stock Option if the Holding Periods discussed above are met. The Company, however, is entitled to a tax deduction in connection with the exercise of an Incentive Stock Option if the Holding Periods discussed above are not met, in an amount equal to the ordinary income recognized by the optionholder (conditioned upon proper reporting and tax withholding and subject to possible deduction limitations). The Company is entitled to a tax deduction in connection with a Non-Statutory Stock Option equal to the compensation income recognized by the optionholder upon the grant date or the exercise date (conditioned upon proper reporting and tax withholding and subject to possible deduction limitations).

1993 Tax Act. The Budget Reconciliation Act of 1993 (the "1993 Act") increased the difference between the maximum ordinary income tax rate and the preferential tax rate on long-term capital gains. The 1993 Act has also limited a corporation's ability to deduct certain nonqualifying compensation.

Section 162(m). Code Section 162 (m) of the Internal Revenue Code of 1986, as amended, no longer permits the Company to deduct non-performance-based compensation in excess of $1,000,000 per year paid to certain covered officers. The Company believes that compensation paid pursuant to the 1995 Stock Option Plan should qualify as performance-based compensation and therefore, Code Section 162(m) should not cause the Company to be denied a deduction for compensation paid to certain covered officers pursuant to the 1995 Stock Option Plan.

ADOPTION OF THE COMPANY'S ASSOCIATE STOCK PURCHASE PLAN

The Associate Stock Purchase Plan, if adopted, would authorize the sale of up to 1,000,000 shares of Checkfree Common Stock to eligible employees. Approval of the proposal to adopt the Stock Purchase Plan requires the affirmative vote of the holders of a majority of the shares of Checkfree Common Stock present in person or by proxy and entitled to vote at the Checkfree Special Meeting. THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE FOR APPROVAL OF THE ADOPTION OF THE STOCK PURCHASE PLAN.

THE ASSOCIATE STOCK PURCHASE PLAN

In October 1996, the Board of Directors of the Company adopted the Associate Stock Purchase Plan. The description in this Proxy Statement of the Associate Stock Purchase Plan is included solely as a summary, does not purport to be complete and is qualified in its entirety by the Associate Stock Purchase Plan attached hereto as Appendix D.

The Associate Stock Purchase Plan is an arrangement under which the employees of the Company and its subsidiaries may purchase Checkfree Common Stock at a discounted price through payroll deductions. The purpose of the Associate Stock Purchase Plan is to provide incentives to employees of the Company and its subsidiaries, to attract individuals with a high degree of training, experience, expertise and ability, to provide an opportunity to such individuals to acquire a proprietary interest in the success of the Company, to increase their interest in the Company's welfare, to align their interests with those of the Company stockholders and to encourage them to remain with the Company.

The Associate Stock Purchase Plan will be administered by the Stock Option and Compensation Committee (the "Committee") or any other committee members of the Board of Directors appointed to administer the Associate Stock Purchase Plan. The Committee may delegate its authority to an administrator.

Any individual who is an employee of the Company or any approved subsidiary of the Company whose customary employment with the Company or any approved subsidiary is at least twenty (20) hours per week and who has been employed by the Company for a period of at least ninety (90) days is eligible to participate in the Associate Stock Purchase Plan. The number of individuals who are eligible employees of the Company as of September 30, 1996 is approximately 1,200.

Notwithstanding the eligibility provisions described above, no employee of the Company or any approved subsidiary shall be granted an option to purchase Checkfree Common Stock under the Associate Stock Purchase Plan (i) if, immediately after the grant, such employee would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of shares of the Company or (ii) which permits his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries to accrue at a rate which exceeds $25,000 worth of stock (determined at the time such option is granted) for any calendar year in which such option would be outstanding at any time.

Eligible employees are entitled to participate in one or both of the offering periods ("Offering Periods") conducted under the Associate Stock Purchase Plan during each calendar year. The Offering Periods commence January 1 and July 1 of each year and end on the following June 30 or December 31, respectively, provided, however, that the Committee may change the duration of the Offering Periods, but in no event shall an option granted under the Associate Stock Purchase Plan be exercisable more than twenty-seven (27) months from its date of grant. During each Offering Period, eligible employees may direct and authorize the Company to make payroll deductions during the Offering Period in an amount from one percent (1%) to fifteen percent (15%) of such employee's compensation which he or she receives during the Offering Period. All payroll deductions made for a participant are credited to his or her account under the Associate Stock Purchase Plan. A participant may not make additional payments into such account. The Company's Board of Directors may limit the number of shares of Checkfree Common Stock that participants can acquire in any Offering Period by giving notice to employees prior to commencement of such Offering Period.

On the first day of each Offering Period, each eligible employee participating in such Offering Period is granted an option to purchase on the last day of each Offering Period (at the applicable purchase price) up to a number of shares of Checkfree Common Stock determined by dividing such employee's payroll deductions accumulated during the Offering Period by the applicable purchase price. The Company does not receive any consideration for the grant of any options.

On the last day of each Offering Period, each participating employee purchases shares at a purchase price per share in amount equal to eighty-five percent (85%) of the fair market value of a share of Checkfree Common Stock on the first trading day of each Offering Period or on the last trading day of each Offering Period, whichever is lower.

A participant in the Associate Stock Purchase Plan may discontinue his or her participation in the plan by notifying the Company. Unless allowed by the Committee, a participant in the Associate Stock Purchase Plan may not increase or decrease his or her participation in the plan during an Offering Period.

The maximum number of shares of Checkfree Common Stock which will be issued pursuant to the Associate Stock Purchase Plan shall be 1,000,000 shares, subject to appropriate adjustment if there is any increase, reduction, or change or exchange or Checkfree Common Stock for a different number or kind of shares or other securities of the Company by reason of a reclassification, recapitalization, merger, consolidation, reorganization, share dividend, share split or reverse split, combination or exchange of shares, repurchase of Checkfree Common Stock or change in corporate structure. The Committee shall conclusively determine such appropriate adjustments, if any, to be made under the Associate Stock Purchase Plan. The market value of the 1,000,000 shares of Checkfree Common Stock to be subject to the Associate Stock Purchase Plan was approximately $20,000,000 at September 30, 1996.

The Company's Board of Directors may at any time and for any reason, no more than once every six months, amend, modify, suspend or terminate the Associate Stock Purchase Plan provided no such termination can affect options previously granted. The Associate Stock Purchase Plan, subject to the Company's Board of Directors' right to terminate the Plan, will automatically terminate on December 31, 2006.

FEDERAL INCOME TAX CONSEQUENCES

Options granted under the Associate Stock Purchase Plan are intended to constitute qualified stock options in an "employee stock purchase plan" under Section 423 of the Code. In general, no taxable income will be realized at the time an option is granted pursuant to the Associate Stock Purchase Plan (i.e., the Enrollment Date) or at the time of purchase of shares of Checkfree Common Stock pursuant to the Associate Stock Purchase Plan. Upon disposition of shares (other than a transfer by a decedent to his or her estate) two years or more after the date of the grant of the option and at least one year after acquiring such shares, a participant will recognize as ordinary income (and not as gain upon the sale or exchange of a capital asset) an amount equal to the lesser of:

(i) The excess of the fair market value of the shares on the date of disposition over the amount paid for such shares, or

(ii) 15% of the fair market value of the shares at the time that the grant of the option is deemed to have occurred.

In addition, a participant may incur a capital gain in an amount equal to the difference between the sale price of the shares and the basis in the shares (i.e., purchase price plus the amount, if any, taxed to the participant as ordinary income described above).

Upon disposition of the shares (including any gifts of shares) within two years after the date when a participant is granted an option or within one year after the date a participant acquires such shares, the participant generally will have ordinary income equal to the excess of the fair market value of the shares on the date of purchase over the amount paid for the shares. In addition, the participant may incur a capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and basis in the shares (i.e., purchase price plus the amount, if any, taxed to the participant as ordinary income as described above).

In the event that the sale of shares acquired upon the exercise of an option could subject a participant to liability under Section 16(b) of the Securities Exchange Act of 1934, the time for determining the amount of ordinary income, for reporting such income, and for commencing the holding period for capital gains purposes is postponed until the restrictions of Section 16(b) no longer apply. The amount of ordinary income reportable and the amount of the Company's corresponding deduction will be measured by the excess of the fair market value per share on such later date over the exercise price paid for the shares. However, by making an appropriate election under Section 83(b) of the Code within 30 days of the exercise date of an option, a participant may treat the acquired shares for income tax purposes as if they were not restricted under said Section 16(b).

Upon a disposition of any shares of Checkfree Common Stock received pursuant to the exercise of any option under the Associate Stock Purchase Plan or any event resulting in taxable compensation to a participant, the Company will have the right to require the participant to remit to the Company an amount sufficient to satisfy all federal, state and local requirements as to income tax withholding and employee contributions to employment taxes or, alternatively, in the Committee's sole discretion, the Company may withhold all such amounts from other cash compensation then being paid to the participant by the Company.

INDEPENDENT PUBLIC ACCOUNTANTS

The consolidated financial statements of the Company as of June 30, 1996 and December 31, 1995 and 1994, and for the six months ended June 30, 1996 and each of the three years in the period ended December 31, 1995 and the related financial statement schedule incorporated in this Proxy Statement/Information Statement from the Company's Transition Report on Form 10-K/A No. 1 for the six months ended June 30, 1996, have been audited by Deloitte & Touche LLP, independent auditors. It is anticipated that representatives of Deloitte & Touche LLP will be present at the Checkfree Special Meeting and will respond to approprate questions and to make a statement if such representatives so desire.

LEGAL OPINION

The validity of the Checkfree Common Stock to be issued to the sole stockholder of ISC pursuant to the Merger and certain other legal matters in connection with the Merger will be passed upon for the Company by Porter, Wright, Morris & Arthur, Columbus, Ohio. Partners of Porter, Wright, Morris & Arthur who participated in the preparation of this Proxy Statement beneficially own an aggregate of 35,614 shares of Checkfree Common Stock consisting of a combination of stock and options exercisable within 60 days after the date of this Proxy Statement. See "Certain Relationships and Related Transactions" in the Company's Transition Report on Form 10-K/A No. 1.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements, and other information with the Commission. Copies of such reports, proxy statements, and other information filed by the Company can be inspected and copied at the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 or at the public reference facilities of the regional offices of the Commission at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511; and 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of such material also can be obtained by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, upon payment of the fees prescribed by the rules and regulations of the Commission. Such materials may also be accessed electronically by means of the Commission's home page on the Internet at http:\\www.sec.gov.

The Checkfree Common Stock is listed on the Nasdaq National Market, and accordingly such reports and other information concerning the Company also should be available for inspection and copying at the offices of the Nasdaq Stock Market, 1735 K. Street, N.W., Washington, D.C. 20006.

Statements made in this Proxy Statement concerning the provisions of certain documents filed with the Commission are necessarily brief descriptions thereof, and are not necessarily complete, and each such statement is qualified in its entirety by reference to the full text of such document.

The Company shall promptly furnish, without charge, a copy of any and all of the information that has been incorporated by reference in the Proxy Statement upon the written or oral request of any stockholder of the Company or ISC to: Brenda Jones, 4411 East Jones Bridge Road, Norcross, Georgia 30092, (770) 734-3430.

All information contained herein or incorporated herein by reference with respect to the Company and Acquisition, was supplied by the Company and all information contained herein with respect to ISC and Intuit was supplied by ISC and Intuit. Neither the Company nor Intuit can warrant the accuracy or completeness of information relating to the other party.

INFORMATION INCORPORATED BY REFERENCE

The following documents previously filed with the Commission by the Company pursuant to Sections 13(a), 14 or 15(d) of the Exchange Act are hereby incorporated herein by reference:

1. Report on Form 10-K for the six months ended June 30, 1996 (filed October 9, 1996);
2. Transition Report on Form 10-K/A No. 1 for the six months ended June 30, 1996 (filed December 9, 1996);
3. Quarterly Report on Form 10-Q for the quarter ended September 30, 1996 (filed November 12, 1996);
4. Quarterly Report on Form 10-Q/A No. 1 for the quarter ended September 30, 1996 (filed December 9, 1996);
5. Current Reports on Form 8-K, dated October 1, 1996 (filed October 9, 1996), November 22, 1996 (filed December 6, 1996), and December 16, 1996 (filed December 18, 1996); and
6. Current Report on Form 8-K/A No. 2, dated May 9, 1996 (filed October 11, 1996).

In addition, the description of Checkfree Common Stock which is contained in the Company's Form 8-A (Registration No. 0-26802) filed with the Commission pursuant to Section 12 of the Exchange Act, as the same may be updated in any amendment or report filed for the purpose of updating such description, is hereby incorporated by reference.

All documents filed by the Company, pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Proxy Statement and prior to the Checkfree Special Meeting shall be deemed to be incorporated by reference in this Proxy Statement and to be a part hereof from the date of filing of such documents. Any statement incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Proxy Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Proxy Statement.

By Order of the Board of Directors,

Curtis A. Lomland
Secretary

Norcross, Georgia
December __, 1996

INDEX TO FINANCIAL STATEMENTS

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders
Intuit Services Corporation

We have audited the accompanying balance sheet of Intuit Services Corporation (a wholly owned subsidiary of Intuit Inc.) as of July 31, 1996, and the related statements of operations, stockholder's equity (net capital deficiency), and cash flows for the year then ended. 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 generally accepted auditing standards. 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Intuit Services Corporation at July 31, 1996, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Palo Alto, California
October 22, 1996

Intuit Services Corporation

Balance Sheets

	JULY 31, 1995	JULY 31, 1996	October 31, 1996
	(Unaudited)		(Unaudited)
ASSETS			
Current assets:			
Cash	$ 134,825	$ 600,523	$ 958,000
Accounts receivable, net of allowance for doubtful accounts of $107,328 and $548,904 and $548,904 at July 31, 1995 and 1996 and October 31, 1996, respectively	389,158	2,837,798	2,712,000
Other current assets	59,395	136,321	137,321
Total current assets	583,378	3,574,642	3,807,321
Property and equipment, net	1,885,038	15,918,603	15,557,777
Intangible assets, net	3,398,238	903,238	647,238
Goodwill, net	1,227,695	411,695	207,695
Total assets	$ 7,094,349	$ 20,808,178	$ 20,220,031
LIABILITIES AND STOCKHOLDER'S EQUITY (NET CAPITAL DEFICIENCY)			
Current liabilities:			
Accounts payable	$ 280,564	$ 2,484,620	$ 836,000
Payable to parent	5,572,614	29,939,069	35,173,575
Accrued compensation	75,038	623,775	428,000
Other accrued liabilities	158,780	283,258	402,000
Total current liabilities	6,086,996	33,330,722	36,839,575
Commitments			
STOCKHOLDER'S EQUITY (Net capital deficiency):			
Common stock, $1.00 par value; 1,000,000 shares authorized; 100 shares issued and outstanding	100	100	100
Additional paid-in capital	7,684,900	7,684,900	7,684,900
Accumulated deficit	(6,677,647)	(20,207,544)	(24,304,544)
Total Stockholder's equity (net capital deficiency)	1,007,353	(12,522,544)	(16,619,544)
	$ 7,094,349	$ 20,808,178	$ 20,220,031

See accompanying notes.

Intuit Services Corporation

Statements of Operations

	PREDECESSOR ENTITY					
	AUGUST 1, 1993 THROUGH JULY 14, 1994	JULY 15, 1994 THROUGH JULY 31, 1994	YEAR ENDED JULY 31,		THREE MONTHS ENDED OCTOBER 31,	
			1995	1996	1995	1996
	(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)
Net revenue	$1,450,170	$ -	$ 3,194,442	$ 14,331,308	$1,404,910	$7,116,000
Cost of sales	551,881	-	1,556,639	7,795,287	842,201	2,025,000
Amortization of purchased software	-	-	1,529,000	1,471,000	367,000	-
Gross profit	898,289	-	108,803	5,065,021	195,709	5,091,000
Costs and expenses:						
Customer service and technical support	214,620	-	498,657	5,048,985	608,443	2,027,000
Selling and marketing	183,960	-	1,479,000	4,190,819	688,750	3,017,000
Research and development	383,251	-	1,649,904	2,638,264	939,056	1,872,000
General and administrative	199,290	-	1,931,108	4,876,850	900,192	1,812,000
Charge for purchased research and development	-	1,388,476	-	-	-	-
Amortization of goodwill and intangibles	-	-	1,917,000	1,840,000	460,000	460,000
Total costs and expenses	981,121	1,388,476	7,475,669	18,594,918	3,576,441	9,188,000
Net loss before tax benefit	(82,832)	(1,388,476)	(7,366,866)	(13,529,897)	(3,380,732)	(4,097,000)
Tax benefit	-	-	2,077,695	-	-	-
Net loss	$ (82,832)	$(1,388,476)	$(5,289,171)	$(13,529,897)	$(3,380,732)	$(4,097,000)

See accompanying notes.

Intuit Services Corporation

Statement of Stockholder's Equity (Net Capital Deficiency)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID -IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDER'S EQUITY (NET CAPITAL DEFICIENCY)
Balance at July 31, 1993 (predecessor entity - unaudited)	410,033	$ 106,351	$ -	$ 288,397	$ 394,748
Net loss through July 14, 1994 (predecessor entity - unaudited)	-	-	-	(82,832)	(82,832)
Balance at July 14, 1994 (predecessor entity - unaudited)	410,033	106,351	-	205,565	311,916
Effects of merger with Intuit Inc. (unaudited)	(409,933)	(106,251)	7,684,900	(205,565)	7,373,084
Net loss from July 15, 1994 to July 31, 1994 (unaudited)	-	-	-	(1,388,476)	(1,388,476)
Balance at July 31, 1994 (unaudited)	100	100	7,684,900	(1,388,476)	6,296,524
Net loss (unaudited)	-	-	-	(5,289,171)	(5,289,171)
Balance at July 31, 1995 (unaudited)	100	100	7,684,900	(6,677,647)	1,007,353
Net loss	-	-	-	(13,529,897)	(13,529,897)
Balance at July 31, 1996	100	100	7,684,900	(20,207,544)	(12,522,544)
Net loss (unaudited)	-	-	-	(4,097,000)	(4,097,000)
Balance at October 31, 1996 (unaudited)	100	$ 100	$7,684,900	$(24,304,544)	$(16,619,544)

See accompanying notes.

Intuit Services Corporation

Statement of Cash Flows

	PREDECESSOR ENTITY AUGUST 1, 1993 THROUGH JULY 14, 1994	JULY 15, 1994 THROUGH JULY 31, 1994	YEAR ENDED JULY 31, 1995	YEAR ENDED JULY 31, 1996	THREE MONTHS ENDED OCTOBER 31, 1995	THREE MONTHS ENDED OCTOBER 31, 1996
	(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES						
Net loss	$(82,832)	$(1,388,476)	$(5,289,171)	$(13,529,897)	$(3,380,732)	$(4,097,000)
Adjustments to reconcile net loss to net cash used in operating activities:						
Charge for purchased research and development	-	1,388,476	-	-	-	-
Amortization of purchased software	-	-	1,529,000	1,471,000	367,000	-
Amortization of goodwill and intangibles	-	-	1,917,000	1,840,000	460,000	460,000
Depreciation and amortization	42,731	-	177,019	4,024,134	212,420	1,427,086
Net changes:						
Accounts receivable	(129,357)	-	(190,997)	(2,448,640)	10,158	125,798
Other current assets	1,620	-	(49,106)	(76,926)	14,395	(1,000)
Accounts payable	18,070	-	246,222	2,204,056	677,436	(1,648,620)
Accrued compensation	-	-	75,038	548,737	227,962	(195,775)
Deferred income taxes	(3,049)	-	(2,087,325)	-	-	-
Other accrued liabilities	-	-	158,780	124,478	(118,780)	118,742
Net cash used in operating activities	(152,817)	-	(3,513,540)	(5,843,058)	(1,530,141)	(3,810,769)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of property and equipment	49,342	-	(1,993,706)	(18,057,699)	(4,104,804)	(1,066,260)
CASH FLOWS FROM FINANCING ACTIVITIES						
Payable to parent	-	-	5,572,614	24,366,455	6,035,120	5,234,506
Increase in cash and cash equivalents	(103,475)	-	65,368	465,698	400,175	357,477
Cash and cash equivalents at beginning of period	172,932	69,457	69,457	134,825	134,825	600,523
Cash and cash equivalents at end of period	$ 69,457	$ 69,457	$ 134,825	$ 600,523	$ 535,000	$ 958,000

See accompanying notes.

Intuit Services Corporation

Notes to Financial Statements

(Information at July 31, 1995 and for the year ended July 31, 1995 and at October 31, 1996 and the three months ended October 31, 1996 is unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY AND BASIS OF PRESENTATION

Intuit Services Corporation (the "Company") is a wholly owned subsidiary of Intuit Inc. ("Intuit"). The Company provides electronic banking and bill payment services.

On July 14, 1994, Intuit acquired all of the common stock of National Payment Clearinghouse, Inc. (the "Predecessor"). The acquisition was accomplished through a merger between the Predecessor and Intuit Acquisition Corp., a wholly owned subsidiary of Intuit (which then changed its name to Intuit Services Corporation). The merger was treated as a tax-free reorganization for income tax purposes.

The accompanying financial statements present the results of operations, cash flows, and changes in stockholder's equity for the Predecessor through July 14, 1994 and of Intuit Services Corporation thereafter. For practical purposes, the actual cutoff date was July 31, 1994; however, with the exception of the charge for purchased research and development, the operating activity between July 15, 1994 and July 31, 1994, which is included in the Predecessor, was not significant.

In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 54, and as a result of Intuit's acquisition of the Predecessor, the Company has utilized the "push-down" basis of accounting and has reflected in its financial statements the excess of cost over the book value of the net assets acquired, determined in accordance with the purchase method of accounting. Accordingly, the purchase price paid by Intuit was allocated to the identifiable assets and liabilities, including purchased research and development, which was charged to the Company's operations at the time of the acquisition. This new basis of accounting resulted in costs in excess of net assets acquired of approximately $9.5 million, of which $1.4 million was written off as purchased research and development in the period ended July 31, 1994. The remaining $8.1 million of identified intangibles and goodwill are being amortized over periods of between one and five years.

Intuit Services Corporation

Notes to Financial Statements (continued)

(Information at July 31, 1995 and for the year ended July 31, 1995 and at October 31, 1996 and the three months ended October 31, 1996 is unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE COMPANY AND BASIS OF PRESENTATION (CONTINUED)

Subsequent to the acquisition of the Company, Intuit began performing certain services for the Company (see Note 2), including general management, accounting, cash management, and other administrative services. The amounts charged to the Company for such services have been determined based on proportional cost allocations in accordance with Staff Accounting Bulletin No. 55, and have been agreed to by the management of the Company and Intuit. In the opinion of the Company management, the allocation methods used are reasonable. Such allocations, however, are not necessarily indicative of costs that would have been incurred had the Company continued to operate independent of Intuit. No formal agreement currently exists which specifies the nature of services to be provided by Intuit to the Company, or the charges for such services. Therefore, the amounts are not necessarily indicative of the future charges to be incurred by the Company.

The Company's parent, Intuit Inc., develops, markets and supports personal finance, small business accounting and tax preparation software products and electronic services to enable individuals, professionals and small businesses to automate commonly performed financial tasks.

UNAUDITED INFORMATION

Information for the predecessor entity for the period from August 1, 1993 through July 14, 1994, and for the Company for the period from July 15, 1994 through July 31, 1994, the twelve months ended July 31, 1995 and the three months ended October 31, 1996 is unaudited.

INTERIM FINANCIAL INFORMATION

The financial statements at October 31, 1996 and for the three months ended October 31, 1996 are unaudited but include all adjustments that the Company considers necessary for a fair presentation of its financial position at such date and its operating results and cash flows for those periods. Results for interim periods are not necessarily indicative of results for the entire year.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are used in determining the collectibility of accounts receivable and assessing the carrying value of remaining purchased intangible balances. Actual results could differ from those estimates.

Intuit Services Corporation

Notes to Financial Statements (continued)

(Information at July 31, 1995 and for the year ended July 31, 1995 and at October 31, 1996 and the three months ended October 31, 1996 is unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESEARCH AND DEVELOPMENT AND SOFTWARE DEVELOPMENT COSTS

Research and development costs incurred to establish the technological feasibility of computer software products are charged to operations as incurred.

Software development costs have been expensed in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" ("SFAS 86"). Under SFAS 86, capitalization of software development costs begins upon the establishment of technological feasibility and ends when a product is available for general release to customers. Such costs have been immaterial to date.

CUSTOMER SERVICE AND TECHNICAL SUPPORT

Customer service and technical support costs include customer inquiries and telephone assistance. The costs of post-contract customer support are included in customer service and technical support expenses and are not included in cost of goods sold.

CASH

The Company maintains its cash accounts at one large banking institution. Balances at July 31, 1995 and 1996 and October 31, 1996 consisted of bank checking and payroll accounts.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to five years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives or remaining lease terms.

Intuit Services Corporation

Notes to Financial Statements (continued)

(Information at July 31, 1995 and for the year ended July 31, 1995 and at October 31, 1996 and the three months ended October 31, 1996 is unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT (CONTINUED)

Property and equipment consist of:

	JULY 31, 1995 (Unaudited)	JULY 31, 1996
Machinery and equipment	$ 1,813,876	$ 16,392,950
Furniture and fixtures	265,879	2,344,289
Leasehold improvements	103,074	1,503,289
	2,182,829	20,240,528
Less accumulated depreciation and amortization	(297,791)	(4,321,925)
	$1,885,038	$15,918,603

GOODWILL AND INTANGIBLE ASSETS

The excess cost over the fair value of net assets acquired (goodwill) and the cost of identified intangibles are being amortized on a straight-line basis over the following periods:

		Net Balance At		
		JULY 31,		
	LIFE IN YEARS	1995 (Unaudited)	1996	October 31, 1996
Goodwill	3	$1,227,695	$411,695	$ 207,695
Customer lists	3	$1,294,238	$430,238	$ 214,238
Covenant not to complete	5	$ 633,000	$473,000	$ 433,000
Purchased technology	2	$1,471,000	$ -	$ -

Intuit Services Corporation

Notes to Financial Statements (continued)

(Information at July 31, 1995 and for the year ended July 31, 1995 and at October 31, 1996 and the three months ended October 31, 1996 is unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The intangible asset balances presented above are net of total accumulated amortization of $3,446,000, $6,757,000 and $7,217,000 at July 31, 1995 and 1996 and October 31, 1996, respectively.

In March 1995, the Financial Accounting Standards Board issued Statement No. 121 "Accounting for the Impairment of Long-Lived Assets to be Disposed Of" ("SFAS No. 121"), which requires the review for impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In certain situations, an impairment loss would be recognized. The Company has adopted SFAS No. 121 in Fiscal 1997. The adoption of SFAS No. 121 has had no impact upon the Company's financial condition or operating results.

The carrying value of goodwill and intangible assets is reviewed on a regular basis for the existence of facts or circumstances both internally and externally that may suggest impairment. To date no such impairment has been indicated. Should there be an impairment in the future, the Company will measure the amount of the impairment based on undiscounted expected future cash flows from the impaired assets. The cash flow estimates that will be used will contain management's best estimates, using appropriate and customary assumptions and projections at the time.

CONCENTRATION OF CREDIT RISK

The Company generates all its revenue from the sale of on-line banking and bill payment services provided to banking institutions as these services are performed. Revenue is recognized, net of discounts, when service is provided.

Financial investments that potentially subject the Company to concentration of credit risk consist principally of trade accounts receivable. The credit risk in the Company's accounts receivable is mitigated by the fact that the Company performs ongoing credit evaluations of its customers' financial condition, accounts receivable are primarily derived from customers in North America and the customers are large, recognized banking institutions. Generally, no collateral is required. The Company maintains reserves for estimated credit losses and such losses have historically been within management's expectations.

Intuit Services Corporation

Notes to Financial Statements (continued)

(Information at July 31, 1995 and for the year ended July 31, 1995 and at October 31, 1996 and the three months ended October 31, 1996 is unaudited)

2. RELATED PARTY TRANSACTIONS

Beginning in fiscal 1995, certain Intuit corporate expenses, primarily related to executive management time, accounting, cash management, and other administrative services, have been allocated to the Company. Total expenses allocated were $1,395,000, $1,840,000 and $1,217,000 for the years ended July 31, 1995 and 1996 and the three months ended October 31, 1996, respectively. Additionally, Intuit has advanced the Company funds for operating requirements and for purchases of property and equipment. These expense allocations and the funds advanced have been recorded as a payable to parent in the accompanying financial statements. The average balances outstanding during the years ended July 31, 1995 and 1996 and the three months ended October 31, 1996 totaled $2,786,000, $17,756,000 and $32,556,000, respectively. No interest expense has been charged on the payable due to Intuit.

3. COMMITMENTS

OPERATING LEASES

The Company leases its office facilities under an operating lease agreement. The lease requires monthly rental payments in varying amounts through September 2001. This lease also requires the Company to pay all property taxes, normal maintenance, and insurance on the leased facilities.

Future minimum lease payments under the noncancelable operating lease as of July 31, 1996 is as follows:

1997	$ 263,000
1998	372,000
1999	380,000
2000	345,000
2001	56,000
	$1,516,000

Total rental expense under this lease was approximately $69,000, $73,000 and $419,000 for a period from August 1, 1993 to July 14, 1994 and the years ended July 31, 1995 and 1996, the three months ended respectively.

Intuit Services Corporation

Notes to Financial Statements (continued)

(Information at July 31, 1995 and for the year ended July 31, 1995 and at October 31, 1996 and the three months ended October 31, 1996 is unaudited)

4. STOCK OPTIONS

Upon acquisition by Intuit, stock options outstanding from the Predecessor entity were assumed by Intuit. No stock options have been issued by the Company. Certain ISC employees have been awarded options under Intuit's 1993 Equity Incentive Plan.

5. INCOME TAXES

The tax position in the financial statements presents the Company on a stand-alone basis. The losses of the Company were benefited by Intuit on a consolidated basis. Had the Company benefited the losses, the Company would have had deferred tax assets of approximately $400,000 and $5,000,000 as of July 31, 1995 and 1996, respectively. These deferred tax assets would relate primarily to net operating loss carryforwards, and would have been fully offset by a valuation allowance in both years.

6. SIGNIFICANT CUSTOMER INFORMATION

Two customers accounted for 20% and 17% of net revenue in fiscal 1996 and 14% and 26% for the three months ended October 31, 1996, respectively. No customer represented more than 10% of net revenue in any other period presented.

7. SUBSEQUENT EVENT

On September 16, 1996, Intuit Inc. announced plans to sell the Company to CheckFree Corporation ("CheckFree") in exchange for 12.6 million shares of CheckFree common stock. Subject to regulatory and CheckFree stockholder approval, the transaction is expected to be finalized by early calendar year 1997. Upon completion of the transaction, the balance of the payable to Intuit will be forgiven by Intuit.

AGREEMENT AND PLAN OF MERGER

AMONG

CHECKFREE CORPORATION

CHECKFREE ACQUISITION CORPORATION II

INTUIT INC.

AND

INTUIT SERVICES CORPORATION

Dated as of September 15, 1996

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ARTICLE IX
MISCELLANEOUS

INDEX TO SCHEDULES AND EXHIBITS

Exhibits	Description
Exhibit A	Parent Tax Representation Certificate
Exhibit B	Services and License Agreement
Exhibit C	Assignment and License Agreement
Exhibit D	Stock Restriction Agreement
Exhibit E	Shareholder Agreement and Proxy
Exhibit F	Escrow Agreement
Exhibit G	Registration Rights Agreement
Exhibit H	Opinions of Porter, Wright, Morris & Arthur
Exhibit I	Opinions of Fenwick & West LLP

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of September 15, 1996 (the "Effective Date"), among CHECKFREE CORPORATION, a Delaware corporation ("Parent"), CHECKFREE ACQUISITION CORPORATION II, a Delaware corporation and a wholly owned subsidiary of Parent ("Acquisition"), INTUIT INC., a Delaware corporation ("Holdings"), and INTUIT SERVICES CORPORATION, a Delaware corporation (the "Company"). The Company and Acquisition are hereinafter sometimes referred to as the "Constituent Corporations" and the Company as the "Surviving Corporation."

WHEREAS, Parent, Acquisition, Holdings, and the Company desire that Acquisition merge with and into the Company (the "Merger"), upon the terms and conditions set forth herein and in accordance with the General Corporation Law of the State of Delaware (the "Delaware GCL") with the result that the Company shall continue as the surviving corporation and the separate existence of Acquisition shall cease; and

WHEREAS, Parent, Acquisition, Holdings, and the Company desire that at the Effective Time (as hereinafter defined) all outstanding shares of the capital stock of the Company be converted into the right to receive fully paid and nonassessable shares of Common Stock, $.01 par value, of Parent ("Parent Common Stock"), as hereinafter provided; and

WHEREAS, Parent, Acquisition, Holdings, and the Company desire that, immediately after the Effective Time and solely as a result of the Merger, Parent will own all the issued and outstanding shares of the capital stock of the Surviving Corporation; and

WHEREAS, for Federal income tax purposes, it is intended that the Merger qualify as a reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"); and

WHEREAS, the respective Boards of Directors of Parent, Acquisition, Holdings, and the Company, have approved the Merger;

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants, agreements and conditions contained herein, and in order to set forth the terms and conditions of the Merger and the mode of carrying the same into effect, the parties hereto hereby agree as follows:

ARTICLE I

THE MERGER

SECTION 1.01 The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time, in accordance with this Agreement and the Delaware GCL, Acquisition shall be merged with and into the Company, the separate existence of Acquisition shall cease, and the Company shall continue as the Surviving Corporation under the corporate name of "CHECKFREE SERVICES CORPORATION."

SECTION 1.02 Effect of the Merger. Upon the effectiveness of the Merger, the Surviving Corporation shall succeed to, and assume all the rights and obligations of, the Company and Acquisition in accordance with the Delaware GCL and the Merger shall otherwise have the effects set forth in Section 259 of the Delaware GCL.

SECTION 1.03 Consummation of the Merger. As soon as practicable after the satisfaction or waiver of the conditions to the obligations of the parties to effect the Merger set forth herein, provided that this Agreement has not previously been terminated in accordance with the provisions of Section 6.01 hereof, the parties hereto will cause the Merger to be consummated by filing with the Secretary of State of the State of Delaware a properly executed certificate of merger in accordance with the Delaware GCL (the time of such filing being referred to herein as the "Effective Time").

SECTION 1.04 Charter; By-Laws; Directors and Officers. The Certificate of Incorporation of the Surviving Corporation from and after the Effective Time shall be the Certificate of Incorporation of Acquisition as in effect immediately prior to the Effective Time, until thereafter amended in accordance with the provisions thereof and as provided by the Delaware GCL, except that, at the Effective Time, Article I thereof shall be amended to read as follows: "The name of the Corporation is "CHECKFREE SERVICES CORPORATION." The By-Laws of the Surviving Corporation from and after the Effective Time shall be the By-Laws of Acquisition as in effect immediately prior to the Effective Time, continuing until thereafter amended in accordance with the provisions thereof and the provisions of the Certificate of Incorporation of the Surviving Corporation and as provided by the Delaware GCL. The initial directors and officers of the Surviving Corporation shall be the directors and officers, respectively, of Acquisition immediately prior to the Effective Time, in each case until their removal or until their respective successors are duly elected and qualified.

SECTION 1.05 Acknowledgement Regarding the Company's Assets. For purposes of clarifying the rights to be acquired upon consummation of the Merger, Parent and Acquisition hereby acknowledge and agree with Holdings and the Company that the assets set forth on Schedule 1.05 hereto, located at 2001 Butterfield Road, Suite 700, 800 and 900, Downer's Grove, Illinois and 444 North Commerce Street, Aurora, Illinois are as of the Effective Date of this Agreement, owned by Holdings.

SECTION 1.06 Further Assurances. Subject to the provisions of Section 1.05 hereof, if at any time after the Effective Time the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments or assurances or any other acts or things are necessary, desirable or proper (i) to vest, perfect or confirm, of record or otherwise, in the Surviving Corporation, its right, title or interest in, to or under any of the rights, privileges, powers, franchises, properties or assets of either of the Constituent Corporations, or (ii) otherwise to carry out the purposes of this Agreement, the Surviving Corporation and its proper officers and directors or their designees shall be authorized to execute and deliver, in the name and on behalf of either of the Constituent Corporations, all such deeds, bills of sale, assignments and assurances and do, in the name and on behalf of such Constituent Corporation, all such other acts and things necessary, desirable or proper to vest, perfect or confirm its right, title or interest in, to or under any of the rights, privileges, powers, franchises, properties or assets of such Constituent Corporation and otherwise to carry out the purposes of this Agreement; provided, however, that the Surviving Corporation shall have no rights under this Section 1.06 in connection with any of Holdings' assets, properties, services, businesses or properties.

ARTICLE II

CONVERSION OF SECURITIES

SECTION 2.01 Conversion of Securities of the Company. By virtue of the Merger and without the need for any action on the part of the holders of the capital stock of the Company, at the Effective Time, all outstanding shares of the capital stock of the Company (excluding shares held in the treasury of the Company, which shall be canceled as provided in paragraph (c) below, and subject to Section 2.05(c) hereof) shall be converted into the right to receive fully paid and nonassessable shares of Parent Common Stock on the following basis:

(a) Merger Consideration. The shares of Common Stock, $1.00 par value, of the Company (the "Company Common Stock") that are issued and outstanding immediately prior to the Effective Time shall be converted into the right to receive 12,600,000 shares of Parent Common Stock, subject to the potential adjustment set forth in Section 2.02 hereof, as follows (the "Merger Consideration"):

(i) 11,340,000 shares of Parent Common Stock shall be issued to the sole stockholder of the Company Common Stock at Closing (as hereinafter defined); and

(ii) 1,260,000 shares of Parent Common Stock (the "Escrow Shares") shall be issued to the sole stockholder of the Company Common Stock subject to Section 2.03 below. Upon any adjustment of the Merger Consideration pursuant to Section 2.02, the number of shares of Parent Common Stock that are Escrow Shares shall be reduced in proportion to such Merger Consideration Adjustment (as hereinafter defined).

If, prior to the Effective Time, Parent recapitalizes through a subdivision of its outstanding shares into a greater number of shares, or a combination of its outstanding shares into a lesser number of shares, or reorganizes, reclassifies or otherwise changes its outstanding shares into the same or a different number of shares of other classes or series, or declares a dividend on its outstanding shares payable in shares of its capital stock or securities convertible into shares of its capital stock (a "Capital Change"), then the number of shares of Parent Common Stock constituting the Merger Consideration shall be adjusted appropriately to reflect each such Capital Change.

(b) Company Common Stock. At the Effective Time, each share of Company Common Stock that is issued and outstanding immediately prior to the Effective Time shall be canceled and converted into the right to receive that number of shares of Parent Common Stock equal to the quotient obtained by dividing the Merger Consideration by the number of shares of Company Common Stock that are issued and outstanding immediately prior to the Effective Time.

(c) Treasury Stock. At the Effective Time, each share of capital stock of the Company that is then held in the treasury of the Company (if any) shall be canceled and retired and no capital stock of Parent and no cash or other consideration shall be paid or delivered in exchange therefor.

SECTION 2.02 Merger Consideration Adjustment. In the event that, after the date of this Agreement and prior to the Closing, the Company incurs, realizes, or otherwise experiences a Material Adverse Change (as hereinafter defined) in its financial condition, properties, assets, liabilities, Business (as defined herein), operations, or results of operations, then at or prior to the Effective Time, the Merger Consideration shall be adjusted as follows:

(a) Change Notice. If Parent believes that the Company has incurred, realized, or otherwise experienced a Material Adverse Change in its financial condition, properties, assets, liabilities, Business (as defined herein), operations, or results of operations and Parent desires a Merger Consideration Adjustment (as defined below), then Parent must prior to Closing give Holdings and the Company written notice of Parent's claim that such a Material Adverse Change has occurred (the "Change Notice"), which Change Notice shall state with specificity the grounds on which Parent contends that such Material Adverse Change has occurred and Parent's proposal for a Merger Consideration Adjustment. Parent may only make one (1) request for a Merger Consideration Adjustment.

(b) Attempt to Agree. Following their receipt of the Change Notice, Parent, Holdings and the Company will in good faith consider Parent's assertions set forth in the Change Notice and will use their best efforts to in good faith reach a mutual agreement, as promptly as practicable, as to the amount by which the Merger Consideration shall be reduced by reason of the Material Adverse Change described in the Change Notice (the "Merger Consideration Adjustment"). In attempting to reach an agreement as to the Merger Consideration Adjustment, the parties will consider, among other things, the extent (if any) to which the fair market value of the Company has been diminished by the Material Adverse Change described in the Change Notice. If Parent, Holdings and the Company agree to a Merger Consideration Adjustment, then they shall execute a written agreement to such effect (the "Merger Consideration Agreement") setting forth the amount of the Merger Consideration Adjustment they have agreed to.

(c) Dispute Resolution Procedure.

(i) Agreement on Material Adverse Change. If Parent, Holdings and the Company agree that a Material Adverse Change in the Company's financial condition, properties, assets, liabilities, Business, operations, or results of operations occurred after the Effective Date of this Agreement and prior to the Closing Date (as hereinafter defined), but are unable to mutually agree in writing on the amount of a Merger Consideration Adjustment within ten (10) days after the date on which Holdings and the Company receive the Change Notice (the "Receipt Date"), then the amount of the Merger Consideration Adjustment (if any) shall be determined in accordance with the appraisal procedure set forth in Section 2.02(c)(iii) below.

(ii) No Agreement on Material Adverse Change. If Holdings and the Company do not agree with Parent's assertion in the Change Notice that a Material Adverse Change in the Company's financial condition, properties, assets, liabilities, Business, operations, or results of operations occurred after the Effective Date of this Agreement and prior to the Closing Date, and Parent, Holdings and the Company have not agreed in writing on the amount of a Merger Consideration Adjustment within ten (10) days after the Receipt Date, then, within twenty (20) days after the Receipt Date, the parties shall submit to mandatory binding arbitration the sole issue of whether or not such a Material Adverse Change occurred. Such arbitration shall be conducted in Chicago, Illinois in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect, and shall be concluded within thirty (30) days to the extent reasonably practicable. The arbitration will be conducted by a single arbitrator, mutually selected by the parties, who shall decide only the issue of whether or not a Material Adverse Change in the Company's financial condition, properties, assets, liabilities, Business, operations, or results of operations occurred after the Effective Date of this Agreement and prior to the Closing Date in the manner set forth in the Change Notice. The arbitrator's determination as to whether or not such a Material Adverse Change occurred after the Effective Date of this Agreement and prior to the Closing Date shall be conclusive, final, non-appealable and binding upon each of the parties to this Agreement and judgment may be entered upon the arbitrator's determination in accordance with applicable law in any court having competent jurisdiction over the matter. In connection with the arbitration proceedings, the parties will be entitled to conduct discovery in scope, timing, types, and under such procedures as such parties would otherwise be afforded had the dispute or controversy hereunder been subject to the Federal Rules of Civil Procedure. If the arbitrator determines that no Material Adverse Change occurred after the Effective Date of this Agreement, then no Merger Consideration Adjustment shall be made; and if the arbitrator determines that a Material Adverse Change has occurred after the Effective Date of this Agreement, then the amount of the Merger Consideration Adjustment shall be determined by the appraisal procedure set forth in Section 2.02(c)(iii) below (unless the parties otherwise agree in writing). The foregoing agreement to arbitrate shall be specifically enforceable under the prevailing arbitration law.

(iii) Appraisal Procedure. When the appraisal procedure set forth in this subparagraph is required to be used by the provisions of subparagraph 2.02(c)(i) or (ii), then the amount of the Merger Consideration Adjustment shall be determined as follows. Within twenty (20) days after the Receipt Date (or within ten (10) days after the completion of the arbitration referred to in Section 2.02(c)(ii) if such arbitration occurs) (A) Parent, on the one hand, and Holdings and the

Company, on the other hand, shall each select one Qualified Appraiser (as defined below) (the "Selected Appraiser") to determine the amount of the Merger Consideration Adjustment (if any) arising from the Material Adverse Change set forth in the Change Notice; and (B) Parent, on the one hand, and Holdings and the Company, on the other hand, shall each give the other written notice (the "Appraiser Notice") of the identity of their respective Selected Appraiser. Parent's Selected Appraiser is sometimes hereinafter called the "Parent Appraiser" and the Selected Appraiser of Holdings and the Company is sometimes hereinafter called the "Holdings Appraiser." The Company shall provide each side's Selected Appraiser with full access during normal business hours to the Company's facilities, products, personnel, books, records and financial statements (subject to the execution of reasonable confidentiality agreements by such Selected Appraisers) solely for purposes of assisting the Selected Appraisers in determining the amount of the Merger Consideration Adjustment. Each Selected Appraiser shall attempt to determine the amount of the Merger Consideration Adjustment, which, for purposes of such appraisal, shall be the number of shares of the Parent's Common Stock equal to the quotient obtained by dividing (i) the amount (if any) by which the fair market value of the Company was diminished from the Effective Date of this Agreement to the Closing Date as a result of the Material Adverse Change described in the Change Notice, by (ii) the average closing price per share of the Parent's Common Stock as reported on the Nasdaq National Market (the "Nasdaq NM") for the five (5) trading days immediately preceding the Effective Date of this Agreement. Within ten (10) days after a Selected Appraiser has been selected, the Parent Appraiser and the Holdings Appraiser shall each deliver to Parent and Holdings a brief written report (the "Appraisal Report") setting forth such Selected Appraiser's appraisal and determination of the amount of the Merger Consideration Adjustment and, unless the parties otherwise agree in writing to the amount of the Merger Consideration Adjustment, the Parent Appraiser and the Holdings Appraiser shall select a third appraiser (the "Determining Appraiser") which shall also be a Qualified Appraiser. The Determining Appraiser will review the Appraisal Reports and the amount of the Merger Adjustment will be the amount set forth in the Appraisal Report which is, in the judgment of the Determining Appraiser, the most nearly correct; provided, however, that notwithstanding the foregoing, if there is only one Selected Appraiser because Parent, on the one hand, or Holdings or the Company, on the other hand, fail to select its Selected Appraiser, then unless the parties otherwise agree in writing to the amount of the Merger Consideration Adjustment, the amount of the Merger Consideration Adjustment shall conclusively be deemed to be the amount thereof determined by such Selected Appraiser in its Appraisal Report. Parent, on the one hand, and Holdings, on the other hand, shall pay the fees and expenses charged by such party's Selected Appraiser and shall share equally the fees and expenses charged by the Determining Appraiser. As used herein, the term "Qualified Appraiser" means an investment banking firm of national or regional reputation that is substantially experienced in representing and valuing software companies in underwritten public offerings and/or merger and acquisition transactions, provided that such investment banking firm and its affiliates do not have a family relationship, or a then-currently active significant business relationship with the party who selected such appraiser, or advised or represented any of the parties in connection with this Agreement and the transactions contemplated hereunder.

(iv) Efforts to Agree. Nothing in this paragraph shall prevent the parties from further efforts to reach a mutual agreement on the amount of the Merger Consideration Adjustment (if any) while the arbitration procedure and/or the appraisal procedure described in

Sections 2.02(c)(ii) and (iii) above is pending and any mutual written agreement reached by Parent, Holdings and the Company regarding the amount of the Merger Consideration Adjustment shall be the conclusive, final, non-appealable and determinative resolution of the amount of the Merger Consideration Adjustment, binding upon each of the parties hereto.

(d) Material Adverse Change. As used herein, "Material Adverse Change" means a material adverse change other than a change arising or resulting, directly or indirectly, from industry conditions or the public announcement of, or the response or reaction of customers, vendors, licensors, investors, Company employees or others to, this Agreement, the Merger, or any of the agreements or transactions contemplated by this Agreement or entered into in connection with this Agreement or the Merger.

(e) Meaning of Merger Consideration. From and after the effectiveness of any Merger Consideration Adjustment in accordance with this Section 2.02, the term "Merger Consideration" as used in this Agreement, shall mean the reduced amount of Merger Consideration to be paid to Holdings as the sole stockholder of the Company pursuant to Section 2 of this Agreement, as modified by the Merger Consideration Adjustment.

SECTION 2.03 Release of Escrow Shares. The Escrow Shares shall be released from escrow and delivered to Holdings one (1) year after the Closing Date, subject to the terms of the Escrow Agreement (as hereinafter defined) and the provisions of Article VII. The rights of Parent and Acquisition under Article VII shall not be in any manner limited to the Escrow Shares, but shall be subject to the limitations set forth in Article VII.

SECTION 2.04 Conversion of Acquisition Common Stock. At the Effective Time, each share of Common Stock, $.01 par value, of Acquisition that is issued and outstanding immediately prior to the Effective Time shall remain outstanding and, by virtue of the Merger, automatically and without the need for any action on the part of the holder thereof, shall be converted into and become one (1) validly issued, fully paid and nonassessable share of Common Stock of the Surviving Corporation.

SECTION 2.05 Surrender and Exchange of Shares.

(a) At the Effective Time, each holder of an outstanding certificate or certificates that immediately prior thereto represented shares of the capital stock of the Company shall surrender the same to Parent or its agent, and each such holder shall be entitled upon such surrender to receive in exchange therefor, without cost to it, the number of shares of Parent Common Stock into which the shares theretofore represented by the certificate so surrendered shall have been converted as provided in Section 2.01 hereof, and the certificate or certificates so surrendered in exchange for such consideration shall forthwith be canceled by Parent.

(b) If a certificate representing shares of the capital stock of the Company has been lost, stolen or destroyed, the holder of such certificate shall submit an affidavit describing the lost, stolen or destroyed certificate, the number of shares evidenced thereby and affirming the status of that certificate in lieu of surrendering such certificate to Parent, which shall deem such certificate canceled; provided that Parent may require the holder of such certificate to provide Parent with a bond in such amount as Parent may direct as a condition to paying any consideration hereunder. Until so surrendered, the outstanding certificates that, prior to the Effective Time, represented shares of the capital stock of the Company that shall have been converted as aforesaid shall be deemed for all corporate purposes, except as hereinafter provided, to evidence the ownership of the Merger Consideration into which such shares have been so converted.

(c) No certificates or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of certificates held by stockholders of the Company, and such fractional share interests will not entitle the owner thereof to vote or to any rights of a stockholder of Parent. Each holder of shares of the capital stock of the Company who would otherwise have been entitled to receive in the Merger a fraction of a share of Parent Common Stock (after taking into account all certificates surrendered by such holder) shall be entitled to receive from Parent at the Effective Time, in lieu thereof, cash (without interest) in an amount equal to such fractional part of a share of Parent Common Stock multiplied by the average of the per share closing prices on the Nasdaq NM of shares of Parent Common Stock during the five (5) consecutive trading days immediately preceding the Effective Date of this Agreement. It is understood (i) that the payment of cash in lieu of fractional shares of Parent Common Stock is solely for the purpose of avoiding the expense and inconvenience to Parent of issuing fractional shares and does not represent separately bargained-for consideration; and (ii) that no holder of shares of Company capital stock will receive cash in lieu of fractional shares of Parent Common Stock in an amount greater than the value of one full share of Parent Common Stock.

SECTION 2.06 Closing of Stock Transfer Books. On and after the Effective Time, there shall be no transfers on the stock transfer books of the Company or Parent of shares of capital stock of the Company that were issued and outstanding immediately prior to the Effective Time.

SECTION 2.07 Closing. The closing (the "Closing") shall be scheduled to occur at the offices of Porter, Wright, Morris & Arthur, Columbus, Ohio at 10:00 a.m. local time, on a date as soon as practicable (but in any event not later than the third business day, unless otherwise agreed) after the satisfaction or waiver of the conditions to the obligations of the parties to effect the Merger set forth herein. The Closing, and all transactions to occur at the Closing, shall be deemed to have taken place at, and shall be effective as of, the close of business on the date of closing (the "Closing Date").

SECTION 2.08 Tax-Free Reorganization. The parties intend to adopt this Agreement as a tax-free plan of reorganization and to consummate the Merger in accordance with the provisions of Section 368(a)(1)(A) of the Internal Revenue Code by virtue of the provisions of Section 368(a)(2)(E) of the Internal Revenue Code. The parties believe that the value of the Parent Common Stock to be issued to Holdings as the sole stockholder of the Company in the Merger is equal to the value of the Company Common Stock to be surrendered in exchange therefor. The Parent Common Stock issued in the Merger will be issued solely in exchange for the Company's outstanding Common Stock, and no other transaction other than the Merger represents, provides for or is intended to be an adjustment to, the consideration paid for the Company's Common Stock. Except for cash paid in lieu of fractional shares, no consideration that could constitute "other property" within the meaning of Section 356 of the Internal Revenue Code is being paid by Parent for the Company Common Stock in the Merger. The parties will not take a position on any tax returns that is inconsistent with the provisions of this Section . In addition, Parent represents now, and as of the Effective Time, that it intends to continue the Company's historic business or use a significant portion of the Company's business assets in a business. Concurrently herewith, and again at the Closing, Parent shall execute and deliver to Holdings a certificate substantially in the form of Exhibit A. The provisions and representations contained or referred to in this Section 2.08 and in Exhibit A shall survive until the expiration of the applicable statute of limitations.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

SECTION 3.01 Representations and Warranties of Holdings and the Company. Holdings and the Company, jointly and severally, represent and warrant to Parent and Acquisition, except as set forth in the Holdings/Company Disclosure Letter dated of even date herewith that is being delivered to Parent concurrently herewith (the "Holdings/Company Disclosure Letter"), as follows:

(a) Organization and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own or lease and operate its properties and assets and to carry on its business as it is now being conducted. The Company is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction in which the character of its properties owned or leased or the nature of its activities makes such qualification necessary, except where the failure to be so qualified would not have a Company Material Adverse Effect (as hereinafter defined). As used in this Agreement, the term "Company Material Adverse Effect" shall mean a material adverse effect on the properties, assets, financial condition, operating results or business of the Company, taken as a whole; provided, however, that the term "Company Material Adverse Effect" shall not include any such material adverse effect arising or resulting, directly or indirectly, from industry conditions or the public announcement of, or the response or reaction of customers, vendors, licensors, investors, Company employees or others to, this Agreement, the Merger, or any of the agreements or transactions contemplated by this Agreement or entered into in connection with this Agreement or the Merger.

(b) Subsidiaries. The Company does not have any subsidiaries or ownership of any equity interest in any corporation, partnership, joint venture, or other business entity.

For purposes of this Agreement, the term "subsidiary," when used with respect to Holdings or the Company, shall mean any corporation or other business entity a majority of whose outstanding equity securities is at the time owned, directly or indirectly, by either Holdings, the Company, and/or one or more of their other subsidiaries.

