UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For The Year Ended June 30, 2002

Commission File Number: 0-26802

CheckFree CORPORATION
(Exact name of Registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.01 par value
Preferred Stock Purchase Rights

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

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

The aggregate market value of our Common Stock held by our non-affiliates was approximately $740,013,614 on September 12, 2002.

There were 88,616,788 shares of our Common Stock outstanding on September 12, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Annual Report to Stockholders for the fiscal year ended June 30, 2002 are incorporated by reference in Part II.

Portions of our Proxy Statement for the 2002 Annual Meeting of Stockholders are incorporated by reference in Part III.

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PART I

ITEM 1. BUSINESS.

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

OVERVIEW

CheckFree was founded in 1981 as an electronic payment processing company and has become a leading provider of financial electronic commerce products and services. Our current business was developed through the expansion of our core electronic payments business and the acquisition of companies operating in similar or complementary businesses.

Through our Electronic Commerce division, we enable consumers to receive and pay bills electronically. For the year ended June 30, 2002, we processed approximately 316 million transactions, and delivered approximately 10.8 million electronic bills. For the quarter ended June 30, 2002, we processed approximately 87 million electronic payments and delivered approximately 3.8 million electronic bills. As of June 30, 2002, over 6.6 million consumers were enabled to use our systems, with a large majority of these consumers accessing our services via the Internet. The number of transactions we process each year continues to grow. For the year ended June 30, 2002, growth in the number of transactions exceeded 36%. The Electronic Commerce division accounts for approximately 72% of our fiscal 2002 revenue.

Through our Investment Services division, we provide a range of portfolio management services to financial institutions, including broker dealers, money managers and investment advisors. As of June 30, 2002, our clients used the CheckFree APL portfolio accounting system to manage about 1.2 million portfolios totaling more than $500 billion in assets. The Investment Services division accounts for approximately 16% of our fiscal 2002 revenue.

Through our Software division, we deliver software, maintenance, support and professional services to large financial service providers and other companies across a range of industries. Our Software division is comprised of three units, each with its own distinct set of software products. The ACH Solutions unit provides software and services that are used to process more than two-thirds of the nation's eight billion Automated Clearing House (ACH) payments. The CheckFree Financial and Compliance Solutions (CFACS) unit enables organizations to handle their reconciliation and compliance requirements. The i-Solutions unit provides software and services that enable end-to-end e-billing and e-statement creation, delivery and payment. The Software division accounts for approximately 12% of our fiscal 2002 revenue.

ELECTRONIC COMMERCE DIVISION

Introduction. The Electronic Commerce division enables consumers to receive and pay bills electronically. Its products enable consumers to:

- receive electronic bills through the Internet;
- pay any bill - whether it arrives over the Internet or through traditional mail - to anyone;
- make payments not related to bills - to anyone; and
- perform customary banking transactions, including balance inquiries, transfers between accounts and online statement reconciliations.

The majority of consumers using our services access the CheckFree system through Consumer Service Providers (CSPs). These are organizations, such as banks, brokerage firms, Internet portals and content sites, Internet-based banks, Internet financial sites and personal financial management software providers, that use our products to enable consumers to receive and/or pay bills electronically. We have relationships with hundreds of CSPs. Some of our largest CSPs, as determined by type of CSP and number of consumers using CheckFree's products, are Bank of America, Bank One, Charles Schwab & Co., Chase Manhattan Bank, Merrill Lynch & Co., SunTrust, U.S. Postal Service, Wachovia, Wells Fargo and Yahoo. This list of our CSPs is not exhaustive and may not fully represent our customer base.

Industry Background. On average more than 17 billion paper bills are produced each year, with the cost to a biller of submitting a paper bill, including printing, postage and billing inserts, averaging anywhere from $0.50 - $2.00 per bill (Gartner 2002). In addition, it is estimated that 42.5 billion checks are written in the United States every year. The use of checks imposes significant costs on financial services organizations, businesses and their customers. These costs include the writing, mailing, recording and manual processing of checks. The majority of today's consumer bill payments are completed using traditional paper-based methods. According to a March 2002 TowerGroup study, of the estimated 17 billion consumer bills produced each year, 74% are paid by paper check, 11% are paid by electronic means and the remainder are paid by other means (cash, payroll deduction, money order, etc.) This compares to PSI Global statistics for 1990, which indicated that 90% of consumer bills were paid by check and 2 to 3% were paid electronically. Today, many traditional financial transactions can be completed electronically due to the emergence of new communications, computing and security technologies. Many financial services organizations and businesses have invested in these technologies and are creating the infrastructure for recording, reporting and executing electronic transactions. We believe the broad impact of the Internet, the relatively high cost of producing, printing and mailing a paper bill and the cost to financial services organizations, businesses and customers of processing paper checks will continue the trend toward increased usage of electronic methods to execute financial transactions.

Products and Services. We have developed an open infrastructure, known as Genesis, to process electronic bills and payments. The Genesis system is accessed by CSPs using various Web-based applications. In March 2001, we introduced our latest application for electronic billing and payments - "WebPay for Consumers" (or WebPay 3.2), which added to our core product the ability for consumers to receive and pay e-bills over e-mail and to exchange money with each other using e-mail "invitations" to receive money. WebPay 3.2 helps consumers automate the complete process of viewing and paying bills - they can receive bills online and pay those bills online, too. WebPay 3.2 also allows the consumer to "Pay Anyone" - from a child in college, to a lawn care or other service provider, to a friend, electronically, using the Genesis system. The number of sites where consumers can both view and pay bills doubled in 2002, with 584 CSPs now offering full electronic billing and payment.

- ELECTRONIC BILLING OR E-BILL SERVICES. As of June 30, 2002, consumers could view 262 different e-bills through CSP websites or directly at our website. We have contractual arrangements with 237 "live" billers, or billers that currently make e-bills available for viewing and paying. Of these 237 live billers, 207 are primary billers or billers that issue more than 100,000 bills per month. The following billers are some of our largest e-billing customers, as determined by the number of consumers viewing and paying their e-bills: Bank of America Credit Card, JC Penney Card Services, Texaco, Lowe's Consumer Credit Card, Pacific Bell, Sprint PCS, Bellsouth Telecommunications, Macy's and Verizon Corporation. This list of billers is not exhaustive and may not fully represent our customer base. These billers may use our system to deliver full-color electronic bills to their customers, together with detailed information and electronic promotional offers. These billers also have the opportunity to add interactive one-to-one marketing features to their bills. In addition to providing electronic bills through contractual relationships with 237 billers, we deliver 25 e-bills "scraped" - which means copied, with the consumer's permission - from different billers' Web sites. The 262 e-bills that we currently deliver represent a 27% growth over the number of different e-bills available for the year ended June 30, 2001. We also have executed contracts with 28 billers who are not yet in production. Actual e-bills delivered in the fourth quarter ended June 30, 2002 exceeded 3.8 million, which is an increase of 23% over the 3.1 million e-bills distributed in the third quarter ended March 31, 2002.

- ELECTRONIC PAYMENT OR THE CheckFree PayAnyone (SM) SERVICE. Our PayAnyoneSM service allows consumers to literally pay anyone electronically using a variety of devices like personal computers. Typically, consumers access the Genesis system through CSPs. Once a consumer has accessed the system, he or she can either elect to pay an electronic bill delivered by us or can instruct the system to pay any individual or company within the United States. We complete this payment request either electronically, using the Federal Reserve's Automated Clearing House, or in some instances other electronic methods such as Visa e-pay, or by issuing a paper check or draft.

- AUTOMATED CLEARING HOUSE. The Federal Reserve's Automated Clearing House (ACH) is the primary batch-oriented electronic funds transfer system financial services organizations use to move funds electronically through the banking system. We access the ACH through KeyBank, N.A., under the terms of an automated clearing house agreement. Additional information on the ACH can be found at the Federal Reserve Commission's Web site at www.federalreserve.gov. Like other users of the ACH, we bear credit risk resulting from returned transactions caused by insufficient funds, stop payment orders, closed accounts, frozen accounts, unauthorized use, disputes, theft or fraud.

- PAPER CHECKS OR DRAFTS. When we are unable to move the funds electronically, we will issue either a paper check, drawn on trust accounts, or a paper draft, drawn on the consumer's bank account. When we issue a paper check, we bear the risk of insufficient funds, stop payment orders, closed accounts or frozen accounts.

- PAYMENT METHOD SELECTION. Our Genesis system contains patented technology that determines the preferred method of payment to balance processing costs, operational efficiencies and risk of loss. We have been able to manage our risk of loss by using this technology to adjust the mix of electronic and paper draft or check transactions in individual cases such that overall we have not incurred losses in excess of 0.93% of our revenues in any of the past five years. We also maintained a reserve for these risks of $1.0 million at June 30, 2002.

Usage Metrics. Historically, we have measured usage on our systems by counting the total number of consumers enrolled to use our systems and the total number of transactions we process. Using these metrics, as of June 30, 2002, over 6.6 million consumers were enabled to receive and pay bills online, and we processed in excess of 316 million transactions for the year ended June 30, 2002. Beginning with the fourth quarter 2002, we reported usage metrics based on "Full Service" relationships and "Transaction Service" relationships. A Full Service relationship is one with a CSP that outsources the electronic billing and payment process to us. A Transaction Service relationship is one with a CSP that utilizes only a subset of our electronic billing and payment services or uses one of our other electronic commerce division products. Using these metrics, 4.9 of the 6.6 million consumers enrolled on our systems are enrolled through CSPs that use our Full Service offering. Of these 4.9 million Full Service consumers, about 3.1 million are active consumers. For the quarter ended June 30, 2002, we processed approximately 69 million transactions related to Full Service consumers and recorded revenues of approximately $74 million for these services. For the remainder of the 6.6 million consumers enabled on our systems, we provided Transaction Services. We also provided Transaction Services to many other consumers for whom we do not capture detailed consumer data. For the quarter ended June 30, 2002, we processed approximately 19 million transactions related to Transaction Service consumers and recorded revenue of approximately $11 million for these services.

The CheckFree Advantage. We have developed numerous systems and programs to enhance our electronic billing and payment products.

- SCALABLE GENESIS PLATFORM. The Genesis platform is an open infrastructure created by our engineers to process electronic bills and payments. Genesis has the built-in scale to handle transactions from more than 30 million consumers. During 2002, we successfully migrated all transaction processing for consumers we acquired through our strategic agreement with Bank of America from the processing platform Bank of America was using to Genesis. Because we no longer needed to continue operating Bank of America's platform afterward, we were able to close our San Francisco and Houston offices. Similarly, in 2002, we also migrated to Genesis all transaction processing for consumers using our services through Wells Fargo. We had processed these transactions through an older platform we supported through our Austin, Texas office, which we were able to close when we completed the migration. This consolidation has enabled CheckFree to obtain numerous economies of scale. Today, substantially all of our transactions are processed by the Genesis system.

- SIGMA QUALITY. In fiscal year 2000, we began an internal program called the "Sigma Challenge" which ties employee performance evaluations and compensation to the achievement of process and system improvements. Sigma is a measure of quality typically used by manufacturing firms to minimize defects. The Sigma Challenge applies Sigma measurements as a barometer of our performance on our key metrics of system availability and payment timeliness, and focuses our attention on critical tasks and peak performance. Small improvements in Sigma measurements signify significant performance improvements. The Sigma Challenge was designed to take our quality performance to 99.9, or 4.6 Sigma. A 4.6 Sigma is the quality standard set by the telecommunications industry for delivering their services to businesses and consumers, and signifies "dial-tone" quality.

- ELECTRONIC PAYMENT RATE. Electronic payments are more efficient than paper payments, which are made by check or draft. Electronic payments are less expensive to process initially, result in fewer errors and result in fewer customer inquiries. For the month ended June 30, 2002, we completed over 71% of all of our payments electronically. This compares to 64% for the month ended June 30, 2001. In addition to sending a large majority of our payments electronically, we also have developed a process pursuant to which we include with the payment additional information the receiving merchant has given us about how its payment should be transmitted. We have established connectivity with over 1,100 merchants to provide this additional information. This additional information allows merchants to quickly and more accurately process the electronic payments they receive from us and reduces the number of customer inquiries we receive on these payments.

- EXPERIENCED CUSTOMER CARE. We have approximately 825 trained, experienced customer care and merchant services staff located in facilities in Dublin, Ohio; Aurora, Illinois; and Phoenix, Arizona. The level and types of customer care services we provide vary depending upon the customer's or CSP's requirements. We provide both first- and second-tier support. When we provide first-tier customer care, we handle all inbound customer calls, in some cases under the CSP's name. When we provide second-tier customer support, we provide payment research and support, and the CSP handles its own inbound customer calls. To maintain our customer care standards, we employ extensive internal monitoring systems and conduct ongoing customer surveys. We use the feedback from these sources to identify areas of strength and opportunities for improvement in customer care, and to help us adjust resources to respond efficiently.

Our Business Strategy. Our business strategy is to provide an expanding range of convenient, secure and cost-effective electronic commerce services and related products to financial services organizations, Internet-based information sites, businesses that generate recurring bills and statements, and their customers. We have designed our services and products to take advantage of opportunities we perceive in light of current trends and our fundamental strategy. The key elements of our business strategy are to:

- DRIVE INCREASED ADOPTION OF ELECTRONIC COMMERCE SERVICES BY CONSUMERS. We believe that consumers will move their financial transactions from traditional paper-based methods to electronic ones if they have an easy-to-access, easy-to-use, secure, and cost-effective method for receiving and paying their bills electronically. To drive this transition we make our e-bill and payment services available directly, through CSPs and through biller sites so that e-bills are available wherever consumers feel most comfortable viewing and paying them. We also price our services to our customers in such a way as to facilitate their offering electronic billing and payment to a broad array of consumers. CSPs and billers pay us based on the number of their consumers enabled to use our system, based on the number of transactions we process, or based on some combination of both. The price charged for each consumer or each transaction is negotiated individually with each CSP and may vary depending on:

    - the services provided to the consumers;
    - the nature of the transactions processed; and

- the volume of consumers, transactions, or both.

We believe this flexibility equips our CSPs and billers to provide their consumers with services that will meet their needs, and that this flexibility makes it more attractive for CSPs and billers to more heavily promote the CheckFree e-bill and payment service.

- CONTINUE TO IMPROVE OPERATIONAL EFFICIENCY AND EFFECTIVENESS. We believe that as our business grows and the number of transactions we process increases, we will be able to take advantage of operating efficiencies associated with increased volumes, thereby reducing our unit costs. Our Sigma program, our high electronic rate, our consolidation of platforms, the scalability of the Genesis system and our high quality customer care centers all help us achieve greater efficiencies. In 2002, we launched five new programs focused on ongoing investments in cost, quality and scale. Each of these program ties employee performance evaluations and compensation to the achievement of process, system and cost-saving improvements.

- DRIVE NEW FORMS OF ELECTRONIC COMMERCE SERVICES. Our electronic commerce services are currently applied to banking, billing and payment and brokerage transactions. We believe that new applications will be developed as a result of the growth in electronic commerce generally, and Internet-based commerce specifically. We intend to leverage our infrastructure and distribution to address the requirements of consumers and businesses in these new applications. For example, our core payment and processing network can manage person-to-person and small business payments, as well as payments made at Internet merchant sites.

Technology; Research and Development. Our core technology capabilities were developed to handle settlement services, merchant database services and online inquiry services on a traditional mainframe system with direct communications to businesses. We have implemented a logical, nationwide "n-tier" internetworking infrastructure. In other words, our infrastructure networks together any number of other networks, passing transaction data among them. For example, we internetwork together networks of billers, consumers, Consumer Service Providers and financial institutions to complete electronic billing and payment transactions. Consumers, businesses and financial services organizations access this internetworking infrastructure through dial-up telephone lines, private leased lines, various types of communications networks or the Internet. Our computing complex in Norcross, Georgia houses a wide variety of application servers that capture transactions and route them to our back-end banking, billing and payment applications for processing. The back-end applications are run on IBM mainframes, Tandems or Unix servers. We have developed databases and information files that allow accurate editing and initiation of payments to billers. These databases have been constructed over the past 21 years as a result of our transaction processing experience.

We have instituted several practices to minimize loss of data and operating functionality in the event of a disaster. We operate on redundant computer systems. Archival storage is kept on site as well as off site in fireproof facilities. Diesel generators provide power to the computing facilities in the event of a power disruption. We have contracted for the emergency provision of an alternate site to aid in disaster recovery. Finally, our plans for fiscal year 2003 include enhancing our disaster recovery systems to be able to offer a mirrored data storage solution.

We maintain a research and development group with a long-term perspective of planning and developing new services and related products for the electronic commerce, financial application software and investment services markets. As of June 30, 2002, our research and development group consisted of approximately 455 employees. Additionally we use independent third party software development contractors as needed.

Sales, Marketing and Distribution. Our marketing and distribution strategy has been to create and maintain distribution alliances that maximize access to potential customers for our electronic commerce services and related products. We do not, for the most part, market to, or have a direct relationship with, consumers or end-users of our products and services. We believe that these alliances enable us to offer services and related products to a larger customer base than can be reached through stand-alone marketing efforts. We seek distribution alliances with companies who have maximum penetration and leading reputations for quality with our target customers. These alliances include our relationship with CSPs; with billers; with Biller Service Providers (or BSPs) such as Alltel

Corporation, Billserv, Inc. and Kubra; and with value-added resellers such as EDS, Fiserv, Certegy, Digital Insight, PSCU Financial Services and S1 Corporation. This list of BSPs and resellers is not exhaustive and may not fully represent our customer base.

In order to foster a better understanding of the needs of our CSPs, billers, BSPs and resellers, we employ a number of account managers assigned to each of these specific customers. We also employ marketing personnel to facilitate joint customer acquisition programs with each of these customer groups, and to share our industry knowledge and previously developed campaigns with their marketing departments.

Competition. We face significant competition for all of our electronic commerce products. Our primary competition can be considered to be the continuance of traditional paper-based methods for receiving and paying bills, both on the part of consumers and billers. In addition, the possibility of billers and CSPs using internal development and management resources to create in-house systems to handle electronic billing and payment remains a competitive threat.

Metavante, a division of Marshall and Ilsley Bank, competes with us most directly from the perspective of providing pay anyone solutions to financial services organizations. In 2000 Metavante announced that it had signed an agreement to provide processing to Spectrum, a joint venture formed by J.P. Morgan Chase, First Union (now Wachovia Corporation) and Wells Fargo & Co to allow individuals and businesses to receive and pay bills electronically. According to Metavante, this agreement contained guaranteed minimum transactions from each of the three joint venture banks. Since 2001, Metavante has either purchased or announced the purchase of four companies associated with some aspect of electronic billing or payment: Cyberbills, Derivion, Paytrust and Spectrum.

A number of "niche" players compete with us in various ways. MasterCard International has announced an online offering to enable people to receive and pay bills over the Internet. In addition to providing Internet payment capabilities primarily to consumers and merchants participating in online auctions, PayPal, Inc. provides businesses and consumers with the ability to send and receive online payments via e-mail.

Other Products and Services. In addition to the e-bill and payment service products, the Electronic Commerce division also offers a credit card account balance transfer product, a credit card refund product, an automated recurring payments and software service, which is primarily installed at health clubs throughout the United States, and other forms of wholesale and retail payment solutions.

Acquisitions. Our current business was developed through expansion of our core Electronic Commerce business and the acquisition of companies operating in similar or complementary businesses. Our major acquisitions related to the Electronic Commerce division include Servantis Systems Holdings, Inc. in February 1996, Intuit Services Corporation in January 1997, and MSFDC, L.L.C (TransPoint) in September 2000. In October 2000, we completed the strategic agreement we entered into with Bank of America in April 2000, under which we acquired certain of Bank of America's electronic billing and payment assets.

INVESTMENT SERVICES DIVISION

Introduction. The Investment Services division provides a range of outsourced portfolio management services to help more than 250 institutions deliver portfolio management, performance measurement and reporting services to their clients.

Our institutional client base includes investment advisors, brokerage firms, banks and insurance companies. Our fee-based money manager clients are typically sponsors or managers of "wrap," or separately managed accounts, money management products, or traditional money managers, managing investments of institutions and high net worth individuals. We also support a growing number of third party vendors providing quick to market turnkey solutions.

Investment Services' primary product is a real-time portfolio management system called CheckFree APL, representing:

- 38 of the top 50 brokers are APL clients;
- 36 of the top 40 money managers are APL clients;
- 1.2 million portfolios representing $500 billion assets under management; and
- 1,100 daily interfaces to manager data for 1,300 managers and 5,600 investment products.

Industry Background. Industry analysts (including Forrester Research and Financial Research Corporation 2001) predict a compound annual growth in the separately managed account business to exceed 30 percent over the next several years.

Products and Services. Our portfolio management products and services are marketed under the product names CheckFree APL and CheckFree APL Wrap, and provide the following functions:

- account open and trading capabilities;
- graphical client reporting;
- performance measurement;
- decision support tools;
- account analytics;
- tax lot accounting;
- manager due diligence;
- multiple strategy portfolios;
- straight through processing;
- Depository Trust Corporation interfacing;
- billing functions; and
- system and data security.

In addition, our Investment Services team provides data conversion services, trains personnel on system use, and provides technical network support and computer system interface set-up.

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

Technology. Our Investment Services division utilizes advanced technology for our portfolio management services and utilizes IBM RS/6000s to run the portfolio management software. Services are provided primarily as a service bureau offering with the data center residing at our Chicago office. Clients obtain access from their personal computers either through a dedicated circuit or through dial-up applications. The Chicago data center is the communication center for more than 160 dedicated links together with four concentration hub sites located in New Jersey, New York, Boston and San Diego. Each of these hub sites supports the concentration of local dedicated links plus dial-up access. In addition to the dedicated private network, clients use frame relay services from several companies to access services. Our integrated outsourced solution utilizes a highly scalable Unix platform.

Sales, Marketing and Distribution. We market CheckFree APL and CheckFree APL Wrap through our direct sales force. We generate new customers through direct solicitation, user groups and advertisements. We also participate in trade shows and sponsor industry seminars for distribution alliances.

Competition. One source of competition Investment Services faces is from potential customers building their own internal portfolio accounting systems. We also compete with providers of portfolio accounting software like Advent Software, DST, and IDS; and service bureau providers like SunGard Portfolio Solutions and Financial Models Company.

Other Products and Services. In addition to our APL and APL Wrap portfolio management products, the Investment Services division also offers investment performance measurement and reporting products and services. Marketed under M-Search and M-Watch, these products are a result of the acquisition of Mobius Group, Inc. in March 1999.

Acquisitions. Our current business was developed through the acquisition of Security APL, Inc. in May 1996, and Mobius Group, Inc. in March 1999.

SOFTWARE DIVISION

The Software division operates three units, each of which delivers software, maintenance, support and professional services. These units are ACH Solutions, CheckFree Financial and Compliance Solutions, and i-Solutions.

- ACH SOLUTIONS. Our ACH Solutions unit provides Automated Clearing House (ACH) software and services. ACH is the primary batch-oriented electronic funds transfer system financial services organizations use to move funds electronically through the banking system. More than 80 percent of the nation's top 50 ACH originators use our solutions for ACH processing, and more than two-thirds of the nation's eight billion ACH payments are processed each year through institutions using our software systems. In addition to the United States, we have provided electronic payment technology in Australia, Barbados, Chile, Colombia, Dominican Republic, Guatemala, Jamaica, Malaysia, and Panama.

  ACH Solutions markets software under the product name PEP+ (Paperless Entry Processing System). PEP+ is an online, real-time system that enables the originating and receiving of payments through the ACH system. These electronic transactions are substitutes for paper checks, and are typically used for recurring payments like direct deposit payroll payments; corporate payments to contractors and vendors; debit transfers that consumers make to pay insurance premiums, mortgages, loans and other bills; and business to business payments. Recent new ACH product types allow returned checks, checks at the point-of-sale, and checks sent to a lockbox to be converted to electronic payments.