(c) Capitalization. The authorized capital stock of the Company consists of 1,000,000 shares of Company Common Stock, $1.00 par value per share. A total of 100 shares of Company Common Stock are issued and outstanding, all of which were duly authorized and validly issued and are fully paid and nonassessable. No subscription, warrant, option, call, commitment, convertible security, stock appreciation or other right (contingent or other) to purchase or acquire any shares of any class of capital stock of the Company is authorized or outstanding and there is not any commitment of the Company to issue any shares, warrants, options, or other such rights or to distribute to holders of any class of its capital stock any evidences of indebtedness or assets. Except as set forth on Schedule 3.01(c), the Company does not have any obligation (contingent or other) to purchase, redeem or otherwise acquire any shares of its capital stock or any interest therein or to pay any dividend or make any other distribution in respect thereof. Schedule 3.01(c) sets forth a complete and correct list of the holders of record of the Company Common Stock and the holders of all options or other rights, if any, to purchase Company Common Stock, including by name of the holder the number of shares or the number of shares obtainable on exercise of options or rights held.

(d) Authority Relative to Agreement. The Company has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by the Company and the consummation by it of the transactions contemplated hereby have been duly authorized by the Company's Board of Directors and no other corporate approvals or proceedings on the part of the Company are necessary to authorize this Agreement and the transactions contemplated hereby, other than the approval and adoption of this Agreement by the sole stockholder of the Company as required by the Delaware GCL. This Agreement has been duly executed and delivered by the Company and, subject to obtaining such stockholder approval, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to the effect, if any, of (a) applicable bankruptcy and other similar laws affecting the rights of creditors generally, (b) rules of law governing specific performance, injunctive relief and other equitable remedies, and (c) the limitations imposed by public policy on the enforceability of provisions requiring indemnification in connection with the offering, issuance or sale of securities. The Company's Board of Directors has by the requisite vote (i) determined that this Agreement and the Merger is advisable and fair and in the best interests of the Company and its sole stockholder and (ii) resolved to recommend the approval of this Agreement and the Merger by the Company's sole stockholder and to submit this Agreement and the Merger to the Company's sole stockholder for its consideration and approval when the Company is permitted to do so by applicable law. The affirmative vote of the holders of a majority of the outstanding Company Common Stock is the only vote of the holders of any class or series of the Company's capital stock necessary to approve this Agreement, the Merger and the transactions contemplated hereby and thereby.

(e) Non-Contravention. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby will not (i) violate or conflict with any provision of the Certificate of Incorporation or By-Laws of the Company or (ii) except as set forth on Schedule 3.01(e) hereof, result in any violation of, conflict with, or default (or an event which with notice or lapse of time or both would constitute a default) or loss of a benefit under, or permit the termination of or the acceleration of any obligation under, any material mortgage, indenture, lease, agreement or other instrument to which the Company is a party or by which its assets are bound, permit, concession, grant, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the business conducted by the Company (the "Business") or to the Company or their respective properties, or (iii) result in the creation or imposition of any liens, claims, charges, restrictions, rights of others, security interests, prior assignments or other encumbrances (collectively, "Claims") in favor of any third person or entity upon any of the assets of the Company, other than any such violation, conflict, default, loss, termination or acceleration that would not have a Company Material Adverse Effect.

(f) Consents. Except as set forth on Schedule 3.01(f), no consent, approval, order or authorization of, or registration, declaration or filing with, any Federal, state, local or foreign governmental or regulatory authority is required to be made or obtained by the Company in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, except for (i) compliance by the Company with the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"), (ii) the filing of a certificate of merger with the Secretary of State of the State of Delaware in accordance with the Delaware GCL and (iii) such consents, approvals, orders or authorizations which if not obtained, or registrations, declarations or filings which if not made, would not have a Company Material Adverse Effect or materially adversely affect the ability of the Company to consummate the transactions contemplated hereby or the ability of the Surviving Corporation or any of its subsidiaries to conduct the Business after the Effective Time.

(g) Financial Statements, Etc. The Company has furnished to Parent the unaudited balance sheet of the Company of July 31, 1996 and the related statements of operations for each of the two years ended July 31, 1996 and 1995, certified by the principal financial officer of the Company. The foregoing unaudited financial statements of the Company shall be collectively referred to as the "Financial Statements." All such Financial Statements (including any related schedules and/or notes, if any) have been prepared in a manner consistent with the manner with which Holdings has prepared financial statements for the Company and Holdings' other subsidiaries under accounting principles consistently applied and consistent with prior periods, except that such statements are subject to year end adjustments (which consist of normal recurring accruals) and do not contain footnote disclosures. Such balance sheet fairly presents in all material respects the financial position of the Company as of its respective date, and such statements of operations fairly present in all material respects the results of operations of the Company for the respective periods then ended, subject to normal year-end adjustments and the absence of footnote disclosures.

Except as and to the extent (i) reflected on the unaudited balance sheet of the Company as of July 31, 1996 referred to above, (ii) incurred since July 31, 1996 in the ordinary course of business consistent with past practice, or (iii) set forth on Schedule 3.01(g) hereto, the Company does not have any liabilities or obligations of any kind or nature, whether known or unknown or secured or unsecured (whether absolute, accrued, contingent or otherwise, and whether due or to become due) that would be required to be reflected on a balance sheet, or the notes thereto, prepared in accordance with generally accepted accounting principles. Between July 31, 1996 and the Effective Date of this Agreement, the Company has not suffered any Company Material Adverse Effect.

(h) Absence of Certain Changes or Events. Except as set forth on Schedule 3.01(h) hereto, or as otherwise disclosed in the Financial Statements of the Company, since July 31, 1996, the Company has not (i) issued any stock, bonds or other corporate securities, (ii) borrowed or refinanced any amount or incurred any liabilities (absolute or contingent) in excess of $50,000, other than trade payables incurred in the ordinary course of business consistent with past practice, (iii) discharged or satisfied any claim in excess of $100,000 or incurred or paid any obligation or liability (absolute or contingent) other than current liabilities shown on the balance sheet of the Company as of July 31, 1996 and current liabilities incurred since the date of such balance sheet in the ordinary course of business consistent with past practice, (iv) declared or made any payment or distribution to stockholders or purchased or redeemed any shares of its capital stock or other securities, (v) mortgaged, pledged or subjected to lien any of its assets, tangible or intangible, other than liens for current real property taxes not yet due and payable, (vi) sold, assigned or transferred any of its tangible assets, or canceled any debts or claims, except in the ordinary course of business consistent with past practice or as otherwise contemplated hereby, (vii) sold, assigned or transferred any Intellectual Property Rights (as hereinafter defined) or other intangible assets, (viii) waived any rights of substantial value, whether or not in the ordinary course of business, (ix) entered into, adopted, amended or terminated any bonus, profit sharing, compensation, termination, stock option, stock appreciation right, restricted stock, performance unit, pension, retirement, deferred compensation, employment, severance or other employee benefit plan, agreement, trust, fund or other arrangement for the benefit of any director, officer or employee of the Company, or increased in any manner the compensation or fringe benefits of any director or officer of the Company, or increased the compensation or fringe benefits of any executive officer of the Company other than in the ordinary course of business consistent with past practices, or made any payment of a cash bonus to any director or officer or to any employee of, or consultant or agent to, the Company or made any other material change in the terms or conditions of employment, (x) announced any plan or legally binding commitment to create any employee benefit plan, program or arrangement or to amend or modify in any material respect any existing employee benefit plan, program or arrangement, (xi) eliminated the vesting conditions or otherwise accelerated the payment of any compensation, (xii) suffered any damage, destruction or loss to any of its assets or properties, (xiii) made any change in its accounting systems, policies, principles or practices, (xiv) made any loans to any person, (xv) incurred damage, destruction, or loss, whether or not covered by insurance, affecting the properties, assets, or Business of the Company, (xvi) made any change with respect to management, supervisory, or other key personnel of the Company, (xvii) paid or discharged a lien or liability not appearing on the Financial Statements, or (xviii) to the extent not otherwise set forth herein, taken any action described in Section 4.01 hereof. Between July 31, 1996 and the Effective Date of this Agreement, there has not been a Material Adverse Change (as defined in Section 2.02(d)) in the financial condition, properties, assets, liabilities, Business, operations, results of operations of the Company.

(i) Certain Information. Provided that Parent allows Holdings and the Company to modify any information regarding Holdings or the Company contained therein, none of the information supplied by the Company for inclusion in the Registration Statement or the Proxy Statement/Prospectus (as hereinafter defined) will, at the respective times such documents or any amendments or supplements thereto are filed with the SEC, contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that no representation is made by the Company with respect to information supplied by Parent which relates to the Parent, Acquisition, or any affiliate or associate of Parent for inclusion in the Registration Statement or the

Proxy Statement/Prospectus. Provided that Parent allows Holdings and the Company to modify any information regarding Holdings or the Company contained therein, none of the information relating to the Company included in the Registration Statement or the Proxy Statement/Prospectus that has been supplied by the Company and/or Holdings will, at the time the Proxy Statement/Prospectus is distributed to the Company's and/or Parent's stockholders, be false or misleading with respect to any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) Actions Pending. Except as set forth on Schedule 3.01(j) hereto, (i) there is no action, suit, dispute, investigation, proceeding or claim pending or, to the knowledge of Holdings and the Company, threatened against or affecting the Company, or its properties or rights, or the Business, before any court, administrative agency, governmental body, arbitrator, mediator or other dispute resolution body, and the Company is not aware of any facts or circumstances which are reasonably likely to give rise to any such action, suit, dispute, investigation, proceeding or claim, (ii) the Company is not subject to any order, judgment, decree, injunction, stipulation, or consent order of or with any court or other governmental agency, and (iii) the Company has not entered into any agreement to settle or compromise any proceeding pending or threatened against it which has involved any obligation other than the payment of money or for which the Company has any continuing obligation, which (in the case of each of clauses (i), (ii) and (iii) of this Section 3.01(j)) is reasonably likely to have a Company Material Adverse Effect or which might materially and adversely affect the ability of the Company to consummate the transactions contemplated hereby, or materially and adversely affect the ability of Parent to conduct the Business after the Effective Time.

(k) Title to Properties. The Company has good and valid title to the properties and assets reflected on the unaudited balance sheet of the Company as of July 31, 1996 other than nonmaterial properties and assets disposed of in the ordinary course of business consistent with past practice since the date of such balance sheet, and all such properties and assets are free and clear of Claims, except (i) as described on Schedule 3.01(k) hereto, (ii) liens for current taxes not yet due, and (iii) minor imperfections of title, if any, not material in amount and not materially detracting from the value or impairing the use of the property subject thereto or impairing the operations or proposed operations of the Company (collectively, "Permitted Liens"). Such properties and assets constitute all of the assets necessary to conduct the Business substantially in the same manner as it has been conducted prior to the date hereof.

(l) Real Property Interests. Schedule 3.01(l) hereto sets forth a complete and accurate list of (i) the real properties owned by the Company (the "Fee Properties") and (ii) the real properties leased by the Company (the "Leased Properties"). The Company has good and marketable fee simple title to the Fee Properties and good and marketable leasehold title to the Leased Properties, listed on Schedule 3.01(l), free and clear of all Claims, tenants and occupants except for Permitted Liens. Complete and accurate copies of all leases or other agreements relating to the Leased Properties have been delivered to Parent and there have been no material changes or amendments to such leases or agreements since such delivery. The Company is the lawful owner of all improvements and fixtures located on the Fee Properties and all moveable fixtures located at the Leased Properties, free and clear of all Claims except for Permitted Liens. Each lease or other agreement relating to the Leased Properties is a valid and subsisting agreement, without any material default of the Company thereunder and without any material default thereunder of the other party thereto, and such leases and agreements give the Company the right to use or occupy, as the case may be, all real properties as are sufficient and adequate to operate the Business as it is currently being conducted. Except as set forth on Schedule 3.01(l), the Company's possession of such property has not been disturbed nor has any claim relating to the Company's title to or possession of such property been asserted against the Company that would have a Company Material Adverse Effect.

(m) Intellectual Property Rights. The patents, trademarks and trade names, trademark and trade name registrations, service mark, brand mark and brand name registrations, copyrights, inventions, know-how, trade secrets, proprietary processes and information, software source and object code, the applications therefor and the licenses with respect thereto (collectively, "Intellectual Property Rights") listed on Schedule 3.01(m) hereto constitute all material proprietary rights owned or held by the Company that are necessary to the conduct of the Business. Except as set forth on Schedule 3.01(m), (i) the Company conducts the Business without any known infringement or claim of infringement of any Intellectual Property Right of others and the conduct by the Surviving Corporation after the Effective Time of the Business, in substantially the same manner as it is currently conducted, will not constitute a breach or violation of any agreement relating to the Intellectual Property Rights listed on Schedule 3.01(m) (other than as a result of agreements to which Parent or any of its affiliates is a party); (ii) the Company is, and after the consummation of the Merger will be, the sole and exclusive owner of each Intellectual Property Right listed on Schedule 3.01(m), free and clear of any Claims (other than Permitted Liens), and, to the knowledge of Holdings and the Company, no person is challenging, infringing, misappropriating or otherwise violating any such Intellectual Property Rights or claiming that the conduct of the Business, infringes, misappropriates or otherwise violates the Intellectual Property Rights of any third party; (iii) the Company is not aware of any impediment to the registration of any trademark that is the subject of any application for registration listed on Schedule 3.01(m) that would have a Company Material Adverse Effect; (iv) none of the Intellectual Property Rights listed on Schedule 3.01(m) is the subject of any outstanding order, ruling, decree, judgment or stipulation specifically binding on the Company; (v) to the knowledge of Holdings and the Company, none of the activities of any employee of the Company on behalf thereof violates any obligations of such employee to third parties, including, without limitation, confidentiality or noncompetition obligations under agreements with a former employer; (vi) the Company is not aware of any unauthorized use by a third party of any computer software programs or applications that the Company considers to be a trade secret belonging to the Company; (vii) the Company has taken and is taking reasonable precautions to protect all material trade secrets and other confidential information relating to its proprietary computer software programs and applications or included in the Intellectual Property Rights that are material to the conduct of the Business; and (viii) the execution, delivery, and performance of this Agreement and the consummation of the Merger will not constitute a breach or default of any Intellectual Property Rights that are material to the conduct of the Business.

(n) Labor Matters. The Company is not a party to any collective bargaining or union agreement, and no such agreement is applicable to any employees of the Company. There are not any controversies between the Company and any of such employees that might reasonably be expected to result in a Company Material Adverse Effect, or any unresolved labor union grievances or unfair labor practice or labor arbitration proceedings pending, or threatened relating to the Business. There are no labor unions or other organizations representing or purporting to represent any employees of the Company and there are not any organizational efforts currently being made or threatened involving any of such employees. Except as set forth on Schedule 3.01(n) hereto, the Company is in compliance in all material respects with all laws and regulations or other legal or contractual requirements regarding the terms and conditions of employment of employees, former employees or prospective employees or other labor related matters, including, without limitation, laws, rules, regulations, orders, rulings, conciliation agreements, decrees, judgments and awards relating to wages, hours, the payment of social security and similar taxes, equal employment opportunity, employment discrimination, fair labor standards and occupational health and safety, wrongful discharge or violation of the personal rights of employees, former employees or prospective employees. The Company is not liable for any material amount of arrears of wages or any taxes or penalties for failure to comply with any of the foregoing.

(o) Severance Arrangements. Except as set forth on Schedule 3.01(o) hereto, the Company is not party to any agreement with any employee (i) the benefits of which (including, without limitation, severance benefits) are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving the Company of the nature of any of the transactions contemplated by this Agreement or (ii) providing severance benefits in excess of those generally available under the Company's severance policies (which are described on Schedule 3.01(o)), or which are conditioned upon a change of control, after the termination of employment of such employees regardless of the reason for such termination of employment, and the Company is not a party to any employment agreement or compensation guarantee extending for a period longer than one year. Schedule 3.01(o) sets forth all employment agreements and compensation guarantees, regardless of duration, to which the Company is a party. Except as a result of actions taken by Parent or the Surviving Corporation, no amounts will be due or payable to any employee of the Company under any such severance arrangement or otherwise by virtue of the refusal of such employee to accept the offer of employment of the Surviving Corporation.

(p) Taxes.

(i) Except as set forth on Schedule 3.01(p) hereto, the Company or an affiliate on behalf of the Company has (A) timely filed all Federal and all material state, local and foreign returns, declarations, reports, estimates, information returns and statements relating to the Company's operations ("Returns") required to be filed by it in respect of any Taxes (as hereinafter defined), (B) timely paid all Taxes that are due and payable with respect to the periods covered by the Tax Returns referred to in clause (A) without regard to whether such Taxes have been assessed (except for audit adjustments not material in the aggregate or to the extent that liability therefor is reserved for in the Company's most recent unaudited financial statements), (C) established reserves that are adequate for the payment of all Taxes not yet due and payable with respect to the results of operations of the Company, and (D) complied in all material respects with all applicable laws, rules and regulations relating to the payment and withholding of Taxes and has in all material respects timely withheld from employee wages and paid over to the proper governmental authorities all amounts required to be so withheld and paid over.

(ii) The Company has no liability for the Taxes of any Person or entity other than the Company under Regulation 1.1502-6 of the Internal Revenue Code.

(iii) Schedule 3.01(p) sets forth the last taxable period through which the Federal income Tax Returns of the Company have been examined by the Internal Revenue Service or otherwise closed. All deficiencies asserted as a result of such examinations and any examination by any applicable state, local or foreign taxing authority which have not been or will not be appealed or contested in a timely manner have been paid, fully settled or adequately provided for in the Company's most recent audited financial statements. Except as set forth on Schedule 3.01(p), no Federal, state, local or foreign Tax audits or other administrative proceedings or court proceedings are currently pending with regard to any Federal or material state, local or foreign Taxes for which the Company would be liable, and no deficiency for any such Taxes has been proposed, asserted or assessed or threatened pursuant to such examination of the Company by such Federal, state, local or foreign taxing authority with respect to any period.

(iv) Except as set forth on Schedule 3.01(p), the Company has not executed or entered into (or prior to the Effective Time will execute or enter into) with the Internal Revenue Service or any taxing authority (A) any agreement or other document extending or having the effect of extending the period for assessments or collection of any Federal, state, local or foreign Taxes for which the Company would be liable or (B) a closing agreement pursuant to Section 7121 of the Internal Revenue Code, or any predecessor provision thereof or any similar provision of state, local or foreign income tax law that relates to the assets or operations of the Company.

(v) Except as set forth on Schedule 3.01(p), the Company is not a party to any agreement providing for the allocation or sharing of liability for any Taxes.

(vi) The Company has made available to Parent complete and accurate copies of all income and franchise Tax Returns pertaining solely to the Company and all material other Tax Returns pertaining solely to the Company filed by or on behalf of the Company for the taxable years ending on or prior to July 31, 1996.

(vii) The Company is not a "U.S. real property holding corporation" (as defined in Section 897(c)(2) of the Internal Revenue Code), and neither the Company nor any stockholder of the Company is a non-resident alien individual, foreign corporation, foreign partnership, or foreign trust.

For purposes of this Agreement, "Taxes" shall mean all Federal, state, local, foreign or other taxing authority income, franchise, sales, use, ad valorem, property, payroll, social security, unemployment, assets, value added, withholding, excise, severance, transfer, employment, alternative or add-on minimum and other taxes, charges, fees, levies, imposts, duties or other assessments, together with any interest and any penalties, additions to tax or additional amounts imposed by any taxing authority.

(q) Compliance with Law; Permits. The Company is not in default in any material respect under any order or decree of any court, governmental authority, arbitrator or arbitration board or tribunal that is specifically binding on the Company or under any laws, ordinances, governmental rules or regulations to which the Company or any of its respective properties or assets is subject. Schedule 3.01(q) hereto sets forth a list of all material permits, authorizations, approvals, registrations, variances and licenses ("Permits") issued to or used by the Company in connection with the conduct of the Business; such Permits constitute all Permits necessary for the Company to own, use and maintain its properties and assets or required for the conduct of the Business in substantially the same manner as it is currently conducted. Each Permit listed on Schedule 3.01(q) is in full force and effect and no proceeding is pending or threatened to modify, suspend, revoke or otherwise limit any of such Permits and no administrative or governmental actions have been taken or threatened in connection with the expiration or renewal of any of such Permits. Except as set forth on Schedule 3.01(q), neither the Company nor Parent or Acquisition will be required, as a result of the consummation of the transactions contemplated hereby, to obtain or renew any Permits.

(r) Employee Benefit Plans.

(i) Schedule 3.01(r) hereto sets forth a complete and accurate list of each plan, program, arrangement, agreement or commitment that is an employment, consulting or deferred compensation agreement, or an executive compensation, incentive bonus or other bonus, employee pension, profit-sharing, savings, retirement, stock option, stock purchase, severance pay, life, health, disability or accident insurance plan, or vacation or other employee benefit plan, program, arrangement, agreement or commitment, including, without limitation, each employee benefit plan (as defined under Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") in which employees of the Company participate that is (i) maintained by the Company or any trade or business (whether or not incorporated) which, together with the Company, would be treated as a single employer under Title IV of ERISA or Section 414 of the Internal Revenue Code (collectively, the "ERISA Affiliates") or (ii) to which any ERISA Affiliate contributes or has any obligation to contribute to, or has or may have any liability (including, without limitation, a liability arising out of an indemnification, guarantee, hold harmless or similar agreement) (collectively, the "Plans"). Each Plan is identified on Schedule 3.01(r), to the extent applicable, as one or more of the following: an "employee pension plan" (as defined in Section 3(2)(A) of ERISA), an "employee welfare plan" (as defined in Section 3(1) of ERISA), or as a plan intended to be qualified under Section 401 of the Internal Revenue Code.

(ii) The Plans have been, and currently are in compliance, in all material respects, with all laws and regulations applicable to the Plans under which noncompliance would have a Company Material Adverse Effect, including, without limitation, ERISA and the Internal Revenue Code.

(iii) Except as set forth on Schedule 3.01(r), no ERISA Affiliate has maintained, adopted or established, contributed to or been required to contribute to, or otherwise participated in or been required to participate in, any employee benefit plan or other program or arrangement subject to Title IV of ERISA (including, without limitation, a "multi-employer plan" (as defined in Section 3(37) of ERISA), a multiple employer plan (as defined in Section 210 of ERISA) and a defined benefit plan (as defined in Section 3(35) of ERISA)).

(iv) Except as set forth on Schedule 3.01(r), the Company neither provides nor may be required to provide and no Plan, other than a Plan that is an employee pension benefit plan (within the meaning of Section 3(2)(A) of ERISA), provides or may be required to provide benefits, including, without limitation, death, health or medical benefits (whether or not insured), with respect to current or former employees of the Company beyond their retirement or other termination of service with the Company (other than (A) coverage mandated by applicable law, (B) deferred compensation benefits accrued as liabilities on the books of the Company, or (C) benefits the full cost of which is borne by the current or former employee (or his or her beneficiary)). No ERISA Affiliate maintains any Plan under which any employee or former employee of the Company may receive medical benefits which cannot be modified or terminated by the ERISA Affiliates at any time without the consent of any person, and no employees or former employees of the Company will have any claim in respect of such benefits as of the Effective Time.

(v) The transactions contemplated hereby will not result in (i) any portion of any amount paid or payable by the Company to a "disqualified individual" (within the meaning of Section 280G(c) of the Internal Revenue Code and the regulations promulgated thereunder), whether paid or payable in cash, securities of the Company or otherwise and whether considered alone or in conjunction with any other amount paid or payable to such a "disqualified individual," being an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Internal Revenue Code and the regulations promulgated thereunder, (ii) any employee of the Company being entitled to severance pay, unemployment compensation (other than payments by state unemployment compensation program), or any other payment, (iii) an acceleration of the time of payment (other than eligibility for a distribution from a defined contribution plan) or vesting or an increase in the amount of compensation due to any such employee or former employee of the Company or (iv) any prohibited transaction described in Section 406 of ERISA or Section 4975 of the Internal Revenue Code for which an exemption is not available.

(vi) No ERISA Affiliates has incurred any material liability with respect to any Plan under ERISA (including, without limitation, Title I or Title IV thereof, other than liability for premiums due to the Pension Benefit Guaranty Corporation which are current if applicable), the Internal Revenue Code or other applicable law for which the Company may be held liable, which has not been satisfied in full or been accrued on the balance sheet of the Company as of July 31, 1996 pending full satisfaction, and no event has occurred, and there exists no condition or set of circumstances, which could result in the imposition of any material liability on the Company not set forth in or reserved in the Company's unaudited balance sheet at July 31, 1996 under ERISA, the Internal Revenue Code or other applicable law with respect to any Plan.

(vii) With respect to each Plan subject to Section 412 of the Internal Revenue Code that is funded wholly or partially through an insurance policy, all premiums required to have been paid to date under the insurance policy have been paid, and, except as set forth on Schedule 3.01(r), as of the Effective Time there will be no liability of the Company under any such insurance policy or ancillary agreement with respect to such insurance policy in the nature of a retroactive rate adjustment, loss sharing arrangement or other actual or contingent liability arising wholly or partially out of events occurring prior to the Effective Time.

(viii) None of the ERISA Affiliates has made any contribution to any Plan that may be subject to any excise tax under Section 4972 of the Internal Revenue Code for which the Company may be held liable.

(s) Environmental Matters. The Company is in compliance in all material respects with all Federal, state or local statutes, ordinances, orders, judgments, rulings or regulations relating to environmental pollution or to environmental regulation or control. Except as set forth on Schedule 3.01(s) hereto, neither the Company nor any of its respective officers, employees, representatives or agents has treated, stored, processed, discharged, spilled or otherwise disposed of any substance defined as hazardous or toxic by any applicable Federal, state or local law, rule, regulation, order or directive, or any waste or by-product thereof, at any real property or any other facility owned, leased or used by the Company, in material violation of any applicable statutes, regulations, ordinances or directives of any governmental authority or court, which violations may result in any material liability to the Company, taken as a whole. Except as set forth on Schedule 3.01(s), no employee of the Company or other person has ever made a claim or demand against the Company based on alleged damage to health caused by any such hazardous or toxic substance or by any waste or by-product thereof. Except as set forth on Schedule 3.01(s), the Company has not been charged by any governmental authority with improperly using, handling, storing, discharging or disposing of any such hazardous or toxic substance or waste or by-product thereof or with causing or permitting any pollution of any body of water. Except as set forth on Schedule 3.01(s), to the best knowledge of Holdings and the Company, the Fee or Leased Properties and the Business are not subject to any pending or threatened administrative or judicial proceeding under any environmental law and there are no facts or circumstances known to the Company which are reasonably likely to give rise to any proceeding. Except as set forth on Schedule 3.01(s), to the best knowledge of Holdings and the Company, there are no inactive, closed, or abandoned storage or disposal areas or facilities or underground storage tanks on the Fee or Leased Properties.

(t) Personal Property. The Company has provided Parent lists of (i) all of the tangible personal property used by the Company in its business having an original acquisition cost of $50,000 or more, and (ii) all leases of personal property binding upon the Company having an annual rental in excess of $25,000. All of such tangible personal property is presently utilized by the Company in the ordinary course of its business and is in good repair, ordinary wear and tear excepted.

(u) Contracts. Schedule 3.01(u) lists all contracts and arrangements of the following types to which the Company is a party or by which it is bound and which are material to the conduct of the Business or to the financial condition or results of operations of the Company, taken as a whole, including without limitation the following:

(i) any contract or arrangement with a sales representative, distributor, dealer, broker, sales agency, advertising agency or other person engaged in sales, distribution or promotional activities, or any contract to act as one of the foregoing on behalf of any person, which is not terminable by the Company on 30 or fewer days notice;

(ii) any contract or arrangement of any nature which involves the payment or receipt of cash or other property, an unperformed commitment, or goods or services, having a value in excess of $100,000;

(iii) any contract or arrangement pursuant to which the Company has made or will make loans or advances, or has or will have incurred indebtedness for borrowed money or become a guarantor or surety or pledged its credit on or otherwise become responsible with respect to any undertaking of another (except for the negotiation or collection of negotiable instruments in transactions in the ordinary course of business) in excess of $50,000;

(iv) any indenture, credit agreement, loan agreement, note, mortgage, security agreement, lease of real property or personal property, loan commitment or other contract or arrangement relating to the borrowing of funds, an extension of credit or financing;

(v) any contract or arrangement involving a partnership, a limited liability company, a joint venture or other cooperative undertaking requiring a sharing of assets or technology of the Company;

(vi) any contract or arrangement involving any restrictions with respect to the geographical area of operations or scope or type of business of the Company;

(vii) any power of attorney or agency agreement or arrangement with any person pursuant to which such person is granted the authority to act for or on behalf of the Company, or the Company is granted the authority to act for or on behalf of any person;

(viii) any contract not fully performed and relating to any acquisition or disposition of the Company or any predecessor in interest of the Company, or any acquisition or disposition of any subsidiary, division, line of business, or real property of the Company;

(ix) any contract or arrangement with a customer or financial institution;

(x) all such contracts and arrangements between the Company and Holdings or its affiliates that are material to the operations of the Company; and

(xi) any contract not specified above which the cancellation, breach, or nonperformance of would constitute a Company Material Adverse Effect.

The Company has delivered to Parent complete and accurate copies of the contracts and agreements set forth on Schedule 3.01(u), and each such contract or agreement is a valid and subsisting agreement, without any material default of the Company thereunder and, to Holdings' and the Company's knowledge, without any material default thereunder of the other party thereto. Except as set forth on Schedule 3.01(u), the Company has not received notice of any cancellation or termination of, or of any threat to cancel or terminate, any of such contracts or agreements required to be listed on Schedule 3.01(u) where such cancellation or termination would have a Company Material Adverse Effect.

(v) Insurance.

(i) All policies of fire, liability, workers' compensation and other forms of insurance providing insurance coverage to or for the Company for events or occurrences arising or taking place in the case of occurrence type insurance, and for claims made and/or suits commenced in the case of claims-made type insurance, between the Effective Date of this Agreement and the Effective Time, are listed on Schedule 3.01(v) hereto, and, except as set forth on Schedule 3.01(v), all premiums with respect thereto have been paid, and no notice of cancellation or termination has been received with respect to any such policy. All such policies are in full force and effect, and, except as set forth on Schedule 3.01(v), provide insurance in such amounts and against such risks as Holdings and the Company believe are customary for companies engaged in similar businesses to protect the employees, properties, assets, businesses and operations of the Company. All such policies will remain in full force and effect and will not be adversely modified or affected by, or terminate or lapse by reason of, any of the transactions contemplated hereby, except by reason of an insurer's assessment of Parent or the conduct of the Business after the Effective Time.

(ii) The Company has provided Parent information concerning all claims, which (including related claims which in the aggregate) exceed $50,000 and which have been made by the Company in the last two years under any workers' compensation, general liability, property, directors' and officers' liability or other insurance policy applicable to the Company or any of its properties. Except as set forth in written materials provided by the Company to Parent, there are no pending or threatened claims under any insurance policy, the outcome of which would have a Company Material Adverse Effect.

(w) Pending Transactions. Except for this Agreement and the transactions contemplated hereby, the Company is not a party to or bound by any agreement, negotiation, discussion, commitment or undertaking with respect to a merger or consolidation with, or an acquisition of all or substantially all of the property and assets of, any other corporation or person or the sale, lease or exchange of all or substantially all of its properties and assets to any other person.

(x) Claims Against Officers and Directors. Except as set forth on Schedule 3.01(x), to the knowledge of Holdings and the Company, there are no pending or threatened claims against any director, officer, employee or agent of the Company which could give rise to any claim for indemnification against the Company.

(y) Customers, Suppliers, Etc. The Company has provided Parent information concerning the 15 largest customers of the Company in terms of revenue to the Company ("Major Customers") and the 10 largest suppliers in terms of charges to the Company ("Major Suppliers") during the fiscal year ended July 31, 1996. Except to the extent set forth in Schedule 3.01(y), between July 31, 1996 and the Effective Date of this Agreement: (i) there has not been any material dispute between the Company and any Major Customer or Major Supplier; (ii) the Company did not receive notice from any Major Customer stating that such Major Customer intends to reduce its purchases from the Company; or (iii) the Company did not receive notice from any Major Supplier stating that such Major Supplier intends to reduce its sale of goods or services to the Company.

(z) Improper and Other Payments. Except as set forth on Schedule 3.01(z), neither the Company nor, to the knowledge of Holdings and the Company, any director, officer, employee, agent or representative of the Company, nor any person acting on behalf of any of them, has (i) made, paid or received any bribes, kickbacks or other similar payments to or from any person, whether lawful or unlawful, (ii) made any unlawful contributions, directly or indirectly, to a domestic or foreign political party or candidate, or (iii) made any improper foreign payment (as defined in the Foreign Corrupt Practices Act).

(aa) Brokers. Except as set forth on Schedule 3.01(aa), the Company has not used any broker or finder in connection with the transactions contemplated hereby, and the Company has not nor will have any liability or otherwise suffer or incur any loss as a result of or in connection with any brokerage or finder's fee or other commission of any person retained by the Company or the sole stockholder of the Company in connection with any of the transactions contemplated by this Agreement.

(bb) Accounts Receivable and Advances. Except as disclosed on Schedule 3.01(bb), (i) each account receivable of the Company (collectively, the "Accounts Receivable") represents a sale made in the ordinary course of business other than to affiliates and which arose pursuant to an enforceable written contract for a bona fide sale of goods or for services performed, and the Company has performed all of its obligations to produce the goods or perform the services to which such Accounts Receivable relates, and (ii) no Account Receivable is subject to any claim for reduction, counterclaim, set-off, recoupment or other claim for credit, allowances or adjustments by the obligor thereof, in an amount individually or in the aggregate that would have a Company Material Adverse Effect.

(cc) OCC Examination. The Office of the Comptroller of the Currency ("OCC") has not notified the Company of, nor imposed upon the Company, any order, judgment, decree, injunction, stipulation, liability, obligation, violation, fine, penalty, or burden that has material and adverse financial consequences on the Company or its Business.

(dd) Accuracy of Statements. Neither this Agreement, the Holdings/Company Disclosure Letter, nor any schedule, exhibit, statement, list, document, certificate or other information furnished or to be furnished by or on behalf of the Company to Parent in connection with this Agreement, when read together, or any of the transactions contemplated hereby contains or will contain any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they are made, not misleading.

SECTION 3.02 Representations and Warranties of Holdings. Except as set forth in the Holdings/Company Disclosure Letter, Holdings represents and warrants to Parent and Acquisition as follows:

(a) Organization and Qualification. Holdings is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) Ownership. Holdings owns beneficially and of record 100% of the Company Common Stock, free and clear of any liens, claims, charges, restrictions, rights of others, security interests, prior assignments or other encumbrances.

(c) Authority Relative to Agreement. Holdings has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by Holdings and the consummation by Holdings of the transactions contemplated hereby have been duly authorized by Holdings' Board of Directors and no other corporate approvals or proceedings on the part of Holdings are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Holdings and constitutes the legal, valid and binding obligation of Holdings, enforceable against Holdings in accordance with its terms, subject to the effect, if any, of (a) applicable bankruptcy and other similar laws affecting the rights of creditors generally, (b) rules of law governing specific performance, injunctive relief and other equitable remedies, and (c) the limitations imposed by public policy on the enforceability of provisions requiring indemnification in connection with the offering, issuance or sale of securities. No approval of the holders of any class or series of Holdings' capital stock is necessary to approve this Agreement, the Merger and the transactions contemplated hereby and thereby.

(d) Non-Contravention. The execution and delivery of this Agreement by Holdings and the consummation by Holdings of the transactions contemplated hereby will not (i) violate or conflict with any provision of the Certificate of Incorporation or By-Laws of Holdings or (ii) except as set forth on Schedule 3.02(d) hereof, result in any violation of, conflict with, or default (or an event which with notice or lapse of time or both would constitute a default) or loss of a benefit under, or permit the termination of or the acceleration of any obligation under, any mortgage, indenture, lease, agreement or other instrument, permit, concession, grant, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company's Business as conducted by the Company or the Company's properties, or (iii) result in the creation or imposition of any Claim in favor of any third person or entity upon any of the assets of the

Company or the Company's Business, other than any such violation, conflict, default, loss, termination or acceleration that would not have a Company Material Adverse Effect.

(e) Consents. Except as set forth on Schedule 3.02(e), no consent, approval, order or authorization of, or registration, declaration or filing with, any Federal, state, local or foreign governmental or regulatory authority is required to be made or obtained by Holdings or any of its subsidiaries in connection with the execution and delivery of this Agreement by Holdings or the consummation by Holdings of the transactions contemplated hereby, except for (i) compliance by Holdings with the HSR Act, (ii) filing with the SEC of such reports, schedules, and information under Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated by the SEC thereunder, as may be required to be filed by Holdings in connection with this Agreement, the Merger, and other transactions contemplated hereby, (iii) the filing of a certificate of merger with the Secretary of State of the State of Delaware in accordance with the Delaware GCL, and (iv) such consents, approvals, orders or authorizations which if not obtained, or registrations, declarations or filings which if not made, would not materially adversely affect the ability of Holdings to consummate the transactions contemplated hereby and thereby.

(f) Certain Information. Provided that Parent allows Holdings and the Company to modify any information regarding Holdings or the Company contained therein, none of the information supplied by Holdings for inclusion in the Registration Statement or the Proxy Statement/Prospectus will, at the respective times such documents or any amendments or supplements thereto are filed with the SEC, contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that no representation is made by Holdings with respect to information supplied by Parent which relates to the Parent or any affiliate or associate of Parent for inclusion in the Registration Statement or the Proxy Statement/Prospectus. Provided that Parent allows Holdings and the Company to modify any information regarding Holdings or the Company contained therein, none of the information relating to Holdings and its subsidiaries included in the Registration Statement or the Proxy Statement/Prospectus that has been supplied by Holdings or its subsidiaries will, at the time the Proxy Statement/Prospectus is distributed to the Company's and/or Parent's stockholders, be false or misleading with respect to any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(g) Brokers. Except as set forth on Schedule 3.02(h), neither Holdings nor any of its subsidiaries has used any broker or finder in connection with the transactions contemplated hereby, and neither Holdings nor any of its subsidiaries has or shall have any liability or otherwise suffer or incur any loss as a result of or in connection with any brokerage or finder's fee or other commission of any person retained by Holdings, any of its subsidiaries, or the stockholders of Holdings in connection with any of the transactions contemplated by this Agreement.

(h) Accuracy of Statements. Neither this Agreement nor any schedule, exhibit, statement, list, document, certificate or other information furnished or to be furnished by or on behalf of Holdings to Parent in connection with this Agreement or any of the transactions contemplated hereby contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they are made, not misleading.

SECTION 3.03 Representations and Warranties of Parent. Except as set forth in the Parent Disclosure Letter dated of even date herewith, Parent represents and warrants to Holdings and the Company as follows:

(a) Organization and Qualification. Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own or lease and operate its properties and assets and to carry on its business as it is now being conducted. Parent is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction in which the character of its properties owned or leased or the nature of its activities makes such qualification necessary, except where the failure to be so qualified would not have a Parent Material Adverse Effect (as hereinafter defined). As used in this Agreement, the term "Parent Material Adverse Effect" shall mean a material adverse effect on the properties, assets, financial condition, operating results or business of Parent, taken as a whole; provided, however, that the term "Parent Material Adverse Effect" shall not include any such material adverse effect arising or resulting, directly or indirectly, from industry conditions or the public announcement of, or the response or reaction of customers, vendors, licensors, investors, Parent employees or others to, this Agreement, the Merger, or any of the agreements or transactions contemplated by this Agreement or entered into in connection with this Agreement or the Merger.

(b) Subsidiaries. Schedule 3.03(b) includes a complete and accurate list of each subsidiary of the Parent, indicating the jurisdiction of incorporation and the nature and level of ownership in such subsidiary by the Parent, any subsidiary of the Parent and any other person. Complete and correct copies of the certificate of incorporation and by-laws of the Parent and of each subsidiary of the Parent have previously been delivered to the Company. Except as set forth on Schedule 3.03(b) hereto, neither the Parent nor any of its subsidiaries owns of record or beneficially, directly or indirectly, (i) any shares of outstanding capital stock or securities convertible into capital stock of any other corporation or (ii) any participating interest in any partnership, joint venture or other noncorporate business enterprise. Each subsidiary of the Parent is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all requisite corporate power and authority to own or lease and operate its properties and assets and to carry on its business as it is now being conducted. Each subsidiary of the Parent is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction in which the character of its properties owned or leased or the nature of its activities makes such qualification necessary, except where the failure to be so qualified would not have a Parent Material Adverse Effect. All the outstanding shares of capital stock of the Parent's subsidiaries are duly authorized, validly issued, fully paid and nonassessable and, except as set forth on Schedule 3.03(b), are owned by the Parent or by a wholly owned subsidiary of the Parent free and clear of any Claims, and there are no proxies or voting or transfer agreements or understandings outstanding with respect to any such shares. Without limiting the foregoing representations and warranties, Parent owns beneficially of record all of the issued and outstanding shares of the capital stock of Acquisition free and clear of all Claims.

For purposes of this Agreement, the term "subsidiary," when used with respect to the Parent, shall mean any corporation or other business entity a majority of whose outstanding equity securities is at the time owned, directly or indirectly, by the Parent and/or one or more other subsidiaries of the Parent.

(c) Capitalization. The authorized capital stock of Parent consists of 150,000,000 shares of Parent Common Stock and 15,000,000 shares of Parent Preferred Stock, and, as of August 31, 1996, 41,669,035 shares of Parent Common Stock were issued and outstanding, all of which were duly authorized and validly issued and are fully paid and nonassessable, and no shares of Parent Preferred Stock were issued and outstanding. As of August 31, 1996, Parent had outstanding options to purchase up to a total of 3,387,803 shares of Parent Common Stock. Except as provided in the immediately preceding sentence or in Schedule 3.03(c) hereto, Parent has, no subscription, warrant, option, convertible security, stock appreciation or other right (contingent or other) to purchase or acquire any shares of any class of capital stock of Parent that is authorized or outstanding and there is not any commitment of Parent to issue any shares, warrants, options or other such rights or to distribute to holders of any class of its capital stock any evidences of indebtedness or assets. Except as disclosed in Schedule 3.03, Parent does not have any obligation (contingent or other) to purchase, redeem or otherwise acquire any shares of its capital stock or any interest therein or to pay any dividend or make any other distribution in respect thereof.

(d) Authority Relative to Agreements. Parent has all requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by Parent and the consummation by Parent of the transactions contemplated hereby have been duly authorized by the Board of Directors of Parent, and except for approval by the stockholders of Parent, no other corporate approvals or proceedings on the part of Parent are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Parent and constitutes the legal, valid and binding obligation of Parent, enforceable against Parent in accordance with its terms, subject to the effect, if any, of (a) applicable bankruptcy and other similar laws affecting the rights of creditors generally, (b) rules of law governing specific performance, injunctive relief and other equitable remedies, and (c) the limitations imposed by public policy on the enforceability of provisions requiring indemnification in connection with the offering, issuance or sale of securities. The Parent's Board of Directors has by the requisite vote of its Board of Directors present (i) determined that this Agreement and the Merger is advisable and fair and in the best interests of the Parent and its stockholders, and (ii) resolved to recommend the approval of this Agreement and the Merger by the Parent's stockholders and directed that the Merger be submitted for consideration by such stockholders. The affirmative vote of the holders of a majority of the outstanding Parent Common Stock is the only vote of the holders of any class or series of the Parent's capital stock necessary to approve this Agreement, the Merger, and the transactions contemplated hereby and thereby.

(e) Non-Contravention. The execution and delivery of this Agreement by Parent and the consummation by Parent of the transactions contemplated hereby will not (i) violate or conflict with any provision of the Certificate of Incorporation or By-Laws of Parent, (ii) result in any violation of, conflict with, or default (or an event which with notice or lapse of time or both would constitute a default) or loss of a benefit under, or permit the termination of or the acceleration of any obligation under, any material mortgage, indenture, lease, agreement or other instrument to which Parent is a party or by which its assets are bound, permit, concession, grant, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Parent or any of its subsidiaries or their respective properties, or (iii) result in the creation or imposition of any Claim in favor of any third person or entity upon any of the assets of Parent or any of its subsidiaries, other than any such violation, conflict, default, loss, termination or acceleration that would not have a Parent Material Adverse Effect or adversely affect the ability of Parent to consummate the Merger or any other transaction contemplated hereby.

(f) Consents. No consent, approval, order or authorization of, or registration, declaration or filing with, any Federal, state, local or foreign governmental or regulatory authority is required to be made or obtained by Parent in connection with the execution and delivery of this Agreement by Parent or the consummation by Parent of the transactions contemplated hereby, except for (i) compliance by Parent with the HSR Act, (ii) filings pursuant to the Securities Act as contemplated by Section 4.02 hereof, (iii) the filing of a certificate of merger with the Secretary of State of the State of Delaware in accordance with the Delaware GCL, (iv) any licenses, permits, franchises or other governmental authorizations pertaining to the Business that are required as a result of the consummation of the transactions contemplated hereby, (v) the consents described in Schedule 3.03(f), and (vi) such consents, approvals, orders or authorizations which if not obtained, or registrations, declarations or filings which if not made, would not have a Parent Material Adverse Effect or materially adversely affect the ability of Parent to consummate the transactions contemplated hereby or to conduct the Business after the Effective Time.

(g) SEC Filings. Parent has filed all forms, reports and documents required to be filed with the SEC since September 28, 1995, and Parent has made available to the Company, as filed with the SEC, complete and accurate copies of all reports, statements and registration statements (including Current Reports on Form 8-K) filed by Parent with the SEC since September 28, 1995, in each case including all amendments and supplements (collectively, the "Parent SEC Filings"). The Parent SEC Filings (including, without limitation, any financial statements or schedules included therein) (i) were prepared in compliance with the requirements of the Securities Act or Exchange Act, as the case may be, and (ii) did not at the time of filing (or if amended, supplemented or superseded by a filing prior to the date hereof, on the date of that filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The financial statements of Parent included in the Parent SEC Filings have been prepared in accordance with generally accepted accounting principles ("GAAP") consistently applied and consistent with prior periods indicated (except as otherwise noted therein or, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) and fairly present (subject, in the case of unaudited statements, to normal, recurring year-end adjustments and any other adjustments described therein) the consolidated financial position of Parent and its consolidated subsidiaries as at the dates thereof and the consolidated results of operations and cash flows of Parent and its consolidated subsidiaries for the periods then ended. Since June 30, 1996, there has been no change in any of the significant accounting (including tax accounting) policies, practices or procedures of the Parent or any of its subsidiaries. Except for liabilities or obligations that are accrued or reserved against in Parent's financial statements included in the Parent SEC Reports neither of Parent or its subsidiaries has any liabilities or obligations (whether absolute, accrued, contingent or otherwise, and whether due or to become due) that would be required by GAAP to be reflected on a consolidated balance sheet, or the notes thereto, or which would have a Parent Material Adverse Affect.

(h) Absence of Certain Changes or Events. Except as set forth in the Parent SEC Filings made through the date hereof, (i) Parent has not conducted its business and operations other than in the ordinary course of business and consistent with past practices or taken any of the actions set forth in Section 4.02 hereof and (ii) there has not been any fact, event, circumstance or change affecting or relating to Parent or its subsidiaries that has caused or is reasonably likely to cause a Material Adverse Change in Parent's financial condition, properties, assets, liabilities, business, operations, or results of operations. As used with reference Parent, the term "Material Adverse Change" refers to a material adverse change other than a change arising or resulting, directly or indirectly, from industry conditions or the public announcement of, or the response or reaction of customers, vendors, licensors, investors, Parent employees or others to, this Agreement, the Merger, or any of the agreements or transactions contemplated by this Agreement or entered into in connection with this Agreement of the Merger.

(i) Certain Information. None of the information supplied by Parent or Acquisition for inclusion in the Registration Statement or the Proxy Statement/Prospectus (as defined in Section 4.02 hereof) will, at the respective times such documents or any amendments or supplements thereto are filed with the SEC, contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except no representation is made by Parent or Acquisition with respect to information supplied by the Company which relates to the Company or any affiliate or associate of the Company for inclusion in the Registration Statement or the Proxy Statement/Prospectus. None of the information relating to Parent included in the Registration Statement or the Proxy Statement/Prospectus that has been supplied by Parent will, at the time the Proxy Statement/Prospectus is distributed to the Company's and/or Parent's stockholders, be false or misleading with respect to any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) Registration Rights. Except as set forth on Schedule 3.03(j) and except as otherwise provided for in this Agreement, Parent is not a party to any agreement obligating or requiring it to register under the Securities Act any Parent Common Stock or other security of Parent.

(k) Brokers. Except as set forth on Schedule 3.03(k), neither Parent nor any of its subsidiaries has used any broker or finder in connection with the transactions contemplated hereby, and neither Parent nor any of its subsidiaries has or shall have any liability or otherwise suffer or incur any loss as a result of or in connection with any brokerage or finder's fee or other commission of any person retained by Parent or any of its subsidiaries in connection with any of the transactions contemplated by this Agreement.

(l) Title to Properties. Parent has good and valid title to the properties and assets reflected on the audited balance sheet of Parent as of June 30, 1996 other than nonmaterial properties and assets disposed of in the ordinary course of business consistent with past practice since the date of such balance sheet, and all such properties and assets are free and clear of Claims, except (i) as described in the Parent SEC Filings, (ii) liens for current taxes not yet due, and (iii) minor imperfections of title, if any, not material in amount and not materially detracting from the value or impairing the use of the property subject thereto or impairing the operations or proposed operations of the Company (collectively, "Permitted Liens"). Such properties and assets constitute all of the assets necessary to conduct Parent's business substantially in the same manner as it has been conducted prior to the date hereof.

(m) Intellectual Property Rights. The patents, trademarks and trade names, trademark and trade name registrations, service mark, brand mark and brand name registrations, copyrights, inventions, know-how, trade secrets, proprietary processes and information, software source and object code, the applications therefor and the licenses with respect thereto (collectively, "Intellectual Property Rights") currently owned by, or licensed to, Parent and its subsidiaries hereto constitute all material proprietary rights owned or held by Parent or its subsidiaries that are necessary to the conduct of Parent's business as currently conducted. Except as set forth in the Parent SEC Filings, Parent and its subsidiaries conduct their business without any known infringement or claim of infringement of any Intellectual Property Right of others; (ii) to the knowledge of Parent, no person is challenging, infringing, misappropriating or otherwise violating any such Intellectual Property Rights or claiming that the conduct by Parent of its business, infringes, misappropriates or otherwise violates the Intellectual Property Rights of any third party; (iii) none of the Intellectual Property Rights currently used by Parent is the subject of any outstanding order, ruling, decree, judgment or stipulation specifically binding on Parent; (v) to the knowledge of Parent, none of the activities of any employee of Parent or its subsidiaries on behalf thereof violates any obligations of such employee to third parties, including, without limitation, confidentiality or noncompetition obligations under agreements with a former employer; (vi) Parent is not aware of any unauthorized use by a third party of any computer software programs or applications that Parent considers to be a trade secret belonging to the Company; (vii) Parent has taken and is taking reasonable precautions to protect all material trade secrets and other confidential information relating to its proprietary computer software programs and applications or included in the Intellectual Property Rights that are material to the conduct of its business; and (viii) the execution, delivery, and performance of this Agreement and the consummation of the Merger will not constitute a breach or default of any Intellectual Property Rights that are material to the conduct of Parent's business.

(n) Environmental Matters. Parent and its subsidiaries are in compliance in all material respects with all Federal, state or local statutes, ordinances, orders, judgments, rulings or regulations relating to environmental pollution or to environmental regulation or control. Parent has not been charged by any governmental authority with improperly using, handling, storing, discharging or disposing of any such hazardous or toxic substance or waste or by-product thereof or with causing or permitting any pollution of any body of water. To the best knowledge of Parent no properties or facilities used by Parent or its subsidiaries are subject to any pending or threatened administrative or judicial proceeding under any environmental law and there are no facts or circumstances known to Parent which are reasonably likely to give rise to any proceeding. To the best knowledge of Parent, there are no inactive, closed, or abandoned storage or disposal areas or facilities or underground storage tanks on the properties or facilities used by Parent or its subsidiaries.

(o) Insurance. All policies of fire, liability, workers' compensation and other forms of insurance providing insurance coverage to or for Parent are in full force and effect, and provide insurance in such amounts and against such risks as Parent believes are customary for companies engaged in similar businesses to protect the employees, properties, assets, businesses and operations of Parent and its subsidiaries. All such policies will remain in full force and effect and will not be adversely modified or affected by, or terminate or lapse by reason of, any of the transactions contemplated hereby, except by reason of an insurer's assessment of Parent or the conduct of the Business after the Effective Time.

(p) Pending Transactions. Except for this Agreement and the transactions contemplated hereby, Parent is not a party to or bound by any agreement, negotiation, discussion, commitment or undertaking with respect to a merger or consolidation with, or an acquisition of all or substantially all of the property and assets of, any other corporation or person or the sale, lease or exchange of all or substantially all of its properties and assets to any other person.

(q) Claims Against Officers and Directors. To the knowledge of Parent, there are no pending or threatened claims against any director, officer, employee or agent of the Company which could give rise to any claim for indemnification against the Company.

SECTION 3.04 Representations and Warranties of Acquisition. Acquisition represents and warrants to Holdings and the Company as follows:

(a) Organization and Qualification. Acquisition is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own or lease and operate its properties and assets and to carry on its business as it is now being conducted. Acquisition is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction in which the character of its properties owned or leased or the nature of its activities makes such qualification necessary, except where the failure to be so qualified would not have a material adverse effect on the financial condition, operating results or business of Acquisition.

(b) Capitalization. The authorized capital stock of Acquisition consists of 3,000 shares of Common Stock, $.01 par value. As of the date hereof, 100 shares of Common Stock are issued and outstanding, all of which were duly authorized and validly issued and are fully paid and nonassessable, and all such shares are owned of record and beneficially by Parent free of all Claims, and no shares of Common Stock are held in the treasury of Acquisition. Acquisition has no commitments to issue or sell any shares of its capital stock or any securities or obligations convertible into or exchangeable for, or giving any person any right to subscribe for or acquire from

Acquisition, any shares of its capital stock, and no securities or obligations evidencing any such rights are outstanding.

(c) Authority Relative to Agreement. Acquisition has all requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by Acquisition and the consummation by Acquisition of the transactions contemplated hereby have been duly authorized by the Board of Directors of Acquisition and by Parent as its sole stockholder, and no other corporate approvals or proceedings on the part of Acquisition are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Acquisition and constitutes the legal, valid and binding obligation of Acquisition, enforceable against Acquisition in accordance with its terms subject to the effect, if any, of (a) applicable bankruptcy and other similar laws affecting the rights of creditors generally, (b) rules of law governing specific performance, injunctive relief and other equitable remedies, and (c) the limitations imposed by public policy on the enforceability of provisions requiring indemnification in connection with the offering, issuance or sale of securities.

(d) Non-Contravention. The execution and delivery of this Agreement by Acquisition and the consummation by Acquisition of the transactions contemplated hereby will not (i) violate or conflict with any provision of the Certificate of Incorporation or By-Laws of Acquisition or (ii) result in any violation of, conflict with, or default (or an event which with notice or lapse of time or both would constitute a default) or loss of a benefit under, or permit the termination of or the acceleration of any obligation under, any material mortgage, indenture, lease, agreement, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Acquisition or its properties.

(e) Consents. No consent, approval, order or authorization of, or registration, declaration or filing with, any Federal, state, local or foreign governmental or regulatory authority is required to be made or obtained by Acquisition in connection with the execution and delivery of this Agreement by Acquisition or the consummation by Acquisition of the transactions contemplated hereby, except for (i) compliance by Acquisition with the HSR Act, (ii) the filing of a certificate of merger with the Secretary of State of the State of Delaware in accordance with the Delaware GCL, and (iii) any licenses, permits, franchises or other governmental authorizations pertaining to the Business that are required as a result of the consummation of the transactions contemplated hereby.

(f) Other Matters. Acquisition has been formed for the sole purpose of effecting the Merger and, except as contemplated by this Agreement, Acquisition has not conducted any business activities and does not have any material liabilities or obligations.

ARTICLE IV

COVENANTS

SECTION 4.01 Conduct of the Company's Business. The Company covenants and agrees that, prior to the Effective Time, unless Parent shall otherwise consent in writing and except as otherwise expressly contemplated by this Agreement or by any other contract or agreement that the Company may enter into with Parent and/or Holdings:

(a) the business of the Company shall be conducted only in, and the Company shall not take any action except in, the ordinary course of business consistent with past practice and the Company shall use its best efforts to preserve intact its present business organization, keep available the services of its current officers and employees, maintain its assets (other than those permitted to be disposed of hereunder) in good repair and condition, maintain its books of account and records in the usual, regular and ordinary manner and preserve its goodwill and ongoing business;

(b) the Company shall not directly or indirectly do any of the following: (i) issue, sell, pledge, dispose of or encumber any property or assets (including Intellectual Property Rights) of the Company, except inventory and immaterial assets in the ordinary course of business consistent with past practice; (ii) amend or propose to amend its Certificate of Incorporation or By-Laws; (iii) split, combine or reclassify any outstanding shares of its capital stock, or declare, set aside or pay any dividend payable in cash, stock, property or otherwise with respect to such shares (except for any dividends paid in the ordinary course to the Company); (iv) redeem, purchase, acquire or offer to acquire (or permit any of its subsidiaries to redeem, purchase, acquire or offer to acquire) any shares of its capital stock; (v) incorporate or otherwise form or create any subsidiary; (vi) materially change the Company's equipment or technology; or (vii) enter into any contract, agreement, commitment or arrangement with respect to any of the matters set forth in this paragraph (b);

(c) the Company shall not (i) issue, sell, pledge or dispose of, or agree to issue, sell, pledge or dispose of, any additional shares of, or securities convertible or exchangeable for, or any options, warrants or rights of any kind to acquire any shares of, its capital stock of any class or other property or assets; (ii) acquire (by merger, consolidation or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof or any material amount of assets; (iii) incur or guarantee any indebtedness for borrowed money other than in the ordinary course of business and consistent with past practices, or refinance any such indebtedness or issue or sell any debt securities; (iv) enter into or modify any material contract, lease, agreement or commitment, or permit or perform any act that would cause a material breach of any such contract, lease, agreement or commitment; (v) terminate, modify, assign, waive, release or relinquish any material contract rights or amend any material rights or claims; (vi) discharge or satisfy any material claim or settle or compromise any material claim, action, suit or proceeding pending or threatened against the Company (or, if the Company may be liable or obligated to provide indemnification to its directors or officers), against the Company's directors or officers, before any court, governmental agency or arbitrator; (vii) make any loans, advances or capital contributions to or investments in, any other person, except as may be required under agreements in effect as of and identified on Schedule 3.01(u) hereto and upon prior notice to Parent; (viii) alter through merger, liquidation, reorganization, restructuring or in any other manner the corporate structure or ownership of the Company; (ix) violate or fail to perform, in any material respect, any obligation imposed upon the Company by any applicable laws, orders or decrees, ordinances, government rules or regulations or conciliation agreements; or (x) to the extent not described herein, take any action described in Section 3.01(h) hereof;

(d) the Company shall not grant any increase in the salary or other compensation of its directors, officers or employees, except reasonable salary increases for employees or executive officers of the Company, in the ordinary course of business consistent with past practice, or grant any bonus to any employee or enter into any employment agreement or make any loan to or enter into any material transaction of any other nature with any employee of the Company;

(e) the Company shall not take any action to institute any new severance or termination pay practices with respect to any directors, officers or employees of the Company or to increase the benefits payable under its severance or termination pay practices;

(f) the Company shall not adopt or amend, in any material respect, any plan for the benefit or welfare of any directors, officers or employees of the Company, except as contemplated hereby or as may be required by applicable law or regulation;

(g) the Company shall use its best efforts, to the extent not prohibited by the foregoing provisions of this Section 4.01, to maintain its relationships with its suppliers and customers, clients, and others having business dealings with it, and if and as requested by Parent or Acquisition, (i) the Company shall use its best efforts to make reasonable arrangements for representatives of Parent or Acquisition to meet with customers and suppliers of the Company, and (ii) the Company shall schedule, and the management of the Company shall participate in, meetings of representatives of Parent or Acquisition with employees of the Company for purposes of dealing with the transition issues related to the Merger;

(h) the Company shall provide to Parent a draft of any Federal income Tax return pertaining only to the Company or material state, local or foreign Tax return (other than state or local sales and use taxes) pertaining only to the Company required to be filed on behalf of the Company between the Effective Date of this Agreement and the Effective Time at least 15 days prior to the date on which such return is due; and

(i) the Company shall respond to inquiries of and shall consult with Parent as to the management, Business, and affairs of the Company; provided, however, that the final decisions as to the conduct of the management, Business, and affairs of the Company shall remain with the Company.

SECTION 4.02 Registration Statement; Stockholder Approval; Etc.

(a) Parent, Holdings, and the Company shall, in consultation with each other, prepare a joint proxy statement pertaining to the Merger and containing the recommendation of the Board of Directors of each of Parent and the Company to approve and adopt this Agreement and the

Merger as promptly as reasonably practicable after the date hereof. The Company's proxy or information statement shall also constitute the prospectus included in the Registration Statement to be filed by Parent pursuant to Section 4.02(b) hereof (the "Proxy Statement/Prospectus"). Parent, Holdings, and the Company shall cooperate fully with each other in the preparation of the Proxy Statement/Prospectus and any amendments and supplements thereto, and Parent, Holdings, and the Company will provide any audited and unaudited financial statements that may be required by the applicable rules of the Securities and Exchange Commission or otherwise to be included in the Proxy Statement/Prospectus. The Proxy Statement/Prospectus shall not be distributed, and no amendment or supplement thereto shall be made by Parent, Holdings, or the Company, without the prior consent of any other party and its counsel. Each of Parent and the Company shall cause a definitive Proxy Statement/Prospectus to be distributed to its stockholders entitled to vote upon the Merger promptly following the effective date of the Registration Statement.

(b) (i) As promptly as reasonably practicable after the date hereof, Parent shall prepare and file with the SEC under the Exchange Act and the Securities Act, a Registration Statement on Form S-4 (the "Registration Statement") with respect to the approval of the Merger and the issuance of the shares of Parent Common Stock to be issued in the Merger, and shall use its best efforts to have the Proxy Statement and Registration Statement declared effective by the SEC as promptly as practicable. Parent shall also take any action required to be taken under state blue sky or other securities laws in connection with the issuance of shares of Parent Common Stock in the Merger.

(ii) As soon as reasonably practicable after the effective date of the Registration Statement, Parent shall take all action necessary, subject to and in accordance with the Delaware GCL and its Certificate of Incorporation and By-Laws, to obtain the requisite approval and adoption of this Agreement and the Merger by the Parent's stockholders at a duly called meeting pursuant to the Delaware GCL and shall take such other actions as may be required by applicable law and the applicable rules of the Nasdaq NM. The Board of Directors of the Parent has determined that the Merger is advisable and in the best interests of the stockholders of the Parent and shall recommend that Parent's stockholders vote to approve and adopt this Agreement and the Merger and any other matters to be submitted to Parent's stockholders in connection therewith.

(iii) Holdings and the Company shall cooperate fully with Parent in the preparation of the Proxy Statement/Prospectus and the Registration Statement and any amendments and supplements thereto and shall furnish Parent with all information and shall take such other action as Parent may reasonably request in connection therewith. Holdings and the Company shall provide Parent with all pro forma financial information required by Regulation S-X to be included in the Registration Statement or in any other filing that is required to be made by Parent pursuant to the Securities Act or the Exchange Act in connection with the Merger. All such pro forma financial information shall be prepared in accordance with Regulation S-X and shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(c) As soon as reasonably practicable after the effective date of the Registration Statement, the Company and Parent shall take all action necessary, subject to and in accordance with the Delaware GCL and its Certificate of Incorporation and By-Laws, to obtain the requisite approval and adoption of this Agreement and the Merger by their respective stockholders at a duly called meeting or by written consents pursuant to Section 228 of the Delaware GCL and shall take such other actions as may be required by applicable law. The Board of Directors of the Company and Parent have each determined that the Merger is advisable and in the best interests of their respective stockholders and shall recommend that their respective stockholders vote to approve and adopt this Agreement and the Merger and any other matters to be submitted to such stockholders in connection therewith.

(d) Parent shall notify Holdings and the Company of the receipt of any comments of the SEC with respect to (and of any requests by the SEC for amendments or supplements to) the Proxy Statement/Prospectus or the Registration Statement, or for additional information within 24 hours after receipt thereof from the SEC, and shall promptly supply Holdings and the Company with copies of all correspondence between Parent (or its representatives) and the SEC (or its staff) with respect thereto within 24 hours after receipt thereof from the SEC. If, at any time prior to the approval of the Merger by Parent's or the Company's stockholders, any event should occur relating to or affecting Holdings, the Company, Parent or Acquisition, or to their respective officers or directors, which event should be described in an amendment or supplement to the Proxy Statement/Prospectus or the Registration Statement, the parties shall promptly inform one another and shall cooperate in promptly preparing, filing and clearing with the SEC and, if required by applicable securities laws, distributing to Parent's or the Company's stockholders, such amendment or supplement.

(e) Parent shall cause the Parent Common Stock to be issued in the Merger, to be listed on the Nasdaq NM, subject to official notice of issuance.

SECTION 4.03 Access to Information.

(a) Each of Parent, Holdings, and the Company shall, and shall cause its respective subsidiaries, officers, directors, employees, representatives, advisors and agents to, afford, from the date hereof to the Effective Time, the officers, employees, representatives, advisors and agents of the other party complete access at all reasonable times to its officers, employees, agents, properties, books, records and workpapers, and shall furnish each other party all financial, operating and other information and data as Parent, Holdings, or Company, through its officers, employees or agents, may reasonably request and shall promptly furnish to the other monthly operating and financial reports in such form as Parent, Holdings, or the Company shall reasonably request. For each calendar month that ends between August 1, 1996 through the Closing Date, the Company will within thirty days after the end of such month prepare and deliver to Parent unaudited monthly balance sheets and statements of operations for the Company, that shall fairly present the financial condition and the results of operations of the Company in all material respects.

(b) The Company, at least three business days prior to the Effective Time, shall deliver to Parent a list setting forth the names and locations of each bank or other financial institution at which the Company has an account (giving the account numbers) or safe deposit box and the names of all persons authorized to draw thereon or have access thereto, and the names of all persons, if any, now holding powers of attorney or comparable delegation of authority from the Company and a summary statement thereof.

(c) Each of Parent, Holdings, and the Company shall, and shall cause its respective officers, directors, employees, representatives, advisors and agents to, afford the officers, employees, representatives, advisors and agents of the other party with access to such information concerning Parent or the Company as may be necessary for each party to ascertain the accuracy and completeness of the information supplied by Parent, Holdings, or the Company for inclusion in any pre-merger notification report filed under the HSR Act (and any additional information or documentary material supplied in response to any request pursuant to Section 7A(e) of the HSR Act and the regulations thereunder) or in the Proxy Statement/Prospectus.

(d) If this Agreement is terminated, each of the parties hereto shall, and shall cause its officers, employees, representatives, advisors and agents to, destroy or return to the other party all confidential documents, work papers and other materials, and all copies thereof, obtained by it or on its behalf from such other party as a result of this Agreement or in connection herewith, whether so obtained before or after the execution and delivery hereof.

(e) Each of the parties hereto and its officers and employees shall not disclose or use any information so obtained, except as required by applicable law or legal process or by any applicable rules or regulations of a national securities exchange or the NASD upon the advice of counsel, without the prior written consent of the other party; provided that any such information may be disclosed to a party's financial advisors, accountants, counsel and other representatives, as may be appropriate or required in connection with the transactions contemplated hereby, but only if such persons shall be specifically informed by such party of the confidential nature of such information and agree to comply with the restrictions contained herein. The agreements contained in this Section 4.03(e) do not apply to information that (i) is or becomes generally available to the public other than as a result of a disclosure by a receiving party or its representatives, (ii) can be demonstrated to have been known to the receiving party on a non-confidential basis prior to its receipt, (iii) becomes available to a party on a non-confidential basis from a source not bound by any duty of confidentiality to the other party or (iv) is independently developed by a receiving party without reference to any confidential information.

If any party or any of its respective representatives becomes required by law (by deposition, interrogatory, request for documents, subpoena, civil investigative demand, or similar process) or otherwise become required to disclose any confidential information or material the recipient party will provide the disclosing party with prompt prior written notice of such requirement so that the disclosing party may seek a protective order or other remedy, or waive compliance with the terms of this Agreement. If such protective order or other remedy is not obtained, or if the disclosing party is required to waive compliance with the provisions hereof, the recipient party will furnish only that portion of the confidential information or material which it is advised by written opinion of counsel is legally required and exercise all reasonable efforts to obtain assurance that confidential treatment, if available, will be accorded such confidential information or material.

(f) No investigation pursuant to this Section 4.03 shall affect, add to, or subtract from any representations or warranties of the parties hereto or the conditions to the obligations of the parties hereto to effect the Merger.

SECTION 4.04 Further Assurances. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use its best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the Merger and all other transactions contemplated by this Agreement, including, without limitation, using all reasonable efforts to obtain all necessary waivers, consents and approvals and to effect all necessary registrations and filings and to cause the conditions to Closing set forth in Article V hereof to be promptly fulfilled; provided, that the foregoing shall not require Parent to agree to make, or to require or permit the Company to make, or require Holdings to make any divestiture of a significant asset in order to obtain any waiver, consent or approval.

SECTION 4.05 Inquiries and Negotiations. Neither Holdings, the Company nor any of their subsidiaries, nor any of their respective affiliates, directors, officers, employees, representatives, advisors or agents, shall, directly or indirectly, encourage, solicit or initiate any discussions, submissions of proposals or offers or negotiations with, or, subject to the fiduciary obligations of the Board of Directors of the Company and the Board of Directors of Holdings under applicable law as advised by counsel, participate in any negotiations or discussions with, or provide any information or data of any nature whatsoever to, or otherwise cooperate in any other way with, or assist or participate in, facilitate or encourage any effort or attempt by, any person, other than Parent and its affiliates, representatives and agents, concerning any merger, consolidation, sale of substantial assets, sale of shares of capital stock or other equity securities, recapitalization, debt restructuring or similar transaction involving the Company, or any division of the Company (such transactions being hereinafter referred to as "Alternative Transactions"). Holdings and the Company shall immediately notify Parent if any proposal, offer, inquiry or other contact is received by, any information is requested from, or any discussions or negotiations are sought to be initiated or continued with, the Company in respect of an Alternative Transaction, and shall, in any such notice to Parent, indicate the identity of the offeror and the terms and conditions of any proposals or offers or the nature of any inquiries or contacts, and thereafter shall keep Parent informed of the status and terms of any such proposals or offers and the status of any such discussions or negotiations. The Company shall not release any third party from, or waive any provision of, any confidentiality or standstill agreement to which the Company is a party. Nothing herein shall prevent Holdings from participating in any merger or other business combination that does not involve the transfer of the Company Common Stock or the Company's assets; provided, however, that any third party acquiror of Holdings expressly consents to abide by the terms, conditions, and obligations of this Agreement.

SECTION 4.06 Notification of Certain Matters. Holdings and the Company shall give prompt notice to Parent and Acquisition, and Parent and Acquisition shall give prompt notice to Holdings and the Company, of (i) the occurrence, or failure to occur, of any event that such party believes would cause any of its representations or warranties contained in this Agreement to be untrue or inaccurate in any material respect at any time from the date hereof to the Effective Time and (ii) any failure of Holdings, the Company, Parent or Acquisition, as the case may be, or any officer, director, employee or agent thereof, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that failure to give such notice shall not constitute a waiver of any defense that may be validly asserted.

SECTION 4.07 Compliance with the Securities Act. Prior to the Effective Time, the Company shall deliver to Parent a list identifying all persons who might, in its opinion, be deemed to be "affiliates" of the Company for purposes of Rule 145 under the Securities Act (the "Affiliates"). The Company shall use its best efforts to cause each person who is identified as an Affiliate to deliver to Parent on or prior to the Effective Time a written agreement, in such form as may be agreed to by the parties, that he will not offer to sell, sell or otherwise dispose of any of the shares of Parent Common Stock issued to him in connection with the Merger, except pursuant to an effective registration statement or in compliance with Rule 145 or pursuant to an exemption from the registration requirements of the Securities Act. Parent shall be entitled to place appropriate legends on the certificates evidencing the Parent Common Stock to be received by Affiliates pursuant to the terms of this Agreement, and to issue appropriate stock transfer instructions to the transfer agent for Parent Common Stock, to the effect that the shares received or to be received by such Affiliate pursuant to this Agreement may only be sold, transferred or otherwise conveyed, and the holder thereof may only reduce his interest in or risks relating to such shares, pursuant to an effective registration statement under the Securities Act or in accordance with the provisions of paragraph (d) of Rule 145 or pursuant to an exemption from registration provided under the Securities Act. The foregoing restrictions on the transferability of Parent Common Stock shall apply to all purported sales, transfers and other conveyances of the shares received or to be received by such Affiliate pursuant to this Agreement and to all purported reductions in the interest in or risks relating to such shares, whether or not such Affiliate has exchanged the certificates previously evidencing shares of the Company's capital stock, into which such shares were converted.

SECTION 4.08 Conduct of Parent's Business. Parent covenants and agrees that, prior to the Effective Time, unless the Company shall otherwise agree in writing, or as otherwise expressly contemplated by this Agreement:

(a) the business of Parent and its subsidiaries shall be conducted only in the ordinary course of business consistent with past practice;

(b) Parent shall not (i) amend its Certificate of Incorporation (other than to increase the number of authorized shares of capital stock of Parent) or (ii) declare, set aside or pay any dividend or other distribution payable in cash, stock or property;

(c) Parent shall not authorize for issuance, issue or sell or agree to issue or sell any shares of, or rights to acquire or convert into any shares of, its capital stock, except for (i) the issuance of options or rights pursuant to existing employee benefit plans or arrangements in a manner and in amounts consistent with past practice, (ii) the issuance of shares of Parent Common Stock upon the exercise of options or other rights to purchase Parent Common Stock outstanding on the Effective Date of this Agreement or upon the exercise of options or other rights described in the immediately preceding clause (i), (iii) the issuance of Parent Common Stock pursuant to the agreements set forth on Schedule 3.03(c), and (iv) the issuance of up to an additional 5,000,000 shares (as may be adjusted from time to time for stock splits or stock dividends) of Parent Common

Stock, or options or rights to purchase such shares of stock, for any other corporate purpose, including acquisitions; and

(d) neither Parent nor Acquisition shall take any action that would jeopardize qualification of the Merger as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

SECTION 4.09 Employment and Severance Liabilities. Holdings covenants and agrees that it will retain any and all employment and severance liabilities and obligations for the employees and former employees of the Company specifically listed on Schedule 4.09 hereof.

SECTION 4.10 Contractual Obligations. Holdings covenants and agrees that it will honor and comply in all material respects with any and all obligations and/or liabilities that it is contractually bound to, or otherwise obligated for under the contracts, agreements, and arrangements listed on Schedule 4.10 hereof insofar as they involve the Business of the Company.

SECTION 4.11 Indemnity. Parent agrees to defend, indemnify and hold Holdings harmless from and against, any and all suits, claims, demands, actions, causes of action, loss, damages, liabilities, cost and expense (including but not limited to reasonably attorneys' fees and court costs and costs of other professionals) arising in any manner out of any failure of Parent or the Company after the Effective Time, to comply with or perform any contractual or other obligation to which the Company is now, or hereafter becomes, bound or obligated.

SECTION 4.12 Agreements Executed. Concurrently with their execution of this Agreement, the applicable parties hereto shall execute and deliver to each other: (a) that certain Services and License Agreement by and among Parent, Holdings and the Company, a copy of which is attached hereto as Exhibit B and incorporated herein by reference (the "Services and License Agreement"); (b) an Assignment and License Agreement by and between Holdings and the Company which is attached hereto as Exhibit C and incorporated herein by reference; (c) a Stock Restriction Agreement, which is attached hereto as Exhibit D and incorporated herein by reference.

SECTION 4.13 Stockholder Agreements and Proxies. Peter J. Kight and Mark A. Johnson shall, concurrently with the execution of this Agreement by Holdings and the Company, each have executed and delivered to Holdings (i) a Stockholder Agreement and (ii) an Irrevocable Proxy, copies of which are attached hereto as Exhibit E and incorporated herein by reference. Parent shall use its best efforts to cause Tribune Company to also execute and deliver such a Stockholder Agreement and Irrevocable Proxy as soon as practicable.

SECTION 4.14 Revenue Make-Up.

(a) As soon as reasonably practicable after July 31, 1997, Parent shall deliver to Holdings the Company's unaudited statement of operations for the twelve-month period beginning on August 1, 1996 and ending on July 31, 1997 (such twelve-month period being hereinafter called the "Revenue Period"), prepared by Parent's auditors in accordance with generally accepted accounting principles consistently applied and consistent with the Company's revenue recognition policies for its fiscal year ended July 31, 1996 (such unaudited statement of operations is hereinafter called the "Revenue Statement"). As used herein, the term "Gross Revenues" means the Company's total gross revenues derived during the Revenue Period determined in accordance with generally accepted accounting principles consistently applied and consistent with the Company's revenue recognition policies for its fiscal year ended July 31, 1996. The Company and Parent shall maintain complete and accurate books and records relating to the determination of Gross Revenues.

(b) If the Company's Gross Revenues are less than Forty-Six Million Dollars ($46,000,000), then, provided that (i) Parent and the Company have, at all times after the Effective Time, used their respective good faith efforts to maximize the Gross Revenues of the Company during the Revenue Period; (ii) the Company has not discontinued or disposed of any material portion of its business or assets (as such exist immediately prior to the Effective Time); (iii) Parent has fully and timely paid to Holdings all fees required to be paid to Holdings under Section 8.1.5 of the Services and License Agreement; and (iv) Holdings has received from the Company the Revenue Statement stating that the Company's Gross Revenues for the Revenue Period are less than Forty-Six Million Dollars ($46,000,000), Holdings shall, within sixty-five (65) days after its receipt of the Revenue Statement, pay to Parent, in cash, a sum equal to Forty-Six Million Dollars ($46,000,000) minus the amount of the Gross Revenues (the "Revenue Make-Up Payment"), subject to the provisions of paragraph (c) below.

(c) Within thirty (30) days after it receives the Revenue Statement, Holdings may request an audit of the Company's and Parent's records pertaining to the determination of the Gross Revenues by Holdings' auditors (the "Audit") by giving the Company and Parent written notice (the "Audit Notice"). Upon timely submission of the Audit Notice, Holdings' auditor may perform the Audit during business hours and the Company and Parent shall cooperate in good faith in facilitating such Audit and promptly making available all records necessary to enable Holdings' Auditor to perform the Audit. The Audit shall be completed within sixty (60) days after Holdings receives the Revenue Statement (subject to potential extension due to failure by the Company or Parent to cooperate and provide records as required above). If the Audit reveals that the Gross Revenues are higher than indicated in the Revenue Statement, then the amount of the Revenue Make-Up Payment shall be reduced to the sum equal to Forty-Six Million Dollars ($46,000,000) minus the Gross Revenues as determined by the Audit.

SECTION 4.15 Board Visitation Rights. So long as Holdings holds no less than ten percent (10%) of the outstanding shares of the Parent Common Stock, Parent will permit one (1) representative of Holdings (the "Designee") to attend all meetings of Parent's Board of Directors in a non-voting observer capacity. Parent will also timely provide such Designee with copies of all notices, minutes and other materials that it provides to its directors with respect to such meetings. Holdings may change its Designee from time to time with the prior written consent of Parent, which will not unreasonably be withheld. Holdings' initial designee will be Eric C. W. Dunn. Nothing contained herein shall require Parent to permit the Designee to have access to information, including Board minutes, or to attend or to participate in meetings of the Board of Directors which, in the reasonable judgment of Parent's Board of Directors, pertains to matters with respect to which Holdings' interests may conflict with those of Parent prior to public disclosure by Parent of such matters or which the Parent's Board of Directors deems the presence of such Designee would unduly prohibit the full discussion of any matter before Parent's Board of Directors. In addition, the Designee would be required to first sign a reasonable nondisclosure and confidentiality agreement as appropriate for a public company and which would impose on the Designee the same confidentiality obligations he would have if he were in fact a member of Parent's Board of Directors.

SECTION 4.16 Reimbursement for Certain Charges and Costs.

(a) Holdings covenants and agrees that it will reimburse Parent for any charges, costs, or penalties associated with, or arising out of matters listed on Schedule 4.16.

(b) Reimbursements made pursuant to this Section 4.16 shall be paid in cash and shall be in addition to, not in lieu of, and not set off against any right of payment, by indemnification or otherwise, or Merger Consideration Adjustment, required by any other provision of this Agreement.

(c) Prior to any obligation on Holdings to reimburse Parent, Parent must give notice of such right to reimbursement within six (6) months after the Effective Time (except for Item G on Schedule 4.16 which shall be within eighteen (18) months after the Effective Date of this Agreement) and shall provide Holdings with reasonable documentation of Parent's reimbursement claim.

SECTION 4.17 Debt. Holdings covenants and agrees that, at Closing, the Company will have no debt and will have $3,000,000 in cash.

ARTICLE V

CONDITIONS TO THE MERGER

SECTION 5.01 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following conditions:

(a) this Agreement and the Merger shall have been approved and adopted by the requisite vote of (i) the sole stockholder of the Company and (ii) the stockholders of Parent;

(b) the expiration or earlier termination of any waiting period under the HSR Act shall have occurred;

(c) no preliminary or permanent injunction or other order, decree or ruling issued by any court of competent jurisdiction nor any statute, rule, regulation or order entered, promulgated or enacted by any governmental, regulatory or administrative agency or authority shall be in effect that would prevent the consummation of the Merger as contemplated hereby;

(d) the Registration Statement shall have been declared effective and no stop order with respect thereto shall be in effect at the Effective Time;

(e) the execution and delivery by Parent and Holdings of an escrow agreement (the "Escrow Agreement"), a copy of which is attached hereto as Exhibit F and incorporated herein by reference; and

(f) the execution and delivery by Parent and Holdings of a Registration Rights Agreement, which is attached hereto as Exhibit G and incorporated herein by reference.

SECTION 5.02 Conditions to the Obligation of Holdings and the Company to Effect the Merger. The obligation of Holdings and the Company to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following additional conditions:

(a) Parent and Acquisition shall have performed and complied in all material respects with all their obligations, covenants, and agreements required to be performed and complied with by them under this Agreement at or prior to the Effective Time;

(b) the representations and warranties made by Parent and/or Acquisition in Sections 3.03 and 3.04 hereof (as qualified by the schedules hereto and the Parent Disclosure Letter), shall not, as of the Effective Date of this Agreement, have been incorrect, untrue or false in any respect that failed to correctly state facts in existence on the Effective Date of this Agreement that constituted a Parent Material Adverse Effect on the Effective Date of this Agreement;

(c) Holdings and the Company shall have received a certificate from the Chief Executive Officer of Parent and Acquisition, dated as of the Effective Time, to the effect that the conditions set forth in paragraphs (a) and (b) above have been satisfied;

(d) the shares of Parent Common Stock to be issued in the Merger shall have been approved for listing on the Nasdaq NM, subject to official notice of issuance; and

(e) Holdings and the Company shall have received the opinion of Porter, Wright, Morris & Arthur, counsel to Parent and Acquisition, with respect to the matters set forth on Exhibit H and incorporated herein by reference, subject to appropriate limitations and qualifications.

SECTION 5.03 Conditions to the Obligation of Parent and Acquisition to Effect the Merger. The obligation of Parent and Acquisition to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following additional conditions:

(a) Holdings and the Company shall have performed and complied in all material respects with all their obligations, covenants, and agreements required to be performed and complied with by them under this Agreement at or prior to the Effective Time;

(b) the representations and warranties made by Holdings and/or the Company in Sections 3.01 and 3.02 hereof (as qualified by the schedules hereto and the Holdings/Company Disclosure Letter), shall not, as of the Effective Date of this Agreement, have been incorrect, untrue or false in any respect that failed to correctly state facts in existence on the Effective Date of this

Agreement that constituted a Company Material Adverse Effect as of the Effective Date of this Agreement;

(c) Parent shall have received a certificate from the Chief Executive Officer and the Chief Financial Officer of Holdings and the Company, dated as of the Effective Time, to the effect that the conditions set forth in paragraphs (a) and (b) above have been satisfied;

(d) Parent shall have received a certificate from the Chief Executive Officer and the Chief Financial Officer of Holdings and the Company, dated as of the Effective Time, to the effect that the Company has not incurred, realized, or otherwise experienced a Material Adverse Change; provided, however; the existence of such Material Adverse Change will not entitle Parent to terminate this Agreement pursuant to Article VI;

(e) Parent shall have received the consents described in Schedule 3.03(f); and

(f) Parent and Acquisition shall have received the opinion of Fenwick & West LLP, counsel to Holdings and the Company, with respect to the matters set forth on Exhibit I and incorporated herein by reference, subject to appropriate limitations and qualifications.

ARTICLE VI

TERMINATION AND ABANDONMENT

SECTION 6.01 Termination and Abandonment. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after approval by the stockholders of Parent and the Company:

(a) by mutual written consent approved by the Boards of Directors of Parent, Holdings, and the Company;

(b) by Holdings or the Company if the conditions set forth in Sections 5.01 or 5.02 shall not have been complied with, waived or performed and such noncompliance or nonperformance shall not have been cured or eliminated (or by its nature cannot be cured or eliminated), by Parent and Acquisition on or before March 31, 1997; or

(c) by Holdings or the Company, if Parent's Board of Directors fails to recommend approval of this Agreement or the Merger to Parent's stockholders or recommends against approval of this Agreement or the Merger to Parent's stockholders; or

(d) by Parent or Acquisition, if the conditions set forth in Sections 5.01 or 5.03 shall not have been complied with, waived or performed and such noncompliance or nonperformance shall not have been cured or eliminated (or by its nature cannot be cured or eliminated), by Holdings and the Company on or before March 31, 1997; or

(e) by Parent, if the representations and warranties made by Holdings and/or the Company in Sections 3.01 and 3.02 hereof (as qualified by the schedules hereto and the Holdings/Company Disclosure Letter), shall, as of the Effective Date of this Agreement, have been incorrect, untrue or false in any respect that failed to correctly state facts in existence on the Effective Date of this Agreement that constituted a Company Material Adverse Effect on the Effective Date of this Agreement; or

(f) by Holdings or the Company, if the representations and warranties made by Parent and/or Acquisition in Sections 3.03 and 3.04 hereof (as qualified by the schedules hereto and the Parent Disclosure Letter), shall, as of the Effective Date of this Agreement, have been incorrect, untrue or false in any respect that failed to correctly state facts in existence on the Effective Date of this Agreement that constituted a Parent Material Adverse Effect on the Effective Date of this Agreement.

SECTION 6.02 Effect of Termination. In the event of the termination of this Agreement and the abandonment of the Merger pursuant to Section 6.01, this Agreement shall thereafter become void and have no effect, and no party hereto shall have any liability to any other party hereto or its stockholders or directors or officers on account of such termination, and each party shall be responsible for its own expenses, except as follows: (i) the obligations imposed by Sections 4.03(d) and 4.03(e) hereof shall survive the termination of this Agreement, and (ii) nothing herein shall relieve any party from liability for any willful breach hereof.

ARTICLE VII

INDEMNIFICATION

SECTION 7.01 Indemnification by Holdings. Subject to the terms, conditions, and limitations set forth herein, if the Merger is consummated, Holdings agrees to indemnify Parent against, and agrees to hold Parent harmless from, any and all actions, suits, losses, costs, claims, damages and expenses (including reasonable attorneys' fees) (the "Losses"), incurred or suffered by them relating to or arising out of or in connection with any material breach of, or any material misrepresentation or inaccuracy in, any representation or warranty made by Holdings and/or the Company in Section 3.01 or Section 3.02 of this Agreement (as qualified by the Holdings/Company Disclosure Letter and the schedules hereto) where such material breach or material misrepresentation or inaccuracy existed as of the Effective Date of this Agreement; provided, however, that the amount of Losses recoverable under the indemnity provisions of this Article shall be reduced, dollar-for-dollar, by the amount of any insurance proceeds paid to Parent and by the amount of tax benefits realized by Parent in respect of such Losses. In addition, notwithstanding anything herein to the contrary, the term "Losses" shall not include, and Parent shall not be entitled to indemnification for, any actions, suits, losses, costs, claims, damages and expenses (including reasonable attorneys' fees), to the extent that Parent has recovered or been compensated or reimbursed therefor by virtue of (a) the Merger Consideration Adjustment pursuant to Section 2.02 hereof, or (b) a Revenue Makeup Payment made pursuant to Section 4.14 hereof, or (c) a payment made pursuant to Section 4.16 hereof, with the purpose and intent that Parent shall not receive a redundant or double recovery of any Losses.

SECTION 7.02 Claims. The provisions of this Section shall be subject to Section 7.03. As soon as is reasonably practicable after becoming aware of a claim for indemnification under this Agreement, Parent shall promptly give written notice to Holdings of such claim and the amount Parent believes it will be entitled to receive hereunder in indemnification from Holdings under this Article VII in respect of such claim; provided, that the failure of Parent to promptly give such notice shall not relieve Holdings of its obligations except to the extent (if any) that Holdings shall have been prejudiced thereby. If Holdings does not object in writing to such indemnification claim within 30 days of receiving written notice thereof, Parent shall be entitled to recover, on the 60th day after such written notice was given, from Holdings the amount of such claim, and no later objection by Holdings shall be permitted; if Holdings agrees that it has an indemnification obligation but objects that it is obligated to pay only a lesser amount, Parent shall nevertheless be entitled to recover from Holdings, on the 60th day after such notice was given, the lesser amount, without prejudice to Parent's claim for the difference. In addition to the amounts recoverable by Parent from Holdings pursuant to the foregoing provisions, Parent shall also be entitled to recover from Holdings interest on such amounts at the rate equal to the published prime rate at The Chase Manhattan Bank, New York, New York, from, and including, the 60th day after such notice of an indemnification claim is given to, but not including, the date such recovery is actually made by Parent.

SECTION 7.03 Notice and Defense of Third Party Claims. Parent shall give written notice as promptly as is reasonably practicable to Holdings of the assertion of any claim, or the commencement of any suit, action or proceeding, by any person or entity not a party hereto in respect of which indemnity may be sought under Article VII of this Agreement ("Third Party Claim"); provided that the failure of Parent to promptly give such notice shall not relieve Holdings of its obligations except to the extent (if any) that Holdings shall have been prejudiced thereby. If Parent does not promptly elect to defend or contest the Third Party Claim, then Holdings, at its sole option (i) shall be free to assume and control the prosecution or defense of any such Third Party Claim in a reasonable manner, (ii) may take all reasonably necessary steps to contest the Third Party Claim or to prosecute such Third Party Claim to conclusion or settlement satisfactory to Holdings, (iii) shall notify Parent of the progress of any such Third Party Claim, (iv) shall permit Parent, at the sole cost of such Parent, to participate in such prosecution or defense, and (v) shall provide Parent with reasonable access to all relevant information and documentation relating to the Third Party Claim and Holdings' prosecution or defense thereof. In any case, the party not in control of the defense or prosecution of the Third Party Claim shall cooperate with the other party in the conduct of the prosecution or defense of such Third Party Claim. If, however, Parent reasonably determines in its judgment that representation by Holdings' counsel of both Holdings and Parent would present such counsel with a conflict of interest, then Parent may employ separate counsel to represent or defend it in any such claim, action, suit or proceeding and Holdings shall pay the fees and disbursements of such separate counsel. Whether or not Holdings chooses to defend or prosecute any such claim, suit, action or proceeding, all of the parties hereto shall cooperate in the defense or prosecution thereof.

SECTION 7.04 Settlement or Compromise. Neither party shall compromise or settle any Third Party Claim without the prior written consent of either Holdings (if Parent controls and defends such Third Party Claim) or Parent (if Holdings controls and defends such Third Party

Claim), such consent not to be unreasonably withheld (provided, that, in the case of Parent, such consent shall be deemed to be unreasonably withheld if Parent will, as part of the terms of such compromise or settlement, be fully released of liability arising from such Third Party Claim). The person controlling the defense of such Third Party Claim will give the other person at least 20 days' notice of any proposed settlement or compromise of any Third Party Claim for which it is controlling the defense.

SECTION 7.05. Limitations on Indemnification.

(a) Basket. Any indemnification pursuant to this Agreement shall be subject to the requirement that no claim may be made until the aggregate amount of Losses exceeds $500,000, after which time claims for indemnification may be made for the aggregate amount of all Losses, subject to the terms, conditions and limitations set forth herein.

(b) Maximum Liability. Holdings' total and maximum aggregate lifetime liability under this Article VII shall not exceed a dollar amount equal to thirty-five percent (35%) of the Merger Consideration, as adjusted pursuant to Section 2.02 hereof, multiplied by the per share closing price of Parent Common Stock as reported on the Nasdaq NM for the five (5) trading days immediately preceding the Effective Date of this Agreement.

(c) Deadline for Indemnity Claims. Except as otherwise provided in Section 7.01, Holdings shall have no liability with respect to any matter or claim for indemnification hereunder, unless Parent notifies Holdings in accordance with this Article VII no later than the close of business on the first (1st) anniversary of the Effective Time of a claim for indemnification hereunder; provided, however, that (i) claims of indemnification for Loss suffered as a result of a material breach of the representations and warranties under Sections 3.01(p) and (r) hereof (the "Tax Warranties") shall survive until six (6) months after the expiration of the applicable statute of limitations with respect to Taxes, including any extensions thereof; and (ii) such limitation shall not apply in any matter involving intentional misrepresentation or fraud on the part of Holdings.

ARTICLE VIII

NONCOMPETITION AGREEMENT

SECTION 8.01 Certain Acknowledgments. Holdings expressly acknowledges that the noncompetition agreements set forth in this Article VIII are a material part of this Agreement and are an integral part of the obligations of Holdings hereunder; and the noncompetition agreements set forth in this Article VIII are reasonable and necessary to protect the legitimate business interests of Parent following the consummation of the Merger.

SECTION 8.02 Noncompetition Agreement. Except as provided in Section 8.03 below, during the period beginning on the Effective Time and ending on the fifth (5th) anniversary of the Effective Time, except with Parent's prior written consent, Holdings shall not, directly or indirectly, own or operate a back-end computer-based system for processing consumer or small business remote payment instructions in order to generate remittance information and payment (via remote check printing or electronic funds transfer) to merchants in the United States of America (the "Competing Business"). The parties agree, without limitation, that Holdings shall not be deemed to be engaged in the Competing Business by virtue of, nor shall Holdings be at any time prohibited from: (a) developing and providing client-software or web/Internet-based applications which create and transmit payment instructions or remittance information to third parties; or (b) developing and providing client-software or web/Internet-based applications which facilitate the on-line purchase of goods or services.

SECTION 8.03 Exception. The ownership by Holdings or any subsidiary or affiliate controlled by Holdings of not more than five percent in the aggregate of the outstanding securities of any public company shall not, by itself, constitute a breach of the noncompetition agreement in Section 8.02, even if such public company competes with Parent or engages in the Competing Business.

SECTION 8.04 No Objection or Defense. Holdings expressly waives any objection to or defense regarding the scope, duration or geographic area of the restriction on competition set forth in this Article VIII.

SECTION 8.05 Enforcement of Noncompetition Agreement. Holdings expressly acknowledges that it would be extremely difficult to measure the damage that might result form any breach of the noncompetition agreements in this Article VIII, and that any such breach will result in irreparable injury to Parent for which money damages could not adequately compensate. If a breach of the noncompetition agreements in this Article VIII occurs, then Parent shall be entitled, in addition to all other rights or remedies that it may have at law or in equity. to have an injunction issued by any competent court enjoining and restraining Holdings and all other persons involved therein from continuing such breach. The existence of any claim or cause of action that Holdings or any such other person may have against Parent shall not constitute a defense or bar to the enforcement of any of the noncompetition agreements under this Article VIII. If Parent must resort to litigation to enforce any of the noncompetition agreements under this Article VIII that has a fixed term, then such term shall be extended for a period of time equal to the period during which a breach of such agreement was occurring, beginning on the date of a final court order (without further right of appeal) holding that such breach occurred or, if later, the last day of the original fixed term of such agreement.

SECTION 8.06 Early Termination of Noncompetition Agreement. In the event that Holdings is merged or consolidated with, or a majority of Holdings' voting stock or all or substantially all of Holdings' assets are acquired by, a person, corporation or other party who, at the time of such merger, consolidation, stock or asset acquisition, is engaged in the Competing Business, then upon the consummation of such merger, consolidation, sale, acquisition or similar business combination, all Holdings' obligations, duties and covenants under this Article VIII shall automatically immediately terminate and expire.

SECTION 8.07 Effect on Acquiror. In the event that Holdings is merged or consolidated with, or a majority of Holdings' voting stock or all or substantially all of Holdings' assets are acquired by, a person, corporation or other party (the "Acquiror"), and the provisions of Section 8.06

do not apply, then the Acquiror shall not be bound by or obligated under any of Holdings' obligations or duties under this Article VIII; except that such Acquiror may not utilize technology or personnel of Holdings to engage in the Competing Business so long as Holdings' obligations, duties and covenants under this Article VIII remain in effect.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01 Survival of Representations and Warranties. Except as otherwise specified, the representations and warranties of Holdings and the Company contained herein shall survive the Closing for a period expiring at the close of business on the first (1st) anniversary of the Effective Time; provided, however, that the Tax Warranties shall survive until six (6) months after the expiration of the applicable statute of limitations with respect to Taxes, including any extensions thereof.

SECTION 9.02 Interpretation of Representations and Warranties. Each representation and warranty made in this Agreement or pursuant hereto is independent of all other representations and warranties made by the same parties, whether or not covering related or similar matters, and must be independently and separately satisfied. Exceptions or qualifications to any such representation or warranty shall qualify, and shall be exceptions to, any other representation or warranty.

SECTION 9.03 Reliance by Parent and Acquisition. Notwithstanding the right of Parent and Acquisition to investigate the business, assets, and financial condition of Holdings and/or the Company, and notwithstanding any knowledge determinable by Parent or Acquisition as a result of such investigation, Parent and Acquisition have the unqualified right to rely upon, and have relied upon, each of the representations and warranties made by Holdings and/or the Company in this Agreement or pursuant hereto, as qualified by the Holdings/Company Disclosure Letter and the schedules hereto, except to the extent that Parent or Acquisition had actual knowledge to the contrary at the Effective Date of this Agreement.

SECTION 9.04 Expenses, Etc. Whether or not the transactions contemplated by this Agreement are consummated, neither Holdings and the Company, on the one hand, and Parent and Acquisition, on the other hand, shall have any obligation to pay any of the fees and expenses of the other incident to the negotiation, preparation and execution of this Agreement, including the fees and expenses of counsel, accountants, investment bankers and other experts and Parent shall pay all such fees and expenses incurred by Acquisition. Holdings and the Company, on the one hand, and Parent and Acquisition, on the other hand, shall indemnify the other and hold it harmless from and against any claims for finders' fees or brokerage commissions in relation to or in connection with such transactions as a result of any agreement or understanding between such indemnifying party and any third party. The Company represents that, in connection with the transactions contemplated by this Agreement, the Company has committed to pay only the fees and expenses set forth on Schedule 9.04 hereto.

SECTION 9.05 Publicity; Confidentiality. Holdings, the Company, and Parent agree that this Agreement and the exchange of information pursuant thereto is confidential and they will not disclose or issue any press release or make any other public announcement concerning this Agreement or the transactions contemplated hereby without the prior consent of the other party, which will not be unreasonably withheld, except that Holdings, the Company, or Parent may make such public disclosure that it believes in good faith to be required by law or any applicable rules and regulations of a national securities exchange or the NASD (in which event such party shall consult with the other prior to making such disclosure).

SECTION 9.06 Execution in Counterparts. For the convenience of the parties, this Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 9.07 Notices. All notices that are required or may be given pursuant to the terms of this Agreement shall be in writing and shall be sufficient in all respects if given in writing and delivered by hand or national overnight courier service, transmitted by telecopy or mailed by registered or certified mail, postage prepaid, and shall be deemed given upon receipt, as follows:

If to Parent to:

CHECKFREE CORPORATION
8275 North High Street
Columbus, Ohio 43235
Telecopy Number: (614) 825-3244
Attention: Peter J. Kight
Chairman

with copies to:

CHECKFREE CORPORATION
8275 North High Street
Columbus, Ohio 43235
Telecopy Number: (614) 825-3244
Attention: William C. Buckham
General Counsel

and

PORTER, WRIGHT, MORRIS & ARTHUR
41 South High Street
Columbus, Ohio 43215
Telecopy Number: (614) 227-2100
Attention: Curtis A. Loveland, Esq.

If to Holdings and/or the Company, to:

INTUIT INC.
2535 Garcia Avenue
Mountain View, California 94043
Telecopy Number: (415) 944-3060
Attention: William H. Harris,
Executive Vice President

with a copies to:

INTUIT INC.
2535 Garcia Avenue
Mountain View, California 94043
Telecopy Number: (415) 944-6622
Attention: Catherine Valentine, Esq.
General Counsel

and

FENWICK & WEST LLP
Two Palo Alto Square
Palo Alto, California 94306
Telecopy Number: (415) 857-0361
Attention: Kenneth A. Linhares, Esq.

or such other address or addresses as any party hereto shall have designated by notice in writing to the other parties hereto.

SECTION 9.08 Waivers. Holdings and the Company, on the one hand, and Parent and Acquisition, on the other hand, may, by written notice to the other, (i) extend the time for the performance of any of the obligations or other actions of the other under this Agreement; (ii) waive any inaccuracies in the representations or warranties of the other contained in this Agreement or in any document delivered pursuant to this Agreement; (iii) waive compliance with any of the conditions of the other contained in this Agreement; or (iv) waive performance of any of the obligations of the other under this Agreement. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

SECTION 9.09 Amendments, Supplements, Etc. At any time, this Agreement may be amended or supplemented by such additional agreements, articles or certificates, as may be determined by the parties hereto to be necessary, desirable or expedient to further the purposes of this Agreement, or to clarify the intention of the parties hereto, or to add to or modify the covenants, terms or conditions hereof or to effect or facilitate any governmental approval or acceptance of this Agreement or to effect or facilitate the filing or recording of this Agreement or the consummation of any of the transactions contemplated hereby. Any such instrument must be in writing and signed by all of the parties hereto.

SECTION 9.10 Entire Agreement. This Agreement and its schedules and exhibits, and the documents to be executed or delivered at the Effective Time in connection herewith, constitute the entire agreement among the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings, oral and written, among the parties hereto with respect to the subject matter hereof. No representation, warranty, promise, inducement or statement of intention has been made by any party that is not embodied in this Agreement or such other documents, and none of the parties shall be bound by, or be liable for, any alleged representation, warranty, promise, inducement or statement of intention not embodied herein or therein.

SECTION 9.11 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to conflict of laws principles.

SECTION 9.12 Binding Effect, Benefits. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. Except for the provisions of Article VII hereof, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto or their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

SECTION 9.13 Assignability. Neither this Agreement nor any of the parties' rights hereunder shall be assignable by any party hereto without the prior written consent of the other parties hereto.

SECTION 9.14 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction.

SECTION 9.15 Variation and Amendment. This Agreement may be varied or amended at any time before or after the approval and adoption of this Agreement by the stockholders of Parent and the Company by action of the respective Boards of Directors of Holdings, the Company, Parent, and Acquisition, without action by the stockholders thereof, provided that after approval and adoption of this Agreement by Parent's stockholders no such variance or amendment shall, without consent of such stockholders, increase the consideration that the holders of the capital stock of the Company shall be entitled to receive upon the Effective Time pursuant to Section 2.01 hereof.

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

CHECKFREE CORPORATION

By /s/ Peter J. Kight

CHECKFREE ACQUISITION CORPORATION II

By /s/ Peter J. Kight

INTUIT INC.

By /s/ James J. Heeger

INTUIT SERVICES CORPORATION

By /s/ Catherine L. Valentine

AMENDMENT NO. 1

TO

AGREEMENT AND PLAN OF MERGER

This Amendment No. 1 to Agreement and Plan of Merger (this "AMENDMENT") is made and entered into effective as of September 15, 1996 by and among CHECKFREE CORPORATION, a Delaware corporation ("PARENT"), CHECKFREE ACQUISITION CORPORATION II, a Delaware corporation and a wholly-owned subsidiary of Parent ("ACQUISITION"), INTUIT INC., a Delaware corporation ("HOLDINGS"), and INTUIT SERVICES CORPORATION, a Delaware corporation (the "COMPANY").

R E C I T A L S

A. The parties hereto have previously entered into a certain Agreement and Plan of Merger dated as of September 15, 1996 (the "MERGER AGREEMENT") providing for the merger of Acquisition with and into the Company. Unless otherwise defined herein, all capitalized terms used in this Amendment will have the same meanings given to such terms in the Merger Agreement.

B. The Securities and Exchange Commission has declined to permit Parent to register the issuance of the shares of its Common Stock that are to be issued to the sole stockholder of the Company in the Merger, and the parties desire to enter into this Amendment to amend the Merger Agreement in certain respects to reflect this fact, in accordance with Section 9.15 of the Merger Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. GLOBAL CHANGES. The Merger Agreement is hereby amended as provided in the following provisions of this Section 1:

(a) all references in the Merger Agreement to the term "Proxy Statement/Prospectus" are hereby amended to read "Proxy Statement."

(b) All references in the Merger Agreement to the term "Registration Statement" (as that term is defined in Section 4.02 of the Merger Agreement) and related phrases containing such term (such as, for example, the phrase "the Registration Statement or", as such phrase appears in Sections 3.01(i), 3.02(f), and 3.03(i) of the Merger Agreement) are hereby deleted from the Merger Agreement.

2. NEW SECTION 2.09. The Merger Agreement is hereby amended by adding thereto a new Section 2.09 to read in its entirety as follows:

SECTION 2.09 PRIVATE PLACEMENT. The issuance by Parent of the Merger Consideration to the stockholder of the Company pursuant to the Merger shall be effected pursuant to the exemption provided by Section 4(2) of the Securities Act.

3. SECTION 3.02(a). Section 3.02(a) of the Merger Agreement is hereby amended by adding to the end of such Section a new sentence to read as follows:

Holdings is an "accredited investor" within the meaning of Regulation D promulgated under the Exchange Act.

4. SECTION 4.02(a). Section 4.02(a) of the Merger Agreement is hereby amended to read in its entirety as follows:

(a) Parent, Holdings and the Company shall, in consultation with each other, prepare a proxy statement pertaining to the Merger and containing the recommendation of the Board of Directors of each of Parent and the Company to approve and adopt this Agreement and the Merger as promptly as reasonably practicable after the date hereof (the "PROXY STATEMENT"). Parent, Holdings, and the Company shall cooperate fully with each other in the preparation of the Proxy Statement and any amendments or supplements thereto, and Parent, Holdings and the Company will provide any audited and unaudited financial statements that may be required by the applicable rules of the Securities and Exchange Commission or otherwise to be included in the Proxy Statement. The Proxy Statement shall not be distributed, and no amendment or supplement thereto shall be made by Parent, Holding or the Company, without the prior consent of any other party and its counsel. Each of Parent and the Company shall cause a definitive Proxy Statement to be distributed to its stockholders entitled to vote upon the Merger promptly following the date on which the Company may first send such Proxy Statement to its stockholders in compliance with the Exchange Act and the rules and regulations promulgated thereunder.

5. SECTION 4.02(b)(i). The first sentence of Section 4.02(b)(i) of the Merger Agreement is hereby amended to read in its entirety as follows:

(i) As promptly as possible after the date hereof, Parent shall prepare and file with the SEC the Proxy Statement, and Parent shall use its best efforts to have the Proxy Statement approved for distribution to the stockholders of Parent under the Exchange Act and the rules and regulations promulgated thereunder as promptly as practicable.

6. SECTION 4.02(b)(ii). The first sentence of Section 4.02(b)(ii) of the Merger Agreement is hereby amended to read in its entirety as follows:

(ii) As soon as reasonably practicable after Parent may lawfully distribute the Proxy Statement to its stockholders under the Exchange Act and the rules and regulations promulgated thereunder, Parent shall take all action necessary, subject to and in accordance with the Delaware GCL and its Certificate of Incorporation and By-Laws, to obtain the requisite approval and adoption of this Agreement and the Merger by Parent's stockholders at a duly called meeting pursuant to the Delaware GCL and shall take such other actions as may be required by applicable law and the applicable rules of the Nasdaq NM.

7. SECTION 4.02(b)(iii). The second sentence of Section 4.02(b)(iii) of the Merger Agreement is hereby amended to read in its entirety as follows:

Holdings and the Company shall provide Parent with all pro forma financial information required by Regulation S-X to be included in the Proxy Statement or in any other filing that is required to be made by Parent pursuant to the Securities Act or the Exchange Act in connection with the Merger.

8. SECTION 4.02(c). The first sentence of Section 4.02(c) of the Merger Agreement is hereby amended to read in its entirety as follows:

(c) As soon as reasonably practicable after Parent may lawfully distribute the Proxy Statement to its stockholders under the Exchange Act and the rules and regulations promulgated thereunder, the Company and Parent shall take all action necessary, subject to and in accordance with the Delaware GCL and their respective Certificates of Incorporation and ByLaws, to obtain the requisite approval and adoption of this Agreement and the Merger by their respective stockholders at a duly called meeting or by written consents pursuant to Section 228 of the Delaware GCL and shall take such other actions as may be required by applicable law.

9. SECTION 4.07. Section 4.07 of the Merger Agreement in hereby deleted from the Merger Agreement in its entirety.

10. SECTION 4.12. Clause (c) of Section 4.12 of the Merger Agreement is hereby amended to read in its entirety as follows:

(c) an Amended and Restated Stock Restriction Agreement in the form of Exhibit D to this Agreement.