- CHECKFREE FINANCIAL AND COMPLIANCE SOLUTIONS (CFACS). Our CFACS unit provides software and professional services that enable organizations to perform automated reconciliation and maintain compliance with federal and state regulations. Banks, bank holding companies, securities and insurance firms, corporations, and government agencies use our reconciliation and compliance products and services. Our reconciliation solutions are marketed under the CheckFree RECON-Plus(TM)brand. These systems reconcile high volumes of complex transactions that are spread across multiple enterprise-wide systems and include securities transaction processing, automated deposit verification, consolidated bank account reconciliation and cash mobilization, and improved cash control. In fiscal 2002, we completed development of RECON-Plus Frontier(TM), a multi-tier reconciliation system that operates over the Internet.

  CheckFree RECON Securities(TM) enables securities firms to automatically match intra-day transactions, generate affirmations, facilitate settlement, and reconcile cash and securities transactions at both the omnibus, or collective, and shareholder level. In addition to reconciliation, CFACS delivers automated regulatory tracking and reporting solutions that help organizations maintain compliance. The CFACS compliance products provide compliance with: (1) unclaimed property management, (2) 1099 reporting, (3) fraud detection, (4) the Bank Secrecy Act and (5) retirement reporting.

- i-SOLUTIONS. Our i-Solutions unit provides end-to-end business-to-consumer and business-to-business software and services for e-billing and e-statement creation, delivery, and payment. i-Solutions helps billers, financial services organizations and biller service providers leverage electronic bills and statements as interactive conduits to customer relationship management, marketing and customer self-service applications.

  i-Solutions enables billers to create online bills and statements and distribute them to their customers for viewing and payment. Online bills can be delivered to the biller's customers through any or all of the following options: through CheckFree's network of Consumer Service Providers (CSPs), directly at the biller's Web site; through e-mail; and through CheckFree's Web site MyCheckFree.com, all of which are serviced through our Electronic Commerce division. Our software and outsourced application hosting services deliver: e-bill and e-statement creation; e-bill and e-statement delivery; e-bill payment transaction management and security; e-bill payment tracking and history; online marketing from the biller to its customers; and customer care.

i-Solutions markets the i-Series product line, which is a set of e-billing and e-statement software solutions developed for various industry segments. Each product in the i-Series includes a template for creating e-bills and e-statements unique to a specific industry segment, reducing development and deployment time. These solutions are offered in both licensed and outsourced application service provider (ASP) agreements. Given the nature of the process we use to convert billing and/or statement information for use over the Internet, these products are marketable in international markets as well. i-Solutions software has been sold in 23 countries.

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

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

Professional Services. We offer implementation services building customer applications around our products.

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

Competition. The computer application software industry is highly competitive. We believe that there is at least one direct competitor for most of our software products, but no competitor competes with us in all of our software product areas.

In the electronic statement creation and financial applications software markets, we compete directly or indirectly with a number of firms, including large diversified computer software service companies and independent suppliers of software products. CheckFree i-Solutions' electronic statement and billing creation software products compete primarily with edocs, Inc., Avolent Software and with billers building their own solutions rather than buying software or outsourcing the service. The RECON-Plus products compete with Chesapeake, Driscoll and SmartStream/Geac. Our PEP+ products compete with Transaction Systems Architects, Inc.

Acquisitions. Our current business was developed through the acquisition of Servantis Systems Holdings, Inc. in February 1996 and BlueGill Technologies, Inc. in April 2000.

GOVERNMENT REGULATION

We believe that we are not required to be licensed by the Office of the Comptroller of the Currency, the Federal Reserve Board, or other federal or state agencies that regulate or monitor banks or other types of providers of electronic commerce services. The Office of the Comptroller of the Currency, however, periodically audits us, since we are a supplier of products and services to financial services organizations. In 2001, the USA Patriot Act amended the Bank Secrecy Act to expand the definition of money services businesses so that it may include CheckFree. Several states have also passed legislation regulating or licensing check sellers, money transmitters or service providers to banks, and we have registered under this legislation in specific instances. We do not believe that any state or federal legislation of this type materially affects us. In addition, as are all U.S. citizens, CheckFree is subject to the regulations of the Office of Foreign Assets Control targeted at money laundering. Finally, through our processing agreements, we agree to comply with the data, record keeping, processing, and other requirements of applicable federal and state laws and regulations, Federal Reserve Bank operating letters, and the National Automated Clearing House Association Operating Rules imposed on our processing banks. We may be subject to audit or examination under any of these requirements. Violations of these requirements could limit or further restrict our access to the payment clearance systems or our ability to obtain access to these systems from banks. Further, the Federal Reserve rules provide that we can only access the Federal Reserve's automated clearing house through a bank. If the Federal Reserve rules were to change to further restrict our access to the automated clearing house or limit our ability to provide automated clearing house transaction processing services, our business could be materially adversely affected.

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

INTELLECTUAL PROPERTY RIGHTS

We regard our financial transaction services and related products as proprietary and rely on a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements, and other intellectual property protection methods to protect our services and related products. CheckFree has been issued fifteen patents in the United States and abroad. The majority of these patents cover various facets of electronic billing and/or payment. CheckFree also has a large number of pending patent applications. CheckFree owns over 30 domestic and foreign trade and service mark registrations related to products or services and has additional registrations pending.

EMPLOYEES

As of June 30, 2002, we employed approximately 2,650 full-time employees, including approximately 913 in systems and research and development, including software development, approximately 973 in customer care, and approximately 764 in sales and marketing, administration, financial control, corporate services, and human resources. We are not a party to any collective bargaining agreement and are not aware of any efforts to unionize our employees. We believe that our relations with our employees are good. We believe our future success and growth will depend in large measure upon our ability to attract and retain qualified management, technical, marketing, business development and sales personnel.

BUSINESS RISKS

We desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Many of the following important factors discussed below have been discussed in our prior filings with the Securities and Exchange Commission. In addition to the other information in this report, readers should carefully consider that the following important factors, among others, in some cases have affected, and in the future could affect, our actual results and could cause our actual consolidated results of operations for the fiscal year ending June 30, 2003, and beyond, to differ materially from those expressed in any forward-looking statements made by us, or on our behalf.

RISKS RELATED TO OUR BUSINESS

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

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

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

We have not consistently operated profitably to date. Since our inception, our accumulated losses have totaled approximately $1,130,405,000. We incurred:

- a loss from operations of $43.4 million and a net loss of $32.3 million for the fiscal year ended June 30, 2000;
- a loss from operations of $464.7 million and a net loss of $363.1 million for the fiscal year ended June 30, 2001; and
- a loss from operations of $535.5 million and net loss of $441.0 million for the fiscal year ended June 30, 2002.

We anticipate having a net loss from operations in fiscal 2003 and may experience net losses and may not be able to sustain or increase our profitability in the future. For the fiscal year ended June 30, 2002, we invested over $55 million in research and development and $58 million in sales and marketing. We intend to continue to make significant investments in research and development and sales and marketing. If the investment of our capital is not successful to grow our business, it will have a material adverse effect on our business and financial condition, as well as negatively impact your investment in our business and limit our ability to pay dividends in the future to our stockholders.

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

Our future profitability will depend, in part, on our ability to implement our strategy successfully to increase adoption of electronic billing and payment methods. Our strategy includes investment of time and money during fiscal 2003 in programs designed to:

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

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

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

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

We face significant competition in each of our business units, Electronic Commerce, Investment Services and Software. Increased competition or other competitive pressures may result in price reductions, reduced margins or loss of business, any of which could have a material adverse effect on our business, financial condition and results of operations. Further, competition will persist, and may increase and intensify in the future.

In Electronic Commerce our primary competition remains the traditional paper-based methods of paying and receiving bills. In addition, a number of banks have developed or have announced their intent to develop their own internal solutions for portions of the electronic bill presentment and payment process. Wells Fargo & Co. and J.P. Morgan Chase currently have in-house solutions for a portion of the integrated services we provide and Wachovia has announced its intent to develop a similar solution. We do not know whether other banks that currently outsource the bill presentment and payment process to us will decide to construct in-house solutions in the future. Although we believe that most banks who decide to use an in-house solution will continue to use our services for some portion of their electronic bill presentment and payment product we may not be able to provide the same range of services as we currently do, and therefore we may not receive the same amount of revenue from these banks. We also compete directly with Metavante, a division of Marshall and Ilsley Bank Inc., which currently offers a pay anyone solution to financial service organizations. In 2000, Metavante announced that it had executed a long-term contract with Spectrum, a joint venture formed by J.P. Morgan Chase, First Union (now Wachovia) and Wells Fargo & Co., to provide electronic payment processing. According to Metavante, this contract contained guaranteed minimum transaction amounts from each of the three joint venture banks. Over the past several years, Metavante has completed or announced several acquisitions in the electronic bill presentment and payment area, including the purchase of CyberBills, Derivion, Paytrust and, in 2002, Spectrum. We also face potential competition from MasterCard International, a company that has announced a product to offer online bill presentment to enable people to receive and pay bills over the Internet. We cannot assure you that we will be able to compete effectively against Metavante and MasterCard, or against the action of financial services organizations and billers building their own electronic billing and payment solutions internally, or against other current and future electronic commerce competitors.

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

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

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

- cause our customers to lose confidence in our services;
- deter consumers from using our services;
- harm our reputation;
- expose us to liability;
- increase our expenses from potential remediation costs; and

- decrease market acceptance of electronic commerce transactions.

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

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

In Electronic Commerce, we rely on our contracts with financial services organizations, businesses, billers, Internet portals and other third parties to provide branding for our electronic commerce services and to market our services to their customers. Similarly, in Investment Services we rely upon investment advisors, brokerage firms, banks and insurance companies to market investment accounts to consumers and thereby increase portfolios on our APL system. These contracts are an important source of the growth in demand for our electronic commerce and investment service products. If any of these third parties abandon, curtail or insufficiently increase their marketing efforts, it could have a material adverse effect on our business, financial condition and results of operations.

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

Mergers, acquisitions and personnel changes at key financial services organizations have the potential to adversely affect our business, financial condition and results of operations. This consolidation could cause us to lose:

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

WE DEPEND UPON A SMALL NUMBER OF FINANCIAL SERVICES ORGANIZATION CUSTOMERS FOR A SIGNIFICANT PERCENTAGE OF OUR TRANSACTIONS.

We rely on our contracts with three key financial services organizations for a substantial portion of the transactions we process. For the year ended June 30, 2002, these three financial services organizations accounted for approximately 34.8% of the transactions we processed. Only one of these financial institutions accounted for more than 10% of our revenue. Revenues from this customer, Bank of America, represented 12% of our revenues. The loss of the contract with any of these key financial services organizations or a significant decline in the number of transactions processed through them could have a material adverse effect on our business, financial condition and results of operations.

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

Our agreements for electronic commerce services with financial services organizations generally provide for terms of three to five years. Similarly our agreements with our portfolio management customers are generally long term. If we are not able to renew or renegotiate these agreements on favorable terms as they expire, it could have a material adverse effect on our business, financial condition and results of operations.

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

OUR FUTURE PROFITABILITY DEPENDS ON A DECREASE IN THE COST OF PROCESSING TRANSACTIONS.

If we are unable to continue to decrease the cost of processing transactions, our margins could decrease, which could have a material adverse effect on our business, financial condition and results of operations. Many factors contribute to our ability to decrease the cost of processing transactions, including our Sigma Quality program, our RightCare customer care efficiency program, our QuantumLeap processing technology optimization program, and our focus on continually increasing the number of transactions we process electronically. Compared with conventional paper-based transactions, electronic transactions cost less to complete, give rise to far fewer errors, which are costly to resolve, and generate far fewer consumer inquiries and, therefore, consume far fewer customer care resources. Our electronic rate, or percentage of transactions processed electronically, was 58% at the end of fiscal year 2000, 64% at the end of the fiscal year 2001 and more than 71% at the end of fiscal year 2002. As a result of the combined effects of programs focused on quality and process improvements, maximizing efficiency, and improving electronic processing rates, our total Electronic Commerce cost per transaction processed decreased more than 20% for the year ended June 30, 2002. Our future profitability will depend, in part, on our ability to continue to decrease this cost.

THE TRANSACTIONS WE PROCESS EXPOSE US TO CREDIT RISKS.

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

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

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

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

A system outage or data loss could have a material adverse effect on our business, financial condition and results of operations. In addition to the damage to our reputation a system outage or data loss could entail, many of our contractual agreements with financial institutions require the payment of penalties if our systems do not meet certain operating standards. To successfully operate our business, we must be able to protect our payment processing and other systems from interruption by events that are beyond our control. For example, our system may be subject to loss of service interruptions caused by hostile third parties or other instances of deliberate system sabotage. Other events that could cause system interruptions include:

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

Although we have taken steps to protect against data loss and system failures, there is still risk that we may lose critical data or experience system failures. Furthermore, our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur.

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

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

- additional development costs;
- diversion of technical and other resources from our other development efforts;
- loss of credibility with current or potential customers;
- harm to our reputation; or
- exposure to liability claims.

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

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

We have historically experienced seasonal fluctuations in our electronic services and software sales, and we expect to experience similar fluctuations in the future. If our sales are below the expectations of securities analysts and investors due to seasonal fluctuations, our stock price could decrease unexpectedly. Our growth in electronic commerce transactions is affected by seasonal factors like holiday-based resolutions consumers make to manage finances better, and the fact that most financial institutions traditionally conduct their largest consumer marketing campaigns in the fall months. These seasonal factors may impact our operating results by concentrating consumer 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 consumers generally tend to be less active users during the summer months, resulting in lower revenue during this period. Our software sales have historically been affected by calendar year end, buying patterns of financial services organizations and our sales compensation structure which measures sales performance at our June 30 fiscal year end.

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

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

OUR INABILITY TO MANAGE GROWTH COULD ADVERSELY AFFECT OUR BUSINESS.

We have experienced rapid growth in our revenues, from $76.8 million in the twelve months ended June 30, 1996 to $490.5 million in the fiscal year ended June 30, 2002, and we intend to continue to grow our business. To support our growth plans, we will have to expand our existing management, operational, financial and human resources and management information systems and controls. If we are not able to manage our growth successfully, we will not grow as planned, which could have a material adverse effect on our business, financial condition and results of operations.

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

Our success and ability to compete depends, in part, upon our proprietary technology, which includes several patents for our electronic billing and payment processing system, our source code information for our software products, and our operating technology. We rely primarily on patent, copyright, trade secret and trademark laws to protect our technology. We also enter into confidentiality and assignment agreements with our employees, consultants and vendors and generally control access to and distribution of our software documentation and other intellectual property. We cannot assure you that these measures will provide the protection that we need.

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

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

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

We believe that we are not required to be licensed by the Office of the Comptroller of the Currency, or OCC, the Federal Reserve Board or other federal agencies that regulate or monitor banks or other types of providers of electronic commerce services. In 2001, the USA Patriot Act amended the Bank Secrecy Act to expand the definition of money services businesses so that it may include us. A number of states have also passed legislation regulating or licensing check sellers, money transmitters or service providers to banks, and we have registered under this legislation in specific instances. In addition, as a U.S. citizen, we are subject to the regulations of the Office of Foreign Assets Control targeted at money laundering. Because electronic commerce in general, and most of our products and services in particular, are so new, the application of many of these laws and regulations is uncertain and difficult to interpret. The entities responsible for interpreting and enforcing these laws and regulations could amend these laws or regulations or issue new interpretations of existing laws or regulations. Any of these changes could lead to increased operating costs and reduce the convenience and functionality of our products or services, possibly resulting in reduced market acceptance. It is also possible that new laws and regulations may be enacted with respect to the Internet, including taxation of electronic commerce activities. The adoption of any of these laws or regulations may decrease the growth of consumers using the Internet, which could in turn decrease the demand for our products or services, increase our cost of doing business or could otherwise have a material adverse effect on our business, financial condition and results of operations.

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

A CONTINUED WEAK ECONOMY COULD HAVE A MATERIALLY ADVERSE IMPACT ON OUR BUSINESS.

A continued weak United States economy could have a material adverse impact on our business. In a weak economy companies may postpone or cancel new software purchases or limit the amount of money they spend on technology and marketing. With respect to the Investment Services division, growth depends upon individuals and companies continuing to invest in the United States equity markets. To the extent the United States stock markets see a decrease in investment, we may see a decrease in portfolio accounts.

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

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

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

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

THE MARKETING AGREEMENT WITH First Data AND THE COMMERCIAL ALLIANCE AGREEMENT WITH MICROSOFT MAY LIMIT THE FLEXIBILITY OF MANAGEMENT

The marketing agreement we executed with First Data requires us to purchase payment processing and other products from First Data under specified circumstances, even if our management has other reasons for choosing a different supplier. In addition, the commercial alliance agreement with Microsoft requires us to develop our products that are used with products made by Microsoft in ways that conform to specified standards. Accordingly, as a result of these arrangements with Microsoft and First Data, both of which were entered into as part of our acquisition of MSFDC, L.L.C. (TransPoint), our management's flexibility to make business decisions may be limited in various respects.

RISKS RELATED TO OUR COMMON STOCK

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

Since December 31, 2000, our stock price has been extremely volatile. During the fiscal year ended June 30, 2002, our common stock traded at a high of $35.40 per share and a low of $10.93 per share. The volatility in our stock price has been caused by:

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

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

The availability for future sale of a substantial number of shares of our common stock in the public market, or issuance of common stock upon the exercise of stock options, warrants or conversion of the notes or otherwise could adversely affect the market price for our common stock. As of August 31, 2002, we had outstanding

88,616,367 shares of our common stock, of which 57,768,011 shares of our issued and outstanding common stock were held by non-affiliates. The holders of the remaining 30,848,356 shares were entitled to resell them only by a registration statement under the Securities Act of 1933 or an applicable exemption from registration. As of August 31, 2002, we had an additional 22,328,822 shares of our common stock available for future sale, including:

- outstanding options to purchase 7,989,714 shares of our common stock, of which options for 3,500,749 shares were fully vested and exercisable at an average weighted exercise price of approximately $39.06 per share;
- issued warrants to purchase 12,500,000 shares of our common stock, of which warrants for 1,500,000 shares were fully vested and exercisable at a weighted exercise price of approximately $20.94 per share;
- up to 258,754 shares available for issuance under our Associate Stock Purchase Plan;
- up to 223,797 shares available for issuance under our 401(k) Plan; and
- up to 2,356,557 shares of our common stock issuable upon conversion of the notes.

As of August 31, 2002, the following entities hold shares or warrants to purchase shares of our common stock in the following amounts:

- Microsoft Corporation, which holds 8,567,250 shares;
- First Data Corporation, which holds 5,567,250 shares;
- The former members of Integrion Financial Network, L.L.C., which collectively hold warrants to purchase up to 1,500,000 shares which are fully vested and exercisable;
- Bank One, which holds warrants to purchase 1,000,000 shares and may be entitled to receive warrants to purchase up to 2,000,000 additional shares, none of which are vested or exercisable; and
- Bank of America, which holds 10,098,043 shares and warrants to purchase up to 10,000,000 shares, which warrants are not currently vested.

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

We filed a shelf registration statement on behalf of Microsoft, First Data and Citibank that allows continuous resales of the shares that they received on the closing date of the TransPoint acquisition. Although Microsoft and First Data have been limited in their ability to transfer their shares of our common stock through September 1, 2002, pursuant to stockholder agreements with us, they now are able to transfer significant portions of their common stock in both registered and unregistered sales. As of September 1, 2001, Microsoft, First Data and Citibank could sell up to the greater of one percent of our average weekly trading volume or one percent of our outstanding common stock in reliance on registration exemptions. In addition, Microsoft and First Data are permitted to a limited extent to engage in hedging transactions with respect to our common stock. Sales of substantial amounts of our common stock by either Microsoft or First Data, or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock.

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

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

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

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

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

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

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

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

At August 31, 2002, our directors, executive officers and principal stockholders and their affiliates collectively owned approximately 35% of the outstanding shares of our common stock. As a result, these stockholders are able to exercise significant influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control.

ITEM 2. PROPERTIES.

We lease the following office facilities:

- approximately 229,000 square feet in Norcross, Georgia;
- approximately 150,000 square feet in Dublin, Ohio;
- approximately 100,000 square feet in Phoenix, Arizona;
- approximately 77,706 square feet in Aurora, Illinois;
- approximately 33,000 square feet in Jersey City, New Jersey
- approximately 29,000 square feet in Waterloo, Ontario, Canada;
- approximately 26,000 square feet in Owings Mills, Maryland;
- approximately 21,000 square feet in Newark, New Jersey;
- approximately 15,000 square feet in Chicago, Illinois;
- approximately 5,000 square feet in San Diego, California; and
- approximately 2,000 square feet in Boston Massachusetts.

We own a 51,000 square foot conference center in Norcross, Georgia that includes lodging, training, and fitness facilities for our customers and employees. Although we own the building, it is on land that is leased through

June 30, 2015. We believe that our facilities are adequate for current and near-term growth and that additional space is available to provide for anticipated growth.

ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings pending against us.

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

None.

PART II

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

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

FISCAL PERIOD	COMMON STOCK PRICE HIGH	LOW
FISCAL 2001		
First Quarter	$ 70.88	$ 34.50
Second Quarter	$ 62.50	$ 33.50
Third Quarter	$ 57.25	$ 25.38
Fourth Quarter	$ 43.15	$ 24.06
FISCAL 2002		
First Quarter	$ 35.40	$ 14.55
Second Quarter	$ 22.69	$ 12.20
Third Quarter	$ 20.20	$ 10.93
Fourth Quarter	$ 25.40	$ 13.28
FISCAL 2003		
First Quarter (through September 20, 2002)	$ 15.83	$ 7.45

On September 20, 2002, the last reported bid price for our common stock on the Nasdaq National Market was $11.44 per share. As of September 12, 2002, there were approximately 900 holders of record of our common stock.

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

ITEM 6. SELECTED FINANCIAL DATA.

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

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

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

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

Except for the historical information contained herein, the matters discussed in our Annual Report on Form 10-K include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief and expectations, such as statements concerning our future profitability and our operating and growth strategy. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, the factors set forth under the caption "Business - Business Risks" included elsewhere in this Annual Report on Form 10-K and other factors detailed from time to time in our filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect, our businesses and financial results in the future and could cause actual results to differ materially from plans and projections. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included in this Annual Report on Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. All forward-looking statements made in this Annual Report on Form 10-K are based on information presently available to our management. We assume no obligation to update any forward-looking statements.

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

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

While our international sales represented less than 2.2% of our revenue for the year ended June 30, 2002, we now market, sell and license our products throughout the world. As a result, our future revenue could be somewhat affected by weak economic conditions in foreign markets that could reduce demand for our products.

Our exposure to interest rate risk is limited to the yield we earn on invested cash, cash equivalents and investments and interest based revenue earned on products such as our account balance transfer business. Our convertible debt carries a fixed rate, as do any outstanding capital lease obligations. Our Investment Policy currently prohibits the use of derivatives for trading or hedging purposes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated balance sheets as of June 30, 2001 and 2002 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 2000, 2001 and 2002 and the notes to the consolidated financial statements, together with the independent auditors' report thereon, appear in our Annual Report and are incorporated herein by reference.

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item is included under the captions "ELECTION OF DIRECTORS," "EXECUTIVE OFFICERS" and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in our Proxy Statement relating to our 2002 Annual Meeting of Stockholders to be held on November 6, 2002 and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

PART IV

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

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

(1) The following financial statements appearing in our 2002 Annual Report to Stockholders are incorporated herein by reference:

Independent Auditors' Report.

Consolidated Balance Sheets as of June 30, 2001 and 2002.

Consolidated Statements of Operations for each of the three years in the period ended June 30, 2002.

Consolidated Statements of Stockholders' Equity for each of the three years in the period ended June 30, 2002.

Consolidated Statements of Cash Flows for each of the three years in the period ended June 30, 2002.

Notes to the Consolidated Financial Statements.

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

Schedule II -- Valuation and Qualifying Accounts.

Independent Auditors' Report on Financial Statement Schedule.