11. SECTION 5.01. Section 5.01 of the Merger Agreement is hereby amended by: (a) deleting subsection 5.01(d) (regarding effectiveness of the Registration Statement) from the Agreement; (b) redesignating subsection 5.01(e) of the Merger Agreement (regarding the Escrow Agreement) as subsection 5.01(d); and (c) amending subsection 5.01(f) of the Merger Agreement to read in its entirety as set forth below and by redesignating it as subsection 5.01(e):

(e) the execution and delivery by Parent and Holdings of an Amended and Restated Registration Rights Agreement, which is attached hereto as Exhibit G and incorporated herein by reference.

12. SECTION 5.03. Section 5.03 of the Merger Agreement is hereby amended by adding thereto a new subsection (g) to read in its entirety as follows:

(g) Parent shall have received an agreement reasonably satisfactory to Parent and its counsel in which Intuit represents, warrants and agrees substantially as follows:

(i) that the Parent Common Stock being issued and delivered to the Company's sole stockholder hereunder is being acquired by such stockholder for the stockholder's own account, for investment and not with a view to any unlawful resale or distribution thereof;

(ii) if such sole stockholder of the Company decides to dispose of the Parent Common Stock, that it can do so only in accordance and in compliance with the Securities Act and Rule 144 thereunder, as then in effect or through an effective Registration Statement;

(iii) that (A) such sole stockholder of the Company has been given access by Parent to any and all documents which it deems relevant to the acquisition of the Parent Common Stock; (B) Parent has made available to the sole stockholder, during the course of the transaction and prior to the issuance of the Parent Common Stock the opportunity to ask questions of, and receive answers from, Parent and its officers concerning Parent, and to obtain any additional information, to the extent Parent possessed such information or could acquire it without unreasonable effort or expense, necessary to verify the accuracy of information contained in the written materials delivered to the sole stockholder by Parent and concerning Parent; and (C) the sole stockholder has been given Parent's prospectus dated September 28, 1995 in connection with Parent's registered initial public offering;

(iv) that the sole stockholder of the Company understands and agrees that (A) in reliance upon its representations, the issuance of the Parent Common Stock has not been registered under the Securities Act in reliance upon Section 4(2) of the Securities Act and Regulation D thereunder; (B) because the Parent Common Stock is not so registered, the sole stockholder must bear the economic risk of holding the Parent Common Stock unless and until the Parent Common Stock is subsequently registered under the Securities Act or an exemption from such registration is available with respect thereto; (C) sole stockholder understands the provisions of Rule 144 under the Securities Act.

(v) that, subject to the provisions of this paragraph (v), certificates evidencing the Parent Common Stock shall bear a legend in substantially the following form:

> THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE, AND HAVE BEEN ISSUED PURSUANT TO EXEMPTIONS FROM REGISTRATION THAT DEPEND IN PART ON THE INTENT OF THE PURCHASER TO ACQUIRE FOR INVESTMENT AND WITHOUT A VIEW TOWARDS UNLAWFUL DISTRIBUTION OF SUCH SHARES. THEREFORE, SUCH SHARES MAY NOT BE SOLD OR TRANSFERRED EXCEPT UPON REGISTRATION OR UPON DELIVERY TO THE COMPANY OF COMMUNICATIONS FROM THE SECURITIES AND EXCHANGE COMMISSION AND ANY STATE REGULATORY AUTHORITIES CONCERNED, OR AN OPINION OF COUNSEL SATISFACTORY TO COUNSEL FOR THE COMPANY, THAT REGISTRATION IS NOT REQUIRED FOR SUCH SALE OR TRANSFER.

provided however, that notwithstanding the foregoing, the legend set forth above in this paragraph (v) shall be promptly removed by Parent and/or its transfer agent from any certificate evidencing shares of Parent Common Stock upon the earlier to occur of: (1) the registration of the Parent Common Stock (or the portion thereof represented by such certificate) by Parent under the Securities Act: or (2) delivery to Parent of an opinion of counsel, reasonably satisfactory to Parent, that a registration statement under the Securities Act is at that time in effect with respect to the Parent Common Stock represented by such certificate or that such Parent Common Stock can be freely transferred in a public sale without such a registration statement being in effect. In addition, notwithstanding anything herein to the contrary, no registration statement or opinion of counsel shall be required to be provided to Parent in order to permit any transfer of any Parent Common Stock in compliance with SEC Rule 144 or Rule 144A, unless otherwise required by Parent's transfer agent.

Nothing in the foregoing provisions of this Section 5.03(g) shall affect or alter the obligations of Parent under the Registration Rights Agreement.

13. EXHIBITS. The parties hereby amend (a) Exhibit D to the Merger Agreement to read as set forth in the Amended and Restated Stock Restriction Agreement attached hereto as EXHIBIT 2 and (b) Exhibit G to the Merger Agreement to read as set forth in the Amended and Restated Registration Rights Agreement attached hereto as EXHIBIT 3.

14. EFFECT OF AMENDMENT. The Merger Agreement, as amended by this Amendment, shall remain in full force and effect as so amended. In the event of any conflict between this Amendment and the Merger Agreement, this Amendment shall govern and control. This Amendment will not become effective unless and until it is signed (in counterparts) by Parent, Acquisition, Holdings and the Company.

15. COUNTERPARTS. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original hereof and all of which together shall be deemed to be one instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 1 to Agreement and Plan of Merger as of the date first written above.

CHECKFREE CORPORATION	INTUIT INC.
By: ______________________________	By: __________________________
Title: _____________________________	Title: _________________________
CHECKFREE ACQUISITION CORPORATION II	INTUIT SERVICES CORPORATION
By: ______________________________	By: __________________________
Title: _____________________________	Title: _________________________

Appendix B

[ALEX BROWN & SONS INCORPORATED LETTERHEAD]

September 15, 1996

Board of Directors
Checkfree Corporation
8275 North High Street
Columbus, Ohio 43235

Dear Sirs:

Intuit Inc. ("Intuit"), Intuit Services Corporation ("ISC"), Checkfree Corporation ("Checkfree") and Checkfree Acquisition Corporation II, a Delaware corporation and wholly-owned subsidiary of Checkfree (the "Merger Sub"), have proposed to enter into an Agreement and Plan of Merger (the "Agreement"). Pursuant to the Agreement, the implementation of which is contingent on stockholder approval by Checkfree's stockholders, Merger Sub will be merged with and into ISC (the "Merger"), and Checkfree will issue 12,600,000 shares of common stock, subject to adjustment as described in the Agreement (the "Equity Consideration") to Intuit in exchange for all ISC shares. Additionally, the Agreement provides that Checkfree will pay $10.0 million in cash to Intuit at closing and an additional $10.0 million in cash (collectively the "License Consideration" and, together with the Equity Consideration, (the "Merger Consideration")) on October 30, 1997 as license fees pursuant to a license agreement (the "License Agreement") related to connectivity to certain Intuit software products. You have requested our opinion as to whether the Merger Consideration is fair, from a financial point of view, to Checkfree.

Alex. Brown & Sons Incorporated ("Alex. Brown"), as a customary part of its investment banking business, is engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, private placements and valuations for estate, corporate and other purposes. We have acted as financial advisor to Checkfree in connection with the transaction described above and will receive a fee for our services, a portion of which is contingent upon the consummation of the Merger. We act as an advisor to Checkfree from time-to-time and acted as co-manager of a public offering of the common stock of Checkfree in 1995. Alex. Brown maintains a market in the common stock of Checkfree and Intuit and regularly publishes research reports regarding Checkfree, Intuit, the technology industry and the businesses and securities of publicly owned companies in that industry. In the ordinary course of business, Alex. Brown may actively trade the securities of both Intuit and Checkfree for our own account and the account of our customers and, accordingly, may at any time hold a long or short position in securities of Checkfree and Intuit.

In connection with our opinion, we have reviewed certain publicly available financial information concerning Checkfree, Intuit and ISC and certain internal financial analyses and other information furnished to us by the respective parties. We have also participated in discussions with members of the senior management of Checkfree, Intuit and ISC regarding the business and prospects of Checkfree and ISC independently and the combined company. In addition, we have (i) reviewed the reported prices and trading activity for the common stock of Checkfree, (ii) compared certain financial information and stock market information for Checkfree and ISC with similar information for certain other companies whose securities are publicly traded, (iii) reviewed the financial terms of certain recent business combinations, (iv) reviewed a draft of the Agreement dated September 14, 1996 and (v) performed such other studies and analyses and considered such other factors as we deemed appropriate.

We have not independently verified the information described above and for purposes of this opinion have assumed the accuracy, completeness and fairness thereof. With respect to information relating to the prospects of Checkfree and ISC, we have assumed that such information reflects the best currently available estimates and judgments of the management of all three companies as to the likely future financial performance of Checkfree and ISC. In addition, we have not made any independent evaluation or appraisal of the assets of Checkfree and ISC, nor have we been furnished with any such evaluation or appraisal. With your permission, this opinion does not address any adjustment to the Merger Consideration that may occur pursuant to Section 2.02 of the Agreement. We also have assumed with your permission that the License Agreement effectively grants rights to connectivity to certain Intuit software products. Our opinion is based on market, economic and other conditions as they exist and can be evaluated as of the date of this letter.

Our advisory services and the opinion expressed herein are provided for the information of the Board of Directors of Checkfree and do not constitute a recommedation to Checkfree's stockholders as to how they should vote at the stockholder's meeting in connection with the Merger. We hereby consent, however, to the inclusion of this opinion as an exhibit to any proxy statement distributed in connection with the Merger.

Based upon and subject to the foregoing, it is our opinion that, as of the date of this letter, the Merger Consideration is fair, from a financial point of view, to Checkfree.

Very truly yours,

/s/ Alex. Brown and Sons

ALEX. BROWN & SONS INCORPORATED

APPENDIX C

AMENDED AND RESTATED CHECKFREE CORPORATION

1995 STOCK OPTION PLAN

1. PURPOSE. This plan (the "Plan") is intended as an incentive and to encourage stock ownership by certain key associates, officers, directors, consultants and advisers who render services to CHECKFREE CORPORATION, a Delaware corporation (the "Company"), and any current or future subsidiaries or parent of the Company (the "Company Group"), by the granting of stock options (the "Options") as provided herein. By encouraging such stock ownership, the Company seeks to attract, retain and motivate employees, officers, directors, consultants and advisers of training, experience and ability. The Options granted under the Plan may be either incentive stock options ("ISOs") which meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or options which do not meet such requirements ("Non-statutory Options").

2. EFFECTIVE DATE. The Plan shall become effective on August 8, 1995, the date the Plan was adopted by the Board of Directors of the Company and approved by a majority of the shares of common stock of the Company entitled to vote thereon (the "Effective Date").

3. ADMINISTRATION.

(a) The Plan shall be administered by the Board of Directors of the Company (the "Board"), which may, to the full extent permitted by law, delegate all or any of its powers under the Plan to a committee (the "Committee") which consists of not fewer than two members of the Board. If the Committee is so appointed and to the extent such powers are delegated, all references to the Board in the Plan shall mean and relate to the Committee. If any class of equity securities of the Company is registered under section 12 of the Securities Exchange Act of 1934, as amended (the "1934 Act"), all members of the Committee will be "disinterested persons" as defined in Rule 16b-3(c)(2)(i) promulgated under the 1934 Act (or any successor rule of like tenor and effect) and "outside directors" as defined in section 162(m) of the Code and the regulations promulgated thereunder.

(b) Subject to the provisions of the Plan, the Board is authorized to establish, amend and rescind such rules and regulations as it may deem appropriate for its conduct and for the proper administration of the Plan, to make all determinations under and interpretations of, and to take such actions in connection with, the Plan or the Options granted thereunder as it may deem necessary or advisable. All actions taken by the Board under the Plan shall be final and binding on all persons. No member of the Board shall be liable for any action taken or determination made relating to the Plan, except for gross negligence or willful misconduct.

(c) Each member of the Board shall be indemnified by the Company against costs, expenses and liabilities (other than amounts paid in settlements to which the Company does not consent, which consent shall not be unreasonably withheld) reasonably incurred by such member in connection with any action taken in relation to the Plan to which he or she may be a party by reason of service as a member of the Board, except in relation to matters as to which he or she shall be adjudged in such action to be personally guilty of gross negligence or willful misconduct in the performance of his or her duties. The foregoing right to indemnification shall be in addition to such other rights as the Board member may enjoy as a matter of law, by reason of insurance coverage of any kind, or otherwise.

4. ELIGIBILITY.

(a) ISOs and Non-statutory Options may be granted to such key associates of the Company Group, and Non-statutory Options only may be granted to directors who are not employees of and to consultants and advisers who render services to the Company Group, as the Board shall select from time to time (the "Optionees"). More than one Option may be granted to an individual under the Plan.

(b) No ISO may be granted to an individual who, at the time an ISO is granted, is considered under Section 422(b)(6) of the Code to own stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or of its parent or any subsidiary corporation; provided, however, this restriction shall not apply if at the time such ISO is granted the option price per Share of such ISO shall be at least 110% of the fair market value of such Share, and such ISO by its terms is not exercisable after the expiration of five years from the date it is granted. This subparagraph 4(b) has no application to Options granted under the Plan as Non-statutory Options.

(c) The aggregate fair market value (determined as of the date the ISO is granted) of Shares with respect to which ISOs are exercisable for the first time by any Optionee during any calendar year under the Plan or any other ISO plan of the Company or the Company Group may not exceed $100,000. If an ISO which exceeds the $100,000 limitation of this subparagraph 4(c) is granted, the portion of such Option which is exercisable for Shares in excess of the $100,000 limitation shall be treated as a Non-statutory Option pursuant to Section 422(d) of the Code. Except as otherwise expressly provided in the immediately preceding sentence, this subparagraph 4(c) has no application to Options granted under the Plan as Non-statutory Options.

5. STOCK SUBJECT TO PLAN. The stock subject to Options under the Plan shall be shares of the common stock, $.01 par value, of the Company ("Shares"). The Shares issued pursuant to Options granted under the Plan may be authorized and unissued Shares, Shares purchased on the open market or in a private transaction, or Shares held as treasury stock. The aggregate number of Shares for which Options may be granted under the Plan shall not exceed 5,000,000 shares, subject to adjustment in accordance with the terms of paragraph 12 hereof. Any Shares subject to an Option which for any reason expires or is terminated unexercised as to such Shares and any Shares reacquired by the Company pursuant to any forfeiture or any repurchase right hereunder may again be the subject of an Option under the Plan. The Board, in its sole discretion, may permit the exercise of any Option as to full Shares or fractional Shares. Proceeds from the sale of Shares under Options shall constitute general funds of the Company.

6. TERMS AND CONDITIONS OF OPTIONS.

(a) At the time of grant, the Board shall determine whether the Options granted are to be ISOs or Non-statutory Options and shall enter into stock option agreements with the recipients accordingly. All Options granted shall be authorized by the Board and, within a reasonable time after the date of grant, shall be evidenced by stock option agreements in writing ("Stock Option Agreements"), in such form and containing such terms and conditions not inconsistent with the provisions of this Plan as the Board shall from time to time determine. Any action under paragraph 12 may be reflected in an amendment to or restatement of such Stock Option Agreements.

(b) The Board may grant Options having terms and provisions which vary from those specified in the Plan if such Options are granted in substitution for, or in connection with the assumption of, existing options granted by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to which the Company is a party.

7. PRICE. The option price per Share (the "Option Price") of each Option granted under the Plan shall be determined by the Board; provided, however, the Option Price of each ISO granted under the Plan shall not be less than the fair market value (determined without regard to any restrictions other than a restriction which, by its terms, will never lapse) of a Share on the date of grant of such Option. An Option shall be considered granted on the date the Board acts to grant the Option or such later date as the Board shall specify.

8. OPTION PERIOD. The period during which the Option may be exercised (the "Option Period") shall be determined by the Board; provided, however, any ISO granted under the Plan shall have an Option Period which does not exceed 10 years from the date the ISO is granted.

9. NON-TRANSFERABILITY OF OPTIONS. An Option shall not be transferable by the Optionee otherwise than by will or the laws of descent and distribution and may be exercised, during the lifetime of the Optionee, only by him or by his guardian or legal representative. Notwithstanding the foregoing, an Optionee may transfer a Non-Statutory Option to members of his or her immediate family (as defined in Rule 16a-1 promulgated under the 1934 Act), to one or more trusts for the benefit of such family members or to partnerships in which such family members are the only partners if (a) the stock option agreement with respect to such Non-Statutory Option as approved by the Committee expressly so provides and (b) the Optionee does not receive any consideration for the transfer. Non-Statutory Options held by such transferees are subject to the same terms and conditions that applied to such Non-Statutory Options immediately prior to transfer.

10. EXERCISE OF OPTIONS.

(a) Options granted hereunder will be exercisable upon the terms and conditions and in accordance with the vesting percentages determined by the Board in its sole discretion. Notwithstanding the foregoing or the terms and conditions of any Stock Option Agreement to the contrary, (i) in the event of the Optionee's termination of employment as specified in subparagraph

11(a), the Options shall be exercisable to the extent and for the period specified in subparagraph 11(a); (ii) in the event of the Optionee's termination of employment as a result of disability or death as specified in subparagraph 11(b), the Options shall be exercisable to the extent and for the period specified in subparagraph 11(b); (iii) in the event of a merger, reorganization or sale of all or substantially all of the assets of the Company as specified in subparagraph 12(c), the Options shall be exercisable to the extent and for the period specified in subparagraph 12(c); and (iv) in the event of a change in control, as defined herein, all Options held by Optionee shall become exercisable for the period specified in subparagraph 12(d).

(b) An Option shall be exercisable only upon delivery of a written notice to the Board, any member of the Board, the Company's Treasurer, or any other officer of the Company designated by the Board to accept such notices on its behalf, specifying the number of Shares for which it is exercised.

(c) Within five business days following the date of exercise of an Option, the Optionee or other person exercising the Option shall make full payment of the Option Price (i) in cash; (ii) with the consent of the Board, by tendering previously acquired Shares (valued at their fair market value as of the date of tender); (iii) with the consent of the Board, and to the extent permitted by applicable law, with a full recourse promissory note of the Optionee for the portion of the Option Price in excess of the par value of Shares subject to the Option, under terms and conditions determined by the Board and in cash for the par value of the Shares; (iv) with the consent of the Board, any combination of (i), (ii), or (iii); or (v) with the consent of the Board, if the Shares subject to the Option have been registered under the Securities Act of 1933, as amended (the "1933 Act"), and there is a regular public market for the Shares, by delivering to the Company on the date of exercise of the Option written notice of exercise together with:

(A) written instructions to forward a copy of such notice of exercise to a broker or dealer as defined in Section 3(a)(4) and 3(a)(5) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and designated in such notice ("Broker"), and to deliver to the specified account maintained with the Broker by the person exercising the Option a certificate for the Shares purchased upon the exercise of the Option, and

(B) a copy of irrevocable instructions to the Broker to deliver promptly to the Company a sum equal to the purchase price of the Shares purchased upon exercise of the Option.

If previously acquired Shares are to be used to pay the exercise price of an ISO, the Company prior to such payment must be furnished with evidence satisfactory to it that the acquisition of such Shares and their transfer in payment of the exercise price satisfy the requirements of Section 422 of the Code and other applicable laws.

11. TERMINATION OF EMPLOYMENT.

(a) Upon termination of an Optionee's employment with the Company Group, other than termination of employment by reason of disability or death or for cause, the Optionee shall have 30 days after the date of termination of employment (but not later than the expiration date of the Stock Option Agreement) to exercise all Options held by him or her to the extent the same were exercisable on the date of termination; provided, however, if such termination is due to the Optionee's retirement with the consent of the Company, such Option shall then be exercisable to the extent of 100% of the Shares subject thereto. The Board shall determine in each case whether a termination of employment shall be considered a retirement with the consent of the Company and, subject to applicable law, whether a leave of absence shall be considered a termination of employment. The Board may cancel an Option during the 30-day period after termination of employment referred to in this paragraph if the Optionee engages in employment or activities contrary, in the sole opinion of the Board, to the best interests of the Company or any parent or subsidiary of the Company.

(b) Upon termination of an Optionee's employment by reason of disability, as defined in subparagraph 27(a) of this Plan, or death, the Optionee or the Optionee's personal representative, or the person or persons to whom his or her rights under the Options pass by will or the laws of descent or distribution, shall have one year after the date of termination of employment by reason of disability or death (but not later than the expiration date of the Stock Option Agreement) to exercise all Options held by Optionee to the extent the same were exercisable on the date of the Optionee's termination of employment; provided, however, the Board may, but shall not be required to, permit, in its discretion, the exercise of all or any portion of any Option granted to such Optionee not otherwise exercisable.

(c) Upon termination of an Optionee's employment for cause, as defined herein, all Options held by such Optionee shall terminate effective on the date of termination of employment.

12. STOCK SPLITS; MERGERS; REORGANIZATIONS; SALE OF ASSETS.

(a) In the event of a stock split, stock dividend, combination or exchange of shares, exchange for other securities, reclassification, reorganization, redesignation or other change in the Company's capitalization, the aggregate number of Shares for which Options may be granted under this Plan, the number of Shares subject to outstanding Options and the Option Price of the Shares subject to outstanding Options shall be proportionately adjusted or substituted to reflect the same. The Board shall make such other adjustments to the Options, the provisions of the Plan and the Stock Option Agreements as may be appropriate and equitable, which adjustments may provide for the elimination of fractional Shares.

(b) In the event of a change of the Common Stock resulting from a merger or similar reorganization as to which the Company is the surviving corporation, the number and kind of Shares which thereafter may be purchased pursuant to an Option under the Plan and the number and kind of Shares then subject to Options granted hereunder and the price per Share thereof shall be appropriately adjusted in such manner as the Board may deem equitable to prevent dilution or enlargement of the rights available or granted hereunder.

(c) Except as otherwise determined by the Board, a merger or a similar reorganization which the Company does not survive (other than a merger or similar reorganization involving only a change in the state of incorporation or an internal reorganization not involving a change in control as defined herein), or a sale of all or substantially all of the assets of the Company, shall cause every Option hereunder to terminate, to the extent not then exercised, unless any surviving entity agrees to assume the obligations hereunder; provided, however, that, in the case of such a merger or similar reorganization, or such a sale of all or substantially all of the assets of the Company, if there is no such assumption, the Board may provide that some or all of the unexercised portion of any one or more of the outstanding Options shall be immediately exercisable and vested as of such date prior to such merger, similar reorganization or sale of assets as the Board determines.

(d) If a change in control, as defined herein, occurs, all outstanding options granted under this Plan shall then be immediately exercisable to the extent of 100% of the Shares subject thereto notwithstanding any contrary waiting or vesting periods specified in this Plan or in any applicable Stock Option Agreement.

13. SALE OF OPTION SHARES. If any class of equity securities of the Company is registered pursuant to Section 12 of the 1934 Act, any Optionee or other person exercising the Option who is subject to Section 16 of the 1934 Act by virtue of his or her relationship to the Company shall not sell or otherwise dispose of the Shares subject to Option unless at least six months have elapsed from the date of grant of the Option.

14. RIGHTS AS SHAREHOLDER. The Optionee shall have no rights as a shareholder with respect to any Shares covered by an Option until the date of issuance of a stock certificate to the Optionee for such Shares.

15. NO CONTRACT OF EMPLOYMENT. Nothing in the Plan or in any Option or Stock Option Agreement shall confer on any Optionee any right to continue in the employ or service of the Company or any parent or subsidiary of the Company or interfere with the right of the Company to terminate such Optionee's employment or other services at any time. The establishment of the Plan shall in no way, now or hereafter, reduce, enlarge or modify the employment relationship between the Company or any parent or subsidiary of the Company and the Optionee. Options granted under the Plan shall not be affected by any change of duties or position of the Optionee with the Company.

16. AGREEMENTS AND REPRESENTATIONS OF OPTIONEES. As a condition to the exercise of an Option, the Board may, in its sole determination, require the Optionee to represent in writing that the Shares being purchased are being purchased only for investment and without any present intent at the time of the acquisition of such Shares to sell or otherwise dispose of the same.

17. WITHHOLDING TAXES. The Company's obligation to deliver Shares upon exercise of an Option shall be subject to the Optionee's satisfaction of all applicable federal, state or local tax withholding obligations. The Company shall have the right to withhold from any salary, wages, or other compensation for services payable by the Company to or with respect to an Optionee, amounts

sufficient to satisfy any federal, state or local withholding tax liability attributable to such Optionee's (or any beneficiary's or personal representative's) receipt or disposition of Shares purchased under any Option or to take any such other action as it deems necessary to enable it to satisfy any such tax withholding obligations. The Board, in its sole discretion, may permit Optionees to elect to have Shares that would be acquired upon exercise of Options (valued at their fair market value as of the date of exercise) withheld by the Company in satisfaction of such Optionees' withholding tax liabilities.

18. EXCHANGES. The Board may permit the voluntary surrender of all or a portion of any Option granted under the Plan to be conditioned upon the granting to the Optionee of a new Option for the same or a different number of Shares as the Option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new Option to such Optionee. Subject to the provisions of the Plan, such new Option shall be exercisable at the same price, during such period and on such other terms and conditions as are specified by the Board at the time the new Option is granted. Upon surrender, the Options surrendered shall be cancelled and the Shares previously subject to them shall be available for the grant of other Options.

19. REPURCHASE OF SHARES BY THE COMPANY. Any Shares purchased or acquired upon exercise of an Option may, in the sole discretion of the Board, be subject to repurchase by or forfeiture to the Company if and to the extent and at the repurchase price, if any, specifically set forth in the Stock Option Agreement pursuant to which the Shares were purchased or acquired. Certificates representing Shares subject to such repurchase or forfeiture may be subject to such escrow and stock legending provisions as may be set forth in the Stock Option Agreement pursuant to which the Shares were purchased or acquired.

20. CONFIDENTIALITY AGREEMENTS. Upon the Company's request, each Optionee shall execute, prior to or contemporaneously with the grant of any Option hereunder, the Company's then standard form of agreement relating to nondisclosure of confidential information, noncompetition and/or assignment of inventions and related matters.

21. COMPLIANCE WITH LAWS AND REGULATIONS. The Plan, the grant and exercise of Options thereunder, and the obligation of the Company to sell and deliver the Shares under such Options, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. Options issued under the Plan shall not be exercisable prior to (i) the date upon which the Company shall have registered the Shares for which Options may be issued hereunder under the 1933 Act, and (ii) the completion of any registration or qualification of such Shares under state law, or any ruling or regulation of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable in connection therewith, or alternatively, unless the Company shall have received an opinion from counsel to the Company stating that the exercise of such Options may be effected without registering the Shares subject to such Options under the l933 Act, or under state or other law.

22. ASSUMPTION. The Plan may be assumed by the successors and assigns of the Company.

23. EXPENSES. All expenses and costs in connection with administration of the Plan shall be borne by the Company.

24. AMENDMENT, MODIFICATION AND TERMINATION OF THE PLAN. The Board may terminate, amend or modify the Plan at any time without further action on the part of the shareholders of the Company; provided, however, that (a) in no event shall any amendment be made to the Plan which would cause the ISOs granted hereunder to fail to qualify as incentive stock options under the Code; (b) any amendment to the Plan which requires the approval of the shareholders of the Company under the Code or the regulations promulgated thereunder shall be subject to approval by the shareholders of the Company in accordance with the Code or such regulations; and (c) any amendment to the Plan which requires the approval of the shareholders of the Company under the rules promulgated under Section 16 of the 1934 Act shall be subject to the approval of the shareholders of the Company in accordance with such rules. No amendment, modification or termination of the Plan shall in any manner adversely affect any Option previously granted to an Optionee under the Plan without the consent of the Optionee or the transferee of such Option.

With the consent of the Optionee affected, the Board may amend outstanding Options or related agreements in a manner not inconsistent with the Plan. The Board shall have the right to amend or modify the terms and provisions of the Plan and of any outstanding ISO's granted under the Plan to the extent necessary to qualify any or all such Options for such favorable federal income tax treatment (including deferral of taxation upon exercise) as may be afforded incentive stock options under Section 422 of the Code.

25. TERM OF PLAN. The Plan shall become effective on the Effective Date, subject to the approval of the Plan by the holders of a majority of the shares of common stock of the Company entitled to vote on, or within twelve months of, the date of the Plan's adoption by the Board, and all Options granted prior to such approval shall be subject to such approval. The Plan shall terminate on the tenth anniversary of the Effective Date, or such earlier date as may be determined by the Board. Termination of the Plan, however, shall not affect the rights of Optionees under Options previously granted to them, and all unexpired Options shall continue in force and operation after termination of the Plan except as they may lapse or be terminated by their own terms and conditions.

26. LIMITATION OF LIABILITY. The liability of the Company under this Plan or in connection with any exercise of an Option is limited to the obligations expressly set forth in the Plan and in any Stock Option Agreements, and no term or provision of this Plan or of any Stock Option Agreements shall be construed to impose any further or additional duties, obligations or costs on the Company not expressly set forth in the Plan or the Stock Option Agreements.

27. DEFINITIONS.

(a) Disability. "Disability," as used herein, shall mean a physical or mental condition resulting from bodily injury, disease, or mental disorder which renders the Optionee incapable of continuing the Optionee's usual and customary employment or service with the Company Group.

(b) Fair Market Value. If the Shares are publicly traded, the term "fair market value" as used in this Plan shall mean (a) the closing price quoted in the NASDAQ National Market System, if the shares are so quoted, (b) the last quote reported by NASDAQ for small-cap issues, if the shares are so quoted, (c) the mean between the bid and asked prices as reported by NASDAQ, if the Shares are so quoted, or (d) if the Shares are listed on a securities exchange, the closing price at which the Shares are quoted on such exchange, in each case at the close of the date immediately before the Option is granted or, if there be no quotation or sale on that date, the next previous date on which the Shares were quoted or traded. In all other cases, the fair market value shall be determined by and in accordance with procedures established in good faith by the Board and with respect to ISOs, conforming to regulations issued by the Internal Revenue Service regarding incentive stock options.

(c) Key Associates. The term "key associates" shall include those executive, administrative, operational and managerial employees who are determined by the Board to be eligible for Options under the Plan.

(d) Parent and Subsidiary. The terms "subsidiary" and "parent" as used in the Plan shall have the respective meanings set forth in sections 424(f) and (e) of the Code.

(e) Termination For Cause. The term "termination of employment for cause" shall mean termination of employment for (a) the commission of an act of dishonesty, including but not limited to misappropriation of funds or property of the Company; (b) the engagement in activities or conduct injurious to the reputation of the Company; (c) the conviction or entry of a guilty or no contest plea to a misdemeanor involving an act of moral turpitude or a felony; (d) the violation of any of the terms and conditions of any written agreement the Optionee may have from time to time with the Company Group (following 30 days' written notice from the Company specifying the violation and the employee's failure to cure such violation within such 30-day period); or (e) any refusal to comply with the written directives, policies or regulations established from time to time by the Board.

(f) Change In Control. A "change in control" shall be deemed to have taken place if, as a result of a tender offer, merger, consolidation, sale of assets or contested election, or any combination of the foregoing transactions (a "Transaction"), the persons who were directors of the Company immediately before the Transaction shall cease to constitute a majority of the Board of Directors of the Company or of any successor to the Company; provided, however, that any Transaction shall not be deemed to be a change in control if the Transaction causing such change shall have been approved by the affirmative vote of at least a majority of the members of the Board of Directors of the Company in office immediately prior to the change in control.

CHECKFREE CORPORATION

Adopted August 8, 1995

By: /s/ Peter J. Kight
Peter J. Kight, President

Amended and Restated: October 18, 1996

FORM OF STOCK OPTION AGREEMENT
[ISO /or/ NSO] No. 95-_____

CHECKFREE CORPORATION
[INCENTIVE /OR/ NONSTATUTORY]
STOCK OPTION AGREEMENT
UNDER THE
1995 STOCK OPTION PLAN
(AS AMENDED AND RESTATED OCTOBER 18, 1996)

Checkfree Corporation (the "Company") hereby grants, effective this day of _______________, 19__ (the "Effective Date") to _______________ (the "Optionee") an option to purchase ____________ shares of its common stock, without par value (the "Option Shares"), at a price of _____________ Dollars ($______) per share pursuant to the Company's 1995 Stock Option Plan as Amended and Restated October 18, 1996 (the "Plan"), subject to the following:

1. RELATIONSHIP TO THE PLAN. This option is granted pursuant to the Plan, and is in all respects subject to the terms, provisions and definitions of the Plan and any amendments thereto. The Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and conditions thereof. The Optionee accepts this option subject to all the terms and provisions of the Plan (including without limitation provisions relating to nontransferability, exercise of the option, sale of the option shares, termination of the option, adjustment of the number of shares subject to the option, and the exercise price of the option). The Optionee further agrees that all decisions and interpretations made by the Stock Option Committee (the "Committee"), as established under the Plan, and as from time to time constituted, are final, binding, and conclusive upon the Optionee and his or her heirs. This option [IS/IS NOT] an Incentive Stock Option under the Plan.

2. TIME OF EXERCISE. This option may be exercised, from time to time, in full or in part, by the Optionee to the extent the option is vested based upon the number of full years the Optionee is an employee of the Company after the Effective Date (the "Vested Percentage") and remains exercisable (subject to the provisions herein and the Plan) until it has been exercised as to all of the Shares or the _____ anniversary of the Effective Date, whichever occurs first. The Optionee is entitled to exercise this option to the extent of the percentage of, and not to exceed in the aggregate, the maximum number of the Shares, based upon the Vested Percentage, from time to time, as determined in accordance with the following schedule:

Years of Employment After the Effective Date	Total Vested Percentage

Notwithstanding the foregoing, this option may not be exercised unless (i) the Option Shares are registered under the Securities Act of 1933, as amended, and are registered or qualified under applicable state securities or "blue sky" laws, or (ii) the Company has received an opinion of counsel to the Company to the effect that the option may be exercised and Option Shares may be issued by the Company pursuant thereto without such registration or qualification. If this option is not otherwise exercisable by reason of the foregoing sentence, the Company will take reasonable steps to comply with applicable state and federal securities laws in connection with such issuance.

3. METHODS OF EXERCISE. This option is exercisable by delivery to the Company of written notice of exercise which specifies the number of shares to be purchased and the election of the method of payment therefor, which will be one of the methods of payment specified in subparagraph 10(c) of the Plan. If payment is otherwise than payment in full in cash, the method of payment is subject to the consent of the Committee. Upon receipt of payment for the shares to be purchased pursuant to the option or, if applicable, the shares to be delivered pursuant to the election of an alternative payment method, the Company will deliver or cause to be delivered to the Optionee, to any other person exercising this option, or to a broker or dealer if the method of payment specified in clause (iv) of subparagraph 10(c) of the Plan is elected, a certificate or certificates for the number of shares with respect to which this option is being exercised, registered in the name of the Optionee or other person exercising the option, or if appropriate, in the name of such broker or dealer; provided, however, that if any law or regulation or order of the Securities and Exchange Commission or other body having jurisdiction over the exercise of this option will require the Company or Optionee (or other person exercising this option) to take any action in connection with the shares then being purchased, the delivery of the certificate or certificates for such shares may be delayed for the period necessary to take and complete such action.

4. ACQUISITION FOR INVESTMENT. This option is granted on the condition that the acquisition of the Option Shares hereunder will be for the account of the Optionee (or other person exercising this option) for investment purposes and not with a view to resale or distribution, except that such condition will be inoperative if the Option Shares are registered under the Securities Act of 1933, as amended, or if in the opinion of counsel for the Company such shares may be resold without registration. At the time of any exercise of the option, the Optionee (or other person exercising this option) will execute such further agreements as the Company may require to implement the foregoing condition and to acknowledge the Optionee's (or such other person's) familiarity with restrictions on the resale of the Option Shares under applicable securities laws.

5. DISPOSITION OF SHARES. The Optionee or any other person who may exercise this option will notify the Company within seven (7) days of any sale or other transfer of any Option

Shares. If any class of equity securities of the Company is registered pursuant to section 12 of the Securities Exchange Act of 1934, as amended, and the Optionee or any other person who may exercise this option is subject to section 16 of that Act by virtue of such Optionee's or person's relationship to the Company, the Optionee or other person exercising this Option agrees not to sell or otherwise dispose of any Option Shares unless at least six (6) months have elapsed from the Effective Date.

6. WITHHOLDING. As a condition to the issuance of any of the Shares under this Option, Optionee or any person who may exercise this Option authorizes the Company to withhold in accordance with applicable law from any salary, wages or other compensation for services payable by the Company to or with respect to Optionee any and all taxes required to be withheld by the Company under federal, state or local law as a result of such Optionee's or such person's receipt or disposition of Shares purchased under this Option. If, for any reason, the Company is unable to withhold all or any portion of the amount required to be withheld, Optionee (or any person who may exercise this Option) agrees to pay to the Company upon exercise of this Option an amount equal to the withholding required to be made less the amount actually withheld by the Company.

7. GENERAL. This Agreement will be construed as a contract under the laws of the State of Ohio without reference to Ohio's choice of law rules. It may be executed in several counterparts, all of which will constitute one Agreement. It will bind and, subject to the terms of the Plan, benefit the parties and their respective successors, assigns, and legal representatives.

IN WITNESS WHEREOF, the Company and the Optionee have executed this Agreement as of the date first above written.

OPTIONEE: CHECKFREE CORPORATION

By:

- - - - - ------------------------------ ------------------------------

Its:

APPENDIX D

CHECKFREE CORPORATION
ASSOCIATE STOCK PURCHASE PLAN

1. PURPOSE.

The CheckFree Corporation Associate Stock Purchase Plan (the "Plan") is being established for the benefit of employees of CheckFree Corporation, a Delaware corporation (the "Company"), and certain affiliated companies. The Plan is intended to provide eligible employees with an opportunity to purchase shares of common stock, $0.01 par value, of the Company (the "Shares"), through accumulated payroll deductions. It is the intention of the Company that the Plan qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Code, and the provisions of the Plan shall be construed in a manner consistent with the requirements of such Section of the Code.

2. DEFINITIONS.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Change in Capitalization" shall mean any increase, reduction, or change or exchange of Shares for a different number or kind of shares or other securities of the Company by reason of a reclassification, recapitalization, merger, consolidation, reorganization, share dividend, share split or reverse share split, combination or exchange of shares, repurchase of Shares, change in corporate structure or otherwise.

(c) "Change in Control" of the Company shall have the meaning given in Section 16(b) hereof.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(e) "Committee" shall mean the Stock Option and Compensation Committee or any other committee of members of the Board appointed by the Board to administer the Plan and to perform the functions set forth herein.

(f) "Company" shall mean CheckFree Corporation, a corporation organized under the laws of the State of Delaware, or any successor corporation.

(g) "Compensation" shall mean the fixed salary, wages, commissions, overtime pay and bonuses paid by an Employer to an Employee as reported by the Employer to the United States government for federal income tax purposes, including an Employee's portion of compensation deferral contributions pursuant to Section 401(k) of the Code, any amount excludable pursuant to Section 125 of the Code and/or any non-qualified compensation deferrals, but excluding any foreign service allowance, severance pay, expense reimbursement or any benefit paid by a third-party payer under any employee benefit plan maintained by the Employer.

(h) "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence taken pursuant to the Employer's written leave of absence policy if such leave is for a continuous period of not more than one year.

(i) "Designated Subsidiaries" shall mean the Subsidiaries of the Company as of the Effective Date, and corporations which become Subsidiaries of the Company after the Effective Date.

(j) "Effective Date" shall have the meaning set forth in Section 22 hereof.

(k) "Employee" shall mean any person, including an officer, who as of an Offering Date is (i) regularly employed by the Company or a Designated Subsidiary of the Company for more than twenty (20) hours per week, and (ii) who has been employed by such Employer for a period of at least ninety (90) days.

(l) "Employer" shall mean, as to any particular Employee, the corporation which employs such Employee, whether it is the Company or a Designated Subsidiary of the Company.

(m) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(n) "Exercise Date" shall mean the last business day of each Offering Period, except as the Committee may otherwise provide. For purposes of the Plan, the term "business day" means a day on which there is permitted trading of the Shares on the NASDAQ National Market or on a national securities exchange, whichever is applicable; and if neither is applicable, a day that is not a Saturday, Sunday or legal holiday in the State of Delaware.

(o) "Fair Market Value" per Share as of a particular date shall mean:

(i) the closing sales price, regular way for the Shares on any national securities exchange on which the Shares are actively traded on such date (or if such exchange was not open for trading on such date, the next preceding date on which it was open); or

(ii) if there is no price as specified in (i), the mean of the last reported bid- and-asked quotations regular way, for the Shares on such exchange on such date (or if there was no such quotations on such date, the next preceding date); or

(iii) if there also is no price as specified in (ii), the closing sales price, regular way, or in the absence thereof the mean of the last reported bid-and-asked quotations, for the Shares on the other exchange on which the Shares are permitted to trade having the greatest volume of trading in the Shares during the 30-day period preceding such date, on such date (or if there were no such quotations on such date, the next preceding date); or

(iv) if there also is no price as specified in (iii), the final reported sales price, or if not reported in the following manner, the highest bid quotation, in the over-the-counter market for the Shares as reported by the National Association of Securities Dealers Automatic Quotation System, or if not so reported, then as reported by the National Quotation Bureau Incorporated, or if such organization is not in existence, by an organization providing similar services, on such date (or if such date is not a date for which such system or organization generally provides reports, then on the next preceding date for which it does so); or

(v) if there also is no price as specified in (iv), the price determined by the Committee by reference to the bid-and-asked quotations for the Shares provided by members of an association of brokers and dealers registered pursuant to subsection 15(b) of the Exchange Act, which members make a market in the Shares, for such recent dates as the Committee shall determine to be appropriate for fairly determining current fair market value; or

(vi) if there also is no price as specified in (v), the price determined by the Committee for the date in question.

(p) "Offering Date" shall mean the first business day of each Offering Period. In the event that the Board specifies the maximum number of Shares that a Participant may be permitted to acquire during an Offering Period pursuant to Section 5(b) hereof, the Offering Date of an Offering Period will be the grant date for the options offered in such Offering Period. If no such maximum number of Shares has been specified by the Board pursuant to Section 5(b) hereof, the Exercise Date of an Offering Period will be the grant date for the options offered in such Offering Period. Notwithstanding the foregoing, the first Offering Date following the adoption of the Plan shall be the first business day on or after the Effective Date.

(q) "Offering Period" shall mean each six (6) month period commencing on January 1 and July 1, respectively, which periods shall end on June 30 and December 31, respectively; provided, however, that the Committee shall have the power to change the duration of Offering Periods; provided further, however, that no option granted under the Plan shall be exercisable more than twenty-seven (27) months from its date of grant. Notwithstanding the foregoing, the first Offering Period following the adoption of the Plan shall begin on the Effective Date and end on June 30, 1997.

(r) "Parent" shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of granting an option, each of the corporations other than the Company owns shares possessing fifty percent (50%) or more of the total combined voting power of all classes of shares in one of the other corporations in such chain.

(s) "Participant" shall mean an Employee who participates in the Plan.

(t) "Participant's Account" shall mean the account established for a Participant pursuant to the Plan to which his or her payroll deductions, Shares acquired under the Plan, dividends received from such Shares, and dividend reinvestments shall be credited and from which cash distributions, cash used to purchase Shares and distributions of Shares will be debited.

(u) "Plan" shall mean the CheckFree Corporation Associate Stock Purchase Plan, as amended from time to time.

(v) "Shares" shall mean common stock, $0.01 par value, of the Company.

(w) "Subsidiary" shall mean any corporation (other than the Company) or other business organization in an unbroken chain of corporations or business organizations beginning with the Company, if, at the time of granting an option, each of the corporations or other business organizations other than the last corporation or such other business organization in the unbroken chain owns shares or other voting securities possessing fifty percent (50%) or more of the total combined voting power of all classes of shares or other voting securities in one of the other corporations or such business organizations in such chain.

3. ELIGIBILITY.

(a) Subject to the requirements of Sections 4(b) and 20(d) hereof, any person who is an eligible Employee as of an Offering Date shall be eligible to participate in the Plan and be granted an option for the Offering Period commencing on such Offering Date.

(b) Notwithstanding any provisions of the Plan to the contrary, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose shares would be attributed to such Employee pursuant to Section 424(d) of the Code) would own shares and/or hold outstanding options to purchase shares possessing five percent (5%) or more of the total combined voting power or value of all classes of shares of the Company or of any Subsidiary or Parent of the Company, or (ii) which permits such Employee's right to purchase shares under all employee stock purchase plans (as described in Section 423 of the Code) of the Company and any Subsidiary or Parent of the Company to accrue at a rate which exceeds twenty-five thousand dollars ($25,000) of Fair Market Value of such shares (determined at the time such option is granted) for any calendar year in which such option would be outstanding at any time. The purpose of the limitation in the preceding sentence is to comply with Section 423(b)(8) of the Code. If the Employee's accumulated payroll deductions on the last day of the Offering Period would otherwise enable the Employee to purchase Shares in excess of the Section 423(b)(8) limitation described in this Section, the excess of the amount of the accumulated payroll deductions over the aggregate purchase price of the Shares actually purchased shall be credited towards the next Offering Period. In the event the Employee elects to discontinue participation in the Plan, such amount shall be promptly refunded to the Employee by the Company, without interest.

4. GRANT OF OPTION; PARTICIPATION; PRICE.

(a) On each Offering Date, the Company shall commence an offering by granting each eligible Employee an option to purchase Shares, subject to the limitations set forth in Section 3(b) and Section 10 hereof.

(b) Each eligible Employee may elect to become a Participant in the Plan with respect to an Offering Period, by filing an agreement with his or her Employer authorizing payroll deductions in accordance with Section 5 hereof. Such authorization will remain in effect for subsequent Offering Periods, until modified or terminated by the Participant by giving written notice to his or her Employer prior to the next occurring Exercise Date. Such authorization to make payroll deductions must be received by the Company at least twenty (20) days before the next succeeding Offering Date.

(c) The option price per Share subject to an offering shall be the lesser of (i) 85% of the Fair Market Value of the Shares on the Offering Date of reference or (ii) 85% of the Fair Market Value of the Shares on the Exercise Date of reference; and, provided further that the option price per Share shall never be less than the par value per Share.

5. PAYROLL DEDUCTIONS.

(a) Subject to Section 4(b) hereof, a Participant may, in accordance with rules and procedures adopted by the Committee, authorize an after-tax payroll deduction of any whole percentage from one percent (1%) to fifteen percent (15%) of such Participant's Compensation each pay period. A Participant may not increase or decrease such payroll deduction (provided that a Participant may withdraw from the Plan under Section 8) during each Offering Period (unless otherwise allowed by the Committee in its sole discretion). All payroll deductions made by a Participant shall be credited to such Participant's Account.

(b) The Board may, but need not, specify by notice to all Employees prior to the first day of any Offering Period, a maximum number of Shares that any Participant shall be permitted to acquire pursuant to the Plan in any Offering Period, which maximum need not be the same for every Offering Period.

6. EXERCISE OF OPTION.

(a) Unless a Participant withdraws from the Plan as provided in Section 8 hereof, or unless the Committee otherwise provides, such Participant's election to purchase Shares shall be exercised automatically on the Exercise Date, and the maximum number of Shares (excluding any fractional Share, for which purposes the purchase amount shall be rounded to the next lower whole number of Shares) subject to such option will be purchased for such Participant at the applicable option price with the accumulated payroll deductions.

(b) Any cash balance remaining in a Participant's Account after the termination of an Offering Period will be carried forward to the Participant's Account for the purchase of Shares during the next Offering Period if the Participant has elected to continue to participate in the Plan. Otherwise, the Participant will receive a cash payment equal to the cash balance of his or her account.

(c) The Shares purchased upon exercise of an option hereunder shall be credited to the Participant's Account under the Plan within ten (10) business days after the Exercise Date and shall be deemed to be transferred to the Participant as of such crediting date. Except as otherwise provided herein, the Participant shall have all rights of a shareholder with respect to credited Shares.

7. DELIVERY OF SHARES.

(a) As promptly as practicable after receipt by the Company of a written request for withdrawal of Shares from any Participant's Account (or, in the discretion of the Committee, at any time after the termination of employment of any Participant), subject to Section 20(d) hereof, the Company shall arrange the delivery to such Participant of a share certificate representing the whole Shares credited to the Participant's Account which the Participant requests to withdraw. Subject to Section 7(b) hereof, withdrawals may be made no more frequently than once each Offering Period. Shares received upon share dividends or share splits shall be treated as having been purchased on the Exercise Date of the Shares to which they relate.

(b) Notwithstanding anything in Section 7(a) hereof to the contrary, Shares may be withdrawn by a Participant more than once during an Offering Period under the following circumstances: (i) within sixty (60) days following a Change in Control of the Company or (ii) upon the approval of the Committee, in its sole discretion.

8. WITHDRAWAL; TERMINATION OF EMPLOYMENT.

(a) A Participant may withdraw at any time all, but not less than all, cash amounts in his or her account under the Plan that have not been used to purchase Shares by giving written notice to the Company at least thirty (30) days prior to the next occurring Exercise Date or otherwise as may be approved by the Committee in its sole discretion. All such payroll deductions credited to such Participant's Account shall be paid to such Participant promptly after receipt of such Participant's notice of withdrawal and such Participant's option for the Offering Period in which the withdrawal occurs shall be automatically terminated. No further payroll deductions for the purchase of Shares will be made for such Participant during such Offering Period.

(b) Upon termination of a Participant's Continuous Status as an Employee during an Offering Period for any reason, including voluntary termination, retirement or death, the payroll deductions credited to such Participant's Account that have not been used to purchase Shares shall be returned to such Participant or, in the case of such Participant's death, to the person or persons entitled thereto under Section 12 hereof, and such Participant's option will be automatically terminated. Notwithstanding the foregoing, upon the termination of a Participant's employment because of the Participant's death, the Participant's beneficiary (designated by the Participant in accordance with Section 12 hereof) shall have the right to elect, by written notice given to the Company prior to the earlier of thirty (30) days prior to the next occurring Exercise Date (or otherwise as may be determined by the Committee in its sole discretion) under the Plan or the sixtieth (60th) day after the Participant's death, to exercise the Participant's option for the purchase of Shares on such Exercise Date for the purchase of the number of full Shares which the accumulated payroll deductions in the Participant's Account at the date of the Participant's death will purchase at the applicable option price, and any excess in such account will be paid to such beneficiary. If no such written notice of election is duly received by the Company, the first sentence of this Section 8(b) shall control.

(c) Except as provided in Section 20(d) hereof, a Participant's withdrawal from an offering will not have any effect upon such Participant's eligibility to participate in a succeeding offering or in any similar plan which may hereafter be adopted by the Company.

9. INTEREST.

No interest shall accrue on or be payable with respect to the payroll deductions of a Participant credited to the Participant's Account.

10. SHARES.

(a) The maximum number of Shares which shall be reserved and available for sale under the Plan shall be 1,000,000 Shares, which number shall be subject to adjustment upon Changes in Capitalization of the Company as provided in Section 16 hereof. Such Shares shall be either authorized and unissued Shares or Shares which have been reacquired by the Company. If the total number of Shares which would otherwise be subject to options granted pursuant to Section 4 hereof on an Offering Date exceeds the number of Shares then available under the Plan (after deduction of all Shares for which options have been exercised or are then outstanding), the Committee shall make a pro rata allocation of the Shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Committee shall give written notice to each Participant of such reduction of the number of option Shares affected thereby and shall similarly reduce the rate of payroll deductions, if necessary.

(b) Shares to be delivered to a Participant under the Plan will be registered in the name of the Participant or, at the election of the Participant, in the name of the Participant and another person as joint tenants with rights of survivorship.

(c) Until Shares shall have been credited to a Participant's Account in accordance with Section 6(c) hereof, the Participant shall not have any rights or privileges of a shareholder with respect to any Shares purchasable hereunder.

11. ADMINISTRATION.

The Plan shall be administered by the Committee, and the Committee may select administrator(s) to whom its duties and responsibilities hereunder may be delegated. The Committee shall have full power and authority, subject to the provisions of the Plan, to promulgate such rules and regulations as it deems necessary for the proper administration of the Plan, to interpret the provisions and supervise the administration of the Plan, and to take all action in connection therewith or in relation thereto as it deems necessary or advisable. Any decision evidenced by the unanimous written consent of the members of the Committee shall be fully effective as if it had been made at a meeting duly held. Except as otherwise provided by the Committee, each Employer shall be charged with all expenses incurred in the administration of the Plan with respect to such Employer's Employees. No member of the Committee shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan, and all members of the Committee shall be fully indemnified by the Company with respect to any such action, determination or interpretation. All decisions, determinations and interpretations of the Committee shall be final and binding on all persons, including the Company, the Participant (or any person claiming any rights under the Plan from or through any Participant) and any shareholder.

12. DESIGNATION OF BENEFICIARY.

(a) A Participant may file with the Company, on forms supplied by the Company, a written designation of a beneficiary who is to receive any Shares and cash remaining in such Participant's Account under the Plan in the event of the Participant's death.

(b) Such designation of beneficiary may be changed by the Participant at any time by written notice to the Company, on forms supplied by the Company. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such Shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant in accordance with the applicable laws of descent and distribution, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

13. TRANSFERABILITY.

Neither payroll deductions credited to a Participant's Account nor any rights with regard to the exercise of an option or to receive Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way by the Participant (other than by will, the laws of descent and distribution or as provided in Section 12 hereof). Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 8 hereof.

14. USE OF FUNDS.

All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such funds.

15. REPORTS; PARTICIPANTS' ACCOUNTS.

The Company shall establish a Participant's Account for each Participant in the Plan to which each Participant's payroll deductions, Shares acquired under the Plan, dividends received from such Shares, and dividend reinvestments shall be credited, and from which cash distributions, cash used to purchase Shares and distributions of Shares will be debited ("Participant's Accounts"). Statements with respect to each Participant's Account will be given to Participants as soon as practicable following each Offering Period, which statements will set forth the amounts of payroll deductions, dividends, dividend reinvestments and additional cash payments, the per Share purchase price, the number of shares purchased, the aggregate Shares in the Participant's Account and the remaining cash balance, if any.

16. EFFECT OF CERTAIN CHANGES.

(a) In the event of a Change in Capitalization or the distribution of an extraordinary dividend, the Committee shall conclusively determine the appropriate equitable adjustments, if any, to be made under the Plan, including without limitation adjustments to the number of Shares which have been authorized for issuance under the Plan but have not yet been placed under option, as well as the price per Share covered by each option under the Plan which has not yet been exercised. In the event of a Change in Control of the Company, the Offering Period shall terminate unless otherwise provided by the Committee. For purposes of the preceding sentence, (i) the Committee may establish the date of the event constituting the Change in Control and such date shall be the Exercise Date for such Offering Period, or (ii) the Committee may terminate the Plan in which case all Shares and cash amounts in a Participant's Account shall be refunded as elsewhere provided herein.

(b) "Change in Control" shall be deemed to have occurred if (i) a tender offer shall be made and consummated for the ownership of 50% or more of the outstanding voting securities of the Company, (ii) the Company shall be merged or consolidated with another corporation and as a result of such merger or consolidation less than 50% of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders of the Company, (iii) the Company shall sell at least 75% of its assets by value in a single transaction or in a series of transactions to another corporation which is not a wholly owned subsidiary of the Company, or (iv) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) (as in effect on the date hereof) of the Exchange Act, shall acquire 50% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record). For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1) (as in effect on the date hereof) pursuant to the Exchange Act.

17. Term of Plan.

Subject to the Board's right to discontinue the Plan (and thereby end its Term) pursuant to Section 18 hereof, the Term of the Plan (and its last Offering Period) shall end on December 31, 2006. Upon any discontinuance of the Plan, unless the Committee shall determine otherwise, any assets remaining in the Participants' accounts under the Plan shall be delivered to the respective Participant (or the Participant's legal representative) as soon as practicable.

18. AMENDMENT TO AND DISCONTINUANCE OF PLAN.

(a) Subject to Section 18(b) hereof, the Board may at any time amend, suspend or discontinue the Plan. Except as provided in Section 16 hereof, no such suspension or discontinuance may adversely affect options previously granted and no amendment may make any change in any option theretofore granted which adversely affects the rights of any Participant which accrued prior to the date of effectiveness of such amendment without the consent of such Participant. No amendment shall be effective unless it receives the requisite approval of the shareholders of the Company if such shareholder approval of such amendment is required to comply with Rule 16b-3 under the Exchange Act or Section 423 of the Code or to comply with any other applicable law, regulation or stock exchange rule.

(b) For the purpose of complying with changes in the Code or ERISA, the Board may amend, modify, suspend or terminate the Plan at any time. For the purpose of meeting or addressing any other changes in legal requirements or any other purpose, the Board may amend, modify, suspend or terminate the Plan only once every six months. Subject to changes in law or other legal requirements, including any provisions of Rule 16b-3 under the Exchange Act that would permit otherwise, the Plan may not be amended without the consent of the holders of a majority of the shares of Common Stock then outstanding or the vote of the shareholders of the Company as provided in Section 20(c) hereof, to (i) any increase in the aggregate number of shares of common stock that may be issued under the Plan (except for adjustments pursuant to Section 16 of the Plan); (ii) increase materially the benefits accruing to Participants under the Plan; or (iii) modify materially the requirements as to eligibility for participation in the Plan.

19. NOTICES.

All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

20. REGULATIONS AND OTHER APPROVALS; GOVERNING LAW; SECTION 16 COMPLIANCE

(a) This Plan and the rights of all persons claiming hereunder shall be construed and determined in accordance with the laws of the State of Delaware without giving effect to the choice of law principles thereof, except to the extent that such law is preempted by federal law.

(b) The obligation of the Company to sell or deliver Shares with respect to options granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.

(c) To the extent applicable hereto, the Plan is intended to comply with Rule 16b-3 under the Exchange Act, and the Committee shall interpret and administer the provisions of the Plan in a manner consistent therewith. Any provisions inconsistent with such Rule shall be inoperative and shall not affect the validity of the Plan. This Plan shall be subject to approval by shareholders of the Company present or represented and entitled to vote at a meeting duly held in accordance with applicable law.

(d) For any Participants subject to Section 16 of the Exchange Act, (i) such Participants who cease participation in the Plan may not participate again for at least six (6) months, and (ii) unless the Committee otherwise determines after due regard for Rule 16b-3(d)(2)(i), any Shares purchased by such Participant shall remain in such Participant's Account for six (6) months from the Exercise Date for such Shares.

(e) Shares shall not be issued unless such issuance and delivery shall comply with all applicable provisions of law, domestic or foreign, and the requirements of any stock exchange upon which the Shares may then be listed, including, in each case the rules and regulations promulgated thereunder, and shall be further subject to the approval of counsel for the Company with respect to such compliance, which may include a representation and warranty from the Participant that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares.

(f) Nothing contained in this Plan, or any modification or amendment to the Plan, or in the creation of any account, or the execution of any subscription agreement, or the issuance of any Shares under the Plan, shall give any Employee any right to continue employment or any legal or equitable right against the Company or any Subsidiary, or any officer, director, or employee thereof, except as expressly provided by the Plan.

21. WITHHOLDING OF TAXES.

By electing to participate in the Plan, each Employee acknowledges that the Company and its participating Subsidiaries are required to withhold taxes with respect to the amounts deducted from the Employee's Compensation and accumulated for the benefit of the Employee under the

Plan, and each Employee agrees that the Company and its participating Subsidiaries may deduct additional amounts from the Employee's Compensation, when amounts are added to the Employee's Account, used to purchase common stock or refunded, in order to satisfy such withholding obligations. If the Participant makes a disposition, within the meaning of Section 424(c) of the Code and the regulations promulgated thereunder, of any Share or Shares issued to such Participant pursuant to such Participant's exercise of an option, and such disposition occurs within the two-year period commencing on the day after the option is being treated as granted for purposes of Section 423 of the Code or within the one-year period commencing on the day after the Exercise Date, such Participant shall, within ten (10) days of such disposition, notify the Company thereof and thereafter immediately deliver to the Participant's Employer any amount of federal, state or local income taxes and other amounts which the Company informs the Participant the Company is required to withhold. The Participant's Employer may also satisfy any applicable withholding amounts by deducting the necessary amounts of withholding from the Participant's wages and, in the Committee's sole discretion, any other amounts owed to or held for the account of the Participant.

22. EFFECTIVE DATE.

The Plan shall be effective (the "Effective Date") as of the latter to occur of (a) January 1, 1997, or (b) the date on which this Plan shall have been approved by the shareholders as set forth in Section 20(c) hereof.

EXHIBIT 99.1

COMMON STOCK

PROXY - CHECKFREE CORPORATION

The undersigned stockholder of Checkfree Corporation (the "Company") hereby appoints Peter J. Kight and Mark A. Johnson, or either one of them, as attorneys and proxies with full power of substitution to vote all shares of common stock of the Company which the undersigned is entitled to vote at the Special Meeting of Stockholders of the Company to be held at _____________, _____________, _____________, on __________, ____________ __, 1997, and at any adjournment or adjournments thereof as follows:

1. To approve the issuance of common stock, $.01 par value, of the Company (the "Checkfree Common Stock") pursuant to the Agreement and Plan of Merger, dated as of September 15, 1996, as amended (the "Merger Agreement"). Pursuant to the Merger Agreement, Checkfree Acquisition Corporation II, a Delaware corporation ("Acquisition") and a wholly owned subsidiary of the Company, would be merged with and into Intuit Services Corporation, a Delaware corporation ("ISC"), and the sole stockholder of ISC would receive up to 12,600,000 shares of Checkfree Common Stock, as may be adjusted in accordance with the terms of the Merger Agreement, in exchange for its shares of common stock of ISC, as more fully described in the accompanying Proxy Statement.
   [ ] FOR
   [ ] AGAINST
   [ ] ABSTAIN

2. To approve the amendment of the Company's 1995 Stock Option Plan (the "Plan") to increase the number of shares of Checkfree Common Stock issuable upon the exercise of stock options under the Plan from 2,630,700 shares to 5,000,000 shares.
   [ ] FOR
   [ ] AGAINST
   [ ] ABSTAIN

3. To approve the Company's Associate Stock Purchase Plan which authorizes the sale of up to 1,000,000 shares of Checkfree Common Stock to eligible employees.
   [ ] FOR
   [ ] AGAINST
   [ ] ABSTAIN

4. In their discretion to vote upon such other matters as may properly come before the meeting.

(Continued and to be signed on other side.)

(Continued from other side.)

THIS PROXY, WHEN EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSALS 1, 2, 3 AND 4.

The undersigned hereby acknowledges receipt of the Notice of the Special Meeting of Stockholders, dated ____________ __, 1996 and the Proxy Statement furnished therewith. Any proxy heretofore given to vote said shares hereby is revoked.

PLEASE SIGN AND DATE THIS PROXY BELOW AND RETURN IN THE ENCLOSED ENVELOPE.

Dated: __________________________________, 1997

(Signature)

(Signature)

Signature(s) must agree with the name(s) printed on this Proxy. If shares are registered in two names, both stockholders should sign this Proxy. When signing as attorney, executor, administrator, trustee or guardian, please give your full title.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

Exhibit 99.2

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A No. 1

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For The Transition Period From January 1, 1996 To June 30, 1996

Commission File Number: 0-26802

CHECKFREE CORPORATION
(Exact name of Registrant as specified in its charter)

DELAWARE	31-1013521
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8275 NORTH HIGH STREET
COLUMBUS, OHIO 43235
(Address of principal executive offices, including zip code)

(614) 825-3000
(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

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. [x]

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $533,246,523 on September 16, 1996.

There were 41,696,870 shares of the Registrant's Common Stock outstanding on September 16, 1996.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I

ITEM 1. BUSINESS.

GENERAL

As used in this report, "Checkfree" is generally used to indicate Checkfree Corporation prior to its acquisition of Servantis Systems Holdings, Inc. on February 21, 1996 (the "Servantis Acquisition") and prior to its acquisition of Security APL, Inc. on May 9, 1996 (the "Security APL Acquisition") (the Servantis Acquisition and the Security APL Acquisition are collectively referred to as the "Acquisitions"). "Servantis" is generally used to indicate Servantis Systems Holdings, Inc. prior to its acquisition by Checkfree, "Security APL" is generally used to indicate Security APL, Inc. prior to its acquisition by Checkfree, and the term the "Company" is used to indicate the combined company following the Acquisitions. This report contains forward-looking statements which involve risks and uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Business -- Business Risks."

Checkfree Corporation (the "Company") is a leading provider of electronic commerce services, financial application software and related products for financial institutions and businesses and their customers. The Company services over 700,000 consumers, 1,000 businesses and approximately 850 financial institutions (including the 500 largest banks in the United States). The Company has also signed agreements with over 140 banks to provide electronic home banking services for the customers of those banks. To maximize the efficiency and effectiveness of its product development and distribution strategies, the Company has established several strategic alliances with companies such as Automatic Data Processing, Inc. ("ADP"), AT&T Corporation ("AT&T"), Alltell Information Services, Inc. ("Alltell"), Block Financial Corporation ("Block Financial"), Computer Services, Inc., CyberCash, Inc. ("CyberCash"), Money Access Service, Inc. a wholly owned subsidiary of Electronic Payment Services, Inc. ("EPS/MAC"), Electronic Data Systems Corporation ("EDS"), First Commerce Technologies, Inc. ("First Commerce Technologies"), Fiserv, Inc. ("Fiserv"), FiTech, Inc. ("FiTech"), Five Paces, Inc. ("Five Paces"), Florida Informanagement Services, Inc. ("Florida Informanagement Services"), Home Financial Network, Internet Browser Software Companies, Premiere Communications, Inc. ("Premiere"), Spyglass, Inc. ("Spyglass"), and SPRY, Inc. ("Spry") (an affiliate of CompuServe, Incorporated ("CompuServe")).

The Acquisitions further Checkfree's strategy of providing an expanding range of convenient, secure and cost-effective electronic commerce services and related products to financial institutions and businesses and their customers. Servantis' experience as a provider of electronic commerce and financial applications software and services to financial institutions substantially enhances the Company's presence in the financial institutions market of the electronic commerce segment. Security APL's experience as a vendor of portfolio management and software services to institutional investment managers and investment services to consumers enhances the Company's presence in the consumer and financial institutions market of the electronic commerce industry. The integration of Checkfree's electronic transaction processing and remote delivery technology with Servantis' software products and market presence and Security APL's portfolio management and software services has created a single vendor of electronic commerce services and related products to an expanded customer base of financial institutions and businesses and their customers.

Prior to the Servantis Acquisition, the Company operated its business in one business segment, the electronic commerce segment. With the Servantis Acquisition, the Company added financial application software as a second business segment. The electronic commerce segment includes electronic home banking, electronic bill payment, automatic accounts receivable collection, electronic accounts payable processing, investment portfolio management services and investment trading and reporting services. These services are primarily directed to financial institutions and businesses and their customers. The financial application software segment includes end-to-end software products for Automated Clearing House ("ACH") processing, account reconciliation, wire transfer, mortgage loan origination and servicing, lease accounting and debt recovery. These products and services are primarily directed to financial institutions and large corporations.

The Company was incorporated in Ohio in 1981 and reincorporated in Delaware in 1986. The Company has ten direct and indirect wholly owned subsidiaries: Servantis Systems Holdings, Inc., a Delaware corporation; Servantis Systems, Inc., a Georgia corporation; Servantis Services, Inc., a Georgia corporation; Checkfree Software Solutions, Inc., a Delaware corporation; Security APL, Inc., an Illinois corporation; Bow Tie Systems, Inc., an Illinois corporation; Checkfree Acquisition Corporation II, a Delaware corporation; Interactive Solutions Corporation, an Oregon corporation; Checkfree Investment Corporation, a Delaware corporation; and RCM Systems, Inc., a Wisconsin corporation. The Company's principal executive offices are located at 8275 North High Street, Columbus, Ohio 43235 and its telephone number is (614) 825-3000. The Company's Internet address is http://www.checkfree.com.

THE SERVANTIS ACQUISITION AND SERVANTIS

On February 21, 1996, Checkfree acquired Servantis for approximately $165.1 million, consisting of the issuance of 5.7 million shares of the Company's Common Stock valued at $20.00 per share and $42.5 million in cash to repay Servantis' long-term debt, in addition to the assumption of $38.3 million of liabilities. Founded in 1971, Servantis is a leading provider of electronic commerce and financial applications software and services for businesses and financial institutions (including the 500 largest banks and over 350 mortgage institutions in the United States). Servantis designs, markets, licenses and supports software products for electronic corporate banking, home banking, financial lending, regulatory compliance and document imaging. In addition, Servantis offers software consulting and remote processing services.

THE SECURITY APL ACQUISITION AND SECURITY APL

On May 9, 1996, Checkfree acquired Security APL for approximately $53.3 million, consisting of the issuance of 2.8 million shares of the Company's Common Stock valued at $18.50 per share, and the assumption of $5.5 million of liabilities. Security APL is a leading vendor of portfolio management and software services for institutional investment managers. Security APL has been developing and providing advanced investment analysis systems since it was founded in 1978. Security APL believes that it is the only full-service provider of fully-integrated portfolio management, performance measurement, trading and reporting systems for the investment manager. Security APL's clients include money management firms, bank trust departments, insurance companies and brokerage houses. Security APL added an additional investment information service by establishing its Portfolio Accounting World Wide ("PAWWS") division in August 1994. The PAWWS world-wide web site offers individuals some of the same tools professional money managers have to gather the information they need to make their investment decisions to enter trades and to monitor the status of their investments. Some of the services available through PAWWS include portfolio accounting and allocation, research information provided by various data suppliers, free stock quotes, stock host lists and brokerage services. Currently, Security APL monitors more than 300,000 portfolios for approximately 1,500 portfolio managers at over 150 firms.

POST-ACQUISITIONS STRATEGY

The Acquisitions further Checkfree's strategy of providing an expanding range of convenient, secure and cost-effective electronic commerce services and related products to financial institutions, businesses and their customers. The integration of Checkfree's electronic transaction processing and remote delivery technology with Servantis' software products and market presence and Security APL's portfolio management, investment, and software services has created a single vendor of electronic commerce services and related products to an expanded customer base of financial institutions and businesses and their customers. The components of the Company's strategy are to:

Offer an Expanding Range of Convenient, Easily Accessible, Secure and Cost-Effective Services Through Multiple Delivery Channels. By integrating Checkfree's ability to pay any bill from any checking account at any financial institution in the United States with Servantis' capability as an electronic commerce software provider and bank service organization, the Company intends to enhance and expand its range of financial institutions and business electronic commerce services. These services enable customers to execute electronic commerce transactions through multiple delivery channels including personal computers, telephones and the Internet.

Pursue Additional Strategic Alliances to Leverage Partners' Capabilities. Continuing Checkfree's strategy, the Company will pursue strategic alliances with companies that have maximum penetration and leading reputations for quality with the Company's target customers. Through these alliances, the Company expects to integrate its own expertise with its partners' capabilities.

Expand Sales Efforts Through Multiple Distribution Channels. The Company intends to maximize its distribution efforts through strategic alliances with market-leading companies through the Company's direct sales force, and to a lessor extent through direct marketing campaigns. In addition, the Company is utilizing the Internet as a distribution channel by making certain of its services and related products available for downloading from the Company's and third-party web sites.

Leverage Customers and Alliances Across Markets. The Company's efforts in each target market are designed to increase its successor opportunities in its other markets. The products and customer base of Servantis substantially increase the Company's offerings to financial institutions, which the Company expects will enhance its opportunity to expand its electronic commerce services to businesses and ultimately to the end, customer users.

Expand Customer Care and Technical Support. The Company supports and services its customers through numerous activities, including annual user group meetings and customer satisfaction surveys, technical and non-technical support (provided by help desk, e-mail, facsimile and bulletin board), service implementation and training. The Company believes that providing superior quality and accessible and reliable customer care is essential to establishing and maintaining successful relationships with its customers.

ELECTRONIC COMMERCE MARKET OPPORTUNITY

INTRODUCTION

Over the last decade, electronic execution of financial transactions has increased substantially. Increased use of credit cards, automated teller machines ("ATMs"), electronic funds transfer and direct payroll deposit have automated, simplified and reduced the costs of financial transactions for financial institutions and businesses and their customers.

CONTINUED USE OF PAPER CHECKS

Despite these benefits, a substantial portion of financial transactions in the U.S. are still executed by check. In 1995, approximately 57% of the total dollar volume of consumer payments was made using checks (30.0 billion transactions with a dollar volume of $2.1 trillion). Approximately 20% of the total consumer payment dollar volume was made electronically, with credit card transactions accounting for substantially all of these payments. According to the Federal Reserve Bank of Boston, the printing, mailing and delivery of more than 64 billion checks each year costs the equivalent of approximately 0.5% of the U.S. Gross Domestic Product. Checks impose significant costs on financial institutions and businesses and their customers. Time costs include the writing, mailing, recording and processing of checks. Financial costs include postage, processing costs and costs associated with the "float" created between the time checks are written and cleared. Due to the limited penetration of electronic commerce to date, many financial institutions and businesses and their customers currently engage in a combination of electronically executed and check-based financial transactions. This combination has increased the difficulty, particularly for individual consumers, of tracking payments, withdrawals and deposits, and of managing their financial affairs. As an indicator, industry sources estimate that approximately 75% of checking account holders in the U.S. do not balance their checkbook registers on a regular basis.

GROWTH TRENDS IN ELECTRONIC COMMERCE

Notwithstanding the current predominant usage of checks, there are a number of current trends that are driving increasing acceptance of electronic commerce in the U.S.:

- Increase in Electronic Financial Transactions. Over the last decade, electronic execution of financial transactions has increased substantially. Increased use of credit cards, ATMs, electronic funds transfer and direct payroll deposit have automated, simplified and reduced the costs of financial transactions for consumers, businesses and financial institutions. In 1994, it is estimated that 20 billion electronic transactions were processed in the U.S. and it is estimated that electronic transactions will grow at a rate of 19% each year to 58 billion by the year 2000. Industry estimates suggest that consumer retail on-line purchases will grow significantly for the rest of the decade, from $240 million in 1994 to an estimated $6.9 billion in the year 2000.

- Continuing Penetration of Personal Computers and Modems into U.S. Households. As of December 31, 1995, an estimated 37.4 million U.S. households, or 39% of U.S. households overall, had personal computers and approximately 21.1 million of these computers were equipped with a modem. The number of modem-equipped personal computers is expected to grow at a compound annual rate of approximately 26% to 33.6 million by the end of 1997.

- Rapid Growth in On-line Interactive Services, Particularly in the Internet. As of December 31, 1995, an estimated 6.2 million households in the U.S. subscribed to on-line interactive services such as CompuServe, Prodigy and America Online. This number is expected to increase to 8 million by year-end 1996. In addition, AT&T and Microsoft Corporation ("Microsoft") have announced that they will enter the on-line service market. The number of households subscribing to commercial on-line services is expected to grow at a compound annual rate of approximately 36% to 17.7 million from 1994 through 1998. Additionally, there are currently over 30 million users of the Internet. Industry analysts expect this figure to grow to 120 million by the end of 1998.

- Growth in Small Business Use of Personal Computers. According to a 1990 U.S. Commerce Department Report, there are over 6.8 million businesses with fewer than 10 employees in the United States. An increasing proportion of small businesses are using personal computers as part of their operations. According to a U.S. Census Bureau survey, personal computer penetration in the small business market has risen from 40% in 1989 to 64% in 1994.

- Continuing Automation of Financial Institutions' Operations. Financial institutions are facing increasing competition as a result of banking deregulation and technological innovation. The competition is not only from within the financial institution industry, but also from new competitors in related industries, such as insurance companies and mutual funds. The Company believes that in an increasingly competitive environment, financial institutions will seek opportunities to automate their operations by providing electronic banking, electronic bill payment and automated portfolio services to their customers. These services, the Company believes, will enable financial institutions to reduce costs, generate fee-based income and strengthen their customer relationships.

CONCLUSION

The Company believes there is a significant opportunity to expand the market for electronic commerce among financial institutions and businesses and their customers. Paper transactions impose significant costs that can be reduced through electronic execution. The continuing penetration of personal computers and modems into U.S. households, along with the rapid growth in on-line interactive services, are providing the technical infrastructure required to accelerate the acceptance of electronic commerce. In addition, the Company believes the key requirements that must be addressed to increase acceptance of electronic commerce applications include: (i) maintenance of industry-wide quality levels for security, accuracy, reliability and convenience; (ii) reduction in transaction processing costs; (iii) application of easy-to-use interfaces; and (iv) development of seamless integration with the existing financial infrastructure and existing relationships among all parties to a financial transaction. As a result, the Company believes that the opportunity exists to provide an integrated set of electronic services that further automate financial transactions for financial institutions and businesses and their customers.

PRODUCTS, SERVICES AND COMPETITION

ELECTRONIC COMMERCE SEGMENT

The Company's electronic commerce services and related products are targeted to financial institutions, businesses and their customers. To ensure the security of all the electronic commerce transactions that the Company processes, the Company utilizes a combination of measures, including various proprietary security technologies and existing industry security standards such as RSA encryption and multiple authorization and authentication technologies. The Company is currently developing new electronic commerce services and enhancing its existing services for each of its target markets.

Retail Services. The Company designs and develops private label payment and home banking services and related products for financial institutions, which in turn offer electronic payment and home banking services to their customers. These services, now marketed under the brand name "Bank Street," are tailored to each financial institution's specifications and can include a variety of services and related products including: customer delivery systems (including personal computer desktop software, the Internet or telephone based voice recognition units ("VRU") systems); electronic transaction processing; ATM-like banking transactions such as balance inquiries and fund transfers; customer service; customer billing and marketing. The Company believes that its services offer significant benefits to financial institutions, including lower transactions processing costs, additional fee income, potential new customers, and attractive additional services to offer existing customers.

Revenues are generated through contracts that the Company signs with individual financial institutions. The Company typically negotiates with the institution an implementation fee, a base fee per customer account on the service provided by the Company plus a variable per transaction fee which decreases based on the volume of transactions. Contracts typically have three year terms and generally provide for minimum fees if certain transaction volumes are not met. The Company utilizes direct sales and strategic alliances to market to financial institutions and has the ability to customize services for each institution.

The Company has contracts with more than 140 financial institutions through which electronic payment and home banking services designed by the Company are provided to customers of the financial institutions. Some of the financial institutions served by the Company include: Bank One, Crestar, Chemical Bank, Merrill Lynch, Signet Bank, Wells Fargo, and USAA Federal Savings Bank.

The Company's bill payment services are also included in certain personal financial software products, such as Managing Your Money, Money and Quicken. The Company pays a royalty or acquisition fee to these distribution partners.

The Company's bill payment services enable financial institution customers and direct consumer subscribers to pay bills electronically using a variety of devices such as personal computers and touch-tone telephones. Bills paid by consumers using the Company's bill payment services typically include payments such as credit card statements, monthly mortgage payments and utility bills. Consumers can use the Company to make any payments from any checking account at any financial institution in the United States. Recurring bills such as mortgages can be paid automatically and scheduled in advance for an indefinite period of time, as specified by the user. As of June 30, 1996, the Company had approximately 729,000 consumers using bill payment and/or home banking services.

The Company continually expands its services to accommodate consumer demand. As an introduction to the benefits of electronic financial transactions, the Company has developed services and related products for consumers who want a simple, easy-to-use electronic bill payment service with limited record keeping capability. For consumers with advanced service requirements, the Company is developing services which provide more extensive financial management capabilities.

Through 1995, Quicken had been the largest source of new consumer customers for the Company. Users of Quicken accounted for approximately 11% of the Company's revenues for transition fiscal 1996. In the latter months of 1995, Intuit, Inc. ("Intuit") began to offer on-line home banking and financial services through Intuit Services Corporation ("ISC"), a direct competitor of the Company. This offering began with the October 1995 release of Quicken for Windows 5.0 and was the first time that Quicken users were offered these services through ISC. Currently, the Company is not mentioned as a provider of bill payment services in the manual or on-screen version of the latest Quicken release, for Windows, however, the Company's bill payment service may be accessed as a bill payment option if the user requests such services from the Company or Intuit. The Company remains the primary bill payment option for the current Macintosh and all earlier Windows versions of Quicken. In September 1996, the Company and Intuit signed a definitive agreement whereby the Company would acquire ISC. Under the ISC merger agreement, the Company will be the exclusive provider of bill payment and home-banking services for Quicken through October 1997. After October 1997, the Company will compete with other bill payment and home banking service providers under Intuit's open protocols.

PAWWS, founded as a division of Security APL in August of 1994, provides customized solutions for financial service providers to offer to their customers through the Internet fully integrated, on-line trading, portfolio accounting, quotes, news services, research and fundamental data. The Company believes the PAWWS service offers significant benefits to financial institutions, including lower costs by using the Internet, additional fee income, potential new customers and attractive additional services to offer to existing customers.

PAWWS, located at http://pawws.com, consists of a cost basis tax lot accounting tool that allows financial institution customers to keep track of the investments they own, and provides the customers with enough information to make informed decisions about generating gains or losses from their portfolios when required. PAWWS also provides a seamless connection to electronic brokerage via various order entry screens. The PAWWS system also allows for the integration of the third party information (e.g,. research reports, financial news, fundamental data, etc). The Company intends to private label PAWWS as a part of Web sites for financial institutions.

Business Services. The Company provides businesses with a variety of services including automatic accounts receivable collection, electronic accounts payable processing, credit risk management, database management and fraud protection services.

The Company provides automatic accounts receivable collections for businesses in the on-line interactive services, Internet access, health and fitness and various other industries, enabling these businesses to collect monthly membership or access fees through links to the customer's credit card or bank account. Services are typically provided under exclusive contracts for three years with automatic renewals. For providing collection services, businesses pay the Company implementation fees, transaction fees and credit card discount fees.

The Company is the leading provider of automatic accounts receivable collections for on-line interactive services and Internet access providers. Some of the Company's clients include: AT&T Interchange, CompuServe, NETCOM On-Line Communication Services, Inc., Optigon Interactive of Planet Optigon, Inc., The Pipeline Network, Inc., Prodigy Services Company and Spry. In servicing these business customers, the Company processes electronic transactions for approximately four million of their on-line consumer subscribers. The Company also collects monthly membership fees for over 725 health and fitness centers in the United States, including Town Sports International. The Company provides automatic accounts receivable collections for Cellular Atlantic, Cellular One Ohio-Michigan, Century Cellular, MobileMedia Communications, Sky-Tel and Bell South Mobility in the wireless communications industry and for several utilities.

The Company has an agreement with CompuServe to collect monthly subscription fees from CompuServe's on-line interactive subscribers. The agreement renews automatically for three-year terms unless either party gives notice of intent not to renew at least 60 days before the end of the term. The Company and CompuServe renewed a three year agreement in June 1995. The June 1995 renewal permits CompuServe to enter into an agreement with another payment processor during the three year renewal term, provided that CompuServe has given the Company reasonable opportunity to bid on retaining CompuServe's payment collection business and pays the Company a termination fee if the Company's services are not retained. In June 1995, the Company substantially reduced its prices to CompuServe based on an increased volume of transactions attributable to its business. During fiscal 1993, 1994, and 1995, the Company derived approximately 10%, 11%, and 13%, respectively, of its revenues from CompuServe. During the six months ended June 30, 1996, CompuServe accounted for less than 10% of the Company's revenues. Although the Company believes its relationship with CompuServe is positive, there can be no assurance that CompuServe will continue its business relationship with the Company upon expiration or early termination of the agreement, that CompuServe will maintain its number of subscribers at historical levels, or that the Company will realize revenues from CompuServe at the levels it has in the past. Loss of the relationship with CompuServe or a reduction of revenues from CompuServe will have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Business Risks (Dependence on CompuServe)" and Note 16 to Consolidated Financial Statements.

Portfolio Services. Through the Company's PORTVUE product, the Company offers portfolio accounting and performance measurement to investment advisors, brokerage firms, banks and insurance companies. Through PORTVUE, clients are able to leverage their systems and streamline their operations. The Company designs custom solutions with clients, allowing investment managers the kind of functionality that dramatically increases productivity. PORTVUE offers a full-range of Portfolio Management System solutions, including data conversion, personnel training, trading system, graphical client reporting, performance measurement, technical network support, interface setup and DTC processing.

Competition. Portions of the electronic commerce market are becoming increasingly competitive. The Company faces significant competition in all of its customer markets. In the financial institutions market, the Company's competitors include Visa Interactive and ISC. A number of banks have developed, and others may in the future develop, home banking services in-house. Additionally, Microsoft has announced its own alliances with financial institutions to offer on-line home banking and financial services to consumers. Competition for PAWWS includes clearing firms, such as the Pershing Division of Donaldson, Lufkin and Jenrette, which have announced that they will be offering Internet solutions to their correspondents. Also, some firms have decided to build their own transaction-based Web site instead of outsourcing to a third party. Currently, the Company is not aware of other outsourcing solutions for an Internet brokerage and portfolio accounting solution. In the business market, the Company competes with credit card and ACH processors. The Federal Reserve's ACH is the national payment clearance system through which any bank can effect debit transactions to any authorized consumer checking account. There are numerous competitors in the business market for credit card processing, including First USA, Inc., NaBanco and Card Establishment Services (divisions of First Data Corporation), and National Processing Company (a division of National City Bank). The Company also faces competition in ACH processing from numerous banks. Competition for Portfolio services includes two main segments. First are the providers of portfolio accounting software, including Advent Software, PORTIA, a division of Thomson Financial and Shaw Data, a SunGard Company. The primary service bureau competitor is Shaw Data, a SunGard Company.

FINANCIAL APPLICATION SOFTWARE SEGMENT

The Company is a leading provider of electronic commerce and financial applications software and services for businesses and financial institutions. The Company designs, markets, licenses and supports software products for electronic corporate banking, financial lending, regulatory compliance and document imaging. In addition, the Company offers software consulting and remote processing services.

The Company's financial application software revenues are derived primarily from the sale of software licenses and software maintenance fees. Software is sold under perpetual licenses, and maintenance fees are received through renewable agreements. The Company also derives revenues from project consulting services and from remote transaction processing fees.

Software products licensed by the Company provide systems that range from back office operations to front-end interface with the clients of the Company's customers. Applications include electronic funds transfer, electronic wholesale banking, reconciliation, mortgage loan automation, and imaging technologies, among others.

The Company's software products are sold under individual brand names. Its most significant products include:

BRAND NAME	FUNCTION	CUSTOMERS
PEP+	Automated Clearing House processing	Businesses and financial institutions
LSAMS	Mortgage setup and file maintenance	Mortgage lenders
ACCESS/INFOVUE	Corporate remote banking software	Businesses and financial institutions
LANPATH	Document management system	Businesses and financial institutions
SBA	Safe box accounting	Financial businesses
ARP/QMS	Bank controlled account reconciliation	Businesses and financial institutions
RECON+	Corporate account reconciliation	Businesses and financial institutions

Electronic Funds Transfer. The ACH network was developed in the 1970s to permit the electronic transfer of funds and thus curtail the growth in the number of paper checks in circulation. The ACH network acts as the clearing facility for routing electronic funds transfer entries between financial institutions. All ACH transfers are handled in a standard format established through the National Automated Clearing House Association ("NACHA"). More than 15,000 financial institutions participate in the ACH system. There are 31 ACH's, which geographically coincide with the 12 Federal Reserve Banks, their branches and processing centers. The Company's electronic funds transfer products are inter-related and may be used by either businesses or financial institutions depending on the services they offer their customers and employees.

The Company developed the most widely used, comprehensive ACH processing system in the United States, the Paperless Entry Processing System Plus ("PEP+"). PEP+ is an on-line, real-time system providing an operational interface for originating and receiving electronic payments through the ACH. The Company continues to support the Paperless Entry Processing System ("PEP"), which was the predecessor to PEP+.

The Company offers a number of products which support the PEP+ and PEP systems. The Corporate Automated Payment System ("CAPS"), which is licensed to corporations, serves as an electronic bridge between corporations' in-house accounting systems software and the ACH Network. CAPS handles both debit and credit transactions for automated collection or disbursement applications.

Another product of the Company, the MicroACH System, allows financial institutions to provide their corporate customers more direct access to the ACH network. The Company licenses MicroACH to financial institutions who then distribute MicroACH to their corporate customers. The corporation's component, MicroACH, automatically initiates and electronically sends ACH transactions, allowing corporations greater flexibility in cash flow management and funds transfer. The bank's component, MicroACH File Receiver, collects transactions from MicroACH and then uploads these transactions to a host ACH system, such as PEP or PEP+. MicroACH operates on a PC platform and has approximately 100 bank users.

The Company also offers Financial Electronic Data Interchange ("FEDI") in response to the growing need for banks and corporations to be able to handle electronic data interchange ("EDI") data for financial transactions. The purpose of FEDI is to allow corporations and banks already using EDI translators to electronically process business documents and make payment transfers electronically. The FEDI system can run as a stand-alone product as well as in conjunction with the Company's PEP+ and CAPS systems.

The Company entered the wire transfer business in 1990 with WireNet, a PC/LAN-based wire transfer system. The Company is currently developing WireNext, a wire transfer system built to take advantage of client-server architecture.

Electronic Wholesale Banking. The Company's wholesale banking software systems electronically link banks and their corporate customers, permitting banks to reduce transaction costs. The centerpiece of this product line is the Company's ACCESS and InfoVue products, which provide an electronic link and graphical user interface through which a bank's corporate customers can receive bank account information and can initiate banking transactions. ACCESS operates on the bank's system while InfoVue is a Microsoft Windows-based system located at the offices of the bank's corporate customers and is used by its customers to interface with the ACCESS system. Banks can also use the systems as a global gateway linking their branches and providing international cash management services to their customers worldwide. Through the Company's electronic banking systems, corporate customers can obtain previous and intraday account information; initiate stop payments, account transfers and wire transfers; create payroll and tax payments; receive lockbox, controlled disbursements and statement reports; and communicate with the bank via E-mail messages.

Reconciliation. The Company's reconciliation products provide U.S. 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. Some of the services the Company's reconciliation products provide are automated deposit verification, consolidated bank account reconciliations and cash mobilization, immediate and accurate funds availability data and improved cash control.

The Company's Account Reconciliation Package ("ARP"), is one of the most widely used account reconciliation systems in the U.S. banking industry. The ARP/Service Management System ("ARP/SMS"), developed in 1995 to replace and augment the existing ARP package, is a fully integrated on-line and real time system that immediately processes a bank's adjustment, addition, balancing and control requests. It can provide a bank with electronic detail of all finance transactions, account history and specific ongoing credit risk information with respect to its customers. ARP/SMS also groups accounts across banks within bank holding companies and allows banks to streamline their operations by reconciling their intra-bank transactions. ARP/Quality Management System ("ARP/QMS"), a companion system to ARP/SMS, helps banks control account reconciliation operations. ARP/PC is a PC-based checking account reconciliation program designed for banks and corporations performing lower-volume account reconciliations.

In 1995, the Company introduced RECON-Plus for Windows a client/server based "horizontal" 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, ATM transactions, ACH transfers and securities transactions.

Mortgage Loan Automation. The Company offers a number of products for originators and servicers of mortgage loans, as well as products designed to help secondary-market investors manage mortgage loan portfolios. In 1987, the Company entered the mortgage industry as a software and services provider with a loan origination product acquired from Software Concepts, Inc. The Company built upon those products through the acquisition of a group of mortgage origination and mortgage portfolio management products from Fannie Mae Software Systems, a division of the Federal National Mortgage Corporation, in 1989. Subsequent acquisitions of Traeger and Associates, and MLN Enterprises, as well as the mortgage software division of Dyatron, Inc., have continued to provide additional products for the Company in this area.

The Company's primary product for mortgage loan originators is The Mortgage Originator, which provides mortgage lenders and originators pre-qualification information, access to the most recent product pricing, immediate interest rate lock-ins, imaging capabilities, laser printing and comprehensive reporting at every phase of the loan origination process. The Mortgage Originator runs on mainframe, mid-range and PC platforms.

The Company offers mortgage originators and lenders FORUM, to manage portfolios of originated loans for secondary market sales. This client/server-based system is designed to either stand alone or to complement The Mortgage Originator, and helps manage mortgage loan pipelines and commitments to buy and sell loans.

The Company also offers a range of products designed for efficient servicing of mortgage loans. The Loan Servicing, Accounting and Management System ("LSAMS") offer loan setups and file maintenance, complete payment processing capabilities, escrow disbursement and management features, delinquency management, escrow analysis and customer service for mid-range and mainframe platforms. The Problem Loan Series, a series of four software systems designed to run on PCs, is designed to automate all functions and responsibilities associated with bankruptcy and foreclosure proceedings. The Problem Loan Series interfaces with the other servicing products offered by the Company as well as other industry products.

In addition, the Company offers mortgage lenders The Construction Lender, a project management software application which provides complete loan portfolio control and offers capabilities particular to construction loans that standard loan systems do not offer. The Construction Lender runs on a PC platform. The system was recently enhanced to provide project inspectors with the capability of reporting their inspections through a portable hand-held unit. The inspection information is then electronically transmitted into the base system, allowing the lender faster turnaround and greatly reducing the chance of error.

Imaging Technologies. The Company offers products and services in two areas of document management: Computer Output to Laser Disk (COLD) and source document processing.

LANPATH Report Manager automates report data downloaded from a mainframe or any other computer. The software processes and indexes the reports, then compresses and stores them permanently on optical disks. Optional modules are available to automatically transfer report data to other PC programs, publish reports on CD-ROMs or access reports through other networks. The Company is an integrator of several document imaging systems and provides systems that control the scanning, indexing and storage of source document images on optical disk.

Lease Accounting. The Company offers two lease accounting products that are designed to provide accounting systems for vehicle and equipment lessors. The Automated Lease Accounting System ("ALAS") is a comprehensive, IBM mainframe, real-time, on-line lease accounting system for larger, multiple lessors such as the vehicle and equipment leasing departments of banks, independent leasing companies, and corporations with captive leasing subsidiaries. LeasTrac 2000 is a comprehensive lease accounting system for equipment and vehicle lessors based on a client/server architecture designed to provide quicker access and more customized functionality to manage databases. LeasTrac 2000 uses a Microsoft Windows client with a choice of Windows/NT or UNIX Server.

Check Processing. The Company markets and supports a line of software products used by banks to sort and process checks. This software is designed to work in conjunction with IBM 389X Check Sorters in the IBM CPCS and DOSCHECK mainframe environment. The Company also provides EPOCH (Electronic Presentment of Checks) which speeds up check settlements by allowing the electronic presentment of checks in advance of the paper exchange. Servantis cooperates closely with IBM in the development, servicing and marketing of each company's check processing products and services. In addition to its software products, the Company also offers consulting, modifications and training services to financial institutions.

Safe Box Accounting. The Company's primary safe box accounting product, Safe Box Accounting ("SBA") allows financial institutions to maximize fee income in safe deposit box operations through recordkeeping and invoice automation. License fees and maintenance fees are based on the number of safe deposit boxes a bank has. As a dominant player in this saturated market (over 130 financial institutions use SBA), the Company hopes to expand the market through its 1995 introduction of Vault. The Company markets Vault, a client/server product, to smaller institutions who do not have access to mainframe computers as well as large institutions who use client/server technology.

Securities Recordkeeping. The Company offers software and services to corporations for tracking their stockholders and bond holders and to banks that offer security holder, transfer agent and paying agent services. The Comprehensive Securities System ("CSSII") is a shareholder information and accounting system designed to meet the recordkeeping, securities transfer and related requirements of publicly-held corporations and utilities. While CSSII is designed for use on IBM mainframe systems, Fastock PC, a software product offering, is the first comprehensive shareholder information and account system for personal computers. In August 1996, the Company announced that it had entered into an agreement for the sale of certain CSSII assets to Shareholder Systems Acquisition Inc., a wholly owned subsidiary of SunGard Data Systems, Inc.

Regulatory Compliance. The Company's regulatory compliance products assist banks and corporations to comply with a number of federal and state statutes and regulations by tracking regulatory changes and by enabling them to report to federal and state agencies through magnetic and electronic media. The Information Reporting System

("IRS") gives organizations complete, centralized, and automated control over all of their Form 1099 reporting requirements. The Large Cash Reporting System ("LCR") automates financial institutions' ongoing compliance with the Bank Secrecy Act and the Anti-Drug Abuse Act of 1988 and the regulations promulgated thereunder. The Retirement Reporting System ("RRS") processes customer retirement plans, as well as corporate pension and profit sharing plans. The Abandoned Property and Escheatment Compliance System ("APECS") maintains compliance and automates the management, tracking, and reporting of unclaimed property to the appropriate governmental agencies.

Recovery Management. The Recovery Management System ("RMS") automates the processes required to legally recover debts that have been written off. Although credit card issuers have been the traditional clients for RMS, utilities, leasing companies, and lawyers involved in the debt recovery process are target markets for RMS sales. The product is also available for use on an IBM Mainframe, IBM AS/400 as well as UNIX platforms.

Licenses. The Company generally grants non-exclusive, non-transferable perpetual licenses to use its application software at a single site. The Company's standard license agreements contain provisions designed to prevent disclosure and unauthorized use of its software. License fees vary according to a number of factors, including the services to be provided by the Company. Multiple site licenses are available for an additional fee. In its license agreements, the Company generally warrants that its products will function in accordance with the specifications set forth in its product documentation. A significant portion of the license fee payable under the Company's standard license agreement is payable 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 the Company's software and maintenance for the first three to twelve months.

Installation, Maintenance, and Support. Maintenance includes certain enhancements to the software. Customers who obtain maintenance generally retain maintenance service from year to year. To complement customer support, the Company and many of its customers frequently participate in user groups. These groups exchange ideas and techniques for using the Company's products and provide a forum for customers to make suggestions for product acquisition, development and enhancement.

Competition. The computer application software industry is highly competitive. In the financial applications software market, the Company competes directly or indirectly with a number of firms, including large diversified computer software service companies and independent suppliers of software products. Management believes there is at least one direct competitor for most of its software products. However, no competitor of the Company competes with it in all software product areas.

The Company's product lines also face competition from one or more competitors which include Fiserv, FiTech, EDS, Alltel Financial Information Services, Inc. ("Alltel"), Computer Power, Inc. ("CPI"), Associated Software Consultants, Inc. ("ASC") and Gallagher Financial Systems, Inc. ("GFS") in products offered to the mortgage services industry; the Company's Imaging/COLD product lines compete with the products of several companies, including IBM, Optika, IIC and Computron. The Company competes in the recovery and collection business with First Data Corporation, Rothenberg and Computer Associates among others. Finally, the Company's products face competition in the securities software and service sector principally from SunGard Data Systems, Inc. ("SunGard"), National Computer Systems, Inc. ("NCS"), Integrated Software Solutions ("ISS") and numerous in-house bank and transfer agency service centers.

Management believes that the major factors affecting customer decisions in its 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. The Company's ability to compete successfully also requires that it continue to develop and maintain software products and respond to regulatory change and technological advances. Management believes that it currently competes favorably in the marketplace with respect to these criteria. See "Business -- Risk Factors (Intense Competition)."

STRATEGIC ALLIANCES

A principal element of the Company's strategy is the creation and maintenance of strategic alliances that maximize access to potential customers for the Company's electronic commerce services and related products. The

Company believes that these partnerships enable the Company to offer its services and related products to a larger customer base than can be reached through stand-alone marketing efforts. The Company seeks strategic alliance partners which have maximum penetration and leading reputations for quality with the Company's target customers. To date, the Company has entered into or is negotiating strategic alliances with several companies, including those listed below:

- ADP. In August 1995, the Company entered into a strategic alliance agreement with ADP that will provide a new full electronic commerce offering of ADP's Business Express cash management software and the Company's Electronic Cash Disbursement ("ECD") services on an exclusive basis to businesses. The Company's ECD services, introduced in August 1996, feature expanded payment and information capabilities targeted to businesses, including invoice numbers, multiple disbursement accounts, discount and adjustment data, and full descriptive information common to accounts payable disbursement. Business customers will pay a monthly subscription fee plus a per transaction fee for access to their bank accounts and for electronic payment processing. ADP is expected to market the system directly through banks with the support of its 1,500 person sales force to its over 200,000 business customers. Pursuant to their agreement, the Company and ADP will jointly share in all revenues and expenses, including royalties paid to commercial accounting software publishers, related to the full electronic commerce offering. The term of the strategic alliance with ADP is five years, except that either ADP or the Company may terminate the alliance if the other party is acquired by a direct competitor of the terminating party, and either ADP or the Company may terminate the agreement upon six months' notice, in which event the non-terminating party is granted a perpetual, non-exclusive license to the terminating party's software technology and retains exclusive rights to distribution and customer agreements entered into under the strategic alliance.

- AT&T. In April 1995, the Company entered into a strategic alliance with AT&T through which AT&T will offer the Company's consumer electronic payment services to targeted segments of its consumer franchise under the AT&T CheckFree Service brand name. Under the agreement, AT&T has agreed to use commercially reasonable efforts to market the service to potential customers. The AT&T CheckFree Service is currently available through personal computers. AT&T receives a royalty based on the recurring subscription fees paid by consumers who sign up for the AT&T CheckFree Service. The term of the alliance is three years with provisions for at least three annual renewals, except that AT&T may terminate the agreement if certain telecommunication companies acquire a significant ownership in the Company, as defined in the agreement.

- Alltel. Under an amended product Marketing and Licensing Agreement, originally dated November 1995, Alltel may offer the home banking and bill payment services of the Company to client organizations for which it provides remote core application processing services or for which it provides data processing facilities management services.

- Block Financial. In October 1995, the Company entered into a three-year agreement with Block Financial whereby the Company granted a non-exclusive license of its CheckFree electronic payment software to Block Financial. Block Financial will offer the Company's consumer electronic payment services to CompuServe/Internet subscribers. Subscribers will be able to access these services through Block Financial's new Conductor Online Financial Services Network during the fourth quarter of 1996. The CheckFree electronic payment software will provide online users with inexpensive, easy-to-use, time saving bill payment capabilities. Block Financial will receive a fee for each transaction processed by the Company. The three-year initial term of the agreement renews for one additional two-year term and is renewable thereafter annually unless either party gives advance notice of termination.

- Computer Services Inc. In August 1996, the Company entered into a three year agreement under which Computer Services Inc. will establish an on-line technical connection to the Company, and will market the home banking and bill payment services of the Company to its client base of approximately two hundred financial institutions in the Midwest, USA for which it provides core data processing services. Computer Services Inc. is compensated for its marketing services based on the volume of accounts and transactions it generates.

- CyberCash. In February 1996, the Company signed an agreement with CyberCash that enables the Company to provide secure Internet transaction processing technology to consumers and businesses. The parties will integrate the RSA encryption technology licensed to CyberCash with the Company's transaction processing and customer care infrastructure so that the Company's existing service offerings will be expanded for use over the Internet. CyberCash will receive a fee for each transaction processed by the Company using the CheckFree Wallet. The three-year initial term of the agreement renews for additional one-year terms unless either party gives notice of termination at least 90 days prior to the expiration of the term.

- EPS/MAC. In August 1996, the Company entered into a five year agreement with EPS/MAC, which by many measures is the largest electronic funds transfer network in the USA, whereby EPS/MAC and the Company will establish an on-line technical connection between them for use in delivering the Company's home banking and bill payment service to the more than 1,800 financial institutions for which EPS/MAC provides EFT transaction switching and related processing services. Under the agreement, EPS/MAC will market the Company's services to its financial institution clients, provide them with training regarding the Company's products and services, provide ongoing account management services to them, and will provide consumer customer services to their clients' customers. Under the agreement, EPS/MAC is compensated for its marketing services by the Company based on the account and transaction volume it generates from its client base.

- EDS. In December 1995, the Company signed a five-year agreement with EDS whereby the Company and EDS will jointly market the Company's services and related products to banks, savings banks, thrifts, credit unions, brokerage firms, mortgage companies and other financial institutions utilizing EDS' front-end software system. Under the terms of the agreement, EDS received a license fee as well as the right to elect to receive either $3 million or 118,226 shares of the Company's Common Stock. In addition, if certain minimum performance standards are not achieved within the term of the agreement, EDS must refund a pro rata portion of the $3 million payment. EDS and the Company are discussing the feasibility of future strategic alliances. Accordingly, EDS and the Company have verbally agreed to extend the Company's payment of $3 million or 118,226 shares of common stock until such future alliances, if any, become effective.

- First Commerce Technologies. In July 1996, the Company entered into a three year agreement under which First Commerce Technology will establish an on-line technical connection to the Company, and will market the home banking and bill payment services of the Company to its client base of approximately two hundred financial institutions in the Midwest for which it provides core data processing services. First Commerce Technology is compensated for its marketing services based on the volume of accounts and transactions it generates.

- Fiserv. In November 1995, the Company entered into a five-year agreement with Fiserv whereby the Company and Fiserv will jointly market the Company's services and related products to Fiserv's more than 3,000 client banks, credit unions, and savings institutions utilizing Fiserv's outsourced processing services and software systems for in-house processing for financial institutions. Under the terms of the agreement, Fiserv receives a fee based on account and transaction volume as well as the option to purchase up to 650,000 shares of the Company's Common Stock at $20.00 per share if certain performance measures are achieved within the term of the agreement. The five-year initial term of the agreement renews for additional one-year terms unless either party gives notice of termination at least 90 days prior to expiration of the term.

- FiTech. In March 1995, the Company signed an agreement with FiTech, a marketing and consulting firm for community banks, pursuant to which its CheckFree electronic payment software has been integrated with Goldleaf Technologies' CustomerLink home banking software to create a new product called CustomerLink Interactive Bill Payer ("IBP"). CustomerLink IBP is being marketed by FiTech to financial institutions wanting to provide home banking services to their customers. Under the agreement, FiTech is compensated for its marketing services by the Company based on account and transaction volume generated. The term of the strategic alliance with FiTech is three years with provisions for annual renewals.

- Five Paces. In August 1996, the Company entered into two agreements with Five Paces; a Bill Payment Reseller Agreement and a Service Bureau Licensing Agreement. Under the terms of the Bill Payment Reseller Agreement, the parties agreed to develop and maintain an integrated connection between the Internet-based banking system developed by Five Paces and the Company's bill payment processing system, and Five Paces is authorized to make the bill payment processing services of the Company available on favorable terms to licensed users of its Internet-based banking system. Under the terms of the Service Bureau Licensing Agreement, the Company may, on favorable terms, utilize the Internet-based banking system integrated with its bill payment processing system in a service bureau environment to provide integrated Internet-based banking and bill payment services to client institutions.

- Florida Informanagement Services. In February 1996, the Company entered into a three year agreement with Florida Informanagement Services whereby Florida Informanagement Services will establish an on-line connection to the Company and will market and facilitate the delivery of the Company's home banking and bill payment services to its financial institution clients. Florida Informanagement Services provides core data processing and EFT processing services to approximately one hundred financial institutions in the southeast. Under the agreement, Florida Informanagement is compensated for its marketing services by the Company based on the account and transaction volume it generates from its client base.

- Home Financial Network. In July 1996, the Company entered into a five year agreement pursuant to which HFN and the Company will interface certain software products developed by HFN such that they will function in concert with the home banking and bill payment services of the Company. HFN and the Company will each market the availability of the integrated products and services of the Company to financial institutions nationwide. Under the terms of the agreement, HFN is paid a one-time, per-user licensing fee and a monthly usage fee for each month a product is in use by a consumer.

- Internet Browser Software Companies. In order to facilitate widespread distribution of its CheckFree Wallet, the Company has entered into distribution agreements with Internet browser software companies including Spyglass and Spry. Under the agreements, Spyglass and Spry will offer the CheckFree Wallet as part of their browser software. The agreement with Spry is for a one-year term and is renewable annually unless either party gives advance notice of termination. The agreement with Spyglass can be terminated by either party on 90 days advance notice.

- Premiere. In December 1995, the Company entered into a five-year agreement with Premiere whereby the Company granted a non-exclusive license of its CheckFree electronic payment software to Premiere. Premiere will offer the Company's consumer electronic payment services to Premiere's 4.5 million cardholders through its Premiere WORLDLINK Communications Card. Premiere will receive a fee for each transaction processed by the Company. The five-year initial term of the agreement renews for additional one-year terms unless either party gives notice of termination at least 30 days prior to expiration of the term.

- Small Business Accounting Software Companies. To integrate ECD with businesses' existing accounts payable processes and increase distribution, the Company has entered into agreements with numerous providers of commercial accounting software on a royalty basis. The Company has signed agreements with accounting software companies, including Champion Business Systems, Inc., CYMA Systems, Inc., DacEasy, Inc., Data Pro Accounting Software, Inc., Macola Incorporated, New England Business Service, Inc., Peachtree Software, Inc., Platinum Software Corporation, and Safeguard Business Systems, Inc. to make ECD available as a feature of the next versions of their commercial accounting software. The Company estimates that over one million businesses utilize the accounting software programs offered by the Company's partners listed above. The Company believes that the rollout of its ECD service in these accounting packages will begin in the second half of 1996 and that the majority of these companies will release ECD-enabled versions of their software by year-end 1996.

RESEARCH AND DEVELOPMENT

The Company maintains a business development group which engages in research and development activities with a long-term perspective of planning and developing new services and related products for the electronic commerce and financial application software markets. The Company has 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
- First to market

The Company believes that in the emerging electronic commerce market it will be critical to rapidly develop, test and offer new services and enhancements. To that end, the Company's goal for the time period from conceptualization to commercial availability of new services is less than one year. As of June 30, 1996, the research and development group consisted of 199 employees. Of these, 157 employees were software development personnel and 42 employees were business development personnel. Additionally, the Company uses independent third party software development contractors as needed. During fiscal 1993, 1994, 1995, and transition fiscal 1996, the Company spent 11.9%, 12.3%, 14.2%, and 19.9% of revenues, respectively, on research and development. The Company anticipates that it will continue to commit substantial resources to research and development activities for the foreseeable future.

TECHNOLOGY

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

Electronic Commerce. The Company's original core technology capabilities were developed to handle settlement services, merchant database services, and on-line inquiry services on a traditional mainframe system with direct bi-synchronous communications to businesses. As business telecommunication requirements increased, the Company utilized links to an X.25 Value-Added Network.