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

(3) Exhibits:

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

2(c)	Amended and Restated Strategic Alliance Master Agreement, dated as of April 26, 2000, among CheckFree Holdings Corporation, CheckFree Services Corporation and Bank of America, N.A. (Reference is made to Appendix A to the Company's Proxy Statement for the Special Meeting of Stockholders held on September 28, 2000, and incorporated herein by reference).
3(a)	Amended and Restated Certificate of Incorporation of the Company. (Reference is made to Exhibit 4(e) to the Registration Statement on Form S-8 (Registration No. 333-50322), filed with the Securities and Exchange Commission on November 20, 2000, and incorporated herein by reference.)
3(b)	Certificate of Ownership and Merger Merging CheckFree Corporation into CheckFree Holdings Corporation. (Reference is made to Exhibit 3(b) to the Company's Form 10-K for the year ended June 30, 2000, filed with the Securities and Exchange Commission on September 26, 2000, and incorporated herein by reference.)
3(c)	By-Laws of the Company. (Reference is made to Exhibit 3(b) to the Current Report on Form 8-K, dated December 22, 1997, filed with the Securities and Exchange Commission on December 30, 1997, and incorporated herein by reference.)
3(d)	Form of Specimen Stock Certificate. (Reference is made to Exhibit 3(d) to the Company's Form 10-K for the year ended June 30, 2000, filed with the Securities and Exchange Commission on September 26, 2000, and incorporated herein by reference.)
4(a)	Articles FOURTH, FIFTH, SEVENTH, EIGHTH, TENTH AND ELEVENTH of the Company's Restated Certificate of Incorporation (contained in the Company's Restated Certificate of Incorporation filed as Exhibit 3(a) hereto) and Articles II, III, IV, VI and VIII of the Company's By-Laws (contained in the Company's By-Laws filed as Exhibit 3(b) hereto).
4(b)	Rights Agreement, dated as of December 16, 1997, by and between the Company and The Fifth Third Bank, as Rights Agent. (Reference is made to Exhibit 4.1 to Amendment No. 1 to Registration Statement on Form 8-A, filed with the Securities and Exchange Commission on May 12, 1999, and incorporated herein by reference.)
4(c)	Amendment No. 2 to the Rights Agreement, dated September 30, 2000, between CheckFree Corporation and the Fifth Third Bank, as Rights Agent. (Reference is made to Exhibit 99 to Current Report on Form 8-K, dated September 30, 2001, filed with the Securities and Exchange Commission on October 3, 2000 and incorporated herein by reference).
10(a)	CheckFree Corporation Amended and Restated Associate Stock Purchase Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended (Registration No. 333-21795), filed with the Securities and Exchange Commission on January 14, 1998, and incorporated herein by reference.)
10(b)	CheckFree Corporation Amended and Restated 1995 Stock Option Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended (Registration No. 33-98446), filed with the Securities and Exchange Commission on January 9, 1998, and incorporated herein by reference.)
10(c)	CheckFree Corporation Amended and Restated 1993 Stock Option Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended Registration No. 33-98442), filed with the Securities and Exchange Commission on January 9, 1998, and incorporated herein by reference.)

10(d) CheckFree Corporation Amended and Restated 1983 Non-Statutory Stock Option Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended (Registration No. 33-98440), filed with the Securities and Exchange Commission on January 9, 1998, and incorporated herein by reference.)

10(e) CheckFree Corporation Second Amended and Restated 1983 Incentive Stock Option Plan. (Reference is made to Exhibit 4(a) to Post-Effective Amendment No. 1 to Form S-8, as amended (Registration No. 33-98444), filed with the Securities and Exchange Commission on January 9, 1998, and incorporated herein by reference.)

10(f) Form of Indemnification Agreement. (Reference is made to Exhibit 10(a) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)

10(g) Schedule identifying material details of Indemnification Agreements substantially identical to Exhibit 10(f). (Reference is made to Exhibit 10(g) to the Company's Form 10-K for the year ended June 30, 1997, filed with the Securities and Exchange Commission on September 26, 1997, and incorporated herein by reference.)

10(h) Noncompete, Nondisclosure, and Assignment Agreement, dated February 1, 1990, between Peter J. Kight and the Company. (Reference is made to Exhibit 10(i) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)

10(i) Noncompete, Nondisclosure, and Assignment Agreement, dated February 1, 1990, between Mark A. Johnson and the Company. (Reference is made to Exhibit 10(j) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)

10(j) * ACH Operations Agreement, dated April 1, 1999, between the Company and KeyBank National Association.

10(k) Executive Employment Agreement between the Company and Peter J. Kight. (Reference is made to Exhibit 10(z) to the Company's Form 10-K for the year ended June 30, 1997, filed with the Securities and Exchange Commission on September 26, 1997, and incorporated herein by reference.)

10(l) 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(m) Loan and Security Agreement, dated as of May 13, 1997, among KeyBank National Association, the Company, CheckFree Software Solutions, Inc., CheckFree Services Corporation, Security APL, Inc., Servantis Systems, Inc., and Servantis Services, Inc. (Reference is made to Exhibit 10(ee) to the Company's Form 10-K for the year ended June 30, 1997, filed with the Securities and Exchange Commission on September 26, 1997, and incorporated herein by reference.)

10(n) First Amendment to Loan and Security Agreement by and between KeyBank National Association, as Lender, and CheckFree Corporation, as Borrower, dated as of December 9, 1998. (Reference is made to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 1999, filed with the Securities and Exchange Commission on May 17, 1999, and incorporated herein by reference.)

10(o) CheckFree Corporation Incentive Compensation Plan. (Reference is made to Exhibit 10(ff) to the Company's Form 10-K for the year ended June 30, 1997, filed with the Securities and Exchange Commission on September 26, 1997, and incorporated herein by reference.)

10(p) Form of Stockholder Agreement entered into between the Company and each of Microsoft Corporation and First Data Corporation. (Reference is made to Exhibit 10(ff) of the Company's Registration Statement on Form S-4 (Registration No. 333-41098) filed with the Securities and Exchange Commission on July 10, 2000 and incorporated herein by reference).**

10(q) Form of Registration Rights Agreement entered into between the Company and each of Microsoft Corporation and First Data Corporation. (Reference is made to Exhibit 10(gg) of the Company's Registration Statement on Form S-4 (Registration No. 333-41098) filed with the Securities and Exchange Commission on July 10, 2000 and incorporated herein by reference).**

10(r) Form of Registration Rights Agreement entered into between the Company and Citibank, N.A. (Reference is made to Exhibit 10(hh) of the Company's Registration Statement on Form S-4 (Registration No. 333-41098) filed with the Securities and Exchange Commission on July 10, 2000 and incorporated herein by reference).**

10(s) Form of Commercial Alliance Agreement entered into between the Company and Microsoft Corporation. (Reference is made to Exhibit 10(ff) of the Company's Amendment No. 1 to the Registration Statement on Form S-4 (Registration No. 333-32644) filed with the Securities and Exchange Commission on April 18, 2000 and incorporated herein by reference).**

10(t) Form of Marketing Agreement entered into between the Company and First Data Corporation. (Reference is made to Exhibit 10(gg) of the Company's Amendment No. 1 to the Registration Statement on Form S-4 (Registration No. 333-32644) filed with the Securities and Exchange Commission on April 18, 2000 and incorporated herein by reference).**

10(u) CheckFree Corporation Third Amended and Restated 1995 Stock Option Plan. (Reference is made to Exhibit 4(d) to the Registration Statement on Form S-8 (Registration No. 333-50322), filed with the Securities and Exchange Commission on November 20, 2000, and incorporated herein by reference.)

13 * Portions of the Annual Report to Stockholders for the year ended June 30, 2002.

21 * Subsidiaries of the Company.

23 * Consent of Deloitte & Touche LLP.

24 * Power of Attorney.

99(a) * Financial Statement Schedule and Independent Auditors' Report.

99(b) * Certification of CEO under Section 906 of the Sarbanes-Oxley Act of 2002.

99(c) * Certification of CFO under Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed with this report.

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

(b) REPORTS ON FORM 8-K.

We filed no Current Reports on Form 8-K since March 31, 2002.

(c) EXHIBITS.

The exhibits to this report follow the Signature Page and the certifications under Section 302 of the Sarbanes-Oxley Act of 2002.

(d) FINANCIAL STATEMENT SCHEDULES.

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

SIGNATURES

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

CHECKFREE CORPORATION

Date: September 25, 2002

By: /s/ David E. Mangum

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on our behalf and in the capacities indicated on the 25th day of September, 2002.

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

*By: /s/ Curtis A. Loveland

Curtis A. Loveland,
Attorney-in-Fact

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter J. Kight, certify that:

1. I have reviewed this annual report on Form 10-K of CheckFree Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 25, 2002

/s/ Peter J. Kight

Peter J. Kight
Chairman and Chief Executive Officer
of CheckFree Corporation

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David E. Mangum, certify that:

1. I have reviewed this annual report on Form 10-K of CheckFree Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 25, 2002

/s/ David E. Mangum

David E. Mangum
Executive Vice President and Chief
Financial Officer of
CheckFree Corporation

EXHIBIT 10(j)

ACH OPERATIONS AGREEMENT

In consideration of the mutual promises and obligations sot forth herein, CHECKFREE CORPORATION ("CheckFree") and KEYBANK NATIONAL ASSOCIATION ("KeyBank") hereby agree to be bound by the terms and conditions set forth in this ACH Operations Agreement ("Agreement") as follows:

1. SERVICES, FEES, CHARGES, AND VOLUME.

(a) KeyBank will assign to CheckFree the Federal Reserve transit routing numbers ("Transit Number") as defined in Exhibit B for automated clearing house ("ACH") settlement or clearing originations. Such Transit Numbers will be used by CheckFree only for ACH originations in accordance with the terms of this Agreement. KeyBank will notify the Federal Reserve Bank of Cleveland ("Federal Reserve Bank") to accept the Transmissions (defined under Section 2(a)) submitted by CheckFree using such Transit Numbers. "Services" hereunder shall mean the provision by KeyBank to CheckFree of the use of the Transit Numbers and of access with respect to the Transmissions to the ACH processing, clearing, and settlement capability offered by the Federal Reserve Bank to KeyBank through KeyBank's account at the Federal Reserve Bank. "Services" shall also include any other services defined as "Services" in any schedule to this Agreement signed by the parties and expressly referencing this Agreement and the inclusion of such services as part of the Services.

(b) CheckFree shall pay to KeyBank for the Services such fees ("Fees") as are specified in Exhibit A. CheckFree shall also pay to KeyBank any charges assessed by the Federal Reserve Bank for or in connection with the Services. KeyBank may increase the Fees effective as of each succeeding anniversary date following April 1, 1999, by an amount not to exceed the percentage increase in the Consumer Price Index during the one-year period immediately prior to the applicable anniversary date.

2. ACH MAGNETIC TAPE/TRANSMISSION.

(a) CheckFree shall format daily a transmission ("Transmission") consisting of ACH debit and credit entries in a form prescribed by the Operating Rules of the National Automated Clearing House Association ("NACHA Rules") using thereon the Transit Numbers as set forth in Section 1(a) and forward it directly to the Federal Reserve Bank or its regional processing center. CheckFree shall forward a duplicate of the Transmission to KeyBank at the same time that it sends the Transmission to the Federal Reserve Bank which KeyBank may use for internal monitoring purposes. In connection with the Transmissions, CheckFree shall use an encrypted communications line with access controls acceptable to KeyBank and will employ those security procedures identified as "Level One Security Procedures" offered by the Federal Reserve Bank for the purpose of verifying the authenticity of the source of the Transmission. In such and in all other respects, CheckFree agrees to abide by the terms of Operating Letter No. 13 of the Federal Reserve Bank entitled "Automated Clearing House Items" and its appendices, as amended from time to time, or any successor operating letter covering ACH transactions, and shall notify the Federal Reserve Bank of such facts in the manner prescribed by it. The preparation and transfer of Transmission to the Federal Reserve Bank, the processing of the Transmissions by the Federal Reserve Bank or by CheckFree, including any processing involving the forwarding, correcting, reversal, or rejection of a Transmission or any debit or credit entry contained therein or any part thereof, and any conduct in connection with or in relation to such preparation, transfer, and processing, shall be defined hereunder as the "Operations".

(b) KeyBank has the right at any time to require, CheckFree to immediately provide sufficient funds in the amount of each ACH credit entry contained in any Transmission sent to the Federal Reserve Bank. Failure to provide sufficient funds by 5:00 p.m. EST on settlement date, will result in the immediate termination of this Agreement.

3. COMPLIANCE.

KeyBank and CheckFree understand, acknowledge, and agree that this Agreement is subject to the ongoing approval of the Office of the Comptroller of the Currency, the Federal Reserve Bank, and the Federal Reserve

Board, including but not limited to the ability of KeyBank to retain multiple routing and transit numbers. Should the Federal Reserve Bank or any other regulatory agency direct KeyBank to cease and desist such operations, refuse to continue to permit KeyBank to provide the Services to CheckFree, or change the method of operations involving the CheckFree Service, or should KeyBank's provision of the Services or any part hereof be or become in violation of any law, regulation, circular, or official interpretation or letter of a regulatory agency, then KeyBank will not be, required to continue providing the affected Service but will promptly notify CheckFree and that the services contemplated herein will be terminated. However, KeyBank will use reasonable efforts to attempt to assist CheckFree in determining alternative processing scenarios provided that KeyBank reserves the right to negotiate the price with respect to any such alternative servicing arrangements. CheckFree agrees that it willfully comply with all applicable state and federal laws, regulations, and Federal Reserve Bank operating letters, including but not limited to Federal Reserve Board Regulation E, Federal Reserve Bank Operating Letter No. 13 or other successor operating letter, and with the NACHA Rules as such laws, regulations, operating letters, and NACHA Rules are amended from time to time and CheckFree acknowledges that such amendments may necessitate a change in KeyBank's pricing. Insofar as KeyBank's cooperation is necessary to enable CheckFree to comply with the foregoing, KeyBank will reasonably cooperate with CheckFree. In addition, KeyBank and CheckFree agree that if the NACHA Rules require any change in operations involving the processing of Transmissions, CheckFree will cooperate to comply with same. Notwithstanding any provision of this Agreement the terms of this Agreement shall supersede any conflicting NACHA Rules.

4. TERM OF AGREEMENT.

(a) This Agreement will become effective on the Effective Date and will continue for a three-year period (the "Initial Term") unless renewed for one, or more additional two-year terms (each a "Renewal Term") and any one or more additional ,successive biennial anniversary dates thereof (each a "Renewal Date") pursuant to Section 4(b) and (c) below. The renewal period shall commence on the expiration date of the Initial Term in accordance with the terms and conditions of this agreement and at fees to be agreed upon at such time of renewal.

(b) If either party does not wish to renew this Agreement for a Renewal Term, it must give written notice to the other party of such intent by no later that 120 days prior to the next Renewal Date and the Agreement will thereupon terminate upon such Renewal Date. If such notice is not given by either party, this Agreement will renew automatically for a Renewal Term upon such Renewal Date. If either party intends to renew this Agreement with modifications for a Renewal Term, it shall submit to the other party by no later than 120 days prior to the next succeeding Renewal Date modified Agreement containing proposed terms and conditions.

(c) Where a modified Agreement is submitted to a party pursuant to Section 4(b), such party will notify the submitter in writing of its selection, not later than ninety (90) days prior to the next succeeding Renewal Date of one of the following alternatives:

(i) The modified Agreement is acceptable and it wilt be signed at least sixty (60) days prior to the applicable Renewal Date.

or

(ii) Such party requests renegotiation of certain terms and conditions of the modified Agreement. Such requests will identify the provisions to be negotiated and suggest modifications acceptable to such party. In the event such party elects this alternative, both parties reserve the right to not renew the Agreement in its original form or with modifications proposed by either party and the Agreement will terminate automatically on the Renewal Date unless anew agreement in writing is executed by both parties.

or

(iii) Such party intends to terminate the Agreement, in which case the Agreement will terminate automatically on the applicable Renewal Date.

(d) In the event that either party has submitted a modified Agreement and the receiving party fails to notify the submitting party of a selection under Section 4(c), the receiving party shall be conclusively presumed to have accepted this modified Agreement, and the receiving party will execute the same no less than (60) days prior to the Renewal Date.

5. AGREEMENT TERMINATION.

In addition to the termination procedure set forth in Section 4:

(a) Either KeyBank or CheckFree may terminate this Agreement upon material breach of any provision hereof by the other party hereto, which shall expressly include the failure of CheckFree to pay any fee or charge when due, upon giving such other party (30) days prior written notice of its intention to terminate and its reason therefor. Either KeyBank or CheckFree will, with any such notice, to the other party, indicate that such other party has thirty (30) days within which to remedy the breach and if it is remedied by such other party within such period, this Agreement will continue as though no such notice had been sent.

(b) Either KeyBank or CheckFree may terminate this Agreement, upon giving the other party hereto one hundred twenty (120) days prior written notice of its intention to terminate, on or after acquisition, directly or indirectly, whether through ownership of stock or through any other means whatsoever, of effective or working control of the other party hereof, or its operations or policies, by any corporation, trust association or similar corporation if following such acquisition, failure to terminate this Agreement would, in the opinion of counsel acceptable to the other party, give rise to a violation of one or more provisions of the Sherman Act (15 U.S.C. ss.1 et seq.) or the Clayton Act (15 U.S.C. ss.18 et seq.)

(c) Either KeyBank or CheckFree may terminate this Agreement immediately by giving the other party written notice if such other party becomes insolvent, is unable to generally pay its debts as they become due, files or has filed against it or its assets a petition or proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors rights, whether in a United States Bankruptcy Court or other court, or a petition is presented for the winding up or liquidation of a party, or a receiver, trustee, conservator, administrator, custodian, or other similar official is appointed for its assets pursuant to a state or federal court proceeding.

(d) Either KeyBank or CheckFree may terminate this Agreement upon written notice to the other party in the event either party is required to discontinue its participation in the Services based upon (i) a change in the rules, regulations, or letters of any regulatory body, including the Federal Reserve Bank or other reserve bank, the NACHA Rules, or any laws governing or applicable to the Services that makes either party unable to continue to make Transmissions or render Services hereunder, or (ii) an order of a state or federal court or regulatory body having jurisdiction to require either CheckFree or KeyBank to terminate Transmissions or Services hereunder.

(e) KeyBank may terminate the agreement immediately if CheckFree does not provide sufficient funds as indicated in section 2(b).

6. CONTINUED PROCESSING.

In the event of termination of this Agreement, KeyBank may continue, if it so elects, to perform the Service for CheckFree, KeyBank will establish charges and costs for such continuing processing and will notify CheckFree, of the amount thereof prior to performing the Services.

7. CONTINUED PROCESSING.

All obligations of either party incurred or existing under this Agreement as of the time of any termination hereof will survive such termination.

8. ASSIGNMENT.

The rights, duties, and obligations of KeyBank and CheckFree pursuant to this Agreement shall not be assigned or otherwise transferred in any way without the prior written consent of the other party, provided that neither party will unreasonably withhold such consent.

9. REGULATION AND EXAMINATION.

KeyBank and CheckFree understand and agree that the performance of obligations under this Agreement is subject, without notice, to the regulation and examination of the Comptroller of the Currency, the Federal Reserve Board, or such other governmental agency as shall have jurisdiction over the subject matter hereof.

10. CONFIDENTIALITY.

(a) KeyBank will safeguard, and hold confidential from disclosure to unauthorized persons, all data of CheckFree to which KeyBank or one of its affiliates obtains access pursuant to this Agreement to the same extent that KeyBank safeguards data relating to its own business, unless such data are otherwise available to the public or are already in KeyBank's possession and were rightfully obtained by it from others, or unless such disclosure is required by law or regulation. In such case, KeyBank will bear no responsibility for disclosures thereof or with respect thereto, whether inadvertent or otherwise. KeyBank's obligations herein shall be perpetual and shall survive and continue after termination.

(b) CheckFree will safeguard, and hold confidential from disclosure, to unauthorized persons, all data owned or licensed by KeyBank or one of its affiliates to which CheckFree obtains access pursuant to this Agreement to the same extent that CheckFree safeguards data relating to its own business, unless such data are otherwise available to the public or are already in CheckFree's possession and were rightfully obtained by it from others, or unless required by law or regulation. CheckFree's obligations herein shall be perpetual and shall survive and continue after termination.

11. DUE CARE.

(a) KeyBank and CheckFree will exercise due care in performing their respective obligations hereunder and each party will, in the, event of an error or omission attributable to the malfunction of equipment which it owns or leases or to the acts, negligence, or the failure of operators, programmers, or other personnel or programs employed by them, which error or omission impedes the performance of such party's obligations hereunder, use reasonable efforts to correct such error or omission, and provide prompt notice of the error or omission to the other party.

(b) Neither party shall be liable to the other for any nonperformance if it is prevented from performing any task hereunder in whole or in part as a result of an act of God, war, civil disturbance, labor dispute, or other cause beyond its reasonable control, provided, that is has taken reasonable steps and precautions to minimize the delay caused by such event and its commences performance as soon as reasonably possible after the occurrence.

12. INDEMNIFICATION.

(a) CheckFree will at all times indemnify, protect, and hold harmless KeyBank and its officer, employees, affiliates, and assigns (each an "Indemnified Party") from and against any and all loss, liability, claims, demands, or disputes, together with all costs, charges, and expenses, including counsel fees and litigation expenses, imposed upon or on any manner accruing against KeyBank or its assigns, arising out of or in any way related to the Services or Operations or KeyBank's performance of its obligations under this Agreement.

(b) CheckFree will, at its own expense and if KeyBank so requests, defend any action or preceding brought against an Indemnified Party, in connection with any such liability, claim, demand, or dispute.

(c) These provisions will not be applicable in the case of such liability, claim, demand, or dispute arising solely out of KeyBank's negligence or breach of its obligations to CheckFree under this Agreement.

13. WARRANTIES.

Each delivery of a Transmission, and each communication of instructions to KeyBank or the Federal Reserve Bank in connection with the Services, Operations, or performance of this Agreement by CheckFree, shall constitute a warranty by CheckFree to KeyBank:

(a) that the Transmission and all ACH entries therein (i) are in the correct form and contain correction information, (ii) are timely under the terms and provisions of Operating Letter 13 and this Agreement, (iii) with respect to ACH debit entries, are for sums due and owing from accounts debited, and (iv) with respect to ACH credit entries are for sums appropriately due to accounts credited; and

(b) that the creation and processing of each ACH entry and error correction, and the action of KeyBank or the Federal Reserve Bank in accordance with any instruction from CheckFree, is fully authorized by CheckFree, the party to whom such ACH entry relates, and any other party whose authorization is required.

14. INSPECTION AND AUDIT.

CheckFree shall permit KeyBank or KeyBank's designee at any reasonable time, with prior notice and at KeyBank's expense, to conduct an inspection or audit of CheckFree's records and materials relative to the Services, Operations, and of CheckFree's accounting or auditing procedures regarding the Services and Operations. In addition, CheckFree will furnish to KeyBank on a quarterly basis, a financial statement of CheckFree which has been completed based upon generally accepted accounting principles. If KeyBank as a result of such inspection, audit or review, reasonably concludes that it is exposed to undue financial risk or exposure based on the internal controls and security procedures of CheckFree, KeyBank shall notify CheckFree in writing of such finding and CheckFree shall remedy such condition within a time frame agreed upon by the parties or, if the parties cannot agree, within such time as is reasonable considering the risk or exposure and the cost of controls.

15. INSURANCE.

KeyBank and CheckFree shall at all times during the term of this Agreement maintain data media insurance to cover the replacement of lost or damaged storage media and business interruption insurance to cover the expense of reconstruction of lost data or files.

16. LIMITATION ON DAMAGES.

In any action by one of the parties against the other arising from performance, or the failure of performance, of the provisions of this Agreement, damages will be limited to general money damages in an amount not to exceed the actual damages of the party, and reasonable attorneys' fees and other expenses of litigation. In no case will a party be responsible for special, incidental, consequential, or exemplary damages, except for willful breach of this Agreement or where such damages are part of a claim for indemnification from liability under Section 12 as damages sought or recovered by a third party.

17. NOTICE PROCEDURE.

Notice, when required hereunder, will be sent by certified, or registered U.S. Mail, postage prepaid, Federal Express, Airborne Express or a comparable over-night service, to the respective parties as set forth below.

As to KeyBank — Lynda Umbreit
Vice President - Cash Management Sales
KeyBank National Association

88 East Broad Street
Columbus, Ohio 43215

As to CheckFree — William C. Buckham
Vice President and Assistant General Counsel
CheckFree Corporation
6000 Perimeter Drive
Dublin, OH 43017

18. EXCLUSIVE AGREEMENT.

The terms set forth in this Agreement represent the entire understanding and agreement of the parties with respect to the subject matter hereof. No representations, warranties, or promises are made other than as expressly set forth herein. No services other than the Services will be implied to be an obligation of KeyBank under this Agreement, and any monitoring of Transmissions which KeyBank may undertake, if any, shall not be considered a Service or other obligation owed to CheckFree.

19. RIGHT TO CONTRACT.

Each of the parties warrants that neither its execution and delivery of this Agreement nor its performance of the provisions hereof is, or will constitute, a violation on its part of any contract, indenture, or other agreement or relationship to which it is a party or by which it is bound, and hereby agrees that is will indemnify and save harmless the other party from and against any loss, costs, liability, damages, or expense by reason of any claim which may be asserted to the contrary by any third party.

20. SOFTWARE OWNERSHIP.

All specifications, tapes, and programs utilized or developed by KeyBank in connection with the Services, Operations, or otherwise in connection with the performance of this Agreement are and will remain the absolute property of KeyBank. All specifications, tapes, and programs utilized or developed by CheckFree in connection with the Services, Operations, or otherwise in connection with the performance of this Agreement are and will remain the absolute property of CheckFree.

21. TAXES.

In the event that the relationship crated between KeyBank and CheckFree under this Agreement, or as a result of the performance of the Service or Operations or of any other aspect of the relationship gives rise to any tax responsibility, exclusive of income and similar taxes, payable to the State of Ohio, any other state or political subdivision thereof or to the Internal Revenue Service, or any other subdivision of the federal government, such obligation, regardless of whether or not assessed against CheckFree, will be the responsibility of CheckFree. In the event that KeyBank should be required to pay any such tax obligation, CheckFree will reimburse KeyBank upon demand thereof.

22. RELATIONSHIP.

The parties agree that the parties hereto are acting hereunder as independent contractors and nothing in this Agreement is intended nor shall be construed to create a joint venture, partnership or similar business arrangement.

23. CONSTRUCTION; APPLICABLE LAW.

This Agreement shall be governed and construed in accordance with the laws of the State of Ohio. Paragraph headings herein are for convenience only and shall not influence the construction or interpretation of this Agreement.

Executed effective as of the 1st day of April, 1999 (the "Effective Date").

CHECKFREE CORPORATION

By: /s/ John Limbert

Title: Executive Vice President

KEYBANK NATIONAL ASSOCIATION

By: /s/ Sue E. Zazon

Title: Senior Vice President

SELECTED FINANCIAL DATA

The selected consolidated financial data for the years ended June 30, 2000, 2001 and 2002 have been derived from the Company's financial statements included elsewhere in this Annual Report which have been audited by Deloitte and Touche, LLP, independent certified public accountants, whose report thereon is also included elsewhere in this Annual Report. The selected consolidated financial data for the years ended June 30, 1998 and 1999 have been derived from audited financial statements of the Company which are not included in this Annual Report. The selected consolidated financial data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto elsewhere in this Annual Report. The financial information for the periods presented below includes all adjustments necessary for a fair presentation of results of operations.

	1998	1999	2000	2001	2002
			(In thousands, except share data)		
STATEMENT OF OPERATIONS:					
Revenues:					
Processing and servicing	$ 159,255	$ 201,059	$ 261,621	$ 362,051	$ 422,237
License fees	28,952	15,975	16,818	30,180	25,020
Maintenance fees	25,848	17,746	18,752	21,332	24,298
Other	19,809	15,351	13,004	19,757	18,922
Total revenues	233,864	250,131	310,195	433,320	490,477
Expenses					
Cost of processing, servicing and support	129,924	146,704	182,540	255,528	262,105
Research and development	36,265	21,085	35,631	55,621	55,172
Sales and marketing	28,839	32,354	44,782	90,283	58,030
General and administrative	20,677	31,466	40,931	50,474	43,687
Depreciation and amortization	24,999	24,630	42,830	427,495	435,565
In-process research and development	719	2,201	6,900	18,600	-
Impairment of intangible assets	-	-	-	-	155,072
Reorganization charge	-	-	-	-	16,365
Charge for stock warrants	32,827	-	-	-	-
Exclusivity amortization	2,963	-	-	-	-
Total expenses	277,213	258,440	353,614	898,001	1,025,996
Net gain on dispositions of assets	36,173	4,576	-	-	-
Loss from operations	(7,176)	(3,733)	(43,419)	(464,681)	(535,519)
Interest:					
Income	3,464	2,799	7,689	15,415	8,486
Expense	(632)	(618)	(8,027)	(13,154)	(12,788)
Loss on investments	-	-	-	(16,077)	-
Loss before income tax	(4,344)	(1,552)	(43,757)	(478,497)	(539,821)
Income tax benefit	(641)	(12,009)	(11,437)	(115,362)	(98,871)
Net income (loss)	$ (3,703)	$ 10,457	$ (32,320)	$ (363,135)	$ (440,950)
Diluted income (loss) per common share	$ (0.07)	$ 0.18	$ (0.61)	$ (4.49)	$ (5.04)
Equivalent number of shares outstanding	55,087	56,529	53,367	80,863	87,452
BALANCE SHEET DATA:					
Working capital	$ 78,238	$ 24,245	$ 178,761	$ 142,661	$ 201,741
Total assets	250,112	252,761	713,14	2,183,953	1,637,477
Long-term obligations, less current portion	6,467	3,882	173,236	176,541	175,316
Total stockholders' equity	$ 183,854	$ 186,903	$ 445,894	$ 1,732,186	$ 1,305,661

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

OVERVIEW

CheckFree was founded in 1981 as an electronic payment processing company and has become a leading provider of financial electronic commerce products and services. Our current business was developed through the expansion of our core electronic payments business and the acquisition of companies operating in similar or complementary businesses.

We operate our business through three independent but inter-related divisions:

- Electronic Commerce;
- Investment Services; and
- Software.

Through our Electronic Commerce division, we enable consumers to receive and pay bills electronically. For the year ended June 30, 2002, we processed approximately 316 million electronic transactions. For the quarter ended June 30, 2002, we processed approximately 87 million electronic payments and delivered approximately 3.8 million electronic bills. As of June 30, 2002, over 6.6 million consumers were enabled to use our systems, with a large majority of these consumers accessing our services via the Internet using their own personal computer. The number of transactions we process each year continues to grow. For the year ended June 30, 2002, growth in the number of transactions processed exceeded 36%. The Electronic Commerce division accounted for approximately 72% of our fiscal 2002 revenue.

Our Electronic Commerce division's products allow consumers to:

- receive electronic bills through the Internet;
- pay any bill - whether it arrives over the Internet or through traditional mail - to anyone;
- make payments not related to bills - to anyone; and
- perform customary banking transactions, including balance inquiries, transfers between accounts and online statement reconciliations.

The majority of consumers using our services access our system through Consumer Service Providers (CSPs). CSPs are companies, such as banks, brokerage firms, Internet portals and content sites, Internet-based banks, Internet financial sites and personal financial management software providers, that use our products to enable consumers to receive and/or pay bills electronically. We have relationships with hundreds of CSPs. Some of our largest CSPs, as determined by type of CSP and number of consumers using our products, are Bank of America, Bank One, Charles Schwab & Co., Chase Manhattan Bank, Merrill Lynch & Co., SunTrust, U.S. Postal Service, Wachovia, Wells Fargo and Yahoo!. This list of our CSPs is not exhaustive and may not fully represent our customer base.

We have developed our own open infrastructure, known as Genesis, to process electronic bills and payments. The Genesis system is accessed by CSPs using various Web-based applications. In March 2001, we introduced our latest application for electronic billing and payments - "WebPay for Consumers" (or WebPay 3.2), which added to our core product the ability for consumers to receive and pay e-bills over e-mail and to exchange money with each other using e-mail "invitations" to receive money. WebPay 3.2 helps consumers automate the complete process of viewing and paying bills - they can receive bills online and pay those bills online, too. WebPay 3.2 also allows the consumer to "Pay Anyone" - - from a child in college, to a lawn care or other service provider, to a friend, electronically, using the Genesis system. The number of sites where consumers can both view and pay bills doubled in 2002, with 584 CSPs now offering full electronic billing and payment.

Through our Investment Services division, we provide a range of outsourced portfolio management services to help more than 250 institutions deliver portfolio management, performance measurement and reporting services to their clients. As of June 30, 2002, our clients used the CheckFree APL Portfolio Accounting System to manage about 1.2 million portfolios totaling more than $500 billion in assets. The Investment Services division accounted for approximately 16% of our fiscal 2002 revenue.

Our institutional client base includes investment advisors, brokerage firms, banks and insurance companies. Our fee-based money manager clients are typically sponsors or managers of "wrap" or separately managed accounts, money management products, or traditional money managers, managing investments of institutions and high net worth individuals.

Our portfolio management systems are marketed under the product names APL, and provide the following functions:

- account open and trading capabilities;
- graphical client reporting;
- performance measurement;
- decision support tools;
- account analytics;
- tax lot accounting;
- manager due diligence;
- multiple strategy portfolios;
- straight through processing;
- Depository Trust Corporation interfacing;
- billing functions; and
- system and data security.

In addition to our APL and APL Wrap portfolio management products, our Investment Services division also offers investment performance and reporting products and services. Marketed under M-Search and M-Watch, these products are a result of the acquisition of Mobius Group, Inc. in March 1999.

Through our Software division, we deliver software, maintenance, support and professional services to large financial service providers and other companies across a range of industries. The Software division is comprised of three units, each with its own distinct set of software products. The ACH Solutions unit provides software and services that are used to process more than two-thirds of the nation's eight billion Automated Clearing House (ACH) payments. The CheckFree Financial and Compliance Solutions (CFACS) unit enables organizations to handle their reconciliation and compliance requirements. The i-Solutions unit provides software and services that enable end-to-end e-billing and e-statement creation, delivery and payment. The Software division accounted for approximately 12% of our fiscal 2002 revenue.

ACH Solutions. Our ACH Solutions unit provides ACH software and services. ACH is the primary batch-oriented electronic funds transfer system financial services organizations use to move funds electronically through the banking system. More than 80 percent of the nation's top 50 ACH originators use our solutions for ACH processing and more than two-thirds of the nation's eight billion ACH payments are processed each year through institutions using our software systems. In addition to the United States, we have provided electronic payment technology in Australia, Barbados, Chile, Colombia, Dominican Republic, Guatemala, Jamaica, Malaysia, and Panama.

ACH Solutions markets software under the product name PEP+ (Paperless Entry Processing System). PEP+ is an online, real-time system that enables the originating and receiving of payments through the ACH system. These electronic transactions are substitutes for paper checks, and are typically used for recurring payments like direct deposit payroll payments and corporate payments to contractors and vendors, debit transfers that consumers make to pay insurance premiums, mortgages, loans and other bills, and business-to-business payments. Recent new ACH product types allow returned checks, checks at the point-of-sale, and checks sent to a lockbox to be converted to electronic payments.

CheckFree Financial and Compliance Solutions. Our CFACS unit provides software and professional services that enable all types of organizations to perform automated reconciliation and maintain compliance with federal and state regulations. Banks, bank holding companies, securities and insurance firms, corporations and government agencies use our reconciliation and compliance products and services. Our reconciliation solutions are marketed under the CheckFree RECON-Plus(TM) brand. These systems reconcile high volumes of complex transactions that are spread across multiple enterprise-wide systems and include securities transaction processing, automated deposit verification, consolidated bank account reconciliation and cash mobilization and improved cash control. In fiscal 2002 we completed development of RECON-Plus Frontier(TM), a multi-tier reconciliation system that operates over the Internet.

CheckFree RECON Securities(TM) enables securities firms to automatically match intra-day transactions, generate affirmations, facilitate settlement and reconcile cash and securities transactions at both the omnibus, or collective and shareholder level. In addition to reconciliation, CFACS delivers automated regulatory tracking and reporting solutions that help organizations maintain compliance. The CFACS compliance products provide compliance with (1) unclaimed property management, (2) 1099 reporting, (3) fraud detection, (4) the Bank Secrecy Act and (5) retirement reporting.

i-Solutions. Our i-Solutions unit provides end-to-end business-to-consumer and business-to-business software and services for e-billing and e-statement creation, delivery and payment. i-Solutions helps billers, financial services organizations and biller service providers leverage electronic bills and statements as interactive conduits to customer relationship management, marketing and customer self-service applications.

i-Solutions enables billers to create online bills and statements and distribute them to their customers for viewing and payment. Online bills can be delivered to the biller's customers through any or all of the following options: through our network of CSPs, directly at the biller's Web site; through e-mail; and through our Web site MyCheckFree.com, which are serviced through our Electronic Commerce division. Our software and outsourced application hosting services deliver: e-bill and e-statement creation; e-bill and e-statement delivery; e-bill payment transaction management and security; e-bill payment tracking and history; online marketing from the biller to its customers; and customer care.

i-Solutions markets the i-Series product line, which is a set of e-billing and e-statement software solutions developed for various industry segments. Each product in the i-Series includes a template for creating e-bills and e-statements unique to a specific industry segment, reducing development and deployment time. These solutions are offered in both licensed and outsourced application service provider (ASP) agreements. Given the nature of the process we use to convert billing and/or statement information for use over the Internet, these products are equally marketable in international markets as well. i-Solutions software has been sold in 23 countries.

RESULTS OF OPERATIONS

The following table sets forth as percentages of total operating revenues, certain consolidated statements of operations data:

	YEAR ENDED JUNE 30,		
	2000	2001	2002
Total revenues	100.0%	100.0%	100.0%
Expenses:			
Cost of processing, servicing and support	58.8	59.0	53.4
Research and development	11.5	12.8	11.3
Sales and marketing	14.4	20.8	11.8
General and administrative	13.2	11.7	8.9
Depreciation and amortization	13.8	98.7	88.8
In-process research and development	2.2	4.3	-
Impairment of intangible assets	-	-	31.6
Reorganization charge	-	-	3.3
Total expenses	114.0	207.2	209.2
Loss from operations	(14.0)	(107.2)	(109.2)
Interest:			
Interest income	0.2		

3.6 1.7
Interest
expense (0.3)
(3.1) (2.6)
Loss on
investments -
(3.7) - -----
----- -----
Loss before
income taxes
(14.1)
(110.4)
(110.1)
Income tax
benefit (3.7)
(26.6) (20.2)
----- ----- -
---- Net Loss
(10.4)%
(83.8)%
(89.9)% =====
===== =====

YEARS ENDED JUNE 30, 2001 AND 2002

Revenues. Our total revenue increased by 13%, from $433.3 million for the year ended June 30, 2001 to $490.5 million for the year ended June 30, 2002. Total company revenue growth was driven by 17% growth in our Electronic Commerce business and 14% growth in our Investment Services business, offset by a 5% decline in our Software business.

Growth in Electronic Commerce revenue is driven primarily by growth in our subscriber base from just over 5.2 million at June 30, 2001 to over 6.6 million at June 30, 2002 and by growth in total transactions processed from 231 million for the year ended June 30, 2001, to over 316 million for the year ended June 30, 2002. The impact of growth in subscribers and transactions processed is offset by a decline in revenue from interest rate sensitive products, such as our account balance transfer product, caused by significant decreases in interest rates from last year. In October 1999, we entered into an agreement with a third party in which we issued warrants on one million shares of our stock, exercisable on September 15, 2002, contingent upon maintaining the existence of our agreement through that date. During the quarter ended June 30, 2002, we recorded a non-cash charge of $2.7 million against revenue resulting from the probable vesting of those warrants to the third party.

Growth in Investment Services is driven primarily by an increase in portfolios managed from over 1.1 million at June 30, 2001, to about 1.2 million at June 30, 2002, offset by industry consolidations which resulted in the loss of over 0.1 million portfolios over the past year. The majority of these portfolios processed at a lower price point than average, based on the service level provided, resulting in a reduced negative impact. Also, in the quarter ended March 31, 2002, we announced the elimination of certain of our financial planning software products within Investment Services, resulting in a modest decrease in revenue as the product line was in existence the full year in 2001 and less than three quarters of the year in 2002. As a result of the difficult stock market conditions since late September 2001, portfolio growth has slowed significantly, and we remain short of historic growth rates in this part of our business. Due also to poor economic conditions in fiscal 2002, we have experienced a decline in revenue in our Software business on a year over year basis. Although revenue from our more mature ACH processing and Reconciliation products has remained relatively stable, sales of our i-Solutions electronic billing and statement software have been lower than expected as the recession continues.

Across all segments of our business, for the year ended June 30, 2002, Bank of America generated total revenue of $60.0 million, which represents in excess of 10% of our total revenue, and they remain the only customer that exceeds 10% of our total revenue. Because they own approximately ten million shares of our stock, Bank of America is considered a related party. The ten-year term of our agreement, which includes annual minimum revenue guarantees of $50 million, is at least twice the length of a typical agreement. We established subscriber-based pricing at contract execution, which is competitive with pricing we offer to our other customers, based on the volumes of activity provided by Bank of America.

Our processing and servicing revenue increased by $60.2 million, or 17%, from $362.1 million for the year ended June 30, 2001 to $422.2 million for the year ended June 30, 2002. Processing and servicing revenue occurs in both our Electronic Commerce and Investment Services businesses. Within Electronic Commerce, growth in underlying processing and servicing revenue is driven by the previously mentioned growth in subscribers and transactions. Our acquisition of TransPoint in September 2000 included a five-year strategic agreement with Microsoft and a five-year marketing agreement with First Data Corporation, each of which includes minimum quarterly revenue guarantees, as does our ten-year strategic agreement with Bank of America. Through June 30, 2002, the agreements with Microsoft and First Data are operating below the minimum guarantee level. The Bank of America contract operated under minimums until the December 31, 2001 quarter. As a result of these minimum guarantees, overall subscriber-based revenue correlates less directly with subscriber growth. Additionally, we processed over 1.3 million electronic bills in the month ended June 30, 2002, which is a significant increase from the 1.1 million electronic bills processed in the month ended March 31, 2002 and the 500,000 electronic bills processed in the month ended June 30, 2001. This growth is offset by a decline in revenue from interest rate sensitive products and the previously mentioned $2.7 million non-cash charge we recorded against revenue related to warrants we issued to a third party in 1999. One of our larger customers recently announced plans to utilize "in house" technologies to build and manage the electronic billing and payment user interface and payment warehouse requirements of their customer base. While this will result in less use of our services, and a reduction of quarterly processing and servicing revenue of approximately $2.0 million starting in the quarter ended September 30, 2002, the payment processing only service they will utilize will cost us less to operate, and we therefore believe this will have little impact on our operating income over time. Over the past two years, we have been offering a transaction based pricing model (versus subscriber based) primarily to our largest customers, and when combined with strategic agreements operating below minimum quarterly revenue thresholds, an increasing number of electronic bills presented, and new product offerings such as person to person payments, it has become increasingly more difficult to correlate revenue solely to the number of subscribers, with transactions processed becoming a more relevant revenue indicator. As a result, we have identified new revenue indicators to use as our business continues to evolve. As these indicators relate solely to our Electronic Commerce business, we have included a table of relevant historic indicators later in the SEGMENT INFORMATION section of this analysis. Growth in processing and servicing revenue is also impacted by the previously mentioned growth in portfolios managed in our Investment Services business.

Our license fee revenue decreased by $5.2 million, or 17%, from $30.2 million for the year ended June 30, 2001 to $25.0 million for the year ended June 30, 2002. License revenue is isolated to our Software business. License sales have dropped off during the recessionary period that began toward the end of fiscal 2001 and has continued throughout fiscal 2002. While sales in our more mature ACH processing and Reconciliation software products have remained fairly stable, sales of our i-Solutions electronic billing and statement software have continued to fall short of our expectations during this difficult period. The reduction in expected license sales in our i-Solutions business unit has resulted in our recording an impairment charge relative to the intangible assets we recorded as part of our acquisition of BlueGill. The charge is explained in the paragraph labeled Impairment of Intangible Assets later in this analysis. As software purchases are typically seen as investment spending by our customers, we believe that the environment for software license sales will continue to be challenging until economic conditions improve, particularly for products early in their life cycle, such as our i-Solutions offerings.

Our maintenance fee revenue increased by $3.0 million, or 14%, from $21.3 million for the year ended June 30, 2001 to $24.3 million for the year ended June 30, 2002. Maintenance revenue is isolated to our Software business. Maintenance represents annually renewable product support for our software customers, which tends to grow with incremental software license sales from the last four quarters, combined with annual retention rates of existing customers that exceed 80% across all product lines. Although software sales have declined on a year over year basis, because of the annuity effect of a renewing customer base, we have continued to experience growth in maintenance revenue. Pricing has not had a material impact on maintenance revenue growth.

Our other revenue, which consists mostly of consulting and implementation fees across all three of our businesses, decreased by $0.8 million, or 4%, from $19.8 million for the year ended June 30, 2001 to $18.9 million for the year ended June 30, 2002. The decline in other revenue is the combined result of lower biller implementation fees in our Electronic Commerce business, lower software implementation engagements from lower software sales in our Software business and lower implementation and custom reporting fees in our Investment Services business.

Cost of Processing, Servicing and Support. Our cost of processing, servicing and support was $255.5 million, or 59.0% of total revenue, for the year ended June 30, 2001, and was $262.1 million, or 53.4% of total revenue, for the year ended June 30, 2002. Cost of processing, servicing and support, as a percentage of processing only revenue (total revenue less license fees), was 63.4% for the year ended June 30, 2001 versus 56.3% for the year ended June 30, 2002. We continue to achieve improved efficiency and processing quality within our Genesis processing platform in our Electronic Commerce business. Our ratio of electronic payments to total payments has improved from 64% at June 30, 2001 to over 71% at June 30, 2002. Electronic payments carry a significantly lower variable cost per unit than paper-based payments and are far less likely to result in a costly customer inquiry or claim. The full underlying impact of improved efficiency and quality, however, is not readily apparent in these results. We acquired TransPoint in September 2000 and the electronic billing and payment assets of Bank of America in October 2000. As a result of these transactions, we supported two additional billing and payment platforms for much of the year ended June 30, 2001 and one additional platform through March 31, 2002 as we worked to migrate subscribers and billers over to Genesis. The acquired platforms were less efficient than our Genesis processing platform, and therefore much more expensive to operate. As an example, during fiscal 2002 alone, we incurred approximately $18 million in costs paid to Bank of America for their support of the Bank of America West processing platform during the conversion process. We completed the conversion of the TransPoint subscribers and billers onto our Genesis platform in the quarter ended June 30, 2001. We completed the conversion of a portion of the Bank of America East operations in the quarter ended March 31, 2001, which included subscribers in Georgia, Tennessee, Florida, Missouri, Arkansas, Iowa, Kansas, Arizona, New Mexico, North Carolina, South Carolina, Virginia, Maryland and the District of Columbia. We completed the conversion of the remainder of the Bank of America subscribers, referred to as Bank of America West, to Genesis in the quarter ended December 31, 2001. After resolving the backlog of open customer care inquiry and claims during the quarter ended March 31, 2002, we retired the Bank of America processing platform and were no longer required to reimburse Bank of America for running the platform on our behalf. Additionally, we have migrated all but a few CSPs off of our Austin processing platform and have relocated the remaining technologies to our Norcross, Georgia facility. We expect to fully retire the Austin platform in the quarter ended September 30, 2002. As a result of these retirements, we closed our San Francisco customer care facility effective April 30, 2002, our Houston customer care facility effective June 30, 2002, and will close our Austin office by September 30, 2002. The retirement of the Bank of America platform and the resulting closing of the San Francisco, Houston and Austin offices resulted in a recurring reduction in our quarterly processing cost of almost $5.0 million beginning in the quarter ended June 30, 2002 and increasing to approximately $6.0 million in the quarter ended September 30, 2002. The net impact of the above programs and actions resulted in a decrease of over 20% in our direct cost per transaction processed in the year ended June 30, 2002. Refer to the

Reorganization Charge paragraph below and Note 17 in the Notes to Consolidated Financial Statements within this report for further information regarding the one-time charge we recorded as a result of the reorganization actions.