Today, the Company has 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, a private X.25 network, or the Internet to the Company's computing complex. Within this complex, there is a wide variety of application servers seamlessly connected via TCP/IP across switched Ethernet. The Company currently is able to support virtually any communication method required in a secure manner.

Proprietary applications have been developed for the client-server system on a variety of platforms with each platform selected and optimized for specific electronic commerce needs. Applications to effect settlement services, merchant database services, financial institution database services and heuristic risk management services have been implemented on an IBM mainframe, optimized for high volume batch processing. Applications to confirm payment instructions, enhance data integrity and security, and reduce fraud have been implemented on Digital Equipment Alpha servers, optimized for high volume, device independent, real time data communication. To handle Internet financial transactions, applications have been implemented on Sun Microsystems servers designed for premium data security and integrity. Applications to effect credit card authorizations and electronic bill delivery have been implemented on Hewlett-Packard Unix servers, designed for efficient real-time processing and data integrity and applications to effect real-time connections to banks, ATM networks, and credit card networks are being implemented on a Tandem Himalaya server. Other special purpose application servers are deployed to handle unique electronic commerce requirements such as electronic payments direct to merchant institutions, VRUs to telephone customers, and electronic mail with customers and will soon be deployed to handle real-time connections to ATM networks.

The Company has developed proprietary databases within the client-server system, including a financial institution file that allows accurate editing and origination of ACH and paper transactions to financial institutions. The Company has also developed a merchant information file consisting of over one million companies that allows accurate editing and initiation of payments to merchants. These databases have been constructed over the past 15 years as a result of the Company's transaction processing experience.

Security APL employs advanced technology for its two portfolio management services PORTVUE and PAWWS. Security APL is an IBM business partner and utilizes its IBM RS/6000's to process the portfolio management software.

PORTVUE is primarily a service bureau offering with the data center residing at the Company's Chicago office. This data center functions seven days a week, twenty-four hours a day. Clients access PORTVUE by a private TCP/IP Wide Area Network (WAN) either via dedicated circuit or via dial-up methodologies. The Chicago data center is the communication center for more than 70 dedicated links together with 4 concentration hub sites located in New Jersey, New York, Boston, and San Diego. Each of these hub sites support the concentration of local dedicated links plus dial-up access. In addition to the dedicated private network, clients use frame relay services from LDDS, MFS, MCI, and AT&T to access PORTVUE services. These services are also available through AT&T Fram Relay national network with local numbers in major cities across the U.S.

The system has been exclusively UNIX since 1991 and consists of 21 IBM RS/6000 running AIX. In addition, there are another 8 IBM RS/6000 machines in various client sites. The Company's investment advisory clients receive hardcopy reporting for either internal usage or for quarterly reports. Hardcopy, either ASCII or graphical PostScript, is produced on four Xerox DocuPrints 90 page per minute duplexed laser printers.

The PAWWS service is distributed via the Internet. HTTP servers run on 8-way SMP IBM RS/6000 with another 8 systems dedicated to private labeled PAWWS services or direct support functions. Data delivery is handled via HTTP servers provided by Netscape Communications Corporation. These servers are optimized through site specific configuration files that provide excellent performance. Secure connections are supported via Netscape's SSL protocol on a dedicated server. Data is processed and stored on both private Security APL database functions together with Sybase SQL functions depending upon application needs.

Financial Application Software. 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 correctly platformed to optimize the characteristics of available technology with the business requirements of each application. This strategy utilizes large IBM mainframes as the platform for high volume batch oriented systems, IBM's RS/6000 UNIX Servers for high volume OLTP systems, Microsoft Windows NT for medium volume OLTP systems and Windows for client connectivity.

The Company has implemented appropriate backup and recovery procedures to ensure against any loss of data on any platform. Archival storage is kept on site as well as off site in fireproof facilities. To maximize availability, the Company has redundant computer systems to ensure that financial transaction requests can always be honored. A diesel generator provides power to the computing facility in the event of a power disruption.

The Company's operations are dependent on its ability to protect its computer equipment against damage from fire, earthquake, power loss, telecommunications failure or similar event. Although the Company is considering moving some of its computer processing equipment to another site, this measure will not eliminate the significant risk to the Company's operations from a natural disaster or system failure at one of these two sites. Any damage or failure that causes interruptions in the Company's operations could have a material adverse effect on the Company's business, operating results and financial condition. The Company's property and business interruption insurance may not be adequate to compensate the Company for all losses that may occur. See "Business -- Business Risks (Risk of System Failure)."

With the tremendous growth anticipated for electronic commerce, the Company's architecture has been designed to address incremental capacity requirements as needed. The entire infrastructure and set of product technologies allow the Company to efficiently service and support its three customer markets.

Although the Company's principal business is to provide electronic commerce services rather than sell or license software products, the consumer financial software products offered by the Company to access such services could contain errors or "bugs" that could adversely affect the performance of the service or damage a user's data. In addition, as the Company increases its share of the electronic commerce services market, software reliability and security demands will increase. As of the date hereof, the Company has not experienced or been made aware of any errors or "bugs" in its software that adversely affected the performance of the service or damaged a user's data. Additionally, the Company attempts to limit its potential liability for warranty claims through disclaimers in its software documentation and limitation-of-liability provisions in its shrink-wrap license and customer agreements. There can be no assurance that the measures taken by the Company will prove effective in limiting the Company's exposure to warranty claims. Additionally, despite the existence of various security precautions, the Company's computer infrastructure may be also vulnerable to viruses or similar disruptive problems caused by its customers or third parties gaining access to the Company's processing system. See "Business -- Business Risks (Risk of Product Defects)."

SALES, MARKETING AND DISTRIBUTION

The Company's sales, marketing and distribution efforts are designed to maximize access to potential customers. The Company markets its services both directly and indirectly through a direct sales and technical sales support force of 108 employees and through select strategic alliances with companies who are involved in the Company's target customer markets. In addition to its direct sales force, the Company has 26 employees in marketing.

In the electronic commerce segment, the Company offers its services and related products to financial institutions directly through its sales force and through its strategic alliances with companies such as EDS, Fiserv, and FiTech. The Company offers its services and related products to its customers through a variety of distribution channels such as direct access via an 800 phone number, the Company's World Wide Web site on the Internet, integration into certain leading personal finance software (such as Meca's Managing Your Money, Computer Associates' Simply Money and Intuit's Quicken), integration into Internet access providers such as Spyglass and Spry, and through distribution alliances with companies such as AT&T. Also, the Company currently is developing an on-line version of its electronic payment services for indirect distribution through commercial on-line service providers and others (such as CompuServe and Premiere). The Company offers its services and related products to the business market directly through its sales force, through its strategic alliance with ADP and through the integration of the Company's services and related products into major commercial accounting software programs. The Company presently offers substantially all of its services and related products to the domestic marketplace.

The Company markets its financial application software products through the direct sales force based in Norcross, Georgia and indirect sales through Alltel banking services. Salespersons have specific product responsibility and receive support from technical personnel as needed. The Company generates new customers through direct solicitations, user groups, responses to advertisements, direct mail campaigns and strategic alliances. The Company also participates in trade shows and sponsors 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.

CUSTOMER CARE AND TECHNICAL SUPPORT

The provision of high quality customer care, technical support and operations is an integral component of the Company's strategy in each of its customer markets. As of June 30, 1996, the Company had 745 employees dedicated to customer care, technical support and operations.

To meet the needs of the Company's customers most efficiently, the customer care staff is organized into vertical teams that support each customer market. However, these teams 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.

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

To maintain its customer care standards, the Company employs extensive internal monitoring systems and conducts ongoing customer surveys. The feedback from these sources is used to identify areas of strength and opportunities for improvement in customer care.

GOVERNMENT REGULATION

Management believes that the Company is 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 Company, however, is periodically audited by the Office of Thrift Supervision since it is a supplier of products and services to financial institutions. There can be no assurance that a federal or another state agency will not attempt to regulate providers of electronic commerce services such as the Company which could impede the Company's ability to do business in the regulator's jurisdiction. In addition, through its processing agreements, the Company agrees 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 the Company's processing banks. The Company may be subject to audit or examination under any of these requirements. Violations by the Company of these requirements could limit or further restrict the Company's access to the payment clearance systems or the Company's ability to obtain access to such systems from banks. Further, the Federal Reserve rules provide that the Company can only access the Federal Reserve's ACH through a bank. If the Federal Reserve rules were to change to further restrict access to the ACH or limit the Company's ability to provide ACH transaction processing services, the Company's business could be materially adversely affected. See "Business -- Business Risks (ACH Access; Termination of MasterCard and Visa Registration)" and "-- Payment Clearance Systems."

In conducting various aspects of its business, the Company is subject to laws and regulations relating to commercial transactions generally, such as the Uniform Commercial Code, and is 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 basic rights, liabilities and responsibilities of consumers who use electronic money transfer services and of financial institutions that offer these services. For the Company, 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. Such limitations on the consumer's liability may result in liability to the Company.

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. Because of growth in the electronic commerce market, 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, such laws, rules and regulations could be imposed on the Company's business and industry and could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Business Risks (Government Regulation)."

PAYMENT CLEARANCE SYSTEMS

Payment Systems. Across the Company's various electronic commerce service offerings, the Company utilizes all three principal payment clearance systems: (i) the Federal Reserve's ACH for electronic funds transfers; (ii) the national credit card systems for electronic credit card settlements; and (iii) the conventional paper check clearing systems for settlement of payments by check or draft. Like other users of these payment clearance systems, the Company accesses these systems through contractual arrangements with processing banks participating in the ACH for electronic funds transfers and with member banks of MasterCard and Visa for credit card transactions. For access to conventional paper check clearing systems, the Company does not need a special contractual relationship, except for its contractual relationships with its processing bank and its customers. Such users are subject to applicable federal and state laws and regulations, Federal Reserve Bank operating letters, the National Automated Clearing House Association Operating Rules and MasterCard and Visa operating rules and regulations. There are certain risks typically faced by companies utilizing each of these payment clearance systems, and the Company has its own set of operating procedures and proprietary risk management systems and practices to mitigate credit-related risks. See "Business -- Business Risks (Risk of Loss from Returned Transactions, Merchant Fraud or Erroneous Transmissions)," " -- Business Risks (ACH Access; Termination of MasterCard and Visa Registration)," and " -- Business Risks (Government Regulation)."

ACH. The ACH is used by banks, corporations and governmental entities for electronic settlement of transactions, direct deposits of payroll and government benefits and payment of bills such as mortgages, utility payments and loans. The Company uses the ACH to execute certain of its customers' payment instructions. Like other users of the ACH, the Company bears credit risk resulting from returned transactions caused by insufficient funds, stop payment orders, closed accounts, frozen accounts, unauthorized use, disputes, theft or fraud.

Credit Cards. To process credit card transactions, the Company has registered with MasterCard and Visa under the same association operating rules and regulations as other credit card processors like First USA, Inc., NaBanco, Card Establishment Services and National Processing Company. Like all credit card processors, the Company must bear the inherent credit risks of chargebacks and merchant fraud. Merchant fraud includes such actions as inputting false sales transactions or false credits. The Company monitors merchant charge volume, average charge amount and number of transactions, as well as reviews for unusual patterns in the transactions and chargebacks processed. To minimize the risk of fraud, the Company tailors its credit analysis according to the risk level associated with the industry in which the prospective merchant client operates. The Company also bears the credit risk of a merchant becoming insolvent when a credit card transaction has been processed by the merchant and is subsequently returned.

Paper Drafts. The Company uses conventional check clearance methods for paper drafts to execute certain of its customers' payment instructions using its bank and its customers' banks. The Company bears 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. However, the Company may bear other risks for theft or fraud associated with paper drafts due to unauthorized use of the Company's services. When a customer instructs the Company to pay a bill, the Company has 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. The Company manages the risk it assumes by adjusting the mix of electronic and paper draft transactions in individual cases and overall. The Company tends to process small dollar transactions electronically and large dollar transactions by paper draft. Moreover, the Company is increasingly shifting its risks associated with electronic funds transfers to merchants through contractual arrangements. Regardless whether the Company uses paper drafts or electronic funds transfers, the Company retains all risks associated with transmission errors when it is unable to have erroneously transmitted funds returned by an unintended recipient.

Other Clearance Systems. While the Company presently utilizes the three principal payment clearance systems, the Company intends to use other clearance systems such as ATM networks to provide balance inquiry and fund transfers functions, and such other clearance systems that may develop in the future.

Risk Mitigation. The Company's patented bill payment processing system determines the preferred method of payment to balance processing costs, operational efficiencies and risk of loss. The Company manages its risks associated with its use of the various payment clearance systems through its risk management systems, internal controls and system security. The Company also maintains a reserve for such risks, which reserve was $542,000 as of June 30, 1996, and the Company has not incurred losses in excess of its reserve or greater than 0.76% of its revenues in any of the past five years. As further protection against losses due to transmission errors, the Company maintains errors and omissions insurance. See "Business -- Risk Factors (Risk of Loss from Returned Transactions, Merchant Fraud or Erroneous Transactions)."

PROPOSED MERGER WITH ISC

On September 15, 1996, the Company entered into a definitive agreement to purchase ISC from Intuit in exchange for approximately 12.6 million shares of the Company's common stock. The agreement contains certain provisions that limit the purchase of additional common shares and the disposition of the common shares to be obtained by Intuit. The acquisition will be accounted for under the purchase method of accounting and is expected to include a charge in an amount not yet determined for in-process research and development. ISC provides transaction processing and electronic funds transfer services.

The Company will enter into a service and license agreement with Intuit, contingent on the consummation of the acquisition of ISC, whereby the Company will obtain a license to connect to and use certain software technology of Intuit for a payment of $10 million on closing of the ISC acquisition and an additional $10 million on October 1, 1997.

PROPRIETARY RIGHTS

The Company owns the following federally registered trademarks and service marks: CHECKFREE(R), CHECKFREE and Design(R), CHECKFREE (Stylized Letters)(R), CHECKFREE EXTRA(R), MOBILEPAY(R), ACCESS BANKING(R), ALAS(R), BFCS(R), CLAS(R), CSS(R), CSSII(R), DASH(R), DECISION MANAGER(R), DISC and Design(R), DISC CHECKBOOK PLUS(R), ECP(R), EPOCH(R), FASTOCK PC(R), LANPATH(R), LEASTRAC2000(R), MICROACH(R), NETWORK BANKER(R), PEP+(R), PTT(R), RS/REACT(R), SBA(R), SUPRRB(R), TCM THE CONTROL MACHINE(R), and WIRENET(R). Additionally, the Company has applied to federally register the following service marks: WE PAY MORE THAN BILLS--WE PAY ATTENTION(sm), CHECKFREE BILLFREE(sm), CHECKFREE WALLET(sm), 2001...THE NEXT GENERATION(sm), CHECKFREE CONNECT(sm), CHECKFREE E-BILL(sm), CHECKFREE ELECTRIC MONEY(sm), CHECKFREE EASY(sm), CHECKFREE ELECTRONIC EXCHANGE NETWORK(sm), CHECKFREE MANAGER(sm), RCM...THE NEXT GENERATION(sm), BANKATHOME(TM), BANK STREET(TM), BPS(TM), CAPS CORPORATE AUTOMATED PAYMENTS SYSTEM(TM), CLRS(TM), CLUB HOOCH(sm), CPIM(TM), FMS(TM), ICE HOUSE(sm), INTEGRATED DECISION MGR.(TM), LSAMS(TM), MAX(TM), OMNI(TM), ORBS(TM), PEP PAPERLESS ENTRY PROCESSING(TM), PAWWS(TM), PAWTRACKS(TM), PODIUM(TM), QUICKKILL(TM), SERVANTIS RECON-PLUS(TM), SERVANTIS SYSTEMS(TM), SERVANTIS SYSTEMS(TM), SERVANTIS SYSTEMS(sm), SERVANTIS EXPRESS(TM), SERVANTIS INFOVUE(TM), SERVANTIS WORLD$NET(TM), SOLUTIONS YOU CAN BANK ON(TM), SSI LOGO(TM), SSI(TM), TMS-THE MORTGAGE SERVICER(TM), TST(TM), VAULT(TM), WIRENEXT(TM), THE SECONDARY MARKETER(TM). THE WAY MONEY MOVES(SM), and CHECKFREE CHARITY NET(SM). The Company is awaiting further information to file applications for the following marks: ALLIANCE, APECS, APECS PC, ARP, ARP - PC, ARP/QMS, ARP/SMS, BANKVUE, CHECKBOOK PLUS, CPCS, EASY ACCESS TO TOTAL ELECTRONIC BANKING, SERVANTIS IRS, IRS/SRS, LCR, RECON-PLUS FOR WINDOWS, RECON-PLUS/PC, RPS, RPS-PC, RPS/400, RRS, RS/REACT, SERVANTIS, SERVANTIS with Design, SERVANTIS SYSTEMS, INC., SERVANTIS FORUM, SERVANTIS QUIK, SIG FILER, SMS and SERVANTIS WORLD$NET.

The Company regards its financial transaction services and related products such as its software as proprietary and relies 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 its services and related products. Although the Company believes its consumer financial software to be proprietary, it does not depend on its software to compete, but rather on its services to which the software provides access. The Company's consumer financial software does not generate significant revenues because the Company makes such software available to consumers at no cost or for a nominal charge with the intention of selling related services to such consumers.

The Company also copyrights certain of its programs and software documentation and trademarks certain product names. Management believes that these actions provide appropriate legal protection for the Company's intellectual property rights in its software products. Furthermore, management believes that the competitive position for some of the Company's products depends primarily on the technical competence and creative ability of its personnel and that its business is not materially dependent on copyright protection or trademarks. See "Business -- Business Risks (Limited Protection of Proprietary Technology; Risk of Third Party Infringement Claims)."

The Company's United States Letters Patent No. 5,383,113, issued on January 17, 1995, relates to its system and method for electronically providing services including payment of bills and financial analysis. Using the system described in the patent, the Company 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 such as a paper draft drawn on the consumer's account, electronic funds transfer from the consumer's account, or checks drawn on a trust account maintained for the benefit of the Company's customers. While the Company believes that the ownership of the patent is a significant factor in its business, its success does not depend only on the ownership of the patent or future patents, but also on the innovative skills, technical competence, quality of service and marketing abilities of its personnel. The Company believes its patent provides a measure of security against competition, and the Company intends to enforce its patent against infringement by third parties. If the Company's patent is found to be invalid, to the extent it has or would in the future serve as a barrier to entry in this marketplace, there may be increased competition in the market. The Company's patent expires on January 17, 2012. See "Business -- Competition," "-- Business Risks (Intense Competition)" and "-- Business Risks (Limited Protection of Proprietary Technology; Risk of Third Party Infringement Claims)."

Existing intellectual property laws afford only limited protection, and it may be possible for unauthorized third parties to copy the Company's services and related products or to reverse engineer or obtain and use information that the Company regards as proprietary. There can be no assurance that the Company's competitors will not independently develop services and related products that are substantially equivalent or superior to those of the Company.

EMPLOYEES

As of June 30, 1996, the Company employed 1,200 full-time employees, including 199 in research and development (including software development), 745 in customer care, technical support and operations, 134 in sales, marketing and sales support, and 122 in administration, financial control, corporate services and human resources. The Company is not a party to any collective bargaining agreement and is not aware of any efforts to unionize its employees. The Company believes its relations with its employees are good. The Company believes its future success and growth will depend in large measure upon its ability to attract and retain qualified technical, management, marketing, business development and sales personnel.

BUSINESS RISKS

The Company desires to take advantage of the new "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). The Reform Act only became law in late December 1995 and, except for the Conference Report, no official interpretations of the Reform Act's provisions have been published. Many of the following important factors discussed below have been discussed in the Company's 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, the Company's actual results and could cause the Company's actual consolidated results of operations for the transition year ended June 30, 1996, and beyond, to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

Emerging Electronic Commerce Market; Security and Privacy Concerns. The electronic commerce market is a relatively new and growing service industry. If the electronic commerce market fails to grow or grows more slowly than anticipated, or if the Company, despite an investment of significant resources, is unable to adapt to meet changing customer requirements or technological changes in this emerging market or if the Company's services and related products do not maintain a proportionate degree of acceptance in this growing market, the Company's business, operating results and financial condition could be materially adversely affected. Additionally, the security and privacy concerns of existing and potential customers may inhibit the growth of the electronic commerce market in general and the Company's customer base and revenues in particular. Similar to the emergence of the credit card and ATM industries, the Company and other organizations serving the electronic commerce market need to educate users that electronic transactions use encryption technology and other electronic security measures that make electronic transactions more secure than paper-based transactions. While the Company believes that it is utilizing proven applications designed for premium data security and integrity to process electronic transactions, there can be no assurance that the Company's use of such applications will be sufficient to address the changing market conditions or the security and privacy concerns of existing and potential customers. See "Business -- General" and "-- Services and Related Products."

Additionally, the Company's growth and acceptance in the electronic commerce market is dependent on its continued growth in its target markets. See "Business -- Services and Related Products." Although demand for the Company's services and related products continues to grow, there can be no assurance that the Company will be successful in each of its target markets. Accordingly, the Company's inability to grow in any one of these markets could have a material adverse effect on the Company's business, operating results and financial condition.

Integration of Servantis and Security APL. On February 21, 1996, the Company acquired Servantis for approximately $165.1 million, consisting of the issuance of 5.7 million shares of the Company's Common Stock valued at $20.00 per share (approximately 16% of the Company's total shares outstanding following the Servantis Acquisition) and $42.5 million in cash to repay Servantis' long-term debt, in addition to the assumption of $38.3 million in liabilities. In addition, on May 9, 1996, the Company acquired Security APL for approximately $53.3 million, consisting of the issuance of 2.8 million shares of the Company's Common Stock valued at $18.50 per share (approximately 7% of the Company's total shares outstanding following the Security APL Acquisition), and the assumption of $5.5 million of liabilities. The successful and timely integration of Checkfree, Servantis, and Security APL is critical to the future financial performance of the Company. The Company currently estimates that the complete integration of the three companies could take several quarters to accomplish. The combination of the three companies will require, among other things, integration of the companies' respective service and product offerings and coordination of their sales and marketing and research and development efforts. While Checkfree, Servantis, and Security APL have focused on markets which utilize financial transaction processing, record-keeping and information delivery, Checkfree has to date acted principally as a provider of services, whereas Servantis and Security APL have focused on the development and support of software systems and services used by financial institutions. In addition, Servantis had greater revenues than Checkfree for the twelve months ended December 31, 1995, and the absorption of a larger company may present a more substantial integration challenge than the acquisition of a smaller company. There can be no assurance that present and potential customers of the Company will continue their recent buying patterns without regard to the Acquisitions, and any significant delay or reduction in orders could have an adverse effect on the Company's near-term business and results of operations. The diversion of the attention of management created by, and any difficulties encountered in, the integration process could have an adverse impact on the revenues and operating results of the Company. In addition, the process of combining the three organizations could have an adverse effect on any or all of the companies' businesses. The difficulty of combining the three companies may be increased by the need to integrate the personnel of and the geographic distance between the three companies. Changes brought about by the Acquisitions may result in the loss of key employees of any or all companies. There can be no assurance that the Company will retain the employees it wants to retain or that the Company will realize any of the other anticipated benefits of the Acquisitions.

In addition, for transition fiscal 1996, the Company wrote-off $119.4 million of the purchase price for Servantis and Security APL as in process research and development. In addition, as part of the allocation of the purchase price, the Company reduced the deferred revenues on the balance sheets of Servantis at the date of the Servantis Acquisition due to the fact that the anticipated profits included in deferred revenues are reflected in the purchase price of the Servantis Acquisition. As a result, the Company did not recognize revenues or profits of approximately $12.7 million with respect to such reduction in deferred revenues in transition fiscal 1996. The write-off of in-process research and development costs, and the nonrecognition of revenues or profits on certain deferred revenues had a material adverse impact on the Company's financial results in 1996. In addition, with the proposed acquisition of ISC the Company expects a substantial in process research and development write off in fiscal 1997.

Intense Competition. Portions of the electronic commerce market are becoming increasingly competitive. The Company faces significant competition in all of its customer markets. In the financial institutions market, the Company's competitors include Visa Interactive and ISC. A number of banks have developed, and others in the future may develop, home banking services in-house. Additionally, Intuit and Microsoft have each individually announced their own alliances with financial institutions to offer on-line home banking and financial services to consumers. In the business market, the Company competes with other credit card and ACH processors. The Federal Reserve's ACH is the national payment clearance system through which any bank can effect debit or credit transactions to any authorized consumer checking account. There are numerous competitors in the business market for credit card processing, including First USA, Inc., NaBanco and Card Establishment Services (divisions of First Data Corporation), and National Processing Company (a division of National City Bank). The Company also faces competition in ACH processing from numerous banks. The financial application software segment also faces significant competition. Portfolio accounting software providers include Advent software, PORTIA a division of Thomson Financial and Shew Data a Sun Guard Company. The primary portfolio competition is Shaw Data. In products offered to the mortgage services industry, the Company competes with Fiserv, FiTech, EDS, Alltel, CPI, ASC and GFS. The Company's Imaging/COLD product lines compete with the products of several companies, including International Business Machines Corporation ("IBM"), Optika ("Optika"), Image Integration Corporation ("IIC") and Computron Software, Inc. ("Computron"). The Company competes in the recovery and collection business with First Data Corporation, Rothenberg Systems International ("Rothenberg") and Computer Associates International, Inc. ("Computer Associates") among others. Finally, the Company's products face competition in the securities software and service sector principally from SunGard, NCS, ISS and numerous in-house bank and transfer agency service centers.

The Company expects competition to increase from both established and emerging companies and that such increased competition will result in price reductions and may result in a reduction of the Company's market share, either or both of which could materially adversely affect the Company's business, operating results and financial condition. The Company announced a new series of services and pricing options in September 1995 in an attempt to appeal to various segments of the Company's markets. One such option is to offer a bill payment service at a lower cost in order to target new users and users who are only interested in the electronic bill payment aspect of the Company's services. Moreover, the Company's current and potential competitors, many of whom have significantly greater financial, technical, marketing and other resources than the Company, may respond more quickly than the Company to new or emerging technologies or could expand to compete directly against the Company in any or all of its target markets. Accordingly, it is possible that current or potential competitors could rapidly acquire significant market share. Acquisitions and consolidations are taking place in the transaction processing industry such as the merger between First Data Corp. and First Financial Management Corp. and the acquisition of Litle and Company by First USA, Inc. While the Company believes competition will increase as a result of these mergers and acquisitions, the Company also believes it is well positioned to meet such competition. There can be no assurance, however, that the Company will be able to compete against current or future competitors successfully or that competitive pressures faced by the Company will not have a material adverse effect on its business, operating results and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business -- General," and "-- Competition."

Today, the Company is the leading provider of electronic payment services to users of personal finance software. The Company believes that as consumer-based on-line interactive and telecommunications services continue to grow, retail-marketed personal financial software will become a less important channel for the Company in acquiring new customers. The Company's strategy is to focus increasingly on its own distribution alliances and direct marketing, including key strategic alliances in the on-line interactive and telecommunications industries. There can be no assurance that the Company's strategy will be successful.

Management of Growth. The Company is currently experiencing a period of rapid growth which has placed, and could continue to place, a significant strain on its resources. This strain is increased by the Acquisitions. The Company's key employees have not had experience in managing companies larger than the Company. The Company's ability to manage growth successfully will require the Company to continue to improve its operational, management and financial systems and controls as well as expand its work force. A significant increase in the Company's customer base would necessitate the hiring of a significant number of additional customer care and technical support personnel as well as computer software developers and technicians, qualified candidates for which, at the present time, are in short supply. In addition, the expansion and adaptation of the Company's computer infrastructure will require substantial operational, management and financial resources. Although the Company believes that its current computer infrastructure is adequate to meet the needs of its customers in the foreseeable future, there can be no assurance that the Company will be able to expand and adapt its computer infrastructure to meet additional demand on a timely basis, at a commercially reasonable cost, or at all. If the Company's management is unable to manage growth effectively, hire needed personnel, expand and adapt its computer infrastructure or improve its operational, management and financial systems and controls, the Company's business, operating results and financial condition could be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Acquisition-Related Risks. In September 1996, the Company signed a definitive agreement to acquire ISC for 12.6 million shares of common stock. The acquisition is expected to close in December 1996 and will be accounted for as a purchase. While the appraisal for ISC is not yet complete, the Company expects a substantial in process research and development write-off at the acquisition date. In addition, ISC had been incurring operating losses and operating losses are anticipated in 1997. The Company expects it will take 12 to 18 months to integrate ISC's bill payment and home banking operations into the Company's operations. There can be no assurance the Company's integration plan will be completed in the expected time frame or that the Company will realize the operational efficiencies projected as a result of the acquisition.

In the future, the Company may pursue additional acquisitions of complementary service or product lines, technologies or businesses. Future acquisitions by the Company could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and amortization expenses related to goodwill and other intangible assets, any of which could materially adversely affect the Company's business, operating results and financial condition. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies, services and products of the acquired companies, the diversion of management's attention from other business concerns, risks of entering markets in which the Company has no or limited direct prior experience, and the potential loss of key employees of the acquired company. There can be no assurance that some or all of these risks will not apply to the Acquisitions. From time to time, the Company evaluates potential acquisitions of businesses, services, products or technologies. Other than the ISC acquisition, the Company has no present commitments or agreements with respect to any material acquisition of other businesses, services, products or technologies. In the event that such an acquisition were to occur, however, there can be no assurance that the Company's business, operating results and financial condition would not be materially adversely affected.

Dependence on Strategic Alliances. A principal element of the Company's strategy is the creation and maintenance of strategic alliances that maximize access to potential customers for the Company's electronic commerce services and related products. The Company believes that these alliances enable the Company to offer its services and related products to a larger customer base than could be reached through stand-alone marketing efforts. As of the date of this report, the Company has entered into strategic alliances with several companies, including AT&T, ADP, Block Financial, CyberCash, EDS, Fiserv, FiTech, Premiere, Spyglass and Spry. While the Company believes it has established strong strategic alliances with these partners, the Company's success depends both on the ultimate success of these partners, as well as on the ability of its partners to successfully market the Company's services and related products. Failure of one or more of the Company's key strategic partners to successfully develop and sustain a market for the Company's services and related products could have a material adverse effect on the Company's overall performance. Additionally, failure of the Company's strategic partners to generate new customers would likely lead to increased and more costly direct marketing expenditures by the Company as well as a need to develop new strategic alliances with other parties. Moreover, the Company has traditionally relied on its strategic partners as the cornerstone of its marketing efforts to consumers and financial institutions and, consequently, the Company has only limited experience in the direct marketing of its services in two of its existing markets. See "Business -- Strategic Alliances."

Although the Company views its alliances as a key factor in its overall business strategy and in the development and commercialization of its services, software and related products, there can be no assurance that its strategic partners view their alliances with the Company as significant for their own businesses or that they will not reassess their commitment to the Company at any time in the future. The Company's strategic alliance agreements generally do not establish minimum performance requirements for the strategic partners but instead rely on the voluntary efforts of the partners in pursuing joint goals. The ability of the Company's strategic partners to incorporate the Company's services and related products into successful commercial ventures will depend, in part, on the Company's ability to continue to successfully enhance its existing services and products and develop new services and products. The Company's inability to meet such requirements would delay the ongoing development of services and products and could result in its strategic partners seeking alternative providers of financial transaction services, software and related products, which would have a material adverse impact on the Company. See "Business -- Strategic Alliances."

Potential Fluctuations in Quarterly Results; Seasonality. The Company's quarterly results of operations may fluctuate significantly as a result of a number of factors, including changes in the Company's pricing policies or those of its competitors, relative rates of acquisition of new customers, delays in the introduction of new or enhanced services, software, and related products by the Company or by its competitors or market acceptance of such services and products, other changes in operating expenses, personnel changes and general economic conditions. In addition, the Company's growth in new consumer customers is impacted by certain seasonal factors such as holiday-based personal computer sales. These seasonal factors may impact operating results by concentrating customer 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 customers generally tend to be more active users during the non-summer seasons, potentially causing revenue fluctuations during the summer months. Servantis' quarterly operating results have historically been highly seasonal, 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 is due, in part, to calendar year-end buying patterns of Servantis' financial institution customers and Servantis' sales compensation structure, which is based on fiscal year (June 30) sales performance. Servantis has historically operated with little or no backlog and has no long-term contracts, and, at present, approximately half of its revenues in each quarter result from software licenses issued in that quarter. Moreover, the Company's intention to aggressively promote the acceptance of its electronic commerce services and rapidly expand its customer base may adversely impact the Company's short-term profitability. These seasonal factors will impact the Company's operating results. Fluctuations in operating results could result in volatility in the price of the Company's Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risk of Product Defects. The software products offered by the Company could contain errors or "bugs" that could adversely affect the performance of the Company's software or services or damage a user's data. In addition, as the Company increases its share of the electronic commerce services market, software reliability and security demands will increase. Additionally, the Company attempts to limit its potential liability for warranty claims through disclaimers in its software documentation and limitation-of-liability provisions in its license and customer agreements. There can be no assurance that the measures taken by the Company will prove effective in limiting the Company's exposure to warranty claims. Additionally, despite the existence of various security precautions, the Company's computer infrastructure may be also vulnerable to viruses or similar disruptive problems caused by its customers or third parties gaining access to the Company's processing system. See "Business - - - - - -- Technology."

Rapid Technological Change; Risk of Delays. The Company's success is highly dependent on its ability to develop new and enhanced software, services and related products that meet changing customer requirements. The market for the Company's software, services and related products is characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent new and enhanced software, service and related product introductions. In addition, the software market is subject to rapid and substantial technological change. The Company, to remain successful, must be responsive to new developments in hardware and semiconductor technology, operating systems, programming technology and computer capabilities. In many instances, the new and enhanced services, products and technologies are in the emerging stages of development and marketing, and are subject to the risks inherent in the development and marketing of new software, services and products. There can be no assurance that the Company can successfully identify new service opportunities and develop and bring new and enhanced software, services and related products to market in a timely manner, that such software, services, products or technologies will develop or will be commercially successful, that the Company will benefit from such developments or that services, products or technologies developed by others will not render the Company's software, services and related products noncompetitive or obsolete. If the Company is unable, for technological or other reasons, to develop and introduce new services and products in a timely manner in response to changing market conditions or customer requirements, or if new or enhanced software, services and related products do not achieve a significant degree of market acceptance, the Company's business, operating results and financial condition would be materially adversely affected. See "Business -- General," "-- Services and Related Products," and "-- Research and Development."

Risk of Loss From Returned Transactions, Merchant Fraud or Erroneous Transmissions. The Company utilizes all three principal financial payment clearance systems: the Federal Reserve's ACH for electronic fund transfers; the national credit card systems (e.g., American Express, Discover, MasterCard and Visa) for electronic credit card settlements; and conventional paper check and draft clearing systems for settlement of payments by check or drafts. In its use of these established payment clearance systems, the Company generally bears the same credit risks normally assumed by other users of these systems arising from returned transactions caused by insufficient funds, stop payment orders, closed accounts, frozen accounts, unauthorized use, disputes, theft or fraud. In addition, the Company also assumes the risk of merchant fraud and transmission errors when it is unable to have erroneously transmitted funds returned by an unintended recipient. Merchant fraud includes such actions as inputting false sales transactions or false credits. The Company manages all of these risks through its risk management systems, internal controls and system security. The Company also maintains a reserve for such credit risks and has not historically incurred losses in excess of its reserve nor greater than 0.76% of its revenues in any of the past five years. Past reserving experience cannot predict the adequacy of reserves in the future. The Company believes that its risk management and reserving practices are adequate. However, there can be no assurance that the Company's risk management practices or reserves will be sufficient to protect the Company from returned transactions, merchant fraud or erroneous transmissions which could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Payment Clearance Systems."

Risk of System Failure. The Company's operations are dependent on its ability to protect its computer equipment against damage from fire, earthquake, power loss, telecommunications failure or similar event. All of the Company's computer equipment, including its processing operations, is located at its facilities in Columbus, Ohio, Norcross, Georgia, Chicago, Illinois and Austin, Texas. A disproportionate amount of the Company's computer equipment, including its primary processing operations, is located at its headquarters facility in Columbus, Ohio. Although the Company is considering moving some of its computer processing equipment to another site, this measure will not eliminate the significant risk to the Company's operations from a natural disaster or system failure at one of these two sites. Any damage or failure that causes interruptions in the Company's operations could have a material adverse effect on the Company's business, operating results and financial condition. The Company's property and business interruption insurance may not be adequate to compensate the Company for all losses that may occur. See "Business -- Technology."

Limited Protection of Proprietary Technology; Risk of Third Party Infringement Claims. The Company regards its financial transaction services and related products such as its software as proprietary and relies primarily 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 its services and related products.

The Company has been granted a patent for certain features of its electronic bill payment processing system. See "Business -- Proprietary Rights." While the Company believes that the ownership of the patent is a significant factor in its business, its success does not depend only on the ownership of the patent or future patents, but also on the innovative skills, technical competence, quality of service and marketing abilities of its personnel. The Company believes its patent provides a measure of security against competition, and the Company intends to enforce its patent against infringement by third parties. If the Company's patent is found to be invalid, to the extent it has or would in the future serve as a barrier to entry in this marketplace, there may be increased competition in the market. See "Business -- Competition" and "-- Business Risks (Intense Competition)."

Existing intellectual property laws afford only limited protection, and it may be possible for unauthorized third parties to copy the Company's services and related products or to reverse engineer or obtain and use information that the Company regards as proprietary. There can be no assurance that the Company's competitors will not independently develop services and related products that are substantially equivalent or superior to those of the Company.

Dependence on Key Personnel; Lack of Employment Agreements. The Company's success depends to a significant degree upon the continued contributions of its key management, marketing, service and related product development and operational personnel, including its Chairman, President, and Chief Executive Officer, Peter J. Kight, and its President of Business Services, Mark A. Johnson. The Company's operations could be affected adversely if, for any reason, either Mr. Kight or Mr. Johnson ceased to be active in the Company's management. The Company maintains proprietary nondisclosure and noncompete agreements with all of its key employees. The Company does not have employment agreements with several of its executive officers, including Mr. Kight and Mr. Johnson. The Company maintains key person life insurance policies on Mr. Kight. The success of the Company depends to a large extent upon its ability to retain and continue to attract highly skilled personnel. Competition for employees in the electronic commerce industry is intense, and there can be no assurance that the Company will be able to attract and retain enough qualified employees. If the business of the Company grows, it may become increasingly difficult to hire, train and assimilate the new employees needed. The Company's inability to retain and attract key employees could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Employees."

ACH Access; Termination of MasterCard and Visa Registration. The Federal Reserve rules provide that the Company can only access the Federal Reserve's ACH through a bank. If the Federal Reserve rules were to change to further restrict access to the ACH or limit the Company's ability to provide ACH transaction processing services, the Company's business could be materially adversely affected. To process credit card transactions for merchants and businesses, the Company must register with MasterCard and Visa as an independent service organization through processing banks. MasterCard and Visa permit the Company, as a registered service provider, to provide MasterCard and Visa transaction processing services through processing banks that are members of MasterCard or Visa. The Company's registrations with MasterCard and Visa are renewed annually. There can be no assurance that the Company's registrations with MasterCard and Visa will be renewed or that the current rules of MasterCard and Visa permitting independent service providers to market transaction processing services will remain in effect or that the terms thereof will not be modified in the future. The non-renewal of either registration or any changes in MasterCard or Visa rules that would prevent the registration of the Company or limit its ability to provide MasterCard and Visa transaction processing services would have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Government Regulation" and "-- Payment Clearance Systems."

Customer Attrition. In the consumer market, the Company had an average annual customer attrition rate of 19% for the twelve months ended June 30, 1996. Such attrition rate is approximately 20% higher than the Company's historical customer attrition experiences. The higher attrition rate is due primarily to the competition from ISC for bill payment processing for Quicken. Most of the customer attrition occurs within the first few months of a new customer's commencement of use of the services while longer-term customers have significantly lower attrition rates. Nonetheless, there can be no assurance that the Company will not experience higher customer attrition rates in the future. Increased levels of attrition could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Services and Related Products."

Limited Prior Market; Volatility of Stock Price. Prior to September 28, 1995, there was no public market for the Company's Common Stock. Although the Company is listed on the Nasdaq National Market, there can be no assurance that an active or liquid trading market in the Company's Common Stock will continue. The market price of the Company's Common Stock is subject to significant fluctuations in response to variations in quarterly operating results, the failure of the Company to achieve operating results consistent with securities analysts' projections of the Company's performance, and other factors. The stock market has experienced extreme price and volume fluctuations and volatility that has particularly affected the market prices of many technology, emerging growth and developmental stage companies. Such fluctuations and volatility have often been unrelated or disproportionate to the operating performance of such companies. Factors such as announcements of the introduction of new or enhanced services or related products by the Company or its competitors, announcements of joint development efforts or corporate partnerships in the electronic commerce market, market conditions in the technology, banking, telecommunications and other emerging growth sectors, and rumors relating to the Company or its competitors may have a significant impact on the market price of the Company's Common Stock.

Control by Principal Stockholders. At June 30, 1996, the directors, executive officers and principal stockholders of the Company and their affiliates collectively owned approximately 40% of the outstanding the Company's Common Stock. As a result, these stockholders will be able to exercise significant influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may have the effect of delaying or preventing a change in control of the Company.

Shares Eligible for Future Sale; Possible Adverse Effect on Market Price. At June 30, 1996, the Company had 41,517,264 shares of the Company's Common Stock outstanding. Of these shares, 13,968,960 shares are held by nonaffiliates of the Company and are freely tradeable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"). The holders of the remaining 27,598,304 shares are entitled to resell them only pursuant to a registration statement under the Securities Act or an applicable exemption from registration thereunder such as an exemption provided by Rule 144, Rule 145, or Rule 701 under the Securities Act. Additionally, as of June 30, 1996, the Company had outstanding options to purchase 2,908,218 shares of the Company's Common

Stock at a weighted average exercise price of $4.58, of which options for 1,433,781 shares of the Company's Common Stock were exercisable as of June 30, 1996 at a weighted average exercise price of $1.16.

Additionally, the 5,692,734 shares of the Company's Common Stock issued by the Company to the shareholders of Servantis on February 21, 1996 in connection with the Servantis Acquisition are available for resale, subject in certain cases to the quarterly volume limitations of Rules 144 and 145 under the Securities Act.

Further, the 2,805,652 shares of the Company's Common Stock issued by the Company to the shareholders of Security APL on May 9, 1996 in connection with the Security APL Acquisition will be available for resale, subject in certain cases to the quarterly volume limitations of Rules 144 and 145 under the Securities Act. In connection with the Security APL Acquisition, the shareholders of Security APL entered into a Registration Rights Agreement with the Company. The Registration Rights Agreement provides that shareholders of Security APL will receive three demand registration rights, the first being exercisable after September 1, 1996. The subsequent demand registration rights will be available no earlier than 180 days after the effectiveness of a previous registration period. The shares of the Company's Common Stock received in the Security APL Acquisition will no longer be registrable after May 9, 1998. During each registration period, the Security APL shareholders who hold in the aggregate more than 50% of the then registrable shares will be able to demand registration of up to 25% of the original number of shares received in the Security APL Acquisition as long as the aggregate price to the public, net any underwriting discounts and commissions, of the registered shares will exceed $5,000,000. In addition to demand registration rights, if at any time or from time to time on or before January 9, 1998, the Company shall determine to register any of its shares, Security APL shareholders will have the opportunity to include their shares in such registration and in any underwriting involved with the registration. These "piggy-back" registration rights are subject to certain limitations, including the right of the Company to exclude shares from an underwritten offering if the managing underwriter determines that market conditions require such limitation.

Sales of substantial amounts of the Company's Common Stock in the public market or the prospect of such sales could adversely affect the market price of the Company's Common Stock.

Anti-Takeover Provisions; Certain Provisions of Delaware Law; Certificate of Incorporation and By-Laws. Certain provisions of Delaware law the Company's Certificate of Incorporation and By-Laws could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company. The Company's Certificate of Incorporation provides for the Board of Directors to be divided into three classes of directors serving staggered three-year terms. Such classification of the Board of Directors expands the time required to change the composition of a majority of directors and may tend to discourage a proxy contest or other takeover bid for the Company. Certain provisions of Delaware law and the Company's Certificate of Incorporation allow the Company to issue preferred stock with rights senior to those of the Company's Common Stock without any further vote or action by the stockholders. The issuance of the Company's Preferred Stock could decrease the amount of earnings and assets available for distribution to the holders of the Company's Common Stock or could adversely affect the rights and powers, including voting rights, of the holders of the Company's Common Stock. In certain circumstances, such issuance could have the effect of decreasing the market price of the Company's Common Stock.

Government Regulation. Management believes that the Company is 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. There can be no assurance that a federal or state agency will not attempt to regulate providers of electronic commerce services such as the Company which could impede the Company's ability to do business in the regulator's jurisdiction. In addition, through its processing agreements, the Company agrees 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 the Company's processing banks. In conducting various aspects of its business, the Company is subject to various laws and regulations relating to commercial transactions generally, such as the Uniform Commercial Code, and is also subject to the electronic funds transfer rules embodied in Regulation E, promulgated by the Federal Reserve Board. 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. Because of growth in the electronic commerce market, 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, such laws, rules and regulations could be imposed on the Company's business and industry and could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Government Regulation."

Future Capital Needs; Uncertainty of Additional Financing. The Company currently anticipates that its available cash resources and funds from operations will be sufficient to meet its presently anticipated working capital and capital expenditure requirements both for the short-term and through at least December 31, 1997. The Company may need to raise additional funds through public or private debt or equity financings in order to take advantage of unanticipated opportunities, including more rapid expansion or acquisitions of complementary businesses or technologies, or to develop new or enhanced services and related products or otherwise respond to unanticipated competitive pressures. If additional funds are raised through the issuance of equity securities, the percentage ownership of the then current stockholders of the Company may be reduced and such equity securities may have rights, preferences or privileges senior to those of the holders of the Company's Common Stock. There can be no assurance that additional financing will be available on terms favorable to the Company, or at all. If adequate funds are not available or are not available on acceptable terms, the Company may not be able to take advantage of unanticipated opportunities, develop new or enhanced services and related products or otherwise respond to unanticipated competitive pressures and the Company's business, operating results and financial condition could be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Dependence on CompuServe. The Company has an agreement with CompuServe to collect monthly subscription fees from CompuServe's approximately four million on-line interactive subscribers. The agreement renews automatically for three year terms unless either party gives notice of intent not to renew at least 60 days before the end of the term. The Company and CompuServe renewed a three year agreement in June 1995. The June 1995 renewal permits CompuServe to enter into an agreement with another payment processor during the three year renewal term, provided that CompuServe has given the Company reasonable opportunity to bid on retaining CompuServe's payment collection business and pays the Company a termination fee if the Company's services are not retained. Recently, the Company substantially reduced its prices to CompuServe based on an increased volume of transactions attributable to its business. During fiscal 1993, 1994 and 1995, the Company derived approximately 10%, 11% and 13%, respectively, of its revenues from CompuServe. Such CompuServe revenues were less than 10% of total revenues for transition fiscal 1996. Although the Company believes its relationship with CompuServe is positive, there can be no assurance that CompuServe will continue its business relationship with the Company upon expiration or early termination of the agreement, that CompuServe will maintain its number of subscribers at historical levels, or that the Company will realize revenues from CompuServe at the levels it has in the past. Loss of the relationship with CompuServe or a reduction of revenues from CompuServe will have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Services and Related Products" and Note 16 to Consolidated Financial Statements.

ITEM 2. PROPERTIES.

The Company leases approximately 107,000 square feet of office space and 12,500 square feet of warehouse space in Columbus, Ohio. The Company owns approximately eight acres of real property adjacent to the Company's headquarters. The Company owns a 51,000 square foot conference center in Norcross, Georgia which includes lodging, training and fitness facilities for the Company's customers and employees. Although the Company owns the building, it is on land which is leased through 2003. The Company also leases office facilities in Norcross, Georgia, Owings Mills, Maryland, Austin, Texas, Jersey City, New Jersey, Chicago, Illinois, San Diego, California and Boston, Massachusetts with square footage of approximately 229,000, 30,000, 32,000, 17,100, 10,000, 3,000 and 2,000 respectively. The Company believes that its facilities are adequate for current and near-term growth and that additional space is available to provide for anticipated growth.

The Company leases its corporate offices from the Director of Development, State of Ohio, pursuant to the terms of a capitalized lease entered into as part of the issuance by the State of Ohio of State Economic Development Revenue Bonds (the "Bonds") in the aggregate principal amount of $7.5 million. Pursuant to the terms of the lease, the Company pays monthly lease payments equal to the amount of the debt service on the Bonds. Upon full payment of the amount due on the Bonds, the Company has a right to purchase the real property from the Director of Development, State of Ohio, for the sum of one dollar. Under the terms of the lease, the Company has the right to prepay all amounts owed thereunder without any prepayment penalty. See "Item 13. Certain Relationships and Related Transactions."

ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings pending against the Company.

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

The Company held its Annual Meeting of Stockholders on May 20, 1996 for the purpose of electing a Class I Director of the Company, to serve until the 1999 Annual Meeting of Stockholders or until his successor is elected and qualified.

Management's nominee for Class I director as listed in the proxy statement was elected with the following vote:

	NUMBER OF SHARES VOTED		
	FOR	AGAINST	ABSTAIN
George R. Manser	31,639,967	9,282	0

PART II

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

The Company's Common Stock is traded in the over-the-counter market on the Nasdaq National Market under the symbol "CKFR." The following table sets forth, for the periods indicated, the high and low sales prices for the Company's Common Stock, as reported on the Nasdaq National Market. Information with respect to the Company commences on September 28, 1995, when the Company's Common Stock was first offered to the public.

	COMPANY COMMON STOCK	
CALENDAR PERIOD	HIGH	LOW
Fiscal 1995:		
Third Quarter (September 28 to September 30)	$22.875	$19.75
Fourth Quarter	$29.375	$16.00
Transitional Fiscal 1996:		
First Quarter	$26.375	$16.50
Second Quarter	$23.50	$16.875
Fiscal 1997:		
First Quarter (through September 16, 1996)	$21.625	$10.75

The number of record holders of the Company's Common Stock as of September 16, 1996, was 501. The closing sales price of the common stock on September 16, 1996, was $21.25.

The Company has paid no cash dividends since 1986. The Company presently anticipates that all of its future earnings will be retained for the development of its business and does not anticipate paying cash dividends on the Company's Common Stock in the foreseeable future. The payment of any future dividends will be at the discretion of the Company's Board of Directors and will be based on the Company's future earnings, financial condition, capital requirements and other relevant factors.

ITEM 6. SELECTED FINANCIAL DATA.

The selected consolidated financial data for the six months ended June 30, 1996 and each of the years in the three year period ended December 31, 1995 and as of June 30, 1996 and as of December 31, 1994 and 1995 have been derived from the Company's financial statements included elsewhere in this Form 10-K/A No.1 which have been audited by Deloitte & Touche LLP, independent certified public accountants, whose report thereon is also included elsewhere in this Form 10-K/A No. 1. The selected consolidated financial data for the years ended December 31, 1991 and 1992 and as of December 31, 1991, 1992, and 1993 have been derived from audited financial statements of the Company which are not included in this Form 10-K/A No. 1. 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 included elsewhere in this Form 10-K/A No. 1.

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,
	1991	1992	1993	1994	1995	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
STATEMENT OF OPERATIONS:						
Revenues:						
Processing, servicing and merchant discount	$16,322	$22,201	$28,986	$38,282	$49,330	$ 33,305
License fees	--	--	--	--	--	10,970
Maintenance fees	--	--	--	--	--	1,978
Other	9,334	--	1,906	984	--	4,787
Total revenues	25,656	22,201	30,892	39,266	49,330	51,040
Expenses:						
Cost of processing, servicing and support	14,800	14,772	19,516	25,787	32,293	40,352
Research and development	2,960	2,418	3,678	4,826	7,009	10,177
Sales and marketing	3,566	3,466	3,730	4,553	7,405	17,513
General and administrative	1,697	1,725	2,466	2,717	4,288	8,806
In process research and development	--	--	--	--	--	122,358
Total expenses	23,023	22,381	29,390	37,883	50,995	199,206
Income (loss) from operations	2,633	(180)	1,502	1,383	(1,665)	(148,166)
Interest:						
Income	493	171	165	298	2,135	1,659
Expense	(331)	(230)	(279)	(795)	(645)	(325)
Income (loss) before income taxes	2,795	(239)	1,388	886	(175)	(146,832)
Income tax expense (benefit)	1,407	(159)	368	400	40	(8,629)
Income (loss) before extraordinary item	1,388	(80)	1,020	486	(215)	(138,203)
Extraordinary item	1,094	--	--	--	--	(364)
Net income (loss)	$ 2,482	$ (80)	$ 1,020	$ 486	$ (215)	$(138,567)
Income (loss) per common and equivalent share before extraordinary item	$ 0.05	--	$ 0.04	$ 0.02	$(0.01)	$ (3.69)
Net income (loss) per common and equivalent share	$ 0.09	--	$ 0.04	$ 0.02	$(0.01)	$ (3.70)
Weighted-average common and equivalent shares outstanding	27,153	27,127	26,886	27,103	28,219	37,420
BALANCE SHEET DATA:						
Working capital	$ 2,884	$ 304	$ 623	$11,399	$81,792	$ 45,496
Total assets	9,820	8,059	17,669	30,512	115,642	196,230
Long-term obligations, less current portion	1,900	1,275	8,968	8,213	7,282	8,324
Total Stockholders' equity	2,985	1,915	2,985	16,372	99,325	137,675

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

OVERVIEW

The Company was founded in 1981 to provide electronic collection services to businesses. This expertise was expanded in the late 1980s through the introduction of electronic bill payment services for consumers. As a result of two significant acquisitions in 1996, the company now operates in two business segments -- Electronic Commerce and Financial Application Software. The Company's electronic transaction processing services, software and related products are targeted to financial institutions and businesses and their customers.

Electronic Commerce. Electronic Commerce services offered to financial institutions include electronic bill payment, electronic home banking, investment portfolio management services and investment trading and reporting services. The Company generates revenues based on the number of customers using the services, transaction fees and implementation fees. Services are provided under contracts with the financial institutions, which typically have three to five year terms and generally provide for minimum fees if certain transaction volumes are not met.

On May 9, 1996, the Company acquired, Security APL, Inc. ("Security APL") for $53 million plus the assumption of approximately $5.5 million of liabilities through the issuance of 2.8 million shares of common stock. Security APL is a full-service provider of fully integrated, customized portfolio software services, including performance measurement and trade and reporting systems for institutional money managers. Security APL's operations are included in the consolidated results of operations from the date of the acquisition.

For businesses, the Company provides automatic payment collection services to companies in the online interactive services, Internet access, cellular, paging, direct marketing, health and fitness and various other service industries. The Company generates revenues from transaction fees, credit card discount fees and implementation fees. The related credit card interchange costs are included in processing and servicing expenses. Services are provided under contracts typically of three year terms and generally provide for minimum fees if certain transaction volumes are not met.

The Company also offers its bill payment and portfolio management services directly to consumers. Generally, these services are offered through strategic partner alliances, whereby the Company pays customer acquisition fees or royalties for new customers generated by partners.