Research and Development. Our research and development costs were $55.6 million, or 12.8% of total revenue, for the year ended June 30, 2001, and $55.2 million, or 11.3% of total revenue, for the year ended June 30, 2002. Adjusted for capitalized development costs, our gross research and development costs were $60.5 million, or 14% of total revenue, for the year ended June 30, 2001, and $59.6 million, or 12.2% of total revenue, for the year ended June 30, 2002. During fiscal years 2000 and 2001, we invested heavily in research and development activities to enhance our product offerings and further distance ourselves from our competition. We have continued to invest consistently in research and development activities on a gross dollar basis in all of our business segments during fiscal 2002 in anticipation and support of revenue growth, quality enhancement and efficiency improvement opportunities. On March 19, 2002, we announced a company reorganization that resulted in a reduction in workforce that impacted all areas of the company, including research and development. As a result, we expect our quarterly costs to be reduced on an absolute dollar basis, but anticipate continuing to invest significantly in research and development activities.

Sales and Marketing. Our sales and marketing costs were $90.3 million, or 20.8% of total revenue, for the year ended June 30, 2001, and were $58.0 million, or 11.8% of total revenue, for the year ended June 30, 2002. The terms of our strategic agreement with Bank of America in October 2000 called for us to provide $25.0 million toward a two year, $45.0 million marketing campaign to be administered by Bank of America. Because we had no direct influence or control over the specific nature, timing or extent of the use of funds, we expensed the $25.0 million as a period cost in the quarter ended December 31, 2000. Net of this one-time charge, sales and marketing costs were $65.3 million, or 15.1% of total revenue, for the year ended June 30, 2001. Current year commission expenses are lower than prior year due to lower overall software sales and lower biller signings than in the prior year. We reduced the number of i-Solutions sales and marketing staff in the quarter ended June 30, 2001 and sales and marketing staff across the company were also impacted by the reduction in force announced on March 19, 2002. Because our electronic billing and payment services are offered as a private labeled service through our bank customers, we do not incur the cost of direct advertising and promotion campaigns. However, our existing marketing staff continues to provide assistance to our consumer service provider customers in identifying best practice programs that are successful in driving increased subscriber adoption and activation. We will continue to provide marketing assistance to our customers, and with the exception of seasonal fluctuations in commissions related to software sales, we expect sales and marketing expenses to remain fairly consistent on a going forward basis.

General and Administrative. Our general and administrative costs were $50.5 million, or 11.7% of total revenue, for the year ended June 30, 2001, and were $43.7 million, or 8.9% of total revenue, for the year ended June 30, 2002. Our general and administrative costs as a percentage of revenue continue to decline due to leverage inherent in our business model and efforts to curtail discretionary spending in a recessionary economy throughout fiscal 2002. Because we have managed general and administrative expenses down on an ongoing basis through attrition in related areas, we do not expect further material declines as a result of the March 19, 2002 reduction in force previously mentioned.

Depreciation and Amortization. Depreciation and amortization costs increased from $427.5 million for the year ended June 30, 2001 to $435.6 million for the year ended June 30, 2002. The significant depreciation and amortization costs relative to the other costs of our business are composed primarily of amortization expenses related to the intangible assets we recorded as a result of the acquisition of BlueGill Technologies in April 2000, the acquisition of TransPoint in September 2000, and our purchase of the electronic billing and payment assets of Bank of America in October 2000. Net of intangible amortization from acquisitions, our depreciation costs related primarily to fixed assets used in ongoing operations, increased from $34.1 million for the year ended June 30, 2001 to $41.6 million for the year ended June 30, 2002. The increase in fixed asset depreciation is the result of continued capital spending for data processing equipment, related software, and facility improvements in support of the continued growth of the business. As a result of our decision to close our San Francisco, Houston and Austin offices, we have certain fixed assets that have no future use to us, and we accelerated the remaining depreciation on those assets to reduce their book value to zero to reflect the timing of the office closings and their resulting shorter useful life. As a result of our adoption of Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets," on July 1, 2002, we will no longer amortize goodwill and we expect our quarterly depreciation and amortization cost to be reduced by approximately $41.8 million.

In-Process Research and Development. In the three months ended September 30, 2000, we incurred $18.6 million of in-process research and development costs in relation to our acquisition of TransPoint. For a detailed discussion of this charge, please refer to the Notes to Consolidated Financial Statements included in our June 30, 2001 Annual Report.

Impairment of Intangible Assets. In the quarter ended December 31, 2001, we recorded charges totaling $155.1 million for the impairment of intangible assets. This was the combined result of a charge of $107.4 million for the impairment of goodwill associated with our acquisition of BlueGill Technologies in April 2000 (currently referred to as CheckFree i-Solutions), and of $47.7 million for the retirement of certain technology assets we acquired from TransPoint in September 2000.

Upon successful integration of BlueGill Technologies into the operations of our Software business, during fiscal 2001, we anticipated continued rapid growth in software license sales for fiscal 2002. We saw a drop off in demand for electronic billing software during the quarter ended September 30, 2001; however, we did not believe this would impact our longer-term expectations for this product line and, therefore, we determined there was no indicator of possible impairment at that time. When sales continued to be depressed in the quarter ended December 31, 2001, we viewed this as a triggering event that required evaluation of possible impairment per the guidelines of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." Our tests relative to the total tangible and intangible assets related to the i-Solutions product line revealed that the assets were in fact impaired. This analysis resulted in a charge of $107.4 million to write down the value of goodwill related to the acquisition of BlueGill.

As part of the acquisition of TransPoint in September 2000, we were required to maintain the TransPoint technology for up to three years for any customer that wished to remain on the system. When valuing the TransPoint assets, we established an intangible asset for current technology and assigned it a three-year life. We have migrated all of the subscribers, billers and consumer service providers to our Genesis platform and the last of our international partners gave notice of their intention to cancel their maintenance agreement with us during the December 2001 quarter. Additionally, we recently concluded that certain components of the TransPoint technology were not compatible with current or future initiatives. We viewed these as triggering events that required the evaluation of possible impairment per SFAS 121. Our overall testing indicated that there was no impairment of the TransPoint assets in general; however, we then evaluated SFAS 121 requirements related to the retirement of assets and identified two technologies, delivery applications and payment interface, for which we have no future use. In the quarter ended December 31, 2001, we retired these two technologies, resulting in a charge of $47.7 million.

Reorganizaton Charge. In January 2002, we announced our plans to close our customer care facility in San Francisco, effective April 30, 2002, which resulted in the termination of employees at that facility. At that time, we also announced our intent to eliminate certain of our financial planning products within our Investment Services division, which also resulted in a small reduction of employees in our Raleigh, North Carolina office. On March 19, 2002, we further announced the closing of our Houston and Austin, Texas offices and a net reduction in force totaling about 450 employees. As a result of these actions, we have incurred a charge of $15.9 million in the quarter ended March 31, 2002 and an additional true up charge of $0.5 million in the quarter ended June 30, 2002, consisting primarily of severance and related employee benefits and lease termination fees. We accounted for these actions in accordance with Emerging Issues Task Force (EITF) abstract number 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." For further details relating to this charge, please refer to Note 17 in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

Interest. Net interest decreased from net interest income of $2.3 million for the year ended June 30, 2001 to net interest expense of $4.3 million for the year ended June 30, 2002. Net interest is composed of interest income, offset by interest expense.

Interest income decreased from $15.4 million for the year ended June 30, 2001 to $8.5 million for the year ended June 30, 2002. The decrease is a result of the combined effect of a decrease in our average annual yield, offset by an increase in our average invested assets of $34.1 million.

Interest expense declined from $13.2 million for the year ended June 30, 2001 to $12.8 million for the year ended June 30, 2002. The decrease is due to a modest drop in average interest rates combined with a reduction in our average outstanding debt and other long-term obligations of approximately $0.3 million. Note that the interest rate on our $172.5 million convertible debt balance is fixed at 6.5% and this debt has remained in place throughout fiscal 2001 and fiscal 2002.

Loss on Investments. Due to overall market conditions, certain of our investments incurred an "other than temporary" decline in market value. As a result, in the year ended June 30, 2001, we recorded charges of $16.1 million to appropriately reflect the decline in value of these investments. No additional charge was required in the year ended June 30, 2002.

Income Taxes. We recorded an income tax benefit of $115.4 million, at an effective rate of 24.1%, for the year ended June 30, 2001, and an income tax benefit of $98.9 million, at an effective rate of 18.3%, for the year ended June 30, 2002. The reported effective rates differ from the blended statutory rate of 40% in all periods due to certain non-deductible goodwill amortization, impairment charges related to goodwill, non-deductible in-process research and development expenses and other non-deductible expenses, offset somewhat by eligible tax credits.

YEARS ENDED JUNE 30, 2000 AND 2001

Revenues. Our total revenue increased by 40%, from $310.2 million for the year ended June 30, 2000 to $433.3 million for the year ended June 30, 2001. The increase in revenue resulted from the acquisition of BlueGill in April 2000, the acquisition of TransPoint in September 2000, our strategic alliance with Bank of America in October 2000, and underlying revenue growth in the mid 20% range on a year over year basis. Overall revenue growth was driven primarily by an increase in subscribers in our Electronic Commerce business from 3.5 million at June 30, 2000 to just over 5.2 million at June 30, 2001 (0.3 million of which were added from Bank of America in October 2000), an increase in portfolios managed in our Investment Services business from approximately 950,000 at June 30, 2000 to over 1.1 million at June 30, 2001, and incremental revenue from the BlueGill acquisition in our Software business.

Our processing and servicing revenue increased by 38%, from $261.6 million for the year ended June 30, 2000 to $362.1 million for the year ended June 30, 2001. Net of the incremental revenue from the previously mentioned agreements, underlying growth in processing and servicing revenue increased by 25% on a year over year basis. Growth in underlying processing and servicing revenue was driven by the previously mentioned growth in subscribers in our Electronic Commerce business and portfolios managed in our Investment Services business. Additionally, we had 173 billers in production, including 30 that were added through the TransPoint acquisition, that presented nearly 500,000 bills in the month ended June 30, 2001. This was an increase from the 93 billers that presented about 94,000 bills in June 2000. In the month ended June 30, 2001, we processed over 22 million transactions, an increase of 38% compared to the 16 million transactions we processed in the month of June 2000.

Our license fee revenue increased by 79%, from $16.8 million for the year ended June 30, 2000 to $30.2 million for the year ended June 30, 2001. Growth in license revenue was primarily attributable to new revenue resulting from our acquisition of BlueGill in April 2000. We achieved modest license revenue growth in the mid single digit range from our more mature software product lines in the year ended June 30, 2001.

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

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

Cost of processing, servicing and support. Our cost of processing, servicing and support was $182.5 million, or 58.8% of total revenue for the year ended June 30, 2000, and was $255.5 million, or 59.0% of total revenue for the year ended June 30, 2001. Cost of processing, servicing and support as a percentage of servicing only revenue (total revenue less license fees) was 62.2% for the year ended June 30, 2000, and 63.4% for the year ended June 30, 2001. As previously mentioned, we acquired TransPoint in September 2000 and the electronic billing and payment assets of Bank of America in October 2000. As a result of these transactions, we supported two additional billing and payment-processing platforms for much of the year ended June 30, 2001. Although expected, this resulted in an increase in our cost of processing as a percentage of servicing only revenue, as the acquired platforms were less efficient than our Genesis processing platform. We completed the conversion of TransPoint subscribers and billers to the Genesis processing platform in the quarter ended June 30, 2001. We completed the conversion of a portion of the Bank of America East operations in the quarter ended March 31, 2001, which included subscribers in Georgia, Tennessee, Florida, Missouri, Arkansas, Iowa, Kansas, Arizona, New Mexico, North Carolina, South Carolina, Virginia, Maryland, and the District of Columbia. Somewhat masked by less efficient incremental costs resulting from TransPoint and Bank of America were the underlying improvements in efficiency and processing quality within Genesis. Our ratio of electronic payments to total payments had improved from approximately 58% at June 30, 2000 to about 64% as of June 30, 2001.

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

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

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

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

In-Process Research and Development. In the quarter ended June 30, 2000, we incurred $6.9 million of in-process research and development costs in relation to our acquisition of BlueGill. In the quarter ended September 30, 2000, we incurred $18.6 million of in-process research and development costs in relation to our acquisition of TransPoint. Please refer to the Notes to Consolidated Financial Statements included in our June 30, 2001 Annual Report for a detailed discussion of the charges.

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

Our interest expense increased from $8.0 million for the year ended June 30, 2000 to $13.2 million for the year ended June 30, 2001. While we also incur interest expense on leases, the increase in interest expense was due primarily to the $172.5 million of 6 1/2% convertible subordinated notes we issued in November 1999, which created slightly over seven months of interest expense in the year ended June 30, 2000 and 12 months of interest expense in the year ended June 30, 2001.

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

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

SEGMENT INFORMATION

The following table sets forth our operating revenue and operating income (loss) by industry segment for the periods noted. Charges identified as purchase accounting amortization, in-process research and development, a one-time marketing charge, impairment of intangible assets, reorganization charge and charge associated with third party warrants were separated from operating income for a better understanding of the underlying performance of each segment. Explanations for these charges can be found in the discussions above.

	YEAR ENDED JUNE 30,		
	2000	2001	2002
	(In thousands)		
Operating revenue:			
Electronic Commerce	$ 213,391	$ 301,532	$ 352,054
Investment Services	54,792	69,613	79,574
Software	42,012	62,175	58,849
Total operating revenue	$ 310,195	$ 433,320	$ 490,477
Operating income (loss):			
Electronic Commerce	$ (18,248)	$ (13,083)	$ 39,010
Investment Services	15,830	20,347	24,376
Software	10,536	837	5,789
Corporate	(26,120)	(35,746)	(36,500)
Specific items:			
Purchase accounting amortization	(18,517)	(393,436)	(394,009)
Impairment of intangible assets	-	-	(155,072)
One-time marketing charge	-	(25,000)	-
In-process research and development	(6,900)	(18,600)	-
Reorganization charge	-	-	(16,365)
Charge associated with warrants issued to third party	-	-	(2,748)
Total operating loss	$ (43,419)	$(464,681)	$(535,519)

YEARS ENDED JUNE 30, 2001 AND 2002

Electronic Commerce. Revenue in our Electronic Commerce business increased by $50.5 million, or 17%, from $301.5 million for the year ended June 30, 2001 to $352.1 million for the year ended June 30, 2002. In the quarter ended June 30, 2002, we recorded a non-cash charge of $2.7 million against Electronic Commerce revenue associated with the probable vesting of warrants we issued to a third party. In October 1999, we entered into an agreement with a third party in which we issued warrants on one million shares of our stock, exercisable on September 15, 2002, contingent upon maintaining the existence of our agreement through that date. Net of this one-time non-cash charge, underlying revenue was $354.8 million for the year ended June 30, 2002, for an increase of 18%. Underlying growth in this business is driven primarily by an increase in subscribers from just over 5.2 million at June 30, 2001 to over 6.6 million as of June 30, 2002, an increase of 27%. While significant, this growth rate is lower than we have seen in recent years. We anticipate that subscriber growth may remain lower than historic growth rates in coming quarters, as economic conditions may continue to cause financial institutions to remain aggressive in their managing subscriber counts.

With our acquisition of TransPoint in September 2000, we became the preferred provider of electronic billing and payment services to customers through Microsoft's MSN and Money Central product offerings. The agreement with Microsoft provides guaranteed revenue of $120 million over a five-year period that commenced in January 2001. Additionally, as part of the TransPoint acquisition, we received $60 million of guaranteed revenue and/or cost savings opportunities through First Data Corporation over a five-year period that began in September 2000. Effective October 21, 2000, we completed a strategic agreement with Bank of America, the largest bank in the U.S., to offer electronic billing and payment services to its customer base. This ten-year agreement provides annual revenue guarantees of $50.0 million, or $12.5 million on a quarterly basis. We had been processing certain transactions for Bank of America prior to the strategic agreement and, therefore, the $50 million guarantee was not entirely incremental to our underlying revenue. However, we did add approximately 300,000 incremental subscribers to our subscriber base upon completion of the strategic agreement. Underlying revenue for each of these agreements had been below our guaranteed minimum level, until the quarter ended December 30, 2001, when Bank of America exceeded their minimums. Bank of America continues to provide in excess of 10% of the total revenue of our Electronic Commerce business unit as of June 30, 2002.

When combining subscriber growth with guaranteed minimums, an increasing number of businesses opting for a transaction-based pricing structure versus a traditional subscriber-based pricing structure, other payment transactions which we effect, a couple of large banks that have built their own in-house user interface and payment warehouse, an emerging electronic billing revenue stream, and volatile interest-based revenue sources that fluctuate with interest rate changes, it has become too difficult to correlate revenue solely to the number of subscribers, with transactions processed becoming a more meaningful indicator. For the year ended June 30, 2002, we processed in excess of 316 million transactions, compared to 231 million processed for the year ended June 30, 2001. Historically, we have provided the total number of subscribers and total number of transactions processed on a quarterly basis. Given the evolution of our business, on a going forward basis, we will provide greater details based on the type of relationship we have with our partners. We have two primary types of relationships and will include all relationships into one of two categories: Full Service relationships and Transaction Service relationships. Partners that have a Full Service relationship with us outsource their electronic billing and payment process to us. For this group, we have contracts where our partners pay us either on a per-subscriber basis or a per-transaction basis, or some combination of both. Partners that have a Transaction Service relationship with us receive a subset of our electronic billing and payment transaction services. An example is a bank that hosts its own payment warehouse and contracts with us to process payments. Our contracts with large billers and our account balance transfer relationships fall into this category as well, as our relationship is primarily transaction driven. For our Full Service relationships, we provide total active subscribers, total transactions and total revenue attributable to these transactions. For our Transaction Services relationships, we provide total transactions and total revenue attributable to these transactions. Since many of these relationships are not contracted to track active subscribers, we are not in a position to provide active subscriber counts for this category. Revenue streams within Electronic Commerce that either do not process through our Genesis platform, such as our Health and Fitness business, or are not subscriber or transaction driven, such as implementation services, will be reflected in a third category described simply as other revenue. The following table provides four quarters of history in the relevant statistics that we expect to provide on a going forward basis:

	QUARTER ENDED			
	9/30/01	12/31/01	3/31/02	6/30/02
	(In thousands)			
FULL SERVICE RELATIONSHIPS				
Revenue	$ 64,968	$ 67,161	$ 71,155	$ 74,132
Active subscribers	2,620	2,749	2,930	3,122
Transactions processed	56,055	60,947	65,531	69,045
TRANSACTION SERVICE RELATIONSHIPS				
Revenue	$ 9,878	$ 10,243	$ 10,285	$ 10,669
Transactions processed	13,385	15,509	16,866	18,942
OTHER ELECTRONIC COMMERCE				
Revenue	$ 9,981	$ 8,236	$ 8,332	$ 9,762
Non-cash revenue charge related to warrants				$ (2,748)

To date, we have 207 primary billers in production with our E-Bill electronic billing product offering that are delivering over 1.3 million electronic bills per month as of June 30, 2002. A primary biller, by our definition, is one that has the potential to distribute in excess of 100,000 bills on a monthly basis. Also, we have added bill aggregation technology to our Genesis platform that provides access to additional bills through "scraping," which is available to consumer service providers as they upgrade to our Web Pay for Consumers product. As of June 30, 2002, we are distributing 25 bills through scraping technology and have implemented another 30 non-primary billers, for a total consumer choice of among 262 electronic bills. In the prior quarter, we had reported 26 bills available through scraping, but during the quarter ended June 30, 2002, one of the related billers decided to contract with us for bill distribution services. We continue to believe that a complete, integrated round trip electronic billing and payment experience for an average of six to ten bills per month per customer is an important factor in driving subscriber growth. As of June 30, 2002, we estimate that the average consumer using our Web Pay for Consumer product has the potential to receive from six to nine electronic bills in major strategic marketing areas throughout the United States.

Underlying operating results in our Electronic Commerce business, excluding a non-cash charge to revenue related to warrants, purchase accounting amortization, intangible asset impairment charges, in-process research and development, a one-time marketing charge and reorganization charges, have improved from an operating loss of $13.1 million for the year ended June 30, 2001 to operating income of $39.0 million for the year ended June 30, 2002. We continue to drive improved efficiency and processing quality within our Genesis processing platform. Our ratio of electronic payments to total payments has improved from 64% as of June 30, 2001 to over 71% as of June 30, 2002. Electronic payments carry a significantly lower variable cost per unit than paper payments and are far less likely to result in a costly customer inquiry or claim. The full underlying impact of improved efficiency and quality, however, is not readily apparent in these results. We acquired TransPoint in September 2000 and the electronic billing and payment assets of Bank of America in October 2000. As a result of these transactions, we supported two additional billing and payment processing platforms for much of the year ended June 30, 2001 and one additional platform through March 2002. The acquired platforms were less efficient than our Genesis processing platform and, therefore, much more expensive to operate. During the year ended June 30, 2002, we incurred approximately $18.0 million of expense to Bank of America for their support of the Bank of America West processing platform. We completed the conversion of the TransPoint subscribers and billers onto Genesis in the quarter ended June 30, 2001. We completed the conversion of the Bank of America subscribers onto Genesis in the quarter ended December 31, 2001. After processing the remaining pre-conversion customer inquiries and claims during the quarter ended March 31, 2002, we have retired the Bank of America platform. As a result of the successful conversion of Bank of America subscribers to Genesis and our ability to retire the Bank of America platform, we announced the closing of our San Francisco customer care facility effective April 30, 2002 and our Houston customer care facility effective June 30, 2002. On March 19, 2002, we also announced an overall company reorganization that resulted in a net reduction in force of approximately 450 employees across the company, including the closing of offices mentioned. Additionally, upon retirement of our legacy Austin processing platform expected during the quarter ended September 30, 2002, we will also close our Austin, Texas office. The combined impact of these various actions reduced our quarterly costs by approximately $7.0 million to $8.0 million starting in the quarter ended June 30, 2002. Our focus throughout fiscal 2002 was geared toward improved profitability in our Electronic Commerce business through programs designed to:

- drive increased subscriber adoption and activation among our partners;
- improve product design and usability;
- improve overall customer satisfaction; and
- reduce variable costs per transaction.

While there continues to be no guarantee as to the timing or extent of accelerating adoption of electronic billing and payment services, we believe that with our continued focus on improved product and service quality, customer satisfaction and cost efficiency, we are better positioned to maintain our market leadership position throughout an accelerated growth cycle, should it occur.

Investment Services. Revenue in our Investment Services business increased by $10.0 million, or 14%, from $69.6 million for the year ended June 30, 2001, to $79.6 million for the year ended June 30, 2002. Growth in this business is due primarily to an increase in portfolios managed from more than 1.1 million at June 30, 2001 to about 1.2 million at June 30, 2002. Much of the revenue growth has occurred in fee-based versus institutional accounts, mirroring the movement of the investment industry towards fee-based products and away from the transactional commission-based model. The lower annual growth in both revenue and portfolios compared to prior periods is due primarily to the decline in economic conditions, particularly in the financial services sector, as well as industry consolidations, which have resulted in the loss of over 100,000 portfolios. However, the majority of these portfolios possessed a much lower price point than average, based on the services provided, resulting in a reduced negative impact. A rationalization of our Raleigh, North Carolina office and discontinuation of our financial planning products was completed during the year ended June 30, 2002. We expect that these actions will result in a modest decrease in revenue, offset by a modest increase in operating income in future periods.

During the quarter ended March 31, 2002, the division released two new product offerings: a new trading and reporting tool for multiple strategy portfolios, which was released to complement CheckFree APL and the APL Browser, which offers clients access via the Internet to the division's portfolio accounting and reporting product, creating a highly visible new distribution channel for money managers and brokers.

Operating income in our Investment Services segment, excluding purchase accounting amortization and reorganization charges, has increased by $4.0 million, or 20%, from $20.3 million for the year ended June 30, 2001 to $24.4 million for the year ended June 30, 2002. As previously indicated, much of our revenue growth has occurred in fee-based versus institutional accounts that may carry a lower unit price, which in turn places downward pressure on margins as the cost to process this business is not proportionally lower. We initiated a quality program that focuses attention on improved system reliability, particularly trading availability, which is critical to the business unit, and we have enhanced our disaster recovery capabilities. Throughout fiscal 2002, the key initiatives in the Investment Services division have been:

- extension of product offerings with a shortened time to market;
- additional versions of the APL Browser with increased functionality; and
- continued development of a relational database allowing our clients easier access to their data.

Software. Revenue in our Software business has declined by $3.4 million, or 5%, from $62.2 million for the year ended June 30, 2001, to $58.8 million for the year ended June 30, 2002. The downturn in economic conditions in calendar 2001 and continuing throughout calendar 2002 has caused many businesses to curtail discretionary expenditures, which has resulted in an overall dampening of demand for software solutions. To help address the economic concerns within our i-Solutions business unit, we released two new product offerings in fiscal 2002:

- i-Solutions Select, which is a series of industry-tailored packaged software choices at lower price points; and
- new options for billers to host economically priced electronic billing and payment services at CheckFree, which streamlines implementation cycles and lowers costs to billers while delivering both biller direct and e-bill distribution and payment across our network.

We released these two solutions during the quarter ended September 30, 2001, and while we continue to see increasing interest in the hosting solution, the direct software sales of both i-Solutions and i-Solutions Select remain slower than expected during the extended recessionary economy. Our more mature software units, CFACS and ACH Solutions, also both faced some dampening of demand during the year. Overall, we believe that software sales in general will continue to be challenging until economic conditions improve.

Operating results in our Software business, excluding purchase accounting amortization, impairment of intangible assets and reorganization charges, have improved from operating income of $0.8 million for the year ended June 30, 2001 to operating income of $5.8 million for the year ended June 30, 2002. Improvement in operating results is primarily the result of continued efforts to manage discretionary costs in light of current economic conditions. On March 19, 2002, we announced a company-wide reorganization that resulted in a net reduction in force of approximately 450 employees. As part of these actions, we announced the closing of our Ann Arbor, Michigan office. As a result of this reorganization, we experienced a recurring savings in underlying costs in the quarter ended June 30, 2002.

Corporate. Our Corporate segment represents costs for legal, human resources, finance and various other unallocated overhead expenses. Our Corporate segment incurred operating expenses of $35.7 million, or 8% of total revenue, for the year ended June 30, 2001 and of $36.5 million, or over 7% of total revenue, for the year ended June 30, 2002. Although our total overhead expenses have increased slightly, as a percentage of revenue, they continue to improve, reflecting the leverage inherent in our business model. On March 19, 2002, we announced a company-wide reorganization. However, we have been reducing corporate costs through attrition and discretionary cost management throughout the year and, therefore, we did not incur significant additional reductions in staff in this segment. We expect to enjoy continued leverage within our corporate segment on a going forward basis.

Purchase Accounting Amortization. The purchase accounting amortization line represents amortization of intangible assets resulting from all of our various acquisitions from 1996 forward. The total amount of purchase accounting amortization has increased from $393.4 million for the year ended June 30, 2001 to $394.0 million for the year ended June 30, 2002. The increase is the result of intangible assets established by the acquisitions of TransPoint in September 2000 and the purchase of the electronic billing and payment assets of Bank of America in October 2000, offset by shorter-term intangible assets that fully amortized in the quarter ended December 31, 2001 and the decline in amortization expense resulting from the intangible asset impairment charge we recorded in the quarter ended December 31, 2001. For comparative purposes, the breakout of purchase accounting amortization by segment is as follows:

	YEAR ENDED JUNE 30,		
PURCHASE ACCOUNTING AMORTIZATION BY SEGMENT	2000	2001	2002
	(In thousands)		
Electronic Commerce	$ 2,371	$328,072	$358,476
Investment Services	4,920	5,369	5,665
Software	11,226	59,995	29,868
Total	$ 18,517	$393,436	$394,009

Impairment of Intangible Assets. In the quarter ended December 31, 2001, we recorded charges totaling $155.1 million for the impairment of intangible assets. This was the combined result of a charge of $107.4 million for the impairment of goodwill associated with our acquisition of BlueGill Technologies in April 2000 (currently referred to as CheckFree i-Solutions), and of $47.7 million for the retirement of certain technology assets we acquired from TransPoint in September 2000. Please refer to Impairment of Intangible Assets in the Results of Operations section of this report for a detailed explanation of these charges.

Reorganization Charge. In January 2002, we announced our plans to close our customer care facility in San Francisco, California, effective April 30, 2002, which resulted in the termination of employees at that facility. At that time, we also announced our intent to eliminate certain of our financial planning products within our Investment Services division, which also resulted in a small reduction of employees in our Raleigh, North Carolina office. On March 19, 2002, we further announced the closing of our Houston and Austin, Texas offices and a net reduction in force totaling 450 employees. As a result of these actions, we have incurred a charge of $15.9 million in the quarter ended March 31, 2002 and a true-up charge of $0.5 million in the quarter ended June 30, 2002, consisting primarily of severance and related employee benefits and lease termination fees. We accounted for these actions in accordance with EITF abstract number 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." For further details relating to this charge, please refer to Note 17 in the Notes to the Consolidated Financial Statements elsewhere within this report.

One-Time Marketing Charge. The one-time marketing charge took place in the three-month period ended December 31, 2000. Our strategic agreement with Bank of America called for us to provide $25.0 million of cash at closing to help support an agreed upon two year $45.0 million marketing campaign by Bank of America. Because we had no direct influence or impact on the specific nature, timing or extent of the use of the funds, we expensed the $25.0 million as a period cost in the quarter ended December 31, 2000. Additionally, because we do not market directly to subscribers but rather leave that to our various consumer service provider customers, we have segregated this charge from ongoing operations as an unusual, non-recurring event.

In-Process Research and Development. In the three month period ended September 30, 2000, we incurred $18.6 million of in-process research and development costs in relation to our acquisition of TransPoint. For a detailed discussion of this charge, please refer to the Notes to Consolidated Financial Statements included in our June 30, 2001 Annual Report.

Charge Associated with Warrants Issued to a Third Party. In the three-month period ended June 30, 2002, we incurred a non-cash charge of $2.7 million against revenue resulting from warrants we issued to a third party in 1999. During the quarter, we determined it was probable that one million warrants would vest on the scheduled vesting date of September 15, 2002. The charge was based on a Black-Scholes valuation of the warrants and was accounted for as a charge against revenue in accordance with EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer." We will revalue the warrants on the vesting date, and to the extent that final value differs from the $2.7 million charge, we will record the amount necessary to adjust revenue for that difference.

YEARS ENDED JUNE 30, 2000 AND 2001

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

We completed our acquisition of TransPoint in September 2000. The agreement with Microsoft provides guaranteed revenue of $120 million over a five-year period, which commenced in January 2001. Additionally, as part of the TransPoint acquisition, we received $60 million of guaranteed revenue and/or cost saving opportunities through First Data Corporation over a five-year period, which began in September 2000. Effective October 1, 2000, we completed a strategic agreement with Bank of America, the largest bank in the U.S., to offer electronic billing and payment services to its customer base. This ten-year agreement provides annual revenue guarantees of $50 million ($12.5 million on a quarterly basis) and Bank of America has agreed to invest $45 million over a two year period to promote the awareness and adoption of electronic billing and payment services by their customers. We had been processing certain transactions for Bank of America before the strategic alliance was completed and, therefore, the $50 million annual revenue guarantee should not be considered entirely incremental to our underlying revenue. We did, however, add 300,000 incremental subscribers to our subscriber base upon completion of the agreement.

Through June 30, 2001, we had signed 241 named billers to our E-Bill electronic billing product offering. Combined with the 30 net new billers we assumed with the TransPoint acquisition, this brought our signed biller total to 271. We had 173 billers in production that delivered nearly 500,000 electronic bills in the month ended June 30, 2001. Our acquisition of BlueGill was expected to facilitate our efforts to provide quality billing content by simplifying and accelerating the process of taking bills from paper to electronic. As of June 30, 2001, we were distributing six popular credit card bills through scraping technology for a total consumer choice of among 179 electronic bills. As of June 30, 2001, we estimated that the average consumer had the potential to receive from five to eight electronic bills in major strategic marketing areas throughout the United States.

The operating loss in our Electronic Commerce segment, excluding purchase accounting amortization, a one-time marketing charge of $25.0 million, and in-process research and development, had improved from $18.2 million for the year ended June 30, 2000, to $13.1 million for the year ended June 30, 2001. As a result of the TransPoint acquisition and the purchase of Bank of America's electronic billing and payment assets, we supported two additional and less efficient billing and payment processing platforms for most of fiscal 2001. Although expected, this resulted in a significant increase in our cost of processing, servicing and support during the year. We completed the conversion of TransPoint subscribers and billers to the Genesis processing platform in the quarter ended June 30, 2001. We completed the conversion of a portion of the Bank of America East subscribers within the quarter ended March 31, 2001. The remaining Bank of America subscribers, referred to internally as Bank of America West, converted in the quarter ended December 31, 2001. We expected that until the final conversion was completed, we would continue to experience higher than normal incremental processing costs, but at a decreasing rate, as new subscriber transactions are processed on the more efficient Genesis processing system, and that ultimately proved to be true. Somewhat masked by less efficient incremental costs resulting from TransPoint and Bank of America were underlying improvements in efficiency and processing quality within Genesis. Our ratio of electronic payments to total payments improved from approximately 58% at June 30, 2000 to about 64% as of June 30, 2001. We also incurred additional sales and marketing and general and administrative expenses as a result of the two transactions. Throughout fiscal 2001, we continued to focus attention on the following four areas within our Electronic Commerce business:

- delivery of an increasing number of bills electronically over the Internet;
- extension of the payment capabilities of our Genesis infrastructure while continuing to deliver market-leading quality and cost efficiency;
- co-marketing programs designed to bring billers and channel partners together to strengthen incentives and value delivered to consumers; and
- expansion of the number of sites where consumers can receive and pay bills.

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

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

Software. Revenue in our Software business increased by 48%, from $42.0 million for the year ended June 30, 2000, to $62.2 million for the year ended June 30, 2001. The growth in software revenue was primarily attributable to the acquisition of BlueGill, now operating as CheckFree i-Solutions, as revenue in our more mature software businesses had increased modestly on a year over year basis. Growth from i-Solutions sales has come from efforts both domestically and internationally.

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

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

Purchase Accounting Amortization. The purchase accounting amortization line represents amortization of intangible assets resulting from all of our various acquisitions from 1996 forward. The total amount of purchase accounting amortization has increased from $18.5 million for the year ended June 30, 2000 to $393.4 million for the year ended June 30, 2001. The increases were the result of intangible assets created by the acquisitions of BlueGill in April 2000 and TransPoint in September 2000 and the acquisition of the electronic billing and payment assets of Bank of America effective in October 2000.

In-process Research and Development. In the quarter ended June 30, 2000, we incurred $6.9 million of in-process research and development costs related to the acquisition of BlueGill and, in the quarter ended September 30, 2000, we incurred $18.6 million of in-process research and development costs as a result of the acquisition of TransPoint. Please refer to the Notes to Consolidated Financial Statements in our June 30, 2001 Annual Report for a detailed explanation of these charges.

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

LIQUIDITY AND CAPITAL RESOURCES

The following chart provides a summary of our Consolidated Statements of Cash Flows for the referenced periods:

	CASH FLOWS FOR THE YEAR ENDED JUNE 30,		
	2000	2001	2002
	(In thousands)		
Cash flow provided by (used in) operating activities	$ 21,016	$ (234)	$ 45,869
Cash flow used in investing activities	(108,935)	(26,888)	(58,189)
Cash flow provided by financing activities	203,547	23,170	3,207
Net increase (decrease) in cash and cash equivalents	$ 115,628	$ (3,952)	$ (9,113)

As of June 30, 2002, we had $206.0 million of cash, cash equivalents and short-term investments on hand, and an additional $72.8 million in long-term investments. Our balance sheet reflects a current ratio of 2.8 and working capital of $201.7 million. With the retirement of inefficient processing platforms and the restructuring actions we initiated on March 19, 2002, we believe that we are in a position to generate positive operating cash flow in the coming year. As a result, when combined with existing balances, we believe we have sufficient cash to meet our presently anticipated requirements for the foreseeable future. However, an extended recessionary economy could have a negative impact on our continued ability to generate significant cash flow from operations. To the extent that additional capital resources are required, we have access to an untapped $30.0 million line of credit.

For the year ended June 30, 2002, we generated $45.9 million of cash from operating activities. During our September quarter, we typically use a significant amount of cash for payments such as our annual incentive compensation and commissions related to seasonally high software sales from the previous quarter. As mentioned above, as a result of continuing efforts to improve operating efficiency, we have been able to generate cash from operating activities over the past three quarters and we expect to generate positive cash from operations for the full year ending June 30, 2003.

From an investing perspective, we used $58.2 million of cash for the year ended June 30, 2002. This is comprised of $100.7 million of cash used for the purchase of held to maturity investments, $22.0 million of cash used for the purchase of fixed assets and software, $4.4 million used for capitalization of software development costs, and $3.0 million set aside as restricted investments; offset by $72.3 million in cash received from sales of held to maturity investments.

From a financing perspective, for the year ended June 30, 2002, we generated $3.2 million of cash from financing activities. We received $3.8 million of cash as proceeds from our employee stock purchase plan, $2.3 million of cash from the exercise of employee stock options, and $0.7 million from the exercise of common stock warrants; offset by $3.6 million of principal payments under capital leases and other long-term obligations. Also, on August 8, 2002, our board of directors authorized us to spend up to $40.0 million for the repurchase of shares of outstanding stock, the purchase of outstanding convertible debt, or a combination of the two, at any time before August 31, 2003.

For the year ended June 30, 2001, we used $0.2 million of cash flow from operations. Of this amount, $6.7 million represents net proceeds from trading securities transactions, which GAAP requires us to reflect in cash flow from operations.

Also of note, included in cash used in operations was a one-time $25.0 million cash marketing charge related to our strategic alliance with Bank of America. Excluding these two items, underlying cash flow provided by operations was $18.5 million.

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

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

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

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

From a financing perspective, we received $166.9 million of net proceeds from the issuance of $172.5 million in 6 1/2% convertible subordinated notes and another $25.5 million in proceeds from the exercise of common stock warrants and the purchase of our common stock by third parties. We received additional cash of $9.7 million from the exercise of options from our employee stock option plans and $2.9 million from the purchase of stock from our employee stock purchase plan. Finally, we used $1.5 million of cash for principal payments under capital leases and other long-term obligations.

The following table represents a summary of our contractual obligations and commercial commitments over the next several years which provides added information in understanding expected cash commitments from various obligations we have entered into over time.

	PAYMENTS DUE YEAR ENDED JUNE 30,				
CONTRACTUAL OBLIGATIONS	TOTAL	2003	2004 TO 2005	2006 TO 2007	THEREAFTER
	(In thousands)				
Long-term debt	$172,500	$ -	$ -	$172,500	$ _
Capital lease obligations	4,761	1,610	2,974	177	-
Operating leases	136,093	30,956	29,662	20,211	55,264
Unconditional purchase obligations	13,224	6,929	6,295	-	-
Other long-term obligations	5,261	4,078	1,183	-	-
Total contractual cash obligations	$331,839	$ 43,573	$ 40,114	$192,888	$ 55,264

RECENT ACCOUNTING PRONOUNCEMENTS

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

SFAS 142 becomes effective for the Company on July 1, 2002 and will have the following significant impacts:

- The Company will be required to reclassify approximately $1.3 million of unamortized workforce in place intangible assets, net of the associated deferred income taxes, into goodwill.

- After the reclassification above, the goodwill balance of approximately $532 million will no longer be amortized. The resulting reduction in amortization expense is estimated at approximately $165 million for each of the Company's fiscal years 2003, 2004 and 2005.

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

The Company has substantially completed its transitional impairment test and expects to record a charge in the range of $2 to $5 million for impairment of goodwill associated with its i-Solutions reporting unit. This charge will be reflected as the cumulative effect of a change in accounting principle in our September 30, 2002 financial statements.

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

In August 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The adoption of SFAS 143 is effective for the Company for fiscal 2003. The Company does not expect that the adoption of this statement will have a significant impact on its results of operations and financial position.

In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 supersedes SFAS 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Principles Board Opinion 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and will be effective for the Company's first quarter of fiscal 2003. The Company does not expect that the adoption of this statement will have a significant impact on its results of operations and financial position.

In April 2002, the Financial Accounting Standards Board issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement eliminates the current requirement that gains and losses on extinguishment of debt must be classified as extraordinary items in the income statement. Instead, the statement requires that gains and losses on extinguishment of debt be evaluated against the criteria in APB 30, "Reporting the Results of Operations--Discontinued Events and Extraordinary Items" to determine whether or not it should be classified as an extraordinary item. In addition, the statement contains other corrections to authoritative accounting literature in SFAS 4, 44 and 64. The changes in SFAS 145 related to debt extinguishment will be effective for the Company's 2003 fiscal year and the other changes were effective beginning with transactions after May 15, 2002. In August 2002, the Company announced that its board of directors had authorized a repurchase program under which the Company may purchase shares of its common stock and convertible notes. Should the Company purchase any of its convertible notes and realize a gain or loss on the transaction, SFAS 145 will require the Company to evaluate the transaction against the criteria in APB 30 to determine if the gain or loss should be classified as an extraordinary item. If classification as an extraordinary item is not appropriate, the gain or loss would be included as part of income from operations.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for reorganization and similar costs. SFAS 146 supersedes previous accounting guidance, principally EITF 94-3. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing any future reorganization costs as well as the amount recognized. The provisions of SFAS 146 are effective for reorganization activities initiated after December 31, 2002.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those policies that are both important to the portrayal of our financial condition and results of operations, and they require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe the policies and estimates described below relating to intangible assets, equity instruments issued to customers, and deferred income taxes are our critical accounting policies.

Discussion with the Audit Committee of the Board of Directors. In determining which of our accounting policies warranted disclosure as critical in nature, our senior financial management team prepared an analysis of our accounting policies and reviewed the policies in detail with our Audit Committee. After discussing the level of management judgment required to comply with our accounting policies, we agreed with the Audit Committee that the following accounting policies are deemed to be critical in nature and should be disclosed as such.

Intangible Assets. Over the past several years, we have acquired a number of businesses and the electronic billing and payment assets of Bank of America, which resulted in significant intangible assets. As of June 30, 2002, the balance of such intangible assets on our balance sheet totaled over $1.1 billion and is spread across our three business segments as follows:

- Electronic Commerce of $1.08 billion;
- Software of $38.7 million; and
- Investment Services of $26.0 million.

Through June 30, 2002, we evaluate our intangible assets for impairment whenever indicators of impairment exist. SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that if the sum of the future cash flows expected to result from a company's asset, undiscounted and without interest charges, is less than the reported value of the asset, an asset impairment must be recognized in the financial statements. The amount of impairment to recognize is calculated by subtracting the fair value of the asset from the reported value of the asset.

In our Software segment, we reviewed our i-Solutions intangible assets for impairment during the quarter ended December 31, 2001, due to a trend in lower than expected license sales during the extended recessionary economy. We determined that the book value of long-lived assets within i-Solutions exceeded the undiscounted sum of the expected future cash flows from the assets related to the i-Solutions business unit, which indicated that the intangible assets were impaired. The actual amount of impairment was then determined by subtracting the fair value of the expected cash flows from the i-Solutions business unit from the related long-lived assets. As a result, in accordance with GAAP, we recorded an impairment charge of $107.4 million against the balance of i-Solutions goodwill in the quarter ended December 31, 2001. We applied judgment in developing projections of future cash flows from our i-Solutions business. Our projections include, but are not limited to, expectations of product sales and related future product maintenance revenues, cost of sales, and other operating expenses supporting this business five years into the future. Additionally, we estimated a terminal value, which represents the present value of future cash flow beyond the five-year period. Finally, we assumed a discount rate that we believed fairly represented the risk-free rate and a risk premium appropriate for this business. Variances from our projected cash flows, and the related terminal value, could have had a significant impact on the amount of the impairment charge we recorded. If we had assumed a 10% increase in our estimated annual cash flows from the i-Solutions business unit, we would have passed the SFAS 121 undiscounted cash flow test and not recorded an impairment charge at all. If, however, we reduced our estimated annual cash flows for the i-Solutions business unit by 10%, our impairment charge would have increased by approximately $3.6 million.

In our Electronic Commerce segment, we reviewed our TransPoint related technology assets for impairment during the quarter ended December 31, 2001, due to the termination of a maintenance agreement for this technology from the last of our international partners and an evaluation of the service potential of the related technology assets against our current and future initiatives. We determined that there was no alternative future use for two of the technology assets, and in accordance with GAAP, we recorded a charge of $47.7 million to retire these assets. The retirement of the TransPoint technology assets was an indicator of potential impairment for other intangible assets associated with this acquisition. SFAS 121 requires us to test for impairment at the lowest level of separately identifiable cash flows, which we determined in this case, was our Electronic Commerce division. We performed the initial impairment test by comparing the sum of expected future cash flows from the assets related to our Electronic Commerce division, on an undiscounted basis, to the book value of the Electronic Commerce division long-lived assets. Since the sum of the undiscounted future cash flows exceeded the long-lived assets book value, there was no impairment. There were several areas of management judgment used in performing this analysis. Initially, our projections of future cash flow from the Electronic Commerce division required management's judgment regarding our expectations of future revenues, costs, and other operating expenses supporting this business five years into the future. Additionally, we estimated a terminal value, which represents the present value of future cash flow beyond the five-year period. Finally, we assumed a discount rate that we believed fairly represented the risk-free rate and a risk premium appropriate for this business. Variances, both positive and negative, from our projected cash flows, and the related terminal value, would not have had a significant impact on our analysis. If we had assumed a 10% increase in our estimated annual cash flows from the Electronic Commerce division, we would have simply passed the SFAS 121 undiscounted cash flow test by a greater margin. If we had assumed a 10% reduction in our estimated annual cash flows we still would have passed the undiscounted cash flow test and therefore still not incurred an impairment charge.

In January 2002, we announced the intent to eliminate certain of our financial planning products within our Investment Services division. The elimination of those products was an indicator of potential impairment for our long-lived assets associated with that M-Solutions business unit within our Investment Services segment. We determined that the lowest level of separately identifiable cash flows at which to test for impairment was our M-Solutions business unit. We performed the initial impairment test by comparing the sum of expected future cash flows from the assets related to M-Solutions, on an undiscounted basis, to the book value of the M-Solutions division's long-lived assets. Since the sum of the undiscounted future cash flows exceeded the long-lived assets book value, there was no impairment. As with our other analyses, there were several areas of management judgment used in performing this analysis such as our projections of future cash flows from this business, the estimated terminal value and the discount rate we used. Variances from our projected cash flows, and the related terminal value, would not have had a significant impact on our analysis. If we had assumed a 10% increase on our estimated annual cash flows from the M-Solutions business, we would have simply passed the SFAS 121 undiscounted cash flow test by a greater margin. Had we had assumed a 10% reduction in our estimated annual cash flows, we still would have passed the undiscounted cash flow test, and therefore still not incurred an impairment charge.

Equity Instruments Issued to Customers. Within our Electronic Commerce segment, from time to time, we have determined it appropriate to issue warrants to certain of our customers to provide an incentive for them to achieve mutually beneficial long-term objectives. These objectives can take the form of performance against long-term growth targets, such as the number of the third-party's customers that become active bill paying subscribers of our service or the number of bills distributed electronically to the third party's customers, or more relationship oriented, such as simply remaining a customer at a specified future date. Accounting standards for these types of warrants require us to record a charge when it becomes probable that the warrants will vest. For milestone based warrants the amount of the charge would be the fair value of the portion of the warrants earned by the customer based on their progress towards achieving the milestone(s) required to vest in the warrants. At each reporting date, we would determine the current fair value of the portion of the warrants previously earned and true-up the charges previously recorded. In addition, we would record a charge for the fair value of the additional portion of the warrants earned during that period, again based on the customer's progress towards the vesting milestones. This would continue until the warrants vest, at which time a final fair value is determined and the charge is adjusted accordingly. At the time we issued these warrants, accounting standards in place indicated that the charge for these type warrants be recorded as an expense. Since then, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") issued EITF 01-09, "Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." This guidance became effective for financial statements issued after December 15, 2001, and is retroactively applied to existing equity instruments previously issued. It requires that the charge for the fair value of these types of warrants be recorded against revenue up to the cumulative amount of revenue recognized for a customer instead of to expense as was previously the case. Management must use judgment in determining when the vesting of a warrant becomes probable. As of June 30, 2002, we had 13 million unvested warrants outstanding that could potentially result in significant charges against our revenue, one million of which could vest or will expire in September 2002; two million of which expire in June 2009; and ten million of which expire in October 2010.