Processing and servicing revenues include revenue from transaction processing, electronic funds transfer and monthly service fees. The Company derives merchant discount revenue from businesses, who pay a negotiated discount rate to the Company for credit card transactions. The merchant discount rate for businesses is established when the Company initiates the processing relationship with the merchant and negotiates a discount rate which is set at a percentage of the dollar amount of each credit card transaction.

The Company collects the majority of its monthly processing and servicing fees and merchant discount revenues from customers electronically by deducting such fees from their accounts. The capacity to collect service and other revenues electronically enhances the Company's cash flow compared to other service companies, which typically experience longer payouts on their accounts receivables. Generally, the Company realizes greater operational efficiencies and margins as electronic payments to merchants increase, displacing paper-based transactions. In June 1996, the Company processed 37% of all payments to merchants electronically, a 4% increase over June 1995.

The Company intends to aggressively promote the acceptance of its electronic commerce services and rapidly expand its customer base. To achieve these objectives, the Company intends to accelerate investment in new services and related products, pursue aggressive pricing policies, including offering a new lower cost standard bill payment service for users who are interested only in bill payments, and increase marketing expenses. Specifically, the Company announced a new series of services and pricing options in September 1995 in an attempt to appeal to various segments of the Company's markets. One such option is to offer a bill payment service at a lower cost in order to target new users and users who are interested only in the electronic bill payment aspect of the Company's services. Although these initiatives may adversely impact the Company's short-term profitability, the Company expects that these initiatives will allow it to maintain and enhance its leading position in the rapidly growing electronic commerce market.

Financial Application Software. Financial Application Software includes end-to-end software products for Automated Clearing House ("ACH") processing, account reconciliation, wire transfers, mortgage loan origination and servicing, lease accounting and debt recovery. The Company generates revenues by granting software licenses, through on-going maintenance contracts and through consulting fees.

The Company started operating in the financial application software business segment with the acquisition of Servantis Systems Holdings, Inc. ("Servantis") on February 21, 1996. Servantis was acquired for $165.1 million plus the assumption of liabilities of approximately $38.3 million through the issuance of 5.7 million of shares of common stock valued at $20.00 per share, $42.5 million paid to retire Servantis debt and the assumption of stock options.

Financial application software products are generally granted as perpetual licenses. Revenue from software license agreements is recognized upon delivery of the software if there are no significant post-delivery obligations. The revenue related to significant post-delivery obligations is deferred and recognized using the percentage-of-completion method. Maintenance fee revenue is recognized ratably over the term of the related contractual support period, generally 12 months.

RESULTS OF OPERATIONS

On April 19, 1996, the Company elected to change its fiscal year end from December 31 to June 30. To assist in the analysis of the results of operations for the six months ended June 30, 1996, results from the unaudited period for the six months ended June 30, 1995 are also provided.

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

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1993	1994	1995	1995	1996
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Expenses:					
Cost of processing, servicing and support	63.2	65.7	65.5	65.5	79.1
Research and development	11.9	12.3	14.2	13.1	19.9
Sales and marketing	12.1	11.6	15.0	13.4	34.3
General and administrative	8.0	6.9	8.7	8.3	17.3
In process research and development	0.0	0.0	0.0	0.0	239.7
Total expenses	95.2	96.5	103.4	100.3	390.3
Income (loss) from operations	4.8	3.5	(3.4)	(0.3)	(290.3)
Interest:					
Income	0.5	0.8	4.3	2.3	3.3
Expense	(0.8)	(2.0)	(1.3)	(1.4)	(0.6)
Income (loss) before income taxes	4.5	2.3	(0.4)	0.6	(287.7)
Income tax expense (benefit)	1.2	1.1	0.1	0.3	(16.9)
Income (loss) before extraordinary item	3.3%	1.2%	(0.4)%	0.3%	(270.8)%

SIX MONTHS ENDED JUNE 30, 1995 AND 1996

Revenues. Processing servicing and merchant discount revenues increased by 41.2% from $23.6 million for the six months ended June 30, 1995 to $33.3 million for the six months ended June 30, 1996. The increase was due primarily to $5.7 million of processing and servicing revenues recognized from the acquisitions of Servantis, Security APL and Interactive Solutions Corporation, a 20% increase in the number of bill payment and home banking consumers (prior to consumers acquired from Servantis) and a 17% increase in the number of transactions processed. In June 1995, the Company reduced its per transaction prices to a major business customer based on an increased volume of transactions attributable to such customer as part of the Company's on-going monitoring of its pricing structure in each of the markets in which it competes. In addition, license fees, maintenance fees, and other revenue all increased as a result of the business acquisitions.

Cost of Processing, Servicing and Support. Processing, servicing and support expenses consist primarily of data processing costs, customer care and technical support, and third party transaction fees, which consist principally of credit card interchange fees, ACH transaction fees and the amortization of software costs. Amortization of purchased software of $2.4 million for the six months ended June 30, 1996 relates solely to license fee revenue. Excluding purchased software amortization, processing servicing and support expenses, as a percentage of servicing revenues (all revenues except license fees), were 65.5% and 94.6% for the six months ended June 30, 1995 and 1996, respectively. Processing, servicing and support costs increased as a percentage of servicing revenue primarily due to a purchased profits adjustment related to the Servantis acquisition. The estimated profits in deferred revenues at the Servantis acquisition date were eliminated as a purchase accounting adjustment. This reduced revenues by $12.7 million for the six months ended June 30, 1996. Without this adjustment, processing, servicing and support costs would have been 71.9% of servicing revenue for the six months ended June 30, 1996. The Company anticipates additional purchased profit charges of approximately $8.0 million in the year ending June 30, 1997. After considering the purchased profits adjustment, processing, servicing and support costs increased as a percentage of servicing revenue due primarily to two pricing changes: (1) In June 1995, the Company reduced its per transaction pricing to a major business services customer based on an increased volume of transactions attributable to such customer as part of the Company's monitoring of its pricing structure; (2) In September 1995 the Company introduced new service and pricing options, including a lower priced bill-payment only service to target new users.

Research and Development. Research and development expenses consist primarily of salaries and consulting fees paid to software engineers and business development personnel. Research and development expenses were $3.1 million and $10.2 million, or 13.1% and 19.9% of revenue during the six months ended June 30, 1995 and June 30, 1996, respectively. The increase was due to $2.7 million of research and development incurred by the acquired companies, plus development efforts on new and existing services and related products, including Electronic Cash Disbursement for businesses, expanded home banking offerings, greater capability payment processing systems and bill presentment.

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. Sales and marketing costs were $3.2 million and $17.5 million, or 13.4% and 34.3% of revenue for the six months ended June 30, 1995 and 1996, respectively. The significant increase as a percentage of revenue is due to $6.5 million for a direct consumer marketing campaign, which has been discontinued, and $7.7 million of increased sales and marketing expenses incurred by the acquired companies.

General and Administrative. General and administrative expenses consist primarily of salaries for administrative, executive, financial control and human resource employees. General and administrative expenses were $2.0 million and $8.8 million, or 8.3% and 17.3% of revenue for the six months ended June 30, 1995 and 1996, respectively. The increase was due to $3.9 million of increased general and administrative expenses related to the acquired companies, increased expenses related to being a public company (such as legal fees and investor relations) and additional management, financial control and human resources employees.

In Process Research and Development. The Company incurred $122.4 million of in-process research and development costs for the six months ended June 30, 1996, in conjunction with the acquisitions of Servantis, Security APL and ISC. The amounts to be allocated to in-process research and development for each of the acquisitions were based on independent appraisals.

Interest. Interest income increased from $535,000 for the six months ended June 30, 1995 to $1.7 million for the six months ended June 30, 1996. The increase was due to the income from the investment of proceeds of the initial public offering in September 1995.

Interest expense of $330,000 for the six months ended June 30, 1995 was comparable to the interest expense of $324,00 for the six months ended June 30, 1996.

Income Taxes. The effective income tax rate (credit) was 45.1% and (5.9%) for the six months ended June 30, 1995 and 1996, respectively. For the six months ended June 30, 1995, the effective tax rate was more than the statutory rate of 34% due to state and local taxes and non-deductible intangible asset amortization. For the six months ended June 30, 1996, the effective tax benefit was less than the statutory rate due primarily to non-deductible in-process research and development and intangible asset amortization.

YEARS ENDED DECEMBER 31, 1993, 1994, AND 1995

Revenues. Processing, servicing and merchant discount revenues increased 32.1% from $29.0 million in 1993 to $38.3 million in 1994, and 28.9% to $49.3 million in 1995. The increase was primarily attributable to 71% and 20% increases in the number of consumers in 1994 and 1995 which resulted in increased revenues of $3.3 million and $6.6 million, respectively, and 27.2%, or $1.5 million, and 36.3%, or $2.6 million, increases in revenues from merchant discounts in 1994 and 1995, respectively, as well as a significant increase in the use of on-line services for which the Company collects user subscription fees. The number of transactions processed for financial institutions and businesses and their customers increased from 38.4 million in 1993, to 51.8 million in 1994, to 63.6 million in 1995. In June 1995, the Company reduced its per transaction prices to a major business customer based on an increased volume of transactions attributable to such customer as part of the Company's on-going monitoring of its pricing structure in each of the markets in which it competes.

Other revenues include reimbursement of services and related product development expenses from strategic alliance partners. Other revenues decreased 48.4% from $1.9 million in 1993 to $1.0 million in 1994 due to the termination of a joint development project with a strategic partner. There were no revenues in this category in 1995.

Cost of Processing, Servicing and Support. Processing, servicing and support expenses, as a percentage of revenues, were 63.2%, 65.7%, and 65.5% in 1993, 1994 and 1995, respectively. Excluding other revenues, processing, servicing and support costs were 67.3%, 67.4% and 65.5% of revenues in 1993, 1994 and 1995, respectively. From 1993 to 1994, processing, servicing and support costs increased as a percentage of revenue due to the mix of credit card versus ACH transactions and the depreciation related to an enhancement of the Company's data processing capabilities. The decrease in processing, servicing and support costs as a percentage of revenue from 1994 to 1995 was due primarily to more efficient customer care operations, resulting in slower growth in the number of customer care employees compared to growth in revenue, and the increase in electronic payments to merchants.

Research and Development. Research and development expenses were $3.7 million, $4.8 million and $7.0 million, or 11.9%, 12.3% and 14.2% of revenue during 1993, 1994 and 1995, respectively. The increases in 1994 and 1995 were due to continued development efforts on new and existing services and related products, including Electronic Cash Disbursement, expanded home banking offerings, greater capability payment processing systems and an Electronic Exchange Network.

Sales and Marketing. Sales and marketing costs were $3.7 million, $4.6 million and $7.4 million, or 12.1%, 11.6% and 15.0% of revenue in 1993, 1994 and 1995, respectively. As a percentage of revenue, sales and marketing expenses decreased in 1994 due to increased leverage from distribution partners. In 1995, sales and marketing expenses increased as a percentage of revenue due to increases in the sales staff in anticipation of new services and opportunities in addition to increased public relations activities related to new services and related products.

General and Administrative. General and administrative expenses were $2.5 million, $2.7 million and $4.3 million, or 8.0%, 6.9% and 8.7% of revenue in 1993, 1994 and 1995, respectively. In 1994, general and administrative costs increased $251,000, but decreased significantly as a percentage of revenue due to the significant increase in revenues. In addition, the Company had previously leased land and a building for its former corporate offices. In June 1994, the lessor sold the building and relieved the Company of all its liabilities related to the lease. This resulted in a gain of approximately $223,000 for previously accrued lease liabilities. In 1995, general and administrative expenses increased as a percentage of revenue due to the hiring of additional operating, administrative and financial control employees to manage current and expected future growth.

Interest. Interest income increased from $165,000 in 1993, to $298,000 in 1994 due to higher average cash balances and the income received from the proceeds of the private placement of the Company's common stock in December 1994. Interest income increased to $2.1 million in 1995 due to the income from the private placement in December 1994 and due to the income from the proceeds of the initial public offering in September 1995.

Interest expense increased from $279,000 in 1993 to $795,000 in 1994 due to the impact of a full year's financing costs incurred for the new corporate offices compared to only three months in 1993, offset by the impact of the redemption and conversion of $1.0 million of convertible subordinated debentures outstanding in September 1994. Interest decreased to $645,000 in 1995 due to the redemption and conversion of the subordinated debentures in 1994, offset by increased interest related to new capital lease obligations in 1994 and 1995.

Income taxes. The effective income tax rate was 26.5% and 45.1% in 1993 and 1994, respectively. The 1993 effective tax rate was less than the statutory federal rate of 34%, due to the benefit of reducing the valuation allowance for deferred tax assets. In 1994, the effective tax rate was more than the statutory federal tax rate of 34% due primarily to state and local taxes and non-deductible intangible asset amortization. In 1995, the Company recognized a $40,000 tax expense, while incurring a pre-tax loss of $175,000, primarily due to state and local taxes and non-deductible intangible asset amortization.

LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its operations primarily through cash flows generated from operations, the sale of equity and debt securities, and capital lease financing. The Company's operating activities provided cash of $2.7 million and $2.4 million for the years ended December 31, 1994 and 1995, respectively, and used cash of $6.6 million for the six months ended June 30, 1996. The Company's operations resulted in a use of cash for the six months ended June 30, 1996, primarily due to the planned increase in research and development activities and the $6.5 million direct consumer marketing campaign.

The Company invested in property additions, primarily computer related equipment, of $1.0 million, $3.4 million and $7.1 million for the years ended December 31, 1994 and 1995 and the six months ended June 30, 1996, respectively. In addition, the Company invested $54.1 million in investments in 1995, offset by maturities of $37.7 million, with the proceeds from a private placement of the Company's common stock in December 1994, and the proceeds from the initial public offering in September 1995. For the six months ended June 30, 1996, the Company invested $39.4 million, net of cash acquired, for the acquisition of Servantis and Security APL. These investments were partially funded through $10.6 million of maturities and sales of investments.

In 1994, the Company repaid $500,000 of convertible subordinated debentures and notes payable. The Company paid capital lease obligations of $711,000 in 1994 and $1.0 million in 1995. In addition, in September 1995, the Company issued 4,975,310 shares of the Company's common stock in the initial public offering for an aggregate $82.7 million. For the six months ended June 30, 1996, the Company borrowed $1.1 million under an unsecured loan, received $871,000 from the exercise of stock options and paid principal obligations under capital leases of $571,000.

The Company's cash and cash equivalents and short term investments were $39.1 million at June 30, 1996, a decrease of $45.8 million from December 31, 1995. As of June 30, 1996 and 1995, the Company's ratio of current assets to current liabilities was 2.0 to 1.0 and 10.4 to 1.0, respectively, and working capital was $45.5 million and $81.8 million, respectively. The significant decrease in the current ratio and working capital was due to the acquisition of Servantis and Security APL.

In August 1996, the Company signed a definitive agreement to sell certain software for $20 million. The sale is expected to close in September. In September 1996, the Company signed a definitive agreement to purchase Intuit Services Corporation for 12.6 million shares of Company common stock. The Company also signed a Service and License Agreement with Intuit that requires a $10 million payment upon the closing of the ISC acquisition, and an additional non-cash payout of $10 million on October 1, 1997. The Company expects to incur a non-cash in-process research and development charge in the quarter the ISC acquisition closes, which is estimated to be approximately $120 million. Certain stockholders have an option to sell up to 280,565 shares of common stock to the Company at $19 per share. Such option expires no later than September 30, 1996. The Company expects to fund the initial $10 million payment pursuant to the Services and License Agreement and any shares purchased from certain stockholders from the $20 million in proceeds from the sale of certain software. The Company expects to Fund the $10 million payment due on October 1, 1997, pursuant to the Services and License Agreement with cash and investments.

The Company believes that the cash equivalents and investments will be sufficient to meet the Company's presently anticipated working capital and capital expenditure requirements through at least December 31, 1997. To the extent that the Company needs additional capital resources, the Company believes that it will have access to both bank financing and capital leasing for additional facilities and equipment.

INFLATION.

The Company believes the effects of inflation have not had a significant impact on the Company's results of operations.

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

Except for the historical information contained herein, the matters discussed in this annual report are forward-looking statements which involve risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting the Company's operations, markets, services and related products, prices, and other factors discussed in the Company's prior filings with the Securities and Exchange Commission.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Consolidated Financial Statements of the Company, together with reports thereon from Deloitte & Touche LLP are set forth on pages F-1 through F-20 hereof (see Item 14 of this Annual Report for the Index).

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.

EXECUTIVE OFFICERS AND DIRECTORS

The executive officers, directors and corporate officers of the Company are as follows:

NAME	AGE	POSITION
Peter J. Kight	40	President, Chief Executive Officer and Chairman of the Board
Mark A. Johnson	43	President of Business Services, and Director
Howard S. Baulch	43	Executive Vice President, Systems, Support and Development
Mark D. Phelan	42	Executive Vice President, Corporate Services
James S. Douglass	34	Executive Vice President, Finance and Chief Financial Officer
Kenneth J. Benvenuto	37	Executive Vice President, Retail Services
James M. Garrett(3)	38	Executive Vice President, Sales and Marketing
Lynn D. Busing	44	Executive Vice President, Corporate Banking
Claude A. Thomas	54	Executive Vice President, Business Development
Jay N. Whipple, III	39	Executive Vice President, Portfolio Services
Geoffrey D. Gill	30	Vice President, Finance
John M. Stanton	36	Vice President, Treasurer and Assistant Secretary
Curtis A. Loveland	49	Secretary
William P. Boardman	55	Director
George R. Manser(1)(2)	65	Director
Eugene F. Quinn(1)(2)	42	Director
Jeffrey M. Wilkins(1)	52	Director

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(1) Member of the Audit Committee.

(2) Member of Stock Option and Compensation Committee.

(3) Resigned in July 1996.

Directors of the Company are elected at the annual stockholder's meeting for staggered three-year terms and serve until their successors are duly elected and qualified. Executive officers of the Company are elected annually by the Board of Directors and serve until their successors are duly elected and qualified. There are no family relationships among directors and executive officers of the Company.

Peter J. Kight is the founder of the Company and has served as Chairman, President, and Chief Executive Officer since 1981. He has also served as president of Servantis Systems Holdings, Inc. ("Servantis") since February 1996. Mr. Kight is a Director of Metatec Corporation, a publicly-held company which distributes information utilizing CD ROM technology.

Mark A. Johnson has served as the President of Business Services of the Company since 1996. He has been a Director of the Company since 1983. Mr. Johnson served as Treasurer from 1993 to 1996, as Executive Vice President of the Company from 1993 to 1996, as Senior Vice President of the Company from 1991 to 1993, and as a Vice President from 1982 to 1991.

Howard S. Baulch has served as Executive Vice President of Systems, Support and Development from 1994 to present. From 1992 to July 1994, Mr. Baulch served as Director of Systems Architecture for Mead Data Central. He also served as Director of Quality Assurance for Mead Data Central from 1990 to 1992.

Mark D. Phelan has served as Executive Vice President of the Company in various capacities from 1992 to present. From 1982 to 1992, Mr. Phelan served as a Sales Vice President of AT&T Corporation, a worldwide telecommunications company.

James S. Douglass has served as Executive Vice President of Finance and Chief Financial Officer of the Company since September 1996. From 1994 to 1996, Mr. Douglass was Vice President-Corporate Controller and Chief Accounting Officer for Medaphis Corporation. From 1988 to 1994, Mr. Douglass served in various capacities with KPMG Peat Marwick LLP, most recently as senior manager.

Kenneth J. Benvenuto has served as Executive Vice President of the Company since March 1996. From 1994 to 1996, he was employed by Servantis as the Treasury Products Division President. From 1993 to 1994, Mr. Benvenuto served as Vice President of Best Programs, Inc., an accounting software firm. From 1986 to 1993, he was an Executive Vice President of Mitchell Humphrey & Company, a client/server-based financial management software firm.

James M. Garrett has served as Executive Vice President of Sales and Marketing of the Company since March 1996. From 1995 to 1996, he was employed by Servantis, most recently as Executive Vice President of Marketing and Business Development. From 1991 to 1995, Mr. Garrett served as President of Group Eagle Consulting. While President of Group Eagle Consulting, Mr. Garrett also served as Senior Vice President, Marketing and Sales for Cadtel Systems, Inc. from 1991 to 1992, and as Director of Sales for Scientific Atlanta Inc. from 1992 to 1994. Mr. Garrett resigned from the Company in July 1996.

Lynn D. Busing has served as Executive Vice President of Corporate Banking of the Company since March 1996. From 1994 to 1996, he was employed by Servantis most recently as Senior Vice President of the Corporate Banking Group. From 1987 to 1993, Mr. Busing served as Vice President, U.S. Software and Services of Digital Equipment Corporation.

Claude A. Thomas has served as Executive Vice President of Business Development of the Company since March 1996. From 1993 to 1995, Mr. Thomas served as Senior Vice President, Division Chief Executive Officer and Chief Operating Officer of First Financial Management Corporation. From 1986 to 1993, he served as Vice President, Financial Industry of Digital Equipment Corporation.

Jay N. Whipple, III has served as Executive Vice President of Portfolio Services of the Company since May 1996. Mr. Whipple was founder of Security APL, Inc. and served as it's President, Chief Executive officer and Chairman of the Board from 1978 to 1996.

Geoffrey D. Gill has served as Vice President of Finance of the Company since April 1996. From 1994 to 1996, he was employed by Servantis as Vice President of Finance. From 1988 to 1994, Mr. Gill served in various capacities with Coopers & Lybrand L.L.P., most recently as audit manager.

John M. Stanton has served as Vice President and Treasurer of the Company since March 1996. He served as Corporate Controller of the Company from 1994 to 1996, and as Chief Accounting Officer from 1995 to 1996. From 1982 to 1994, Mr. Stanton served in various capacities with KPMG Peat Marwick LLP, most recently as a Senior Manager.

Curtis A. Loveland has served as Secretary of the Company since 1983. Mr. Loveland has been associated with the law firm of Porter, Wright, Morris & Arthur since 1973 and a partner since 1979.

William P. Boardman has served as a Director of the Company since July 1996. Mr. Boardman has been a Senior Executive Vice President with Bank One Corp. since 1984.

George R. Manser has served as a Director of the Company since 1983. Since July 1994, Mr. Manser has served as Chairman of Uniglobe Travel (Capital Cities) Inc., which franchises travel agencies in certain areas of the U.S. From 1985 to 1994, he served as Chairman of North American National Corporation, a life insurance holding company. Mr. Manser is a Director of Cardinal Health Inc., a publicly-held wholesale drug distributor, State Auto Financial Corporation, a publicly-held insurance company, AmeriLink Corporation, a publicly-held cabling services company, and Hallmark Financial Services, Inc., a publicly-held insurance services company. He is also an Advisory Director to the Corporate Finance Department of J.C. Bradford & Co., a NASD broker-dealer.

Eugene F. Quinn has served as a Director of the Company since 1994. Since October 1994, Mr. Quinn has served as General Manager, Tribune Interactive Services of Tribune Company, a publicly-held diversified media company. From August 1991 to October 1994, he served as General Manager, Chicago Online of Chicago Tribune Company. Mr. Quinn served as Associate Managing Editor of Chicago Tribune Company from January 1984 to August 1991. Mr. Quinn is a director of Open Market, Inc., a publicly held Internet software solutions company.

Jeffrey M. Wilkins has served as a Director of the Company since 1990. Since August 1989, Mr. Wilkins has served as Chairman and Chief Executive Officer of Metatec Corporation, a publicly-held company which distributes information utilizing CD ROM technology.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has two standing committees: a Stock Option and Compensation Committee and an Audit Committee. The Stock Option and Compensation Committee has the authority to (i) administer the Company's stock option plans, including the selection of optionees and the timing of option grants; and (ii) review and monitor key employee compensation policies and administer the Company's management compensation plans. The members of the Stock Option and Compensation Committee are Messrs. Manser and Quinn.

The Audit Committee recommends the annual appointment of the Company's auditors, with whom the Audit Committee reviews the scope of audit and non-audit assignments and related fees, the accounting principles used by the Company in financial reporting, internal financial auditing procedures and the adequacy of the Company's internal control procedures. Messrs. Manser, Quinn, and Wilkins serve as members of the Audit Committee.

DIRECTOR COMPENSATION

Directors who are not employees of the Company will receive a $500 retainer for each fiscal quarter, $500 for each Board meeting attended and $250 for each committee meeting attended, plus out-of-pocket expenses incurred in connection with attendance at such meetings. Additionally, in the past, non-employee directors also received stock options granted under the existing stock option plans upon their election to the Board of Directors. Such options have ranged from the right to acquire from 15,000 to 26,307 shares of the Company's Common Stock. The exercise price for such options ranges from $0.57 to $14.25 per share. Such options vest 20% a year over a five year period and terminate 10 years after grant.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers, directors, and persons who are beneficial owners of more than ten percent of the Company's Common Stock ("reporting persons") to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Reporting persons are required by Securities and Exchange Commission regulations to furnish the Company with copies of all Section 16(a) forms filed by them. Based on its review of the copies of Section 16(a) forms received by it, the Company believes that all filing requirements applicable to its reporting persons were complied with during Transitional Fiscal 1996.

ITEM 11. EXECUTIVE COMPENSATION.

EXECUTIVE COMPENSATION

The following table sets forth certain information regarding compensation paid during the period from July 1, 1995 through June 30, 1996 to the Company's Chief Executive Officer and each of the Company's other executive officers whose annual salary and bonus exceeded $100,000 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	YEAR(1)	SALARY ($)	BONUS ($)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION ($)(2)
PETER J. KIGHT	1996	250,000	33,000	1,000	0
President, Chief Executive Officer,	1995	248,173	33,000	0	0
and Chairman of the Board	1994	154,615	79,333	0	0
MARK A. JOHNSON	1996	161,538	13,500	1,000	1,820
President of Business Services	1995	154,711	38,000	0	1,698
	1994	138,077	20,000	0	1,365
MARK D. PHELAN	1996	155,000	23,300	0	899
Executive Vice President of	1995	154,904	47,800	0	1,763
Corporate Services	1994	149,615	29,800	0	1,831
HOWARD S. BAULCH(3)	1996	129,904	11,813	0	2,781
Executive Vice President of Systems,	1995	124,904	35,000	0	2,541
Support and Development	1994	51,231	12,500	263,070	0
JAMES M. GARRETT(4)	1996	51,162	108,750	25,000	0
Executive Vice President of					
Sales and Marketing					

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(1) Reference to 1996 is for the period from July 1, 1995 to June, 30, 1996, while reference to 1995 and 1994 is for the period from January 1 to December 31 for those respective years.

(2) Includes matching contribution to the Company's 401(k) Plan.

(3) Mr. Baulch was employed by the Company effective July 28, 1994.

(4) Mr. Garrett was employed by the Company effective February 21, 1996 and resigned in July 1996.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth certain information concerning the grant of stock options to the Named Executive Officers under the Company's 1995 Stock Option Plan:

Individual Grants (1)

(a) NAME	(b) Number of Securities Underlying Options GRANTED (#)	(c) % of Total Options Granted to Employees in Fiscal YEAR	(d) Exercise Price ($/SH)	(e) EXPIRATION DATE	(f) Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms (2)(3) 5% $	(g) 10% $
Peter J. Kight	1,000	0.2%	19.38	04/19/06	$ 12,188	$ 30,887
Mark A. Johnson	1,000	0.2%	19.38	04/19/06	$ 12,188	$ 30,887
Mark D. Phelan	0	-	-	-	--	--
Howard S. Baulch	0	-	-	-	--	--
James M. Garrett	25,000	5.0%	21.88	02/21/06	$344,005	$871,777

(1) This table covers the period from July 1, 1995 to June 30, 1996.

(2) The dollar amounts in these columns are the product of (a) the difference between (1) the product of the per-share market price at the date of grant and the sum of 1 plus the assumed rate of appreciation (5% and 10%) compounded over the term of the option (ten years) and (2) the per-share exercise price and (b) the number of shares underlying the grant.

(3) The appreciation rates stated are arbitrarily assumed, and may or may not reflect actual appreciation in the stock price over the life of the option. Regardless of any theoretical value which may be placed on a stock option, no increase in its value will occur without an increase in the value of the underlying shares. Whether such an increase will be realized will depend not only on the efforts of the recipient of the option, but also upon conditions in the Corporation's industry and market area, competition, and general and local economic conditions, over which the optionee may have little or no control.

AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUE TABLE

The following table provides certain information regarding the number and value of stock options held by the Company's Named Executive Officers at June 30, 1996.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END ($)(1)	
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Peter J. Kight	-0-	-0-	315,684	211,456	5,986,947	3,991,298
Mark A. Johnson	-0-	-0-	72,812	49,542	1,386,705	924,482
Mark D. Phelan	105,355	1,960,393	300,089	-0-	5,715,195	-0-
Howard S. Baulch	-0-	-0-	-0-	210,456	-0-	4,008,135
James M. Garrett	-0-	-0-	1,974	26,316	36,233	24,155

(1) Represents the total gain which would be realized if all in-the-money options held at year end were exercised, determined by multiplying the number of shares underlying the options by the difference between the per share option exercise price and the per share fair market value at year end (19.875 on June 28, 1996). An option is in-the-money if the fair market value of the underlying shares exceeds the exercise price of the option.

The following Compensation Committee Report and Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

REPORT OF THE STOCK OPTION AND COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Stock Option and Compensation Committee has the authority and responsibility to determine and administer the Company's officer compensation policies and to establish the salaries of executive officers, the formula for bonus awards to executive officers, and the grant of stock options to executive officers and other key employees under the Company's 1995 Stock Option Plan. The Stock Option and Compensation Committee consists solely of independent directors of the Company who are not eligible to receive any stock options under the 1995 Stock Option Plan, except pursuant to any formulas provided in the plans. In general, the philosophy of the Stock Option and Compensation Committee is to attract and retain qualified executives, reward current and past individual performance, provide short-term and long-term incentives for superior future performance, and relate total compensation to individual performance and performance of the Company.

The determination of executive officer base salaries for Transition Fiscal 1996, including increases to base salaries, was based primarily on subjective factors, such as the Stock Option and Compensation Committee's perception of individual performance and the executive officer's contribution to the overall performance of the Company, and not on specific criteria. No specific weight was given to any of these factors because each of these factors was considered significant and the relevance of each varies depending upon an officer's responsibilities. These factors were also taken into account when the Stock Option and Compensation Committee established Peter J. Kight's salary at $250,000 for transition fiscal 1996.

The purposes of the Company's 1995 Stock Option Plan is to provide long-term incentives to key employees and motivate key employees to improve the performance of the Company's Common Stock. Stock option awards are considered annually by the Stock Option and Compensation Committee. The value of the stock options awarded is entirely dependent upon the Company's stock performance over a period of time.

The number of shares of the Company's Common Stock subject to the options granted during transition fiscal 1996 was determined based on a subjective evaluation of the past performance of the individual, the total compensation being paid to the individual, the individual's scope of responsibility, and the anticipated value of the individual's contribution to the Company's future performance. No specific weight was given to any of these factors. Although information as to the options awarded to each executive officer during previous years was reviewed by the Stock Option and Compensation Committee, the Stock Option and Compensation Committee did not consider the total amount of options held by an officer in determining the size of an option awarded for transition fiscal 1996.

Each stock option awarded during transition fiscal 1996 had an exercise price equal to the fair market value of the underlying Common Stock of the Company on the date of the grant. The options granted during transition fiscal 1996 vest and become exercisable at the rate of 20% per year if the option holder remains employed at the time of vesting and terminate ten (10) years from the date of grant. All options granted during transition fiscal 1996 to employees are subject to certain forfeiture restrictions.

The Budget Reconciliation Act of 1993 amended the Code to add Section 162(m) which bars a deduction to any publicly held corporation for compensation paid to a "covered employee" in excess of $1,000,000 per year. The Compensation Committee does not believe that this law will impact the Company in the near term because the current level of compensation for each of the Company's executive officers is well below the $1,000,000 salary limitation.

STOCK OPTION AND COMPENSATION COMMITTEE

George R. Manser
Eugene F. Quinn
(For transition fiscal 1996)

PERFORMANCE GRAPH

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG THE COMPANY, THE NASDAQ STOCK MARKET - US INDEX AND THE S&P COMPUTER SOFTWARE & SERVICES INDEX

The following Performance Graph compares the performance of the Company with that of the Nasdaq Stock Market - US Index and the S&P Computer Software & Services Index, which is a published industry index. The comparison of the cumulative total return to stockholders for each of the periods assumes that $100 was invested on September 27, 1995 (the effective date the Company's Common Stock was registered under the Securities Exchange Act of 1934, as amended), in the Common Stock of the Company, and in the Nasdaq Stock Market - US Index and the S&P Computer Software & Services Index and that all dividends were reinvested.

	CheckFree Corporation	S&P	NASDAQ
9/95	100	100	100
12/95	107.5	103.7257	100.9016
6/96	99.375	132.0183	113.65

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

The following table sets forth information as of September 16, 1996 regarding beneficial ownership of the Company's Common Stock by: (i) each person known by the Company to own beneficially 5% or more of the Company's outstanding shares of Common Stock; (ii) each director of the Company; (iii) the Named Executive Officers, excluding Mr. Garrett who resigned in July 1996; (iv) all current directors and executive officers as a group:

	SHARES BENEFICIALLY OWNED (1)(2)	
STOCKHOLDER	NUMBER	PERCENT
Peter J. Kight (3)	6,620,607	15.7%
Mark A. Johnson	1,573,802	3.8%
Mark D. Phelan	474,140	1.1%
Howard S. Baulch	107,228	*
William P. Boardman	-	*
George R. Manser	26,307	*
Eugene F. Quinn	5,261	*
Jeffrey M. Wilkins	52,614	*
All directors and executive officers as a group (15 persons)(3)	11,164,935	26.2%
Nationwide Mutual Life Insurance Company One Nationwide Plaza Columbus, Ohio 43215	3,705,341	8.9%
Tribune Company 435 North Michigan Avenue Chicago, Illinois 60611	2,686,155	6.5%

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* Represents beneficial ownership of less than 1% of the Company's outstanding Common Stock.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission which generally attribute beneficial ownership of securities to persons who possess sole or shared voting power and/or investment power with respect to those shares.

(2) Includes shares purchasable within 60 days after September 16, 1996 pursuant to the exercise of options covering 420,912 shares for Mr. Kight, 72,812 shares for Mr. Johnson, 300,089 shares for Mr. Phelan, 52,614 shares for Mr. Baulch, 0 shares for Mr. Boardman, 26,307 shares for Mr. Manser, 5,261 shares for Mr. Quinn, 52,614 shares for Mr. Wilkins, and 961,488 shares for all directors and executive officers as a group.

(3) Includes 1,800 shares held by the Peter J. Kight and Teresa J. Kight 1995 Children's Trust. Mr. Kight disclaims ownership of such shares in which he has no pecuniary interest.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Currently, Messrs. Manser and Quinn, neither of whom are employees of the Company, are members of the Stock Option and Compensation Committee. Since 1994, Mr. Kight has served as a member of Metatec Corporation's Board of Directors, of which Mr. Wilkins is Chairman and Chief Executive Officer.

TRANSACTIONS BETWEEN EXECUTIVE OFFICERS AND THE COMPANY

On December 16, 1992, Mark A. Johnson, President of Business Services of the Company, and Mark D. Phelan, Executive Vice President of the Company, along with certain other non-executive officers of the Company, purchased shares of Common Stock from two stockholders of the Company. In order to pay for those shares, Mr. Johnson, Mr. Phelan and certain other non-executive officers of the Company entered into agreements with the Company pursuant to which the Company loaned an aggregate of $501,447 to such officers of which none remains outstanding as of June 30, 1996. Mr. Johnson and Mr. Phelan borrowed $100,272 and $100,293, respectively, and Mr. Johnson and Mr. Phelan pledged to the Company the Common Stock acquired with the proceeds of the loans. These loans were evidenced by promissory notes due December 31, 1997, bearing interest at a rate of 6.15% per annum, payable annually. In addition to the restrictions imposed by the pledge, the transfer of the shares by each of these officers is also restricted by agreements which give the Company an option to purchase such officer's shares if that officer's employment with the Company is terminated. The entire principal amount of each note is due on December 31, 1997, except that, if the officer's employment with the Company is terminated, the entire unpaid principal and unpaid accrued interest becomes due and payable within 60 days after such termination. In December 1995, Mr. Johnson repaid all obligations under his promissory note. In June 1996, the Company agreed to forgive all principal and interest payable under Mr. Phelan's promissory note.

Jay N. Whipple III, the Company's Executive Vice President of Portfolio Services is a minority owner and Vice President of Jay N. Whipple Inc., a consulting firm that provides services to the Company. Under the current arrangement with Jay N. Whipple Inc., the Company pays Jay N. Whipple, Inc. $8,500 per month for consulting services.

VOTING AGREEMENTS

Mr. Kight, Mr. Johnson, Greylock Limited Partnership ("Greylock"), Highland Capital Partners Limited Partnership ("Highland"), and Tribune Company ("Tribune") entered into a voting agreement, dated December 2, 1994, pursuant to which Mr. Kight, Mr. Johnson, Greylock and Highland agreed to vote all of their shares of the Company's Common Stock in favor of the election to the Company's Board of Directors of Eugene F. Quinn or such other nominee of Tribune who is reasonably acceptable to Mr. Kight, Mr. Johnson, Greylock and Highland. Additionally, Mr. Kight and Mr. Johnson agreed to vote, and Greylock and Highland agreed to cause their nominees to the Company's Board of Directors to vote, in their capacity as directors, in favor of the election of Tribune's nominee to the Audit Committee of the Company's Board of Directors. Additionally, Tribune agreed to vote all of its shares of the Company's Common Stock in favor of the election to the Company's Board of Directors of (i) Mr. Kight, (ii) Mr. Johnson, (iii) Mr. William S. Kaiser or such other nominee of Greylock as shall be reasonably acceptable to Tribune, and (iv) Mr. Paul A. Maeder or such other nominee of Highland as shall be reasonably acceptable to Tribune. Mr. Kaiser, Class III Director, resigned from the Board of Directors effective March 21, 1996. Mr. Maeder, Class I Director, resigned from the Board of Directors effective April 17, 1996. Messrs. Kaiser and Maeder are general partners of venture capital investment partnerships that purchased shares of the Company in 1992 and either have distributed their shares to their respective limited partners. This voting agreement was terminated on April 19, 1996.

In addition, Mr. Kight, Mr. Johnson and Tribune entered into a voting agreement, dated April 19, 1996, pursuant to which Mr. Kight and Mr. Johnson agreed to vote all of their shares of the Company's Common Stock in favor of the election to the Company's Board of Directors of Mr. Quinn or such other nominee of Tribune who is reasonably acceptable to Mr. Kight and Mr. Johnson. Additionally, Mr. Kight and Mr. Johnson agreed to vote, in their capacity as directors, in favor of the election of Tribune's nominee to the Audit Committee of the Company's Board of Directors. Under this agreement, Mr. Quinn currently represents Tribune on the Company's Board of Directors and on the Audit Committee. Additionally, Tribune agreed to vote all of its shares of the Company's Common Stock in favor of the election to the Company's Board of Directors of Mr. Kight and Mr. Johnson. This voting agreement terminates on the earlier of the date Tribune holds less than 50% of the shares of the Company's Common Stock acquired from the Company in December 1994 pursuant to the terms of a certain stock purchase agreement, dated as of December 2, 1994, between Tribune and the Company (the "Tribune Agreement"), and from Mr. Kight in January 1995 and any shares subsequently acquired by Tribune pursuant to the exercise of the anti-dilution rights granted in the Tribune Agreement and September 28, 2000.

MR. KIGHT'S GUARANTY

In 1993, the State of Ohio issued State Economic Development Revenue Bonds in the aggregate principal amount of $7,515,000 pursuant to a certain trust agreement between the Treasurer of Ohio and The Provident Bank, as trustee ("Provident"). The proceeds of the bonds were applied to the purchase of real property which is now currently being leased by the Company from the Director of Development, State of Ohio for its corporate offices in Columbus, Ohio. Mr. Kight guaranteed the obligations evidenced by the bonds in order to induce their issuance by the State of Ohio pursuant to a guaranty agreement, dated August 1, 1993, made with Provident (the "Guaranty Agreement"). Under the Guaranty Agreement, Mr. Kight's liability is limited to an amount equal to the product of his percentage beneficial ownership of the Company multiplied by the outstanding principal of the bonds; provided, however, that Mr. Kight's liability may not exceed $2,200,000. The Company has agreed to indemnify and reimburse Mr. Kight for any amount paid by him under the Guaranty Agreement. Additionally, under the Guaranty Agreement, with certain limited exceptions, the Director of Development's consent is required for Mr. Kight to sell or otherwise dispose of his equity interest in the Company.

MISCELLANEOUS

Curtis A. Loveland, the Company's Secretary, is a partner in the law firm of Porter, Wright, Morris & Arthur, which firm serves as general counsel to the Company.

Tribune owns a 13% interest in Peapod, L.P. ("Peapod"). Peapod is a business customer of the Company, which generated revenue of $56,953 in transition fiscal 1996.

PART IV

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

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

(1) The following financial statements are included in this Annual Report on Form 10-K/A No.1:

Independent Auditors' Report.

Consolidated Balance Sheets as of June 30, 1996 and as of December 31, 1994 and 1995.

Consolidated Statements of Operations for the six months ended June 30, 1996 and for each of the three years in the period ended December 31, 1995.

Consolidated Statements of Stockholders' Equity for the six months ended June 30, 1996 and for each of the three years in the period ended December 31, 1995.

Consolidated Statements of Cash Flows for the six months ended June 30, 1996 and for the each of the three years in the period ended December 31, 1995.

Notes to the Consolidated Financial Statements.

(2) The following financial statement schedule is included in this Annual Report on Form 10-K/A No.1 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 January 15, 1996, among the Company, Checkfree Acquisition Corporation, and Servantis Systems Holdings, Inc. (Reference is made to Exhibit 2 to the Current Report on Form 8-K, dated January 15, 1996, filed with the Securities and Exchange Commission on January 16, 1996, and incorporated herein by reference.)
2(b)	Agreement and Plan of Merger, dated as of March 21, 1996, among the Company, ISC Acquisition Corporation, and Security APL, Inc. (Reference is made to Exhibit 2 to the Current Report on Form 8-K, dated March 21, 1996, as amended, filed with the Securities and Exchange Commission, and incorporated herein by reference.)
2(c)	Amendment to Agreement and Plan of Merger, dated as of April 30, 1996, among the Company, ISC Acquisition Corporation, and Security APL, Inc. (Reference is made to Exhibit 2(c) to the Form 10-Q for the quarter ended March 31, 1996, filed with the Securities and Exchange Commission, and incorporated herein by reference.)
2(d)	Agreement and Plan of Merger, dated as of September 15, 1996, among the Company, Checkfree Acquisition Corporation II, Intuit Inc. and Intuit Services Corporation. (Reference is made to Exhibit 2 to the Current Report on Form 8-K, dated September 15, 1996, filed with the Securities and Exchange Commission, and incorporated herein by reference.)
3(a)	Restated Certificate of Incorporation of the Company. (Reference is made to Exhibit 3(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.)
3(b)	Amended and Restated By-Laws of the Company. (Reference is made to Exhibit 3(b) 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.)
3(c)	Form of Specimen Stock Certificate. (Reference is made to Exhibit 3(c) 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.)
4	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 Amended and Restated By-Laws (contained in the Company's Amended and Restated By-Laws filed as Exhibit 3(b) hereto).

10(a)	Checkfree Corporation 1995 Stock Option Plan. (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(b)	Checkfree Corporation Amended and Restated 1993 Stock Option Plan. (Reference is made to Exhibit 10(b) 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(c)	Checkfree Corporation Second Amended and Restated 1983 Non-Statutory Stock Option Plan. (Reference is made to Exhibit 10(c) 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(d)	Checkfree Corporation Second Amended and Restated 1983 Incentive Stock Option Plan. (Reference is made to Exhibit 10(d) 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(e)	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(f)	Schedule identifying material details of Indemnification Agreements substantially identical to Exhibit 10(e). (Reference is made to Exhibit 10(f) 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)	Voting Agreement, dated November 30, 1994, among Peter J. Kight, Greylock Limited Partnership, and Highland Capital Partners Limited Partnership. (Reference is made to Exhibit 10(g) 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(h)	Voting Agreement, dated December 2, 1994, among Peter J. Kight, Mark A. Johnson, Greylock Limited Partnership, Highland Capital Partners Limited Partnership and Tribune Company. (Reference is made to Exhibit 10(h) 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 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(j)	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(k)	Stock Purchase Agreement, dated December 2, 1994, between the Company and Tribune Company. (Reference is made to Exhibit 10(k) 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)	Stock Transfer Restriction Agreement, dated December 2, 1994, among Peter J. Kight, Mark A. Johnson, and Tribune Company. (Reference is made to Exhibit 10(l) 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(m)	Investment Agreement, dated November 9, 1983, among the Company (formerly, Aegis Systems, Inc.), The Midland Mutual Life Insurance Company, The Columbus Mutual Life Insurance Company, Grange Mutual Casualty Company, and North American National Corp. (Reference is made to Exhibit 10(m) 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(n)	Stock Purchase Agreement, dated March 17, 1988, between the Company and Nationwide Mutual Insurance Company. (Reference is made to Exhibit 10(n) 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(o)	Subscription and Redemption Agreement, dated December 31, 1988, between the Company and The Midland Mutual Life Insurance Company. (Reference is made to Exhibit 10(o) 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(p)	Subscription and Redemption Agreement, dated December 31, 1988, between the Company and Columbus Mutual Life Insurance Company. (Reference is made to Exhibit 10(p) 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(q)	Subscription and Redemption Agreement, dated December 31, 1988, between the Company and Grange Mutual Casualty Company. (Reference is made to Exhibit 10(q) 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(s)	Subscription and Redemption Agreement, dated December 31, 1988, between the Company and Pan Western Life Insurance Company. (Reference is made to Exhibit 10(s) 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(t)	Subscription Agreement, dated December 31, 1988, between the Company and Nationwide Mutual Insurance Company. (Reference is made to Exhibit 10(t) 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(u)	Investment Agreement, dated September 20, 1989, among the Company, Columbus Life Insurance Company, Grange Mutual Casualty Company, and North American National Corporation. (Reference is made to Exhibit 10(u) 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(v)	Amending Agreement, dated November 30, 1994, and letter agreement, dated September 24, 1992, between the Company and Mark D. Phelan. (Reference is made to Exhibit 10(v) 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(w)	Joint Development and Marketing Agreement, dated August 2, 1995, between the Company and ADP, Inc. (Reference is made to Exhibit 10(w) 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(x)	Bill Payment and Remote Banking Services Agreement, dated March 25, 1993, between the Company and MasterCard International Incorporated. (Reference is made to Exhibit 10(x) 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(y)	Amendment to Bill Payment and Remote Banking Services Agreement, dated December 1, 1994, between the Company and MasterCard International Incorporated. (Reference is made to Exhibit 10(y) 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(z)	Agreement and Release, dated October 16, 1995, between the Company and MasterCard International Incorporated. (Reference is made to Exhibit 10(z) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission, and incorporated herein by reference.)**
10(aa)	Electronic Bill Payment Services Marketing Agreement, dated April 26, 1995, between the Company and AT&T Corporation. (Reference is made to Exhibit 10(z) 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(bb)	Amendment One to Electronic Bill Payment Services Marketing Agreement, dated November 1, 1995, between the Company and AT&T Corporation. (Reference is made to Exhibit 10(bb) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission, and incorporated herein by reference.)**
10(cc)	Marketing and License Agreement, dated August 14, 1995, among the Company, Virtual Open Network Environment, and Spyglass, Inc. (Reference is made to Exhibit 10(aa) 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(dd)	Automatic Payment Collection Agreement, dated July 28, 1993, between the Company and CompuServe, Incorporated (with addenda). (Reference is made to Exhibit 10(bb) 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(ee)	Automatic Payment Collection Agreement, dated August 22, 1994, between the Company and Spry, Inc. (Reference is made to Exhibit 10(cc) 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(ff)	Data Capture Credit Card Terminal Processing Agreement, dated August 22, 1994, between the Company and Spry, Inc. (Reference is made to Exhibit 10(dd) 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(gg)	Reproduction and Distribution Agreement, dated July 27, 1995, between the Company and Spry, Inc. (Reference is made to Exhibit 10(ee) 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(hh)	Letter of Intent, dated July 10, 1995, between the Company and CyberCash, Inc. (Reference is made to Exhibit 10(ff) 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(ii)	Electronic Bill Payment Services Agreement, dated March 10, 1995, between the Company and FiTech, Inc. (Reference is made to Exhibit 10(gg) 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(jj)	Amendment to Bill Payment and Remote Banking Services Agreement, dated July 1, 1995, between the Company and FiTech, Inc. (Reference is made to Exhibit 10(hh) 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(kk)	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(ll)	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(mm)	Cooperative Marketing Agreement, dated March 14, 1991, between the Company and Intuit Corporation (including addendum and notice). (Reference is made to Exhibit 10(kk) 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(nn)	Loan and Stock Restriction Agreement, dated December 16, 1992, between the Company and Mark D. Phelan. (Reference is made to Exhibit 10(ll) 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(oo)	Stock Pledge and Security Agreement, dated December 16, 1992, between the Company and Mark D. Phelan. (Reference is made to Exhibit 10(mm) 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(pp)	Promissory Note, dated December 16, 1992, of Mark D. Phelan. (Reference is made to Exhibit 10(nn) 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(qq)	Loan and Stock Restriction Agreement, dated December 16, 1992, between the Company and Mark A. Johnson. (Reference is made to Exhibit 10(oo) 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(rr)	Stock Pledge and Security Agreement, dated December 16, 1992, between the Company and Mark A. Johnson. (Reference is made to Exhibit 10(pp) 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(ss)	Promissory Note, dated December 16, 1992, of Mark A. Johnson. (Reference is made to Exhibit 10(qq) 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(tt)	Lease, dated August 1, 1993, between the Company and The Director of Development of the State of Ohio. (Reference is made to Exhibit 10(rr) 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(uu)	Guaranty Agreement, dated August 1, 1993, between the Company and The Provident Bank. (Reference is made to Exhibit 10(ss) 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(vv)	Demand Mortgage Note, dated August 25, 1993, of the Company. (Reference is made to Exhibit 10(tt) 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(ww)	Irrevocable Letter of Credit from Society National Bank for the Company, dated August 25, 1993 (including second renewal thereof). (Reference is made to Exhibit 10(uu) 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(xx)	Open-End Mortgage, Assignment of Rents and Security Agreement, dated August 25, 1993, with the Company as mortgagor and Society National Bank as mortgagee. (Reference is made to Exhibit 10(vv) 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(yy)	Loan and Security Agreement, dated August 25, 1993, between the Company and Society National Bank. (Reference is made to Exhibit 10(ww) 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(zz)	Commercial Note Variable Rate, dated January 3, 1995, of the Company. (Reference is made to Exhibit 10(xx) 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(aaa)	Reimbursement Agreement, dated August 25, 1993, between the Company and Peter J. Kight. (Reference is made to Exhibit 10(yy) 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(bbb)	Agreement, dated August 29, 1995, between the Company and Nationwide Mutual Insurance Company. (Reference is made to Exhibit 10(zz) 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(ccc)	Agreement, dated September 8, 1995, among the Company, The Midland Life Insurance Company, The Columbus Life Insurance Company, Grange Mutual Casualty Company, and Pan Western Life Insurance Company. (Reference is made to Exhibit 10(aaa) 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(ddd)	License Agreement, dated October 27, 1995, between the Company and Block Financial Corporation. (Reference is made to Exhibit 10(ddd) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission, and incorporated herein by reference.)**
10(eee)	Joint Marketing and Trademark License Agreement, dated December 28, 1995, between the Company and Electronic Data Systems Corporation. (Reference is made to Exhibit 10(eee) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission, and incorporated herein by reference.)**
10(fff)	Joint Marketing Agreement, dated November 3, 1995, between the Company and Fiserv, Inc. (Reference is made to Exhibit 10(fff) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission, and incorporated herein by reference.)**
10(ggg)	License Agreement, December 29, 1995, between the Company and Premiere Communications, Inc. (Reference is made to Exhibit 10(ggg) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission, and incorporated herein by reference.)**
10(hhh)	Payment Services, Software Development and Marketing Agreement, dated as of February 27, 1996, between the Company and CyberCash. (Reference is made to Exhibit 10(a) 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(iii)	Termination of Voting Agreement, dated as of April 19, 1996, among Peter J. Kight, Mark A. Johnson, Greylock Limited Partnership, Highland Capital Partners Limited Partnership and Tribune Company. (Reference is made to Exhibit 10(b) 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(jjj)	Voting Agreement, dated as of April 19, 1996, among Peter J. Kight, Mark A. Johnson, and Tribune Company. (Reference is made to Exhibit 10(c) 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(kkk)		Executive Employment Agreement between the Company and Kenneth J. Benvenuto. (Reference is made to Exhibit 10(d) 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(lll)		Executive Employment Agreement between the Company and Robert E. Bowers. (Reference is made to Exhibit 10(e) 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(mmm)		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(nnn)		Executive Employment Agreement between the Company and James M. Garrett. (Reference is made to Exhibit 10(g) 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(ooo)		Executive Employment Agreement between the Company and James Robert Lewis, III. (Reference is made to Exhibit 10(h) 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(ppp)		Executive Employment Agreement between the Company and Jay N. Whipple, III. (Reference is made to Exhibit 10(i) 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(qqq)		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.)
21		Subsidiaries of the Company. (Reference is made to Exhibit 21 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.)
23	*	Consent of Deloitte & Touche LLP.
24		Powers of Attorney. (Reference is made to Exhibit 24 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.)
27	*	Financial Data Schedule.

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* Filed with this amended report.

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

(B) REPORTS ON FORM 8-K

The Company filed the following Current Reports on Form 8-K since March 31, 1996:

Current Report on Form 8-K, dated April 19, 1996, filed with the Securities and Exchange Commission on April 23, 1996 (Item 8).

Current Report on Form 8-K, dated May 9, 1996, filed with the Securities and Exchange Commission on May 20, 1996 (Items 2 and 7).

Current Report on Form 8-K/A No. 1, dated May 9, 1996, filed with the Securities and Exchange Commission on July 22, 1996 (Items 2 and 7).

Current Report on Form 8-K dated July 2, 1996, filed with the Securities and Exchange Commission on July 8, 1996 (Items 5).

(C) EXHIBITS

The exhibits to this report begin on page __.

(D) FINANCIAL STATEMENT SCHEDULES

The financial statement schedule and the independent auditors' report thereon are set forth on pages F-21 through F-22 hereof.

SIGNATURES

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

CHECKFREE CORPORATION

Date: December 9, 1996

By: /s/ JOHN M. STANTON

John M. Stanton,
Vice President and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this amended report has been signed below by the following persons on behalf of the Company and in the capacities indicated on the 9th day of December, 1996.