In October 1999, we entered into an agreement with a third party in which we issued warrants on one million shares of our stock, and the ability for the third party to earn an additional two million warrants. All such warrants are exercisable on September 15, 2002, contingent upon achievement of various annual revenue targets and maintaining the existence of our agreement through that date. In the quarter ended June 30, 2002 we determined it was probable that one million such warrants would vest on their scheduled vesting date of September 15, 2002. With competition in our market, we cannot simply assume a customer will remain a customer until we get close to the date in question. In addition, ongoing discussions relating to contract extensions and their possible impact on existing terms affect our judgment as to the probability of vesting. In our judgment, we believe it is probable that these warrants will vest and, accordingly, we recorded a charge of $2.7 million against our processing and servicing revenue. We determined the amount of the charge using a Black-Scholes valuation of the warrants based on the price of our stock on June 30, 2002, discounted for the non-marketability of the stock due to trading restrictions included in the warrant agreement; the strike price of the warrants; the volatility of our stock; the remaining life of the warrant; and the risk-free interest rate at that time. Our judgment in this instance consisted of our estimate that the warrants would in fact vest by September 15, 2002.

For the remaining 12 million outstanding warrants, it is our judgment that vesting is not probable. Had we determined vesting was probable or should vesting become probable in the future, it could result in significant charges against our revenue. For example, had we determined it was probable that another one million of the remaining warrants would vest; we could record an additional charge of as much as $3.9 million against our Electronic Commerce segment processing and servicing revenue. A portion of this charge would have been recorded against our fiscal year 2002 revenue, with the remainder to be recorded against future revenue as the customer progresses toward achieving the vesting milestones. In addition, the amounts to be recorded each reporting period would fluctuate with changes in our stock price from period to period until such time as the milestones are achieved and the warrants vest. Determining the probability of warrants vesting based on future volumes of active subscribers or e-bills presented requires us to use judgment based on market conditions now and in the future, current volumes of active subscribers, assumptions of activation of currently inactive subscribers, assumptions about growth in new subscribers and the rate at which new subscribers become active versus recent trends, evolution of contractual terms as relationships with partners evolve, and the assumed number of e-bills presented requires us to estimate the number of bills per active subscriber that will be presented and paid electronically versus by other means.

Deferred Income Taxes. As of June 30, 2002, we have $120 million of deferred income tax assets recorded on our balance sheet, $12 million of which are recorded in the current asset section of our balance sheet, and $108 million of which are netted against long-term deferred tax liabilities, in accordance with GAAP. Deferred income tax assets represent future tax benefits we expect to be able to apply against future taxable income, and consist primarily of net operating loss benefits carried forward to future periods. Our ability to utilize the deferred tax benefits is dependent upon our ability to generate future taxable income. SFAS 109, "Accounting for Income Taxes" requires us to record a valuation allowance against any deferred income tax benefits that we believe may expire before we generate sufficient taxable income to use them. If we were to record a deferred tax benefit valuation allowance, it would have the effect of increasing our tax expense thereby decreasing our net income and decreasing our deferred tax asset balance on our balance sheet. We use current estimates of future taxable income to determine whether a valuation allowance is needed. Projecting our future taxable income requires us to use significant judgment regarding the expected future revenues and expenses in each of our business segments. In addition, we must assume that tax laws will not change sufficiently enough to materially impact the expected tax liability associated with our expected taxable income. While our current projections indicate we will be able to fully utilize our deferred income tax benefits, should the economic recession continue for an extended period of time, or competitive pressures or other business risks result in a significant variance to our projected taxable income, we could be required to record a valuation allowance up to the full value of our deferred tax asset balances.

INFLATION

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

While our international sales represented less than 2.2% of our revenue for the year ended June 30, 2002, we now market, sell and license our products throughout the world. As a result, our future revenue could be affected by weak economic conditions in foreign markets that could reduce demand for our products.

Our exposure to interest rate risk is limited to the yield we earn on invested cash, cash equivalents and investments and interest based revenue earned on products such as our account balance transfer business. Our convertible debt carries a fixed rate, as do any outstanding capital lease obligations. Our Investment Policy currently prohibits the use of derivatives for trading or hedging purposes.

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

Except for the historical information contained herein, the matters discussed in our Annual Report include certain forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief and expectations, such as statements concerning our future profitability, and our operating and growth strategy. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, the factors set forth under the caption "Business - Business Risks" in the Annual Report on Form 10-K for the year ended June 30, 2002 and other factors detailed from time to time in our filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect, our businesses and financial results in the future and could cause actual results to differ materially from plans and projections. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included in this Annual Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as representations by us or any other person that our objectives and plans will be achieved. All forward-looking statements made in this Annual Report are based on information presently available to our management. We assume no obligation to update any forward-looking statements.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of CheckFree Corporation (the "Company") and its subsidiaries as of June 30, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 2000, 2001, and 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at June 30, 2001 and 2002, and the results of their operations and their cash flows for the years ended June 30, 2000, 2001, and 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia
August 8, 2002

CHECKFREE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2001	JUNE 30, 2002
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 124,122	$ 115,009
Investments	35,930	90,958
Accounts receivable, net	88,818	88,030
Prepaid expenses and other assets	8,681	8,355
Deferred income taxes	13,725	11,816
Total current assets	271,276	314,168
PROPERTY AND EQUIPMENT, Net	109,226	95,625
OTHER ASSETS:		
Capitalized software, net	187,021	71,845
Goodwill, net	820,169	530,758
Strategic agreements, net	643,212	519,275
Other intangible assets, net	47,118	24,609
Investments	96,042	69,788
Restricted investments	--	3,000
Other noncurrent assets	9,889	8,409
Total other assets	1,803,451	1,227,684
	$ 2,183,953	$ 1,637,477
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 19,084	$ 10,049
Accrued liabilities	60,090	54,914
Current portion of long-term obligations	4,528	5,054
Deferred revenue	44,913	42,410
Total current liabilities	128,615	112,427
ACCRUED RENT AND OTHER	4,758	4,080
DEFERRED INCOME TAXES	141,853	39,993
OBLIGATIONS UNDER CAPITAL LEASES- Less current portion	4,041	2,816
CONVERTIBLE SUBORDINATED NOTES	172,500	172,500
COMMITMENTS (Note 12)		
STOCKHOLDERS' EQUITY:		
Preferred stock- 50,000,000 authorized shares, $0.01 par value; no amounts issued or outstanding	--	--
Common stock- 500,000,000 authorized shares, $0.01 par value; issued 92,472,299 and 93,629,718 shares, respectively; outstanding 86,928,475 and 88,085,894 shares, respectively	869	881
Additional paid-in-capital	2,420,957	2,435,310
Accumulated deficit	(689,455)	(1,130,405)
Unearned compensation	(185)	(125)
Total stockholders' equity	1,732,186	1,305,661
	$ 2,183,953	$ 1,637,477

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED JUNE 30, 2000	2001	2002
	(IN THOUSANDS, EXCEPT SHARE DATA)		
REVENUES:			
Processing and servicing	$ 261,621	$ 362,051	$ 422,237
License fees	16,818	30,180	25,020
Maintenance fees	18,752	21,332	24,298
Other	13,004	19,757	18,922
Total revenues	310,195	433,320	490,477
EXPENSES:			
Cost of processing, servicing and support	182,540	255,528	262,105
Research and development	35,631	55,621	55,172
Sales and marketing	44,782	90,283	58,030
General and administrative	40,931	50,474	43,687
Depreciation and amortization	42,830	427,495	435,565
In-process research and development	6,900	18,600	--
Impairment of intangible assets	--	--	155,072
Reorganization charge	--	--	16,365
Total expenses	353,614	898,001	1,025,996
LOSS FROM OPERATIONS	(43,419)	(464,681)	(535,519)
OTHER:			
Interest income	7,689	15,415	8,486
Interest expense	(8,027)	(13,154)	(12,788)
Loss on investments	--	(16,077)	--
LOSS BEFORE INCOME TAXES	(43,757)	(478,497)	(539,821)
INCOME TAX BENEFIT	(11,437)	(115,362)	(98,871)
NET LOSS	$ (32,320)	$ (363,135)	$ (440,950)
BASIC LOSS PER SHARE:			
Net loss per common share	$ (0.61)	$ (4.49)	$ (5.04)
Equivalent number of shares	53,367,339	80,863,100	87,452,339
DILUTED LOSS PER SHARE:			
Net loss per common share	$ (0.61)	$ (4.49)	$ (5.04)
Equivalent number of shares	53,367,339	80,863,100	87,452,339

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	NUMBER OF SHARES OF COMMON STOCK	COMMON STOCK AT PAR	ADDITIONAL PAID-IN CAPITAL	UNEARNED COMPENSATION	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
			(IN THOUSANDS, EXCEPT SHARE DATA)			
BALANCE- JUNE 30, 1999	51,756,278	$ 518	$ 480,385	--	$ (294,000)	$ 186,903
Net loss	--	--	--	--	(32,320)	(32,320)
Stock options and warrants exercised .	1,795,785	18	35,224	--	--	35,242
Employee stock purchases	99,010	1	2,285	--	--	2,286
401(k) match	36,226	--	1,059	--	--	1,059
Issuance of common stock pursuant to acquisition	4,713,736	47	239,447	--	--	239,494
Issuance of restricted stock	13,000	--	333	(333)	--	--
Amortization of unearned compensation	--	--	--	71	--	71
Tax benefit associated with exercise of stock options and warrants	--	--	13,159	--	--	13,159
BALANCE- JUNE 30, 2000	58,414,035	584	771,892	(262)	(326,320)	445,894
Net loss	--	--	--	--	(363,135)	(363,135)
Stock options and warrants exercised .	1,369,885	14	22,609	--	--	22,623
Employee stock purchases	92,721	1	3,623	--	--	3,624
401(k) match	51,834	--	2,487	--	--	2,487
Issuance of common stock pursuant to acquisition	27,000,000	270	1,601,723	--	--	1,601,993
Amortization of unearned compensation	--	--	--	77	--	77
Tax benefit associated with exercise of stock options and warrants	--	--	18,623	--	--	18,623
BALANCE- JUNE 30, 2001	86,928,475	869	2,420,957	(185)	(689,455)	1,732,186
Net loss	--	--	--	--	(440,950)	(440,950)
Stock options and warrants exercised .	808,163	9	2,964	--	--	2,973
Employee stock purchases	216,369	2	4,453	--	--	4,455
401(k) match	132,887	1	3,620	--	--	3,621
Charge associated with warrants	--	--	2,748	--	--	2,748
Amortization of unearned compensation	--	--	--	60	--	60
Tax benefit associated with exercise of stock options and warrants	--	--	568	--	--	568
BALANCE- JUNE 30, 2002	88,085,894	$ 881	$ 2,435,310	$ (125)	$(1,130,405)	$ 1,305,661

See notes to consolidated financial statements

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED JUNE 30,		
	2000	2001	2002
		(IN THOUSANDS)	
OPERATING ACTIVITIES:			
Net loss	$ (32,320)	$(363,135)	$(440,950)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Write off of in-process research and development	6,900	18,600	--
Loss on investments	--	16,077	--
Depreciation and amortization	42,830	427,495	435,565
Deferred income tax benefit	(11,437)	(115,362)	(99,152)
Impairment of intangible assets	--	--	155,072
Charge associated with warrants	--	--	2,748
Non-cash portion of reorganization charge	--	--	1,640
Net loss on disposition of property and equipment	--	56	55
Purchases of investments - Trading	(19,002)	(12,369)	--
Proceeds from maturities and sales of investments, net - Trading	22,608	19,029	--
Change in certain assets and liabilities (net of acquisitions and dispositions):			
Accounts receivable	(14,499)	(30,510)	788
Prepaid expenses and other	644	1,688	2,676
Accounts payable	(4,153)	8,926	(9,035)
Accrued liabilities and other	20,259	16,808	(1,212)
Deferred revenue	9,188	10,698	(2,503)
Income tax accounts	(2)	1,765	177
Net cash provided by (used in) operating activities	21,016	(234)	45,869
INVESTING ACTIVITIES:			
Purchase of property and software	(39,495)	(41,701)	(21,980)
Proceeds from sale of assets	--	2,257	--
Capitalization of software development costs	(7,576)	(4,927)	(4,435)
Purchase of business, net of cash acquired	9,152	96,599	--
Capitalization of strategic agreement costs	--	(10,279)	--
Purchases of investments - Held to maturity	(70,796)	(145,997)	(100,715)
Increase in restricted investments	--	--	(3,000)
Proceeds from maturities and sales of investments - Held to maturity	9,780	79,041	72,329
Purchase of other investments	(10,000)	(1,881)	(388)
Net cash used in investing activities	(108,935)	(26,888)	(58,189)
FINANCING ACTIVITIES:			
Principal payments under capital lease and other long-term obligations	(1,495)	(3,847)	(3,553)
Proceeds from stock options exercised	9,721	6,940	2,285
Proceeds from employee stock purchase plan	2,903	4,374	3,787
Proceeds from sale of stock and exercise of warrants	25,515	15,703	688
Proceeds from issuance of convertible subordinated notes	166,903	--	--
Net cash provided by financing activities	203,547	23,170	3,207
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	115,628	(3,952)	(9,113)
CASH AND CASH EQUIVALENTS:			
Beginning of period	12,446	128,074	124,122
End of period	$ 128,074	$ 124,122	$ 115,009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - CheckFree Corporation (the "Company") is the parent company of CheckFree Services Corporation ("CheckFree Services"), the principal operating company of the business. In April 2000, CheckFree Services changed its name from CheckFree Corporation to CheckFree Services Corporation. Following that change, in August 2000, CheckFree Holdings Corporation changed its name to CheckFree Corporation. CheckFree Services was organized in 1981 and is a leading provider of financial electronic commerce products and services. See Note 20 for a description of the Company's business segments.

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

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

BUSINESS COMBINATIONS - For business combinations that have been accounted for under the purchase method of accounting, the Company includes the results of operations of the acquired business from the date of acquisition. Net assets of the companies acquired are recorded at their fair value at the date of acquisition. The excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired is included in goodwill.

Statement of Financial Accounting Standards ("SFAS") 141, "Business Combinations," eliminated the pooling-of-interest method of accounting for business combinations and requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. In addition, SFAS 142, "Goodwill and Other Intangible Assets," requires application of the provisions of SFAS 142 for goodwill and other intangible assets related to any business combinations completed after June 30, 2001, but prior to the adoption date of SFAS 142. The Company will adopt FAS 142 on July 1, 2002, however, there have been no acquisitions completed since June 30, 2001. All previous acquisitions have been accounted for using the purchase method.

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

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

INVESTMENTS - The Company has certain investments in marketable debt securities that are classified as either available-for-sale, trading or held-to-maturity in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." At June 30, 2001 and 2002, all such investments are classified as held to maturity. Held-to-maturity securities are carried at amortized cost and are adjusted only for other than temporary declines in fair value. Restricted investments represent amounts that are restricted as to their use in accordance with leasing arrangements.

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

The Company periodically evaluates whether any declines in fair value of its investments are other than temporary. In performing this evaluation, the Company considers various factors including any decline in market price, where available, the investee's financial condition, results of operations, operating trends and other financial ratios.

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

CONCENTRATIONS OF CREDIT RISK - Financial instruments that potentially subject the Company to concentrations of credit risks consist of cash, investments and trade accounts receivable. Excess cash is invested through banks, mutual funds and brokerage houses primarily in highly liquid securities. The Company has investment policies and procedures that limit any concentration of credit risk with single issuers. With respect to accounts receivable, the Company does not generally require collateral and believes that any credit risk is substantially mitigated by the nature of our customers and reasonably short collection terms. The Company maintains reserves for potential credit losses on customer accounts when deemed necessary.

DERIVATIVE FINANCIAL INSTRUMENTS - On July 1, 2000, the Company adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which requires that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet. SFAS 133, as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The Company's Investment Policy currently prohibits the use of derivatives for trading or hedging purposes. Additionally, the Company performs reviews of its contracts and has determined that they contain no "embedded derivatives" that require separate reporting and disclosure under SFAS 133, as amended. As such, the adoption of SFAS 133, as amended, did not have a material impact on the Company's financial position or results of operations.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Property and equipment are depreciated using the straight-line method over the estimated useful lives as follows: land improvements, building and building improvements, 15 to 30 years; computer equipment, software and furniture, 18 months to 7 years. Equipment under capital leases are amortized using the straight-line method over the lesser of their estimated useful lives or the terms of the leases. Leasehold improvements are amortized over the lesser of the estimated useful lives or remaining lease periods.

CAPITALIZED SOFTWARE - Capitalized software includes purchased technology intangible assets associated with acquisitions and capitalized internal development costs. Purchased technology intangibles are initially recorded based on the fair value ascribed at the time of acquisition. Internal development costs are capitalized in accordance with the provisions of either SFAS 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed," or Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Company determines whether software costs fall under the provisions of SFAS 86 or SOP 98-1 and accounts for them as follows:

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

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

GOODWILL AND OTHER INTANGIBLE ASSETS - Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for under the purchase method. Goodwill is amortized on a straight-line basis over 5 to 10 years.

Other intangibles represent identifiable intangible assets purchased by the Company in connection with business combinations. The costs of identified intangible assets are generally amortized on a straight-line basis over periods from 8 months to 10 years.

IMPAIRMENT OF LONG-LIVED ASSETS - In accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company reviews its long-lived assets, including identifiable intangible assets and goodwill related to those assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. If such a review is warranted, recoverability is measured by comparison of the carrying amount of the applicable long-lived assets to future undiscounted net cash flows the assets are expected to generate. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair market value. During the year ended June 30, 2002, the Company performed a review of certain of its long-lived assets and determined that certain assets were impaired. See Note 7 for a description of this review.

TRANSACTION PROCESSING - In connection with the timing of the Company's financial transaction processing, the Company is exposed to credit risk in the event of nonperformance by other parties, such as returns and charge backs. The Company utilizes credit analysis and other controls to manage its credit risk exposure. The Company also maintains a reserve for future returns and charge backs. This reserve is included in accrued liabilities in the accompanying consolidated balance sheets.

COMPREHENSIVE INCOME - Where applicable, the Company reports comprehensive income in accordance with SFAS 130, "Reporting Comprehensive Income." The Statement requires disclosure of total non-shareowner changes in equity and its components. Total non-shareowner changes in equity include all changes in equity during a period except those resulting from investments by and distributions to shareowners. The components of other comprehensive income applicable to the Company would be unrealized holding gains or losses on the Company's available-for-sale securities and certain transactions associated with derivative instruments. There were no available-for-sale securities held or derivative instrument transactions during the years ended June 30, 2000, 2001 and 2002. As a result, there were no components of comprehensive income applicable to the Company during the years ending June 30, 2000, 2001 and 2002.

STOCK-BASED COMPENSATION - The Company accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation expense is not required to be recorded when stock options are granted to employees as long as the exercise price is not less than the fair market value of the stock when the option is granted, and in connection with our Employee Stock Purchase Plan as long as the purchase price is not less than 85% of the lower of the fair market value at the beginning or end of each offer period. In October 1995, the Financial Accounting Standards Board ("FASB") issued SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 allows the Company to continue to follow the present APB 25 guidelines, but requires pro-forma disclosures of net income and earnings per share as if the Company had adopted the provisions of the Statement.

STOCK-RELATED TRANSACTIONS WITH THIRD PARTIES - The Company accounts for stock warrants issued to third parties, including customers, in accordance with the provisions of the Emerging Issues Task Force ("EITF") Issue 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," and EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." Under the provisions of EITF 96-18, because none of the Company's agreements have a disincentive for non-performance, the Company records a charge for the fair value of the portion of the warrants earned from the point in time when vesting of the warrants become probable. Final determination of fair value of the warrants occurs upon actual vesting. EITF 01-9, which became effective during the quarter ended March 31, 2002, requires that the fair value charge for certain types of warrants issued to customers be recorded as a reduction of revenue to the extent of cumulative revenue recorded from that customer.

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

FOREIGN CURRENCY TRANSLATION - Effective with the acquisition of BlueGill Technologies, Inc. on April 28, 2000, certain wholly owned subsidiaries of the Company have foreign operations. The financial statements of these foreign subsidiaries are measured using the US dollar as the functional currency. Assets, liabilities, revenues and expenses are remeasured using current and historical exchange rates in accordance with SFAS No. 52, "Foreign Currency Translation." Translation gains and losses resulting from the remeasurement process are included in the determination of net income. The net translation losses for the years ended June 30, 2001 and 2002, and the period from April 28, 2000 to June 30, 2000, were not significant.

REVENUE RECOGNITION - In 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." The SAB provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. Although SAB No. 101 does not change any of the existing accounting standards on revenue recognition, it draws upon existing rules and explains how the SEC staff applies these rules, by analogy, to other transactions that existing rules do not specifically address. SAB No. 101, as amended by SAB No. 101B, became effective for the fourth quarter of the Company's 2001 fiscal year. The adoption of SAB No. 101 did not have an impact on the Company's results of operations or financial position.

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

  As part of processing certain types of transactions, the Company earns interest from the time money is collected from its customers until the time payment is made to the applicable merchants. These revenues, which are generated from trust account balances not included on the Company's consolidated balance sheets, are included in processing and servicing revenue and totaled $21,485,000, $30,186,000 and $25,090,000 for the years ended June 30, 2000, 2001 and 2002, respectively.

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

- Maintenance fees - Upon receipt of payment, maintenance fee revenue is recognized ratably over the term of the related contractual support period, generally 12 months.

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

Customers are billed in accordance with contract terms. Maintenance revenue is generally billed on an annual basis. The Company records any unrecognizable portion of billed fees as deferred revenue until such time as revenue recognition is appropriate.

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

EXPENSE CLASSIFICATION

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

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

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

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

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

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

- Impairment of intangible assets - Impairment of intangible assets consists of charges resulting from the review of certain of the Company's long-lived assets as described in Note 7.

- Reorganization charge - Reorganization charge resulted from the Company's decision to streamline certain of its operations as more fully described in Note 17. Employee and other related exit costs were accounted for in accordance with EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." EITF 94-3 requires recognition of a liability for employee termination benefits and other costs directly associated with exiting an activity at the point in time management has committed to the exit plan, informed employees of termination benefits to be received and where the plan can be carried out without the likelihood of significant change.

ADVERTISING COSTS - The Company expenses advertising costs as incurred in accordance with SOP 93-7, "Reporting on Advertising Costs." Advertising expenses were not significant for the year ended June 30, 2000. Advertising expense for the years ended June 30, 2001 and 2002 were $29,925,000 and $2,744,000, respectively, including $25,000,000 provided to Bank of America during the year ended June 30, 2001 in connection with the Strategic Agreement described in Note 3. Advertising expenses are included in sales and marketing costs in the accompanying Consolidated Statements of Operations.

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

BUSINESS SEGMENTS - The Company reports information about its business segments in accordance with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." The Statement defines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. See Note 20 for the Company's segment information.

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

SFAS 142 becomes effective for the Company on July 1, 2002 and will have the following impacts:

- The Company will be required to reclassify approximately $1.3 million of unamortized workforce in place intangible assets, net of the associated deferred income taxes, into goodwill.

- After the reclassification above, the goodwill balance of approximately $532 million will no longer be amortized. The resulting reduction in amortization expense is estimated at approximately $165 million for each of the Company's fiscal years 2003, 2004 and 2005.

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

The Company has substantially completed its transitional impairment test and expects to record a charge in the range of $2 to $5 million for impairment of goodwill associated with its i-Solutions reporting unit. This charge will be reflected as the cumulative effect of a change in accounting principle in the financial statements for the period ended September 30, 2002.

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

In August 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The adoption of SFAS 143 is effective for the Company for fiscal 2003. The Company does not expect that the adoption of this statement will have a significant impact on its results of operations and financial position.