Signature	Title
*PETER J. KIGHT Peter J. Kight	Chairman of the Board, President, and Chief Executive Officer (Principal Executive Officer)
*Mark A. Johnson Mark A. Johnson	President of Corporate Services and Director
/s/John M. Stanton John M. Stanton	Vice President and Treasurer (Principal Accounting Officer)
*James S. Douglass James S. Douglass	Executive Vice President - Finance and Chief Financial Officer (Principal Financial Officer)
*William P. Boardman William P. Boardman	Director
*George R. Manser George R. Manser	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

CHECKFREE CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 1993, 1994 AND 1995
AND FOR THE SIX MONTHS ENDED JUNE 30, 1996
AND INDEPENDENT AUDITORS' REPORT

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 and its subsidiaries as of December 31, 1994 and 1995 and June 30, 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995 and for the six months ended June 30, 1996. 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 generally accepted auditing standards. 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 Checkfree Corporation and its subsidiaries at December 31, 1994 and 1995 and June 30, 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 and for the six months ended June 30, 1996 in conformity with generally accepted accounting principles.

Columbus, Ohio
August 22, 1996, except for Note 17 as to which
the date is September 15, 1996

DELOITTE & TOUCHE LLP

CHECKFREE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	DECEMBER 31, 1994	DECEMBER 31, 1995	JUNE 30, 1996
CURRENT ASSETS:			
Cash and cash equivalents	$ 2,208,725	$ 63,839,854	$ 20,987,355
Investments	11,819,937	21,012,141	18,089,029
Accounts receivable	1,862,496	3,389,084	29,516,548
Assets held for sale			20,000,000
Prepaid expenses and other	1,079,612	1,915,969	2,205,800
Refundable income taxes		144,119	
Deferred income taxes	112,123	165,543	
Total current assets	17,082,893	90,466,710	90,798,732
PROPERTY AND EQUIPMENT - Net	12,156,280	13,559,180	36,567,141
OTHER ASSETS:			
Capitalized software, net	493,054	285,554	34,407,680
Intangible assets, net			27,507,677
Investments		7,498,835	2,898,065
Other noncurrent assets	779,833	3,831,649	4,050,249
Total other assets	1,272,887	11,616,038	68,863,671
TOTAL	$ 30,512,060	$ 115,641,928	$ 196,229,544
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 483,052	$ 706,459	$ 5,434,468
Accrued liabilities	2,994,545	5,632,852	14,876,861
Customer deposits	217,951	192,456	575,595
Current portion of long-term obligations	1,081,611	1,161,192	1,112,184
Deferred revenue	754,154	982,171	15,438,798
Income taxes payable	153,032		45,608
Deferred income taxes			7,819,505
Total current liabilities	5,684,345	8,675,130	45,303,019
ACCRUED RENT AND OTHER	65,637	50,755	195,169
DEFERRED INCOME TAXES	176,663	308,711	4,732,324
LONG-TERM OBLIGATIONS - Less current portion:			
Obligations under capital leases	8,007,079	7,157,465	7,136,817
Stockholder's note	50,000	50,000	50,000
Notes payable to banks	156,250	75,000	1,137,500
Total long-term obligations	8,213,329	7,282,465	8,324,317
COMMITMENTS (Notes 11, 12 and 13)			
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 27,619,193 shares, 32,864,765 shares and 42,274,800 shares	276,192	328,648	422,748
Additional paid-in capital	17,210,032	100,133,800	276,823,109
Less:			
Treasury stock - at cost, 757,536 shares	(629,481)	(629,481)	(629,481)
Stockholders' notes receivable	(325,932)	(133,793)	
accumulated deficit	(158,725)	(374,307)	(138,941,661)
Total stockholders' equity	16,372,086	99,324,867	137,674,715
TOTAL	$ 30,512,060	$ 115,641,928	$ 196,229,544

See notes to consolidated financial statements.

CHECKFREE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31, 1993	1994	1995	SIX MONTHS ENDED JUNE 30, 1996
REVENUES:				
Processing and servicing	$ 23,337,061	$ 31,097,631	$ 39,535,737	$ 27,141,624
Merchant discount	5,648,539	7,184,729	9,794,280	6,162,914
License fees	--	--	--	10,970,034
Maintenance fees	--	--	--	1,978,287
Other	1,906,675	984,275	--	4,787,003
Total revenues	30,892,275	39,266,635	49,330,017	51,039,862
EXPENSES:				
Cost of processing, servicing and support	19,516,041	25,787,164	32,292,787	40,351,784
Research and development	3,677,898	4,825,910	7,008,625	10,177,164
Sales and marketing	3,730,311	4,553,073	7,405,341	17,512,910
General and administrative	2,466,395	2,717,175	4,288,696	8,805,891
In process research and development	--	--	--	122,357,586
Total expenses	29,390,645	37,883,322	50,995,449	199,205,335
INCOME (LOSS) FROM OPERATIONS	1,501,630	1,383,313	(1,665,432)	(148,165,473)
OTHER:				
Interest income	165,235	298,186	2,135,085	1,658,749
Interest expense	(278,835)	(795,204)	(644,837)	(324,726)
INCOME (LOSS) BEFORE INCOME TAXES	1,388,030	886,295	(175,184)	(146,831,450)
INCOME TAX EXPENSE (BENEFIT)	368,000	400,000	40,000	(8,628,615)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	1,020,030	486,295	(215,184)	(138,202,835)
EXTRAORDINARY ITEM, EXTINGUISHMENT OF DEBT, NET OF TAX	--	--	--	(364,374)
NET INCOME (LOSS)	$ 1,020,030	$ 486,295	$ (215,184)	$(138,567,209)
PER SHARE AMOUNTS:				
Income (loss) before extraordinary item	$ 0.04	$ 0.02	$ (0.01)	$ (3.69)
Extraordinary item				(0.01)
Net income (loss)	$ 0.04	$ 0.02	$ (0.01)	$ (3.70)
WEIGHTED AVERAGE COMMON AND EQUIVALENT SHARES OUTSTANDING	26,886,254	27,103,287	28,218,521	37,419,580

See notes to consolidated financial statements.

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	STOCKHOLDERS' NOTES RECEIVABLE
BALANCE, DECEMBER 31, 1992	24,021,579	$240,216	$ 4,344,979	(606,666)	$(504,113)	$(501,447)
Net income	--	--	--	--	--	--
Treasury stock acquired	--	--	--	(60,348)	(50,147)	50,147
Repayment of loans to stockholders	--	--	--	--	--	50,147
BALANCE, DECEMBER 31, 1993	24,021,579	240,216	4,344,979	(667,014)	(554,260)	(401,153)
Net income	--	--	--	--	--	--
Stock options exercised	52,614	526	29,474	--	--	--
Treasury stock acquired	--	--	--	(90,522)	(75,221)	75,221
Conversion of subordinated debentures	1,127,439	11,274	738,726	--	--	--
Sale of common stock	2,417,561	24,176	12,096,853	--	--	--
BALANCE, DECEMBER 31, 1994	27,619,193	276,192	17,210,032	(757,536)	(629,481)	(325,932)
Net loss	--	--	--	--	--	--
Stock options exercised	270,262	2,703	172,082	--	--	--
Tax benefit associated with exercise of stock options	--	--	57,586	--	--	--
Sale of common stock, net of expenses related to public offering	4,975,310	49,753	82,694,100	--	--	--
Repayment of loans to stockholders	--	--	--	--	--	192,139
Cash payments in lieu of fractional shares	--	--	--	--	--	--
BALANCE, DECEMBER 31, 1995	32,864,765	328,648	100,133,800	(757,536)	(629,481)	(133,793)
Net loss	--	--	--	--	--	--
Stock options exercised	874,195	8,742	862,088	--	--	--
Tax benefit associated with exercise of stock options	--	--	1,100,141	--	--	--
Issuance of common stock and stock options pursuant to acquisitions	8,535,840	85,358	174,727,080	--	--	--
Repayment of loans to stockholders	--	--	--	--	--	133,793
Cash payments in lieu of fractional shares	--	--	--	--	--	--
BALANCE, JUNE 30, 1996	42,274,800	$422,748	$276,823,109	(757,536)	$(629,481)	$ --

	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
BALANCE, DECEMBER 31, 1992	$ (1,665,050)	$ 1,914,585
Net income	1,020,030	1,020,030
Treasury stock acquired	--	--
Repayment of loans to stockholders	--	50,147
BALANCE, DECEMBER 31, 1993	(645,020)	2,984,762
Net income	486,295	486,295
Stock options exercised	--	30,000
Treasury stock acquired	--	--
Conversion of subordinated debentures	--	750,000
Sale of common stock	--	12,121,029
BALANCE, DECEMBER 31, 1994	(158,725)	16,372,086
Net loss	(215,184)	(215,184)
Stock options exercised	--	174,785
Tax benefit associated with exercise of stock options	--	57,586
Sale of common stock, net of expenses related to public offering	--	82,743,853
Repayment of loans to stockholders	--	192,139
Cash payments in lieu of fractional shares	(398)	(398)
BALANCE, DECEMBER 31, 1995	(374,307)	99,324,867
Net loss	(138,567,209)	(138,567,209)
Stock options exercised	--	870,830
Tax benefit associated with exercise of stock options	--	1,100,141
Issuance of common stock and stock options pursuant to acquisitions	--	174,812,438
Repayment of loans to stockholders	--	133,793
Cash payments in lieu of fractional shares	(145)	(145)
BALANCE, JUNE 30, 1996	$(138,941,661)	$ 137,674,715

See notes to consolidated financial statements.

CHECKFREE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 1993	1994	1995	Six Months Ended June 30, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 1,020,030	$ 486,295	$ (215,184)	$(138,567,209)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Extraordinary item, extinguishment of debt, net of tax	--	--	--	364,374
Write-off of in process research and development	--	--	--	122,357,586
Depreciation and amortization	1,376,533	1,921,665	2,484,677	6,997,102
Deferred income taxes	--	64,540	78,628	(8,653,323)
Loss on disposal of property and equipment	--	33,996	12,650	99,819
Accretion of investment discount - net	--	--	(337,221)	--
Change in certain assets and liabilities:				
Accounts receivable	(2,364,264)	543,052	(1,499,502)	(1,109,875)
Prepaid expenses and other	(443,183)	(269,276)	(915,259)	820,701
Refundable income taxes	159,473	--	(144,119)	--
Accounts payable	141,325	723	223,407	2,605,707
Accrued liabilities	562,810	(87,607)	2,623,425	3,428,406
Customer deposits	82,430	(113,237)	(25,495)	272,647
Deferred revenue	493,354	153,093	228,017	4,585,841
Income taxes payable	232,441	(79,409)	(153,032)	152,903
Net cash provided by (used in) operating activities	1,260,949	2,653,835	2,360,992	(6,645,321)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property additions	(1,351,254)	(1,042,892)	(3,431,016)	(7,089,391)
Proceeds from the sale of property and equipment	19,719	23,548	270	29,016
Capitalization of software development costs	--	--	--	(1,312,327)
Purchase of businesses, net of cash acquired	--	--	--	(39,404,209)
Purchase of investments	--	(11,819,937)	(54,078,818)	--
Proceeds from maturities and sales of investments	--	--	37,725,000	10,644,945
Purchase of trademark license	--	--	(3,000,000)	--
Net cash used in investing activities	(1,331,535)	(12,839,281)	(22,784,564)	(37,131,966)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from sale of common stock	--	12,121,029	82,743,853	--
Redemption of subordinated debentures	(400,000)	(250,000)	--	--
Repayment of notes payable and other debt extinguishment	(458,340)	(250,000)	(75,000)	(608,874)
Proceeds from notes payable	--	--	225,000	1,100,000
Repayment of stockholders' notes	--	--	(225,000)	--
Principal payments under capital lease obligations	(176,412)	(711,435)	(1,038,264)	(570,816)
Proceeds from stock options exercised including related income tax benefits	--	30,000	232,371	870,830
Cash payments in lieu of fractional shares	--	--	(398)	(145)
Payments received on stockholder notes receivables	50,147	--	192,139	133,793
Net cash provided by (used in) financing activities	(984,605)	10,939,594	82,054,701	924,788
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,055,191)	754,148	61,631,129	(42,852,499)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,509,768	1,454,577	2,208,725	63,839,854
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,454,577	$ 2,208,725	$ 63,839,854	$ 20,987,355

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - Checkfree Corporation (the Company) 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 16 for a description of the Company's business segments.

PRINCIPLES OF CONSOLIDATION AND CHANGE IN FISCAL YEAR - The accompanying consolidated financial statements include the results of operations of the Company and its wholly-owned subsidiaries. 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 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.

Effective January 1, 1996, the Company changed its fiscal year-end from December 31 to June 30. The following presents unaudited summarized consolidated financial information for the six months ended June 30, 1995:

Total revenues	$ 23,581,343
Loss from operations	(67,792)
Income taxes	61,592
Net income	75,288
Net income per share	Nil

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 times through June 1999.

TRANSACTION PROCESSING - In connection with the timing of the Company's financial transactions 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 (primarily United States government agency obligations and commercial paper) purchased with maturities of one month or less to be cash equivalents. Substantially all cash and cash equivalents are on deposit with seven financial institutions.

INVESTMENTS - The Company's investments consist primarily of United States government or government agency obligations and certificates of deposit. The Company classifies these investments as available-for-sale securities in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Such investments are carried at amortized cost, which approximates market value.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Property and equipment are depreciated using the straight-line and accelerated methods over the estimated useful lives as follows: land improvements, building and building improvements, 15 to 30 years; computer equipment, software, and furniture, 3 to 5 years. Equipment under capital leases is amortized using the straight-line method over the terms of the leases. Leasehold improvements are amortized over the lesser of the estimated useful lives or remaining lease terms.

CAPITALIZED SOFTWARE COSTS - 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 Statement of Financial Accounting Standards No. 86. Capital software development costs are amortized on a product-by-product basis using either the straight-line method over the estimated economic life of the product 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.

Amortization of software costs totaled $265,763, $267,624, $207,500 and $2,520,802 for the years ended December 31, 1993, 1994 and 1995 and the six months ended June 30, 1996, respectively.

INTANGIBLE ASSETS - The cost of identified intangible assets are generally amortized on a straight-line basis over periods from 6-15 years. Goodwill is amortized on a straight-line basis over 10 years. At each balance sheet date, a determination is made by management to ascertain whether the intangible assets have been impaired based on several criteria, including, but not limited to, sales trends, undiscounted operating cash flows, and other operating factors.

CAPITAL STOCK - On April 21, 1995, the Company's stockholders increased the authorized number of shares of $.01 par value Common Stock to 25,000,000 and on August 8, 1995 increased the number of authorized shares of $.01 par value Common Stock to 150,000,000. In addition, on August 8, 1995, the Company's stockholders authorized the Board of Directors 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 may determine without further stockholder approval. No preferred shares have been issued.

ADVERTISING - The Company expenses advertising costs as incurred. Advertising expenses were $494,110, $613,158, $1,757,601 and $7,159,234 for the years ended December 31, 1993, 1994 and 1995, and the six months ended June 30, 1996, respectively.

NET INCOME (LOSS) PER COMMON AND EQUIVALENT SHARE - Net income (loss) per common and equivalent share is based on the weighted average number of shares and dilutive common stock equivalents (stock options) outstanding during the periods presented. All share and per share information has been retroactively adjusted for the five-for-one stock split on May 1, 1995 and the 5.2614-for-one split on the effective date of the initial public offering (September 28, 1995). Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 83, all common shares and stock options issued during the twelve months immediately preceding the initial public offering were treated as if they had been outstanding for all periods, using the treasury stock method. The assumed conversion of the convertible debentures had an insignificant impact on net income (loss) per common and equivalent share.

RECLASSIFICATIONS - Certain amounts in the prior years' financial statements have been reclassified to conform to the 1996 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 revenue from the time money is collected from its customers until the time payment is made to the applicable merchants. These revenues are included in processing and servicing and totalled $130,300, $740,290, $1,622,963 and $1,019,288 for the years ended December 31, 1993, 1994 and 1995 and the six months ended June 30, 1996, respectively.

MERCHANT DISCOUNT - Merchant discount revenues are recognized when the services are performed. Interchange fees incurred in the settlement of merchant credit card transactions are included in processing and servicing expenses.

LICENSE FEES - Revenue from software license agreements is recognized upon delivery of the software if there are no significant postdelivery obligations. The revenue related to significant postdelivery obligations is deferred and recognized using the percentage-of-completion method.

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

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 credit card interchange fees, ACH transaction fees and the amortization of software costs.

RESEARCH AND DEVELOPMENT - Research and development expenses consist primarily of salaries and consulting fees paid to software engineers and business development personnel.

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, financial control, and human resource employees.

2. ACQUISITIONS

On February 21, 1996, the Company acquired Servantis Systems Holdings, Inc. (Servantis) for $165.1 million, including 5.7 million shares of common stock, valued at $20.00 per share, the issuance of stock options valued at $8.2 million and the retirement of certain debt of $42.5 million, and the assumption of liabilities of approximately $38.3 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, $2.7 million was allocated to goodwill. In addition, $90.6 million was allocated to in-process research and development, which was charged to operations at the time of the acquisition. Servantis' operations are included in the consolidated results of operations from the date of the acquisition.

On May 9, 1996, the Company acquired Security APL, Inc. (Security APL) for $53 million, including 2.8 million shares of common stock, valued at $18.50 per share, and the assumption of liabilities of approximately $5.5 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, $10.9 million was allocated to goodwill. In addition, $28.8 million was allocated to in-process research and development, which was charged to operations at the time of the acquisition. Security APL's operations are included in the consolidated results of operations from the date of the acquisition.

In March 1996, the Company acquired Interactive Solutions Corp. ("IS") for $3.0 million, including 85,000 shares of common stock valued at $21.25 per share. 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, $3.0 million was allocated to in-process research and development, which was charged to operations at the time of the acquisition. IS's operations are included in the consolidated results of operations from the date of acquisition.

Consistent with the Company's policy for internally developed software, the Company determined the amounts to be allocated to in-process research and development based on whether technological feasibility had been achieved and whether there was any alternative future use for the technology. As of the date of the acquisitions, the Company concluded that the 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 and internal usage.

The unaudited pro forma results of operations of the Company for the year ended December 31, 1995 and the six months ended June 30, 1996, assuming all of the above acquisitions occurred at the beginning of each period are as follows:

	Year Ended December 31, 1995	Six Months Ended June 30, 1996
	(In thousands, except per share data)	
Total revenues	$ 110,974	$ 59,384
Loss before extraordinary item	(16,333)	(25,564)
Net loss	(16,698)	(25,929)
Net loss per share	(0.45)	(0.63)

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 $122.4 million arising from the acquisitions. 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.

3. INVESTMENTS

The carrying amounts, which approximate market value, of investments in debt securities are as follows:

	December 31, 1994	December 31, 1995	June 30, 1996
U.S. Government and Government Agency Obligations	$ 11,819,937	$ 28,510,976	$ 20,762,950
Certificates of Deposit	-	-	224,144
Total	$ 11,819,937	$ 28,510,976	$ 20,987,094

Gross unrealized gains and losses at each date were insignificant. In addition, sales of securities and related realized gains/losses, based on the specific identification cost method, were insignificant for each of the periods.

Contractual maturities of debt securities at June 30, 1996 are shown below. Expected maturities will differ from contractual maturities because debt issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Due in one year or less	$ 18,089,029
Due after one year through five years	2,898,065
Total	$ 20,987,094

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	December 31, 1994	December 31, 1995	June 30, 1996
Trade accounts receivable	$ 1,703,912	$ 2,684,989	$14,858,364
Unbilled trade accounts receivable	--	--	16,203,055
Other receivables	185,319	736,756	734,851
Total	1,889,231	3,421,745	31,796,270
Less allowance for doubtful accounts	26,735	32,661	2,279,722
Total	$ 1,862,496	$ 3,389,084	$29,516,548

5. INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. In accordance with SFAS No. 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.

Income tax expense (benefit) consists of the following:

	Year Ended December 31, 1993	1994	1995	Six Months Ended June 30, 1996
Current:				
Federal	$ 305,800	$ 250,929	$ (123,406)	$ --
State and local	62,200	84,531	84,778	24,708
Total current	368,000	335,460	(38,628)	24,708
Deferred Federal and state taxes	--	64,540	78,628	(8,653,323)
Total income tax expense (benefit)	$ 368,000	$ 400,000	$ 40,000	$(8,628,615)

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:

	Year Ended December 31, 1993	1994	1995	Six Months Ended June 30, 1996
Computed "expected" tax expense (benefit)	$ 471,930	$ 301,340	$ (59,563)	$(49,922,693)
Change in the beginning of the year balance of the valuation allowance for deferred tax assets	(256,000)	--	--	--
Non-deductible in-process research and development of acquired businesses	--	--	--	41,601,579
Nondeductible intangible amortization	64,767	64,767	64,767	218,918
State and local taxes, net of Federal income tax benefit	41,052	55,790	55,953	(626,334)
Other accruals	36,636	(36,636)		
Other - net	9,615	14,739	(21,157)	99,915
Total income tax expense (benefit)	$ 368,000	$ 400,000	$ 40,000	$ (8,628,615)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1994, 1995 and June 30, 1996 are:

	December 31, 1994	December 31, 1995	June 30, 1996
Deferred tax assets:			
Net operating loss carryforwards			$ 9,295,934
Allowance for bad debts and returns	$ 120,553	$ 178,215	1,254,497
Accrued compensation and related items	91,186	113,180	1,001,332
State income tax accrued	20,264	15,132	89,328
Deferred revenue		120,000	
Valuation allowance	--	--	(6,000,000)
Total deferred tax assets	232,003	426,527	5,641,091
Deferred tax liabilities:			
Assets held for sale	--	--	(8,000,000)
Property and equipment	(169,935)	(308,711)	(1,434,982)
Capitalized software	(6,726)		(5,953,098)
Intangible assets	--	--	(640,176)
Deferred revenue	--	--	(1,936,171)
Prepaid expenses	(119,882)	(260,984)	(169,711)
Other, net	--	--	(58,782)
Total deferred tax liabilities	(296,543)	(569,695)	(18,192,920)
Net deferred tax liability	$ (64,540)	$ (143,168)	$(12,551,829)

At June 30, 1996, the Company has approximately $25,000,000 of net operating loss carryforwards available, expiring in 2009 to 2011, including approximately $16,000,000 related to a purchased subsidiary which can only be used to offset income earned by the subsidiary up to specified annual amounts. The valuation allowance reduces deferred tax assets to the amount the Company believes more likely than not will be realized. Any future realization of tax benefits for which the valuation allowance has been recorded would result in a reduction of intangible assets, based on unamortized recorded balances as of June 30, 1996.

6. INTANGIBLE ASSETS

The components of intangible assets at June 30, 1996 are as follows:

Workforce	$ 7,195,200
Tradenames	4,164,444
Customer base	3,459,111
Goodwill	13,647,058
Total	28,465,813
Less accumulated amortization	958,136
Intangible assets, net	$ 27,507,677

7. PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

	December 31, 1994	December 31, 1995	June 30, 1996
Land and land improvements	$ 3,145,746	$ 3,145,746	$ 3,145,746
Building and building improvements	4,391,824	4,626,902	13,531,873
Computer equipment and software licenses	7,389,731	9,915,370	22,655,049
Furniture and equipment	1,780,963	2,350,893	7,055,892
Total	16,708,264	20,038,911	46,388,560
Less accumulated depreciation and amortization	4,551,984	6,479,731	9,821,419
Property - net	$12,156,280	$13,559,180	$36,567,141

8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31, 1994	December 31, 1995	June 30, 1996
Processing fees	$ 818,547	$ 2,061,753	$ 3,662,257
Salaries and related costs	630,466	903,946	5,467,592
Acquisition fees	515,528	463,162	388,861
Property tax	287,854	304,509	545,535
Reserve for returns and chargebacks	274,649	390,163	542,387
Other	467,501	1,509,319	4,270,229
Total	$ 2,994,545	$ 5,632,852	$14,876,861

9. LONG-TERM DEBT AND NOTES PAYABLE

CONVERTIBLE SUBORDINATED DEBENTURES - In September 1989, the Company issued $1,000,000 of convertible subordinated debentures bearing interest at 10% payable quarterly. The debentures were convertible at the option of the holders at any time, subject to prior redemption provisions, into 1,503,235 shares of common stock at $.67 per share. In 1994, the Company called the debentures which resulted in $750,000 of debentures being converted into 1,127,439 common shares. The remaining $250,000 of debentures were redeemed and the Company paid a premium of $75,000 which was expensed.

STOCKHOLDERS' AND BANK NOTES PAYABLE - The Company has unsecured loans payable to certain stockholders totalling $275,000, $50,000 and $50,000 at December 31, 1994 and 1995 and June 30, 1996, respectively, of which $50,000 is due in December 1998. These loans bear interest based on the prime rate as defined in the notes (total of 9.5% at December 31, 1994 and 1995 and 9.25% at June 30, 1996). Interest expense on the notes was $19,517, $20,334, $5,379 and $1,938 for the years ended December 31, 1993, 1994 and 1995 and for the six months ended June 30, 1996, respectively. In January 1995, $225,000 was refinanced with a bank into a 36 month unsecured term loan payable in monthly installments of $6,250 at the prime rate, due in February 1998.

In March 1996, the Company executed an unsecured note payable with a bank for $1.1 million. The principal amount is due in March 1998, with interest payable quarterly based on the LIBOR rate (total of 6.2% at June 30, 1996).

The estimated fair value of the Company's notes payable approximates their carrying amounts based on currently available debt with similar interest rates and remaining maturities.

During the six months ended June 30, 1996, the Company retired certain debt in connection with a business acquisition, resulting in an extraordinary loss of $364,374, net of income taxes of $204,961.

10. 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 has the option to purchase the land and building for $1 at the termination of the lease and thus, the Company has recorded the transaction as a capital lease. The lease payments are secured by a $751,500 standby letter of credit agreement with a bank and are partially guaranteed by an officer and principal stockholder of the Company. The standby letter of credit is collateralized by a savings account totalling $463,871 at June 30, 1996 and certain real estate adjacent to the leased property. The lease contains certain covenants, the most restrictive of which require the Company to maintain certain debt to equity ratios and tangible net worth and working capital levels.

The Company also leases certain computer equipment, furniture and telephone equipment 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 balance sheets:

	December 31, 1994	December 31, 1995	June 30, 1996
Land	$ 3,145,746	$ 3,145,746	$ 3,145,746
Building	4,369,254	4,369,254	4,369,254
Computer equipment	2,441,327	2,703,308	3,204,468
Total	9,956,327	10,218,308	10,719,468
Less accumulated amortization	832,194	1,901,055	2,425,823
Property held under capital leases	$ 9,124,133	$ 8,317,253	$ 8,293,645

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

Fiscal year ending June 30:

1997	$ 1,591,446
1998	1,192,198
1999	1,046,396
2000	973,167
2001	837,645
Thereafter	7,055,149
Total future minimum lease payments	12,696,001
Less amount representing interest	4,522,000
Net future minimum lease payments	$ 8,174,001

11. 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 December 31, 1993, 1994 and 1995 and for the six months ended June 30, 1996 was $1,030,330, $671,528, $664,948 and $1,935,880, respectively. Minimum future rental payments under these leases are as follows:

Fiscal year ending June 30:

1997	$ 5,374,511
1998	4,614,244
1999	4,129,695
2000	3,315,176
2001	2,937,793
Thereafter	11,704,720
Total	$ 32,076,139

12. EMPLOYEE BENEFIT PLANS

RETIREMENT PLANS - The Company has three defined contribution 401(k) retirement plans covering substantially all of its employees. Under the plans, 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 these plans amounted to, $58,013, $70,880, $96,913 and $366,670 for the years ended December 31, 1993, 1994 and 1995 and for the six months ended June 30, 1996, respectively.

GROUP MEDICAL PLAN - The Company has a group medical self-insurance plan covering certain of its employees. 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 $35,000. Total expense under this plan amounted to $290,000, $397,000, $626,000 and $369,000 for the years ended December 31, 1993, 1994 and 1995 and for the six months ended June 30, 1996, respectively. The Company expenses amounts as claims are incurred and recognizes a liability for incurred but not reported claims. At December 31, 1994 and 1995 and June 30, 1996, the Company has accrued $100,000, $120,000 and $120,000, respectively, as a liability for costs incurred under this plan.

13. COMMON STOCK

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 20% per year from the date of grant. The 1995 Plan provides that the Company may grant options for not more than 2,630,700 shares of common stock to certain key employees, officers and directors. 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, 1996, 1,691,171 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 summarizes the stock option activity from January 1, 1993 to June 30, 1996:

	Number of Shares	Price
Balance at December 31, 1992	1,939,773	$.57 - $.83
Granted	1,249,793	$.83 - $.91
Cancelled	(341,360)	$.57 - .83
Balance at December 31, 1993	2,848,206	$.57 - $.91
Granted	927,322	$.83 - $3.04
Exercised	(52,614)	$.57
Cancelled	(648,178)	$.57 - $.91
Balance at December 31, 1994	3,074,736	$.57 - $3.04

	Year Ended December 31, 1995		Six Months Ended June 30, 1996	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of period	3,074,736	$ 0.82	2,901,782	$ 1.19
Granted	160,746	7.12	459,289	21.79
Exercised	(270,262)	0.65	(874,195)	0.99
Cancelled	(63,438)	0.73	(22,020)	1.06
Issued in conjunction with Servantis Acquisition			443,362	1.52
Outstanding at end of period	2,901,782	$ 1.19	2,908,218	$ 4.58
Weighted average fair value of options granted during the year		$ 2.92		$ 8.45

The following table summarizes information about options outstanding at June 30, 1996:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$0.57 - $1.00	2,066,754	4.9	$ 0.84	1,273,146	$ 0.83
$1.00 - $4.00	341,652	8.4	2.14	144,846	1.76
$18.00 - $22.00	239,023	9.6	20.64	--	--
$22.00 - $25.00	260,789	9.8	22.77	15,789	22.63
	2,908,218		$ 4.58	1,433,781	$ 1.16

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 year ended December 31, 1995 and the six months ended June 30, 1996, respectively: dividend yield of 0%; expected volatility of 40 percent; risk-free interest rates of 5.25% to 6.68%; and expected lives of 3-5 years.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock option plans. 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 consistent with the method of FASB Statement No. 123, the Company's net loss and loss per share, net of related income tax effects, would have been as follows:

	Year Ended December 31, 1995	Six Months Ended June 30, 1996
Net loss	$ 244,759	$ 138,797,202
Net loss per share	$ 0.01	$ 3.71

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

In accordance with the terms of a joint marketing agreement, a strategic partner has warrants to purchase up to 650,000 shares of common stock at $20 per share should the partner attain certain customer acquisition targets.

Under the terms of a joint marketing and trademark licensing agreement, a strategic partner was paid $3,000,000 which has been capitalized and will be amortized over the life of the agreement. Additionally, the strategic partner has the option on August 31, 1996 to accept 118,226 shares of common stock in lieu of a $3,000,000 cash payment then due. In addition, if certain minimum performance standards are not achieved within the term of the agreement, the strategic partner must refund a pro rata portion of the August 31, 1996 payment.

Certain stockholders have an option to sell up to 280,565 shares of common stock to the Company at $19 per share. Such option expires no later than September 30, 1996.

14. STOCKHOLDERS' NOTES RECEIVABLE

In late December 1992, the Company agreed to loan $501,447 to certain officers of the Company for the purchase of 603,456 shares of common stock of the Company from certain stockholders of the Company under a loan and stock restriction agreement. The stock was pledged as security for the notes which bore interest at 6.15% payable annually. The notes have been recorded as contra-equity in the consolidated balance sheets.

15. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Year Ended December 31,			Six Months Ended June 30,
	1993	1994	1995	1996
Interest paid	$ 274,718	$838,153	$645,443	$ 321,477
Income taxes paid	$ 25,200	$414,869	$211,150	$ 468,077
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Capital lease additions	$7,823,539	$1,594,492	$261,981	$ 501,160
Loans to stockholders repaid with common stock	$ 50,147	$75,221		
Conversion of subordinated debentures		$ 750,000		
Computer equipment received in exchange for accounts receivable		$ 395,000		
Tax benefit associated with the exercise of stock options				$1,100,141
Purchase price of business acquisitions				$265,238,845
Less: Issuance of common stock and stock options pursuant to acquisitions				(174,812,438)
Liabilities assumed				(44,064,523)
Cash acquired in acquisitions				(6,957,675)
Net cash paid				$39,404,209

16. BUSINESS SEGMENTS

Prior to 1996, the Company operated in one segment - Electronic Commerce. With the acquisition of Servantis in February 1996, the Company now also operates in the Financial Application Software Segment. The net revenues of each segment are principally domestic, and no single customer accounted for 10% or more of consolidated revenues for the six months ended June 30, 1996. Approximately 10%, 11% and 13% of the Company's revenues for the years ended December 31, 1993, 1994 and 1995, respectively, were from a single customer. Approximately 11% and 25% of the Company's current receivables - trade and other at December 31, 1994 and 1995, respectively, were from a single customer.

A further description of each business segment follows:

ELECTRONIC COMMERCE - Electronic commerce includes electronic home banking, electronic bill payment, automatic accounts receivable collection, electronic accounts payable processing, investment portfolio management services and investment trading and reporting services. These services are primarily directed to financial institutions and businesses and their customers.

FINANCIAL APPLICATION SOFTWARE - Financial application software includes end-to-end software products for ACH processing, account reconciliation, wire transfer, mortgage loan origination and servicing, lease accounting and debt recovery. These products and services are primarily directed to financial institutions and large corporations.

The following sets forth certain financial information attributable to the Company's business segments for the six months ended June 30, 1996:

Revenues:	
Electronic commerce	$ 32,768,717
Financial application software	18,271,145
Total	$ 51,039,862
Operating income (loss):	
Electronic commerce, net of charge for acquired in-process research and development of $106,049,586	$ (120,788,727)
Financial application software, net of charge for acquired in-process research and development of $16,308,000	(24,940,486)
Corporate	(24,674,777)
Total	$ (148,165,473)
Identifiable assets:	
Electronic commerce	$ 54,523,799
Financial application software	96,843,884
Corporate	46,990,119
Total	$ 198,357,802

Capital expenditures:	
Electronic commerce	$ 5,688,439
Financial application software	1,087,303
Corporate	664,809
Total	$ 7,440,551
Depreciation and amortization:	
Electronic commerce	$ 2,330,064
Financial application software	4,345,200
Corporate	321,838
Total	$ 6,997,102

17. SUBSEQUENT EVENTS

In August 1996, the Company signed a definitive agreement to sell certain software for $20,000,000. The sale is expected to close in September 1996. No gain or loss will be recognized on the sale.

On September 15, 1996, the Company entered into a definitive agreement to purchase Intuit Services Corporation (ISC), a wholly-owned subsidiary of Intuit, Inc., in exchange for approximately 12.6 million shares of the Company's common stock. The agreement contains certain provisions that limit the purchase of additional common shares and the disposition of the common shares to be obtained by Intuit, Inc. The acquisition will be accounted for under the purchase method of accounting and is expected to include a charge in an amount not yet determined for in-process research and development. ISC provides transaction processing and electronic funds transfer services.
The Company also intends to enter into a service and license agreement with Intuit, Inc., contingent on the consummation of the acquisition of ISC, whereby the Company will obtain a license to connect to and use certain software technology of Intuit Inc., for a payment of $10 million on closing of the ISC acquisition and an additional $10 million on October 1, 1997.

* * * * * *

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 December 31, 1995 and 1994 and June 30, 1996, and for each of the three years in the period ended December 31, 1995 and for the six months ended June 30, 1996, and have issued our report thereon dated August 22, 1996, except for Note 17 as to which the date is September 15, 1996; such financial statements and report are included elsewhere in this Form 10-K. 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.

DELOITTE & TOUCHE LLP

Columbus, Ohio
August 22, 1996

SCHEDULE II

CHECKFREE CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1993, 1994 AND 1995 AND THE
SIX MONTHS ENDED JUNE 30, 1996

	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						
1993	$ 35,919	$ --	$ 13,320	$--	$ 3,708	$ 45,531
1994	45,531	--	11,769	--	30,565	26,735
1995	26,735	--	18,068	--	12,142	32,661
1996	32,661	1,861,039	915,472	--	529,450	2,279,722
RESERVE FOR RETURNS AND CHARGEBACKS						
1993	$134,507	$ --	$ 84,110	$--	$118,617	$ 100,000
1994	100,000	--	299,389	--	124,740	274,649
1995	274,649	--	370,229	--	254,715	390,163
1996	390,163	--	250,655	--	98,431	542,387

Exhibit 99.3

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A NO. 1

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1996

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission file number: 0-26802

CHECKFREE CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	31-1013521
(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)

(770) 441-3387
(Registrant's telephone number, including area code)

8275 NORTH HIGH STREET, COLUMBUS, OHIO 43235
(Former name, former address and former fiscal year, if changed since last report)

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 the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 41,450,064 shares of Common Stock, $.01 par value, were outstanding at November 6, 1996.

FORM 10-Q/A NO. 1

CHECKFREE CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHECKFREE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 1996	September 30, 1996
		(Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 20,987,355	$ 19,014,015
Investments	18,089,029	8,988,345
Accounts receivable	29,591,417	29,540,084
Assets held for sale, net	20,000,000	19,628,178
Prepaid expenses and other	2,205,026	1,935,379
Total Current Assets	90,872,827	79,106,001
Property and equipment, net	36,567,141	37,103,179
Capitalized software, net	34,407,680	32,375,126
Intangible assets, net	27,507,677	26,864,663
Investments	2,898,065	1,898,133
Other noncurrent assets	3,976,154	3,910,202
TOTAL	$196,229,544	$181,257,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	5,139,607	1,764,362
Accrued liabilities	14,996,724	12,944,378
Customer deposits	800,594	665,521
Current portion of long-term obligations	1,112,184	1,230,979
Deferred revenues	15,388,797	17,789,679
Income taxes payable	45,608	181,610
Deferred income taxes	7,819,505	7,819,505
Total Current Liabilities	45,303,019	42,396,034
Accrued rent and other	195,169	310,018
Deferred income taxes	4,732,324	570,224
Long term obligations - less current portion	8,324,317	7,832,315
Total Liabilities	58,554,829	51,108,591
Stockholders' Equity:		
Preferred stock - 15,000,000 authorized shares, $.01 par value; no shares issued or outstanding	--	--
Common stock - 150,000,000 authorized shares, $.01 par value; 42,274,800 and 42,471,420 shares issued	422,748	424,714
Additional paid in capital	276,823,109	277,024,754
Treasury stock - at cost, 757,536 shares	(629,481)	(629,481)
Accumulated deficit	(138,941,661)	(146,671,274)
Total Stockholders' Equity	137,674,715	130,148,713
TOTAL	$196,229,544	$181,257,304

See Notes to Interim Condensed Consolidated Unaudited Financial Statements.

CHECKFREE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended September 30, 1995	Three months ended September 30, 1996
REVENUES:		
Processing and servicing	$ 9,594,695	$ 17,242,834
Merchant discount	2,727,859	3,489,180
License	--	4,891,855
Maintenance	--	3,586,845
Other	--	3,451,151
Total Revenues	12,322,554	32,661,865
EXPENSES:		
Costs of processing, servicing and support	7,961,508	25,636,148
Research and development	1,925,454	7,483,804
Sales and marketing	1,766,052	5,894,765
General and administrative	1,073,254	5,909,936
Total Expenses	12,726,268	44,924,653
LOSS FROM OPERATIONS	(403,714)	(12,262,788)
OTHER:		
Interest income	258,112	518,965
Interest expense	(159,528)	(147,890)
LOSS BEFORE INCOME TAXES	(305,130)	(11,891,713)
Income tax benefit	(137,308)	(4,162,100)
NET LOSS	$ (167,822)	$ (7,729,613)
Net loss per common share	$ (0.01)	$ (0.19)
Weighted average common shares outstanding	27,182,917	41,620,174

See Notes to Interim Condensed Consolidated Unaudited Financial Statements.

CHECKFREE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended September 30, 1995	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (167,822)	$(7,729,613)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	620,367	5,399,781
Deferred income taxes	--	(4,162,100)
Loss on disposal of property and equipment	7,600	--
Changes in operating assets and liabilities:		
Accounts receivable	258,124	51,333
Prepaid expenses and other	174,979	707,421
Accounts payable	390,543	(3,375,245)
Accrued liabilities	405,046	(1,937,497)
Customer deposits	1,845	(135,073)
Deferred revenues	(77,536)	2,400,882
Income taxes payable	(137,308)	136,002
Net cash provided by (used in) operating activities	1,475,838	(8,644,109)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(968,652)	(3,260,251)
Proceeds from maturities and sales of investments	892,136	10,100,616
Net cash provided by (used in) investing activities	(76,516)	6,840,365
CASH FLOWS FROM FINANCING ACTIVITIES:		
Costs related to sale of common stock	(219,297)	--
Repayment of notes payable and other debt extinguishment	(18,750)	(12,500)
Repayment of stockholders' notes	--	(50,000)
Principal payments under capital lease obligations	(260,389)	(310,707)
Proceeds from exercise of stock options, including related income tax benefits	111,410	203,611
Net cash used in financing activities	(387,026)	(169,596)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,012,296	(1,973,340)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,542,686	20,987,355
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$4,554,982	$19,014,015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 159,528	$ 147,890
Income taxes paid	--	$ 6,890

See Notes to Interim Condensed Consolidated Unaudited Financial Statements.

CHECKFREE CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996

1. The accompanying condensed consolidated financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q and include all of the information and disclosures required by generally accepted accounting principles for interim financial reporting for Checkfree Corporation and subsidiaries (the "Company"). The results of operations for three months ended September 30, 1995 and 1996 are not necessarily indicative of the results for the full year.

These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company's Transition Report filed with the Securities and Exchange Commission on Form 10-K/A No. 1. In the opinion of management, the accompanying condensed consolidated unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair presentation of financial results for the interim periods presented.

2. In August 1996, the Company signed a definitive agreement to sell certain software for $20 million. The sale closed on October 1, 1996. An insignificant gain on the sale will be recognized in the fiscal quarter ending December 31, 1996.

On September 15, 1996, the Company entered into a definitive agreement to purchase Intuit Services Corporation ("ISC"), a wholly owned subsidiary of Intuit Inc., in exchange for approximately 12.6 million shares of the Company's common stock. The agreement contains certain provisions that limit the purchase of additional shares of common stock and the disposition of shares of common stock to be obtained by Intuit Inc. The acquisition of ISC will be accounted for under the purchase method of accounting and is expected to include a charge for in-process research and development, currently estimated at $120 million. ISC provides transaction processing and electronic funds transfer services.

The Company also intends to enter into a Service and License Agreement with Intuit Inc., contingent on the consummation of the acquisition of ISC, whereby the Company will obtain a license to connect to and use certain software technology of Intuit Inc. for a payment of $10 million on the closing of the ISC acquisition and $10 million on October 1, 1997.

3. Certain amounts in the June 30, 1996 balance sheet have been reclassified to conform with the September 30, 1996 presentation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

As used in this report, "Checkfree" is generally used to indicate Checkfree Corporation prior to its acquisition of Servantis Systems Holdings, Inc. on February 21, 1996 (the "Servantis Acquisition") and prior to its acquisition of Security APL, Inc. on May 9, 1996 (the "Security APL Acquisition") (the Servantis Acquisition and the Security APL Acquisition are collectively referred to as the "Acquisitions"). "Servantis" is generally used to indicate Servantis Systems Holdings, Inc. prior to its acquisition by Checkfree, "Security APL" is generally used to indicate Security APL, Inc. prior to its acquisition by Checkfree, and the term the "Company" is used to indicate the combined company following the Acquisitions. This report contains forward-looking statements which involve risks and uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Business -- Business Risks" in the Company's Transition Report on Form 10-K/A No. 1.

The Acquisitions further Checkfree's strategy of providing an expanding range of convenient, secure and cost-effective electronic commerce services and related products to financial institutions and businesses and their customers. Servantis' experience as a provider of electronic commerce and financial applications software and services to financial institutions substantially enhances the Company's presence in the financial institutions market of the electronic commerce segment. Security APL's experience as a vendor of portfolio management and software services to institutional investment managers and investment services to consumers enhances the Company's presence in the consumer and financial institutions market of the electronic commerce segment. The integration of Checkfree's electronic transaction processing and remote delivery technology with Servantis' software products and market presence and Security APL's portfolio management and software services has created a single vendor of electronic commerce services and related products to an expanded customer base of financial institutions and businesses and their customers.

The Company expects to incur operating losses in fiscal 1997, primarily due to planned increases in research and development and sales and marketing activities. The Company intends to increase research and development costs for new products and related services. The research and development will include the integration of the products and services of Checkfree, Servantis, and Security APL. In addition, the Company intends to increase sales and marketing efforts to promote the Company's new electronic commerce offerings. With the continued acceptance in the marketplace of electronic commerce services, the Company expects revenues to increase, and accordingly costs of processing, servicing and support and general and administrative costs will increase.

Although these initiatives may adversely impact the Company's short-term profitability, the Company expects that these initiatives will allow it to maintain and enhance its leading position in the rapidly growing electronic commerce market. There can be no assurance, however, that the Company will be able to successfully compete against current or future competitors or that the competitive pressures faced by the Company will not have a material adverse effect on its business, operating results, and financial condition.

RESULTS OF OPERATIONS

The following table sets forth as percentages of total operating revenues certain consolidated statements of operations data:

	Three months ended September 30,	
	1995	1996
TOTAL REVENUES:	100%	100%
EXPENSES:		
Costs of processing, servicing and support	64.6%	78.5%
Research and development	15.6%	22.9%
Sales and marketing	14.3%	18.0%
General and administrative	8.8%	18.1%
Total Expenses	103.3%	137.5%
LOSS FROM OPERATIONS	-3.3%	-37.5%
OTHER:		
Interest income	2.1%	1.6%
Interest expense	-1.3%	-0.5%
LOSS BEFORE INCOME TAXES	-2.5%	-36.4%
Income tax benefit	-1.1%	-12.7%
NET LOSS	-1.4%	-23.7%

Revenues increased by 165.1% from $12.3 million to $32.7 million for the three months ended September 30, 1995 and 1996, respectively. The increase was primarily due to revenues of $18.8 million from the operations of Servantis and Security APL. Servantis' revenues are primarily software license fees and related maintenance fees, while Security APL's revenues are primarily processing fees.

Costs of processing, servicing and support were $8.0 million and $25.6 million or 64.6% and 78.5% of total revenues for the three months ended September 30, 1995 and 1996, respectively. Included in costs of processing, servicing and support for the three months ended September 30, 1996 is $1.9 million of purchased software amortization, which relates solely to license fee revenue. Excluding purchased software amortization, processing, servicing and support expenses, as a percentage of servicing revenues (all revenues except license fees), were 64.6% and 85.5% for the three months ended September 30, 1995 and 1996, respectively. Processing, servicing and support costs increased as a percentage of servicing revenue primarily due to a purchased profits adjustment related to the Servantis Acquisition. The estimated profits in deferred revenues at the Servantis Acquisition date were eliminated as a purchase accounting adjustment. This adjustment reduced revenues approximately $5.9 million for the three months ended September 30, 1996. Without this adjustment, processing, servicing and support costs would have been 70.5% of servicing revenue for the three months ended September 30, 1996. After considering the purchased profits adjustment, processing, servicing and support costs increased as a percentage of servicing revenue due primarily to the September 1995 introduction of new service and pricing options, including a lower priced bill-payment only service to target new users. The Company anticipates additional purchased profit adjustments of approximately $1.8 million in the quarter ending December 31, 1996.

Research and development expenses were $1.9 million and $7.5 million or 15.6% and 22.9% (19.4% excluding the purchased profits adjustment) of total revenues for the three months ended September 30, 1995 and 1996, respectively. The increase as a percentage of total revenues is due to increased product and business development for new and existing services and related products, including Electronic Cash Disbursement ("ECD"), bill presentment and expanded home banking offerings. Excluding the research and development costs and the total revenues of the acquired companies, research and development costs were $1.9 million and $3.8 million or 15.6% and 27.4% of total revenues. The most significant increase related to ECD, which increased $1.0 million from 1995.

Sales and marketing costs were $1.8 million and $5.9 million or 14.3% and 18.0% (15.3% excluding the purchased profits adjustment) of total revenues for the three months ended September 30, 1995 and 1996, respectively. The increase was due to $4.5 million of sales and marketing expense related to the activities of the acquired companies.

General and administrative costs were $1.1 million and $5.9 million or 8.8% and 18.1% (15.3% excluding the purchased profits adjustment) of total revenues for the three months ended September 30, 1995 and 1996, respectively. The increase was due to $4.7 million of increased general and administrative expense related to the newly acquired companies.

Interest income increased from $258,000 to $519,000 due primarily to interest on investments purchased from the proceeds of the Company's initial public offering.

The effective income tax rate (benefit) was (45.0%) and (35.0%). The effective tax benefit was more than the statutory rate of 35% in 1995 due to state and local taxes. In 1996, the effective benefit was more than the statutory rate due to state and local taxes, offset primarily by non-deductible amortization expenses.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended September 30, 1996, the Company's operating activities used cash of $8.6 million. During the quarter, the Company invested $3.3 million in property additions, primarily for computer related equipment and facilities. The Company used cash and the proceeds from the sale of investments of $10.1 million to finance these operating and investing activities.

At September 30, 1996, the Company's cash and cash equivalents and investments were $29.9 million, a decrease of $12.1 million from June 30, 1996. As of September 30, 1996 the Company's current ratio was 1.9 to 1, compared to a current ratio of 2.0 to 1 as of June 30, 1996. In addition, working capital was $36.7 million and $45.6 million at September 30, 1996 and June 30, 1996, respectively.

In October 1996, the Company completed the sale of certain software and received the initial installment of $19 million. Also, in October 1996, certain stockholders exercised their right to put back shares of common stock to the Company at $19 per share. Approximately 276,000 shares of common stock were put back to the Company at a cost of approximately $5.2 million. The Company also intends to enter into a Service and License Agreement with Intuit Inc., which will require a $10 million payment upon the closing of the ISC acquisition and $10 million on October 1, 1997. The Company expects to fund the initial $10 million payment pursuant to the Services and License Agreement and the $5.2 million for common stock put back to the Company with the $19 million proceeds from the sale of certain software. The Company expects to fund the $10 million payment due on October 1, 1997 pursuant to the Services and License Agreement with available cash and investments.

The Company expects to incur operating losses through fiscal 1997. The Company believes the existing cash and cash equivalents and investments will be sufficient to meet the Company's presently anticipated operating, working capital and capital expenditure requirements both for the short-term and through at least December 31, 1997. To the extent that the Company needs additional capital resources, the Company believes that it will have access to both bank financing and capital leasing for additional facilities and equipment.

INFLATION

The Company believes the effects of inflation have not had a significant impact on the Company's results of operations.

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

Except for the historical information contained herein, the matters discussed in this Form 10-Q/A No. 1 include forward-looking statements that involve risks and uncertainties, including, but not limited to, quarterly fluctuations in results, the management of growth, and other risks detailed from time to time in the Company's Transition Report on Form 10-K/A No. 1 and other Securities and Exchange Commission filings. Actual results may differ materially from management expectations.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS.

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
2(a)	Agreement and Plan of Merger, dated as of September 15, 1996, among the Registrant, Checkfree Acquisition Corporation II, Intuit Inc., and Intuit Services Corporation. (Reference is made to Exhibit 2 to the Current Report on Form 8-K, dated September 15, 1996, filed with the Securities and Exchange Commission, and incorporated herein by reference.)
10(a)	Checkfree Corporation Amended and Restated 1995 Stock Option Plan. (Reference is made to Exhibit 10(jjj) to the Registration Statement on Form S-4 filed with the Securities and Exchange Commission on October 31, 1996 (Registration No. 333-15247) and incorporated herein by reference.)
10(b)	Checkfree Corporation Associate Stock Purchase Plan. (Reference is made to Exhibit 10(kkk) to the Registration Statement on Form S-4 filed with the Securities and Exchange Commission on October 31, 1996 (Registration No. 333-15247) and incorporated herein by reference.)
10(c)	Stockholder Agreement between Intuit Inc. and Peter J. Kight, as a shareholder of the Company. (Reference is made to Exhibit 10(lll) to the Registration Statement on Form S-4 filed with the Securities and Exchange Commission on October 31, 1996 (Registration No. 333-15247) and incorporated herein by reference.)
10(d)	Stockholder Agreement between Intuit Inc. and Mark A. Johnson, as a shareholder of the Company. (Reference is made to Exhibit 10(mmm) to the Registration Statement on Form S-4 filed with the Securities and Exchange Commission on October 31, 1996 (Registration No. 333-15247) and incorporated herein by reference.)
10(e)	Stock Restriction Agreement between the Company and Intuit Inc. (Reference is made to Exhibit 10(nnn) to the Registration Statement on Form S-4 filed with the Securities and Exchange

		Commission on October 31, 1996 (Registration No. 333-15247) and incorporated herein by reference.)
10(f)		Form of Escrow Agreement among the Company, Intuit Inc. and a to be named Escrow Agent. (Reference is made to Exhibit 10(ooo) to the Registration Statement on Form S-4 filed with the Securities and Exchange Commission on October 31, 1996 (Registration No. 333-15247) and incorporated herein by reference.)
10(g)		Form of Registration Rights Agreement between the Company and Intuit Inc. (Reference is made to Exhibit 10(ppp) to the Registration Statement on Form S-4 filed with the Securities and Exchange Commission on October 31, 1996 (Registration No. 333-15247) and incorporated herein by reference.)
27	*	Financial Data Schedule.

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* Filed with this amended Report.

(b) REPORTS ON FORM 8-K.

The Registrant filed the following Current Reports on Form 8-K with the Securities and Exchange Commission:

(i) A Current Report on Form 8-K, dated as of July 2, 1996, was filed with the Securities and Exchange Commission on July 8, 1996 (Items 5 and 7).

(ii) A Current Report on Form 8-K/A No. 1, dated as of May 9, 1996, was filed with the Securities and Exchange Commission on July 22, 1996 (Items 2 and 7).

(iii) A Current Report on Form 8-K, dated as of September 15, 1996, was filed with the Securities and Exchange Commission on September 26, 1996 (Items 5 and 7).

(iv) A Current Report on Form 8-K, dated as of October 1, 1996, was filed with the Securities and Exchange Commission on October 9, 1996 (Items 2 and 7).

(v) A Current Report on Form 8-K/A No. 2, dated as of May 9, 1996, was filed with the Securities and Exchange Commission on October 11, 1996 (Items 2 and 7).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned thereunto duly authorized.

CHECKFREE CORPORATION

Date: December 6, 1996

By: /s/ JAMES S. DOUGLASS
James S. Douglass, Executive Vice President, Finance and Chief Financial Officer*
(Principal Financial Officer)

Date: December 6, 1996

By: /s/ JOHN M. STANTON
John M. Stanton, Vice President, Treasurer, and Assistant Secretary
(Principal Accounting Officer)

* In his capacity as Executive Vice President, Finance and Chief Financial Officer, Mr. Douglass is duly authorized to sign this amended report on behalf of the Registrant.