In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 supersedes SFAS 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Principles Board Opinion 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and will be effective for the Company's first quarter of fiscal 2003. The Company does not expect that the adoption of this statement will have a significant impact on its results of operations and financial position.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement eliminates the current requirement that gains and losses on extinguishment of debt must be classified as extraordinary items in the income statement. Instead, the statement requires that gains and losses on extinguishment of debt be evaluated against the criteria in Accounting Principles Board ("APB") Opinion 30, "Reporting the Results of Operations--Discontinued Events and Extraordinary Items" to determine whether or not it should be classified as an extraordinary item. In addition, the statement contains other corrections to authoritative accounting literature in SFAS 4, 44 and 64. The changes in SFAS 145 related to debt extinguishment will be effective for the Company's 2003 fiscal year and the other changes were effective beginning with transactions after May 15, 2002. In August 2002, the Company announced that its board of directors had authorized a repurchase program under which the Company may purchase shares of its common stock and convertible notes. Should the Company purchase any of its convertible notes and realize a gain or loss on the transaction, SFAS 145 will require the Company to evaluate the transaction against the criteria in APB 30 to determine if the gain or loss should be classified as an extraordinary item. If classification as an extraordinary item is not appropriate, the gain or loss would be included as part of income from operations.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for reorganization and similar costs. SFAS 146 supersedes previous accounting guidance, principally EITF 94-3. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing any future reorganization costs as well as the amount recognized. The provisions of SFAS 146 are effective for reorganization activities initiated after December 31, 2002.

RECLASSIFICATIONS - Certain amounts in the prior years' financial statements have been reclassified to conform to the 2002 presentation.

NOTE 2. ACQUISITIONS

TRANSPOINT - On September 1, 2000, the Company acquired MSFDC, L.L.C. ("TransPoint") for a total of $1.4 billion, consisting of 17,000,000 shares of common stock valued at $1.4 billion and $2 million of acquisition costs. The acquisition was treated as a purchase for accounting purposes, and, accordingly, the assets and liabilities were recorded based on their fair values at the date of the acquisition. The values ascribed to acquired intangible assets and their respective future lives are as follows:

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

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

In connection with the acquisition of TransPoint, the Company recorded a charge of $18.6 million for purchased In-Process Research and Development ("IPR&D"). This charge related to four technologies under development that had not demonstrated technological feasibility as of the transaction date. These technologies were Biller Integration System and Communications, Service Center, Delivery Applications and Payment Systems Interface. As of the acquisition date, the Company estimated that these projects were 80% complete, that an aggregate of $717,000 would be required to complete these four projects, and that revenues would begin in late 2000. An after-tax rate of 24% was used in this analysis. As of June 30, 2002, these projects were complete.

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

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

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

In connection with the acquisition of BlueGill Technologies, the Company recorded a charge of $6.9 million for purchased IPR&D. This charge related to five technologies, which had not demonstrated technological or commercial feasibility as of the transaction date. They were print and extraction technology, data management engine technology, API technology, web application technologies and payment/OFX technology. As of the acquisition date, the Company estimated that these projects ranged from 10% to 50% complete, that an aggregate of $2.1 million would be required to complete these five projects, and that, depending upon the project, product revenues would begin in mid-to-late 2000. An after-tax discount rate of 25% was used in this analysis. As of June 30, 2002, these projects were complete.

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

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

This information is presented to facilitate meaningful comparisons to on going operations and to other companies. The unaudited pro forma amounts above do not include a charge for in-process research and development of $18.6 million arising from the TransPoint acquisition in 2001 and $6.9 million arising from the BlueGill acquisition in 2000. The unaudited pro forma information is not necessarily indicative of the actual results of operations had the transactions occurred at the beginning of the periods presented, nor should it be used to project the Company's results of operations for any future periods.

NOTE 3. STRATEGIC AGREEMENT

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

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

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

The agreement provides for a revenue guarantee of $500 million to the Company over the next ten years. Bank of America also has the ability to earn warrants on up to ten million additional shares upon achievement of certain milestones more fully described in Note 14.

As a result of the agreement, as of June 30, 2001 and 2002, Bank of America owned 11.5% and 11.4% of the Company, respectively. The following amounts related to Bank of America are included in the Company's consolidated financial statements for the periods indicated (in thousands):

	JUNE 30, 2001	JUNE 30, 2002
Current assets:		
Accounts receivable, net	$ 9,655	$22,632
Total current assets	$ 9,655	$22,632
Current liabilities:		
Accounts payable	$ 5,983	$ --
Accrued liabilities	2,111	808
Deferred revenues	477	824
Total current liabilities	$ 8,571	$ 1,632

	YEAR ENDED JUNE 30,		
	2000	2001	2002
Revenues from Bank of America:			
Processing and servicing	$14,796	$42,503	$59,313
License fees	2	1,187	40
Maintenance fees	209	460	521
Other	142	337	148
Total revenues	$15,149	$44,487	$60,022

	YEAR ENDED JUNE 30,		
	2000	2001	2002
Expenses paid to Bank of America:			
Cost of processing, servicing and support..	$ --	$23,154	$20,020
Sales and marketing	--	25,000	--
Total expenses	$ --	$48,154	$20,020

Revenues and accounts receivable relate to all segments of the Company but primarily to electronic billing and payment services provided to Bank of America. Accounts payable, accrued liabilities and cost of processing expenses relate to reimbursements to Bank of America in connection with a transition services agreement in place while the Company completed the conversion of Bank of America customers to its processing platform. That conversion was completed during the year ended June 30, 2002. The Company subleases office space from Bank of America for two customer care facilities. Amounts paid under the sublease agreements are included in cost of processing, servicing and support in the table above.

NOTE 4. INVESTMENTS

Investments consist of the following (in thousands):

	JUNE 30,	
	2001	2002
Held-to-Maturity	$239,507	$254,074
Other investments	3,296	3,683
Less: amounts classified as cash equivalents	110,831	94,011
Total investments	$131,972	$163,746

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

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
JUNE 30, 2001:				
Corporate bonds	$ 75,627	$ 226	$ (404)	$ 75,449
Asset-backed securities	29,259	74	--	29,333
Commercial paper	51,186	43	(9)	51,220
Certificates of deposit	--	--	--	--
U.S. Government and federal agency obligations	22,466	254	--	22,720
Money market funds	60,969	--	--	60,969
Held-to-Maturity investments	239,507	597	(413)	239,691

Less: amounts classified as cash equivalents	110,831	--	--	110,831
Total Held-to-Maturity Investments	$128,676	$ 597	$ (413)	$128,860

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
JUNE 30, 2002:				
Corporate bonds	$ 96,951	$ 490	$ (523)	$ 96,918
Asset-backed securities	39,142	428	(10)	39,560
Commercial paper	15,939	--	--	15,939
Certificates of deposit	3,000	--	--	3,000
U.S. Government and federal agency obligations	23,460	148	--	23,608
Money market funds	75,582	--	--	75,582
Held-to-Maturity investments	254,074	1,066	(533)	254,607
Less: amounts classified as cash equivalents	94,011	--	--	94,011
Total Held-to-Maturity Investments	$ 160,063	$ 1,066	$ (533)	$ 160,596

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

The amortized cost and fair value of held-to-maturity investment securities at June 30, 2002 by contractual maturity or repricing date are as follows (in thousands):

	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 90,958	$ 91,210
Due after one year through five years	69,105	69,386
Total	$160,063	$160,596

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

OTHER INVESTMENTS - Other investments are accounted for under the cost method and include the following (in thousands):

	JUNE 30, 2001	JUNE 30, 2002
Common stock and warrants	$2,198	$2,239
Convertible debenture	1,000	1,000
Preferred stock	98	98
Venture capital partnership	--	346
Total other investments	$3,296	$3,683

Common stock and warrants consist primarily of the Company's strategic investment in Billserv.com common stock, which is subject to certain trading restrictions. The remainder of common stock and warrants, convertible debenture and preferred stock investments are in non-publicly traded e-billing related companies. The convertible debenture bears interest at 6.5% per annum and is payable in full on September 12, 2003. Interest is payable on December 31 and June 30 each year. The debenture agreement allows the Company, at its option, to convert the note into common shares of the issuer, the number of which is dependent upon the valuation of the issuer at that time. Conversion into common stock is automatic if the issuer completes an initial public offering. The venture capital partnership invests in early to mid-stage financial solutions and technology companies. The Company has made a commitment to invest $1 million in the partnership. Actual contributions are made at the point in time the partnership identifies a specific company in which to invest. The fair value of other investments was approximately $3,906,000 and $3,064,000 as of June 30, 2001 and 2002, respectively.

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

PLEDGED INVESTMENTS - The Company has pledged certain held-to-maturity investments as collateral for payments due under operating leases and for a standby letter of credit related to an operating lease. Total amount of securities pledged at June 30, 2002 was approximately $5,828,000, of which $3,000,000 is classified as a restricted investment. The operating leases expire at various dates through December 31, 2004. The standby letter of credit expires on September 30, 2002, but is automatically renewable through the underlying lease expiration date of September 30, 2004.

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	JUNE 30,	
	2001	2002
Trade accounts receivable	$76,973	$80,292
Unbilled trade accounts receivable	8,875	4,746
Other receivables	5,933	4,992
Total	91,781	90,030
Less: allowance for doubtful accounts	2,963	2,000
Accounts receivable, net	$88,818	$88,030

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

NOTE 6. PROPERTY AND EQUIPMENT

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

	JUNE 30, 2001	JUNE 30, 2002
Land and land improvements	$ 4,944	$ 4,944
Building and building improvements	50,732	51,162
Computer equipment and software licenses	132,850	148,962
Furniture and equipment	16,894	19,830
Total	205,420	224,898
Less: accumulated depreciation and amortization	96,194	129,273
Property and equipment, net	$109,226	$ 95,625

Depreciation expense totaled $22,915,000, $30,442,000 and $36,430,000 for the years ended June 30, 2000, 2001 and 2002, respectively.

NOTE 7. INTANGIBLE ASSETS

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

	JUNE 30, 2001	JUNE 30, 2002
Capitalized software:		
Product technology from acquisitions and strategic agreement	$ 252,378	$ 166,578
Internal development costs	21,771	24,946
Total	274,149	191,524
Less: accumulated amortization	87,128	119,679
Capitalized software, net	$ 187,021	$ 71,845
Goodwill:		
Goodwill	$1,009,834	$ 838,988
Less: accumulated amortization	189,665	308,230
Goodwill, net	$ 820,169	$ 530,758
Strategic agreements:		
Strategic agreements	$ 744,424	$ 744,424
Less: accumulated amortization	101,212	225,149
Strategic agreements, net	$ 643,212	$ 519,275
Other intangible assets:		
Workforce	$ 11,944	$ 11,944
Tradenames	47,968	47,968
Customer base	45,358	45,358
Covenants not to compete	1,200	1,200
Total	106,470	106,470
Less: accumulated amortization	59,352	81,861
Other intangible assets, net	$ 47,118	$ 24,609

Amortization of intangible assets totaled $19,915,000, $397,053,000 and $399,135,000 for the years ended June 30, 2000, 2001 and 2002, respectively.

IMPAIRMENT OF INTANGIBLE ASSETS

CHECKFREE I-SOLUTIONS

During the year ended June 30, 2002, the Company identified certain indicators of possible impairment of its long-lived assets, primarily goodwill and other acquired intangible assets, related to its acquisition of BlueGill Technologies, Inc. (currently referred to as CheckFree i-Solutions). The main indicators of impairment were recent economic conditions, accompanied by internet-based software industry trends that have negatively impacted both i-Solutions current operations, as well as its expected future growth rates. The Company first evaluated recoverability by comparing the projected undiscounted cash flows of the i-Solutions business, including an estimated terminal value, to the related carrying value of its long-lived assets. As a result of this comparison, the Company determined that the i-Solutions assets were impaired. The amount of the impairment was then determined by comparing the estimated fair value of the i-Solutions assets to the related carrying value. The fair value was determined using a discounted cash flow approach for the net cash flows of the i-Solutions business and an estimated terminal value. The assumptions supporting the estimated cash flows, including the discount rate and estimated terminal value, reflect management's best estimates at the time. As a result of the fair value test, the Company recorded a charge reducing the carrying value of CheckFree i-Solutions goodwill by $107,405,000. This amount is included in impairment of intangible assets in the Company's Consolidated Statement of Operations. CheckFree i-Solutions is included in the Company's Software business segment.

TRANSPOINT

During the year ended June 30, 2002, the Company performed a review of the carrying value of technology assets it acquired as part of the TransPoint acquisition in September 2000. The review was prompted by the termination of the maintenance agreement for this technology from the last of our international partners, and the conclusions reached by the Company in evaluating the service potential of the technology against our present and future initiatives. As a result of the review, the Company identified two technologies for which there is no future use and recorded a charge of $47,667,000 to retire these assets. The charge is included in impairment of intangible assets in the Company's Consolidated Statement of Operations.

The retirement of the TransPoint technology assets noted above was an indicator to the Company of possible impairment of its long-lived assets, primarily goodwill and other acquired intangible assets, related to its acquisition of TransPoint. The Company evaluated the recoverability of all its Electronic Commerce division long-lived assets by comparing the projected undiscounted cash flows of the division, including an estimated terminal value, to the carrying value of its long-lived assets. The assumptions supporting the estimated cash flows, including the estimated terminal value, reflect management's best estimates at the time. The result of this test indicated that there was no impairment of the Company's Electronic Commerce division long-lived assets.

NOTE 8. ACCRUED LIABILITIES

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

	JUNE 30,	
	2001	2002
Compensation and benefits	$33,141	$28,147
Reorganization reserve	--	7,800
Other	26,949	18,967
Total	$60,090	$54,914

NOTE 9. LINE OF CREDIT

The Company has a line-of credit agreement, which expires on December 30, 2003. The agreement, which carries an interest rate of LIBOR plus 200 basis points or Prime, enables the Company to borrow up to $30 million and contains certain financial and operating covenants. No amounts were outstanding under the line at June 30, 2001 and 2002.

NOTE 10. CONVERTIBLE SUBORDINATED NOTES

On November 29, 1999, the Company issued $172,500,000 of 6.5% convertible subordinated notes that are due on December 1, 2006. Interest on the notes is payable on June 1 and December 1 of each year, commencing on June 1, 2000. The notes may be converted, at the holder's option, into 13.6612 shares of common stock per $1,000 of note value, and the Company may redeem the notes at any time on or after December 1, 2002. At June 30, 2002, none of the notes had been converted to common stock. Interest expense on the notes for the years ended June 30, 2000, 2001 and 2002, was $7,307,000, $12,119,000 and $12,023,000, respectively. The fair value of the notes was approximately $151,400,000 and $148,500,000 as of June 30, 2001 and 2002, respectively.

NOTE 11. CAPITAL LEASE AND OTHER LONG-TERM OBLIGATIONS

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

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

	JUNE 30, 2001	JUNE 30, 2002
Equipment and software licenses	$8,122	$8,122
Less: accumulated depreciation and amortization	3,190	5,059
Property under capital leases, net	$4,932	$3,063

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

FISCAL YEAR ENDING JUNE 30,	
2003	$1,610
2004	1,610
2005	1,364
2006	177
Total future minimum lease payments	4,761
Less: amount representing interest	719
Net future minimum lease payments	$4,042

Additionally, the Company has purchased software licenses under agreements with extended payment terms. Total amounts due under these agreements are as follows (in thousands):

FISCAL YEAR ENDING JUNE 30,	
2003	$4,078
2004	865
2005	318
Total	$5,261

NOTE 12. COMMITMENTS

OPERATING LEASES - The Company leases 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 lease. Total expense under all operating lease agreements for the years ended June 30, 2000, 2001 and 2002 was $19,095,000, $26,519,000 and $27,997,000, respectively.

Future minimum rental payments under these leases are as follows (in thousands):

FISCAL YEAR ENDING JUNE 30,	
2003	$ 30,956
2004	17,232
2005	12,430
2006	10,453
2007	9,758
Thereafter	55,264
Net future minimum lease payments	$136,093

The Company has pledged certain held-to-maturity investments as collateral for payments due under operating leases and for a standby letter of credit related to an operating lease. Total amount of securities pledged at June 30, 2002 was approximately $5,828,000, of which $3,000,000 is classified as a restricted investment. The operating leases expire at various dates through December 31, 2004. The standby letter of credit expires on September 30, 2002, but is automatically renewable through the underlying lease expiration date of September 30, 2004.

OTHER COMMITMENTS - The Company has agreements for software to be used in conjunction with its Electronic Commerce business. The software is to be licensed in incremental units over the terms of the agreements to coincide with the growth of the Company's business. Total commitments under the agreements amount to $13.2 million over the next three years.

NOTE 13. CAPITAL STOCK

On November 1, 2000, the Company's stockholders approved an increase in the number of authorized shares of the Company from 165,000,000 to 550,000,000, consisting of 500,000,000 shares of common stock, $.01 par value, 48,500,000 shares of preferred stock, $.01 par value, and 1,500,000 shares of Series A Junior Participating Cumulative Preferred Stock, $.01 par value. The preferred stock may be issued in one or more series and may be established with such relative voting, dividend, redemption, liquidation, conversion and other powers, preferences, rights, qualifications, limitations and restrictions as the Board of Directors may determine without further stockholder approval. No preferred shares have been issued.

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

NOTE 14. TRANSACTIONS INVOLVING EQUITY INSTRUMENTS

EMPLOYEE PLANS - During 1995, the Company adopted the 1995 Stock Option Plan (the "1995 Plan"). The options granted under the 1995 Plan may be either incentive stock options or non-statutory stock options. The terms of the options granted under the 1995 Plan are at the sole discretion of a committee of members of the Company's Board of Directors, not to exceed ten years. Generally, options vest at either 33% or 20% per year from the date of grant. The 1995 Plan originally provided that the Company may grant options for not more than 5,000,000 shares of common stock to certain key employees, officers and directors. In November of 1998 and again in November of

2000, the 1995 Plan was amended by a vote of the Company's shareholders to extend the maximum option grants to not more than 8,000,000 shares and not more than 12,000,000 shares, respectively. Options granted under the 1995 Plan 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, 2002, 2,344,926 additional shares are available for grant under the 1995 Plan.

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

The following table summarizes stock option activity from July 1, 1999 to June 30, 2002:

	YEAR ENDED					
	JUNE 30, 2000		JUNE 30, 2001		JUNE 30, 2002	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding - Beginning of period.....	5,196,600	$18.69	6,161,785	$30.86	7,128,141	$36.96
Granted	1,496,957	74.45	2,049,049	46.71	2,818,928	22.10
Assumed with BlueGill acquisition	637,746	4.31	--	--	--	--
Exercised	(794,778)	12.32	(635,205)	10.92	(761,750)	3.09
Cancelled	(354,740)	27.16	(447,488)	34.24	(1,100,646)	41.35
Outstanding - End of period	6,161,785	$30.86	7,128,141	$36.96	8,084,673	$34.25
Options exercisable at end of period..	1,850,887	$13.58	2,588,418	$26.40	3,122,949	$38.84
Weighted average per-share fair value of options granted during the year ...		$48.16		$32.06		$ 14.81

The following table summarizes information about options outstanding at June 30, 2002:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
		WEIGHTED AVERAGE			
RANGE OF EXERCISE PRICE	NUMBER	REMAINING CONTRACTUAL LIFE	EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
$ 0.01 - $ 15.00	1,691,469	6.0	$ 11.55	867,736	$ 10.64
$15.01 - $ 30.00	2,107,732	8.6	17.79	390,661	21.77
$30.01 - $ 60.00	3,639,647	8.0	43.39	1,502,642	45.06
$60.01 - $ 90.00	187,990	7.6	75.06	69,420	76.10
$90.01 - $ 120.00	457,835	7.5	104.50	292,490	104.50
	8,084,673		$ 34.25	3,122,949	$ 38.84

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the years ended June 30, 2000, 2001 and 2002, respectively: dividend yield of 0% in all periods; expected volatility of 83%, 98% and 98%; risk-free interest rates of 6.30%, 5.62%, and 4.00%; and expected lives of two to seven years.

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

value of the assumed option plans was added to the fair value of Company stock issued in determining the purchase price of BlueGill.

Under the 1997 Associate Stock Purchase Plan, effective for the six-month period beginning January 1, 1997, the Company is authorized to issue up to 1,000,000 shares of Common Stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose, every six months, to have up to 15% of their salary withheld to purchase the Company's Common Stock. The purchase price of the stock is 85% of the lower of its beginning-of-period or end-of-period market price. Participation in the plan by eligible employees has ranged from 30% to 50% in any given six-month period. Under the Plan, 52,191 shares were issued in January of 2000, 34,941 in July of 2000, 56,901 in January of 2001 and 79,055 in July of 2001, 135,721 in January of 2002 and 128,443 in July of 2002 from employees' salary withholdings from the respective previous six-month period. As of June 30, 2002 there were 387,197 shares available for future issuance to the Associate Stock Purchase Plan. Following is a summary of the weighted average fair market value of this look-back option estimated on the grant date using the Black-Scholes option pricing model, and the related assumptions used:

	December 31, 1999	June 30, 2000	December 31, 2000	June 30, 2001	December 31, 2001	June 30, 2002
Fair value of options	$ 8.93	$29.15	$11.63	$ 9.28	$ 4.95	$ 4.17
Assumptions:						
Risk-free interest rate .	5.8%	5.8%	4.4%	4.4%	4.0%	4.0%
Expected life	3 months	3 months	3 months	3 months	3 months	3 months
Volatility	83.4%	83.4%	98.2%	98.2%	98.0%	98.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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

	YEAR ENDED JUNE 30,		
	2000	2001	2002
Pro forma net loss	$(50,073)	$ (393,961)	$ (476,132)
Pro forma net loss per share; Basic and Diluted	$(0.94)	$(4.87)	$(5.44)

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

In January 1997 the Board of Directors approved an amendment to the Company's 401(k) plan, which authorized up to 1,000,000 shares of Common Stock for the Company's matching contribution. The Company issued 36,226 shares in August 1999, 51,834 shares in August of 2000 and 132,887 shares in August 2001 to fund its 401(k) match that had accrued during the years ended June 30, 1999, 2000 and 2001, respectively. As of June 30, 2002 there were 625,899 shares available for future contributions to the 401(k) plan.

STOCK-RELATED TRANSACTIONS WITH THIRD PARTIES - In October 2000, the Company completed an agreement to acquire various electronic billing and payment assets from Bank of America in exchange for ten million shares of the Company's common stock. Bank of America has the ability to earn warrants on up to ten million additional shares, eight million of which vest upon achievement of specific levels of active subscriber adoption of electronic billing and payment services and separately, two million upon achievement of specific levels of electronic bills presented to those subscribers. The warrants contain a strike price of $32.50. Should the vesting of these warrants become probable, the Company will record a charge for the fair value of the portion of the warrants earned to date based on Bank of America's progress towards achieving the milestones set forth in the agreement. The Company will continue to record a charge each period for any additional portion of the warrants earned, plus any change in fair value of the cumulative amount of warrants earned to date, up to the point in time that the milestones are achieved and actual vesting occurs. Under the provisions of EITF 01-9, any charge associated with these warrants will be recorded as a reduction of revenue up to the aggregate amount of revenue received from Bank of America.

In October 1999, the Company entered into an agreement with one of its customers. Under the terms of the agreement, the customer purchased 250,000 shares of the Company's stock, has been issued warrants on one million shares, and has the ability to earn warrants on up to two million additional shares. All warrants contain a strike price of $39.25 and are exercisable on September 15, 2002, contingent upon achievement of various annual revenue targets and maintaining the continued existence of the agreement through that date. During the quarter ended June 30, 2002, vesting of the warrants for one million shares became probable. As such, the Company recorded a non-cash charge of $2,748,000 for the fair value of the portion of the warrants earned through June 30, 2002 based on a Black-Scholes option pricing model valuation. At September 15, 2002, upon actual vesting, the Company will determine the final fair value of the one million warrants taking into consideration the market value of our stock at that date. During the quarter ending September 30, 2002, the Company will record a charge for the additional portion of the warrants earned since June 30, 2002, and any change in fair value of the portion of the warrants earned through June 30, 2002. Under the provisions of EITF 01-9, the non-cash charge of $2,748,000 was recorded as a reduction of revenue, and any increase or decrease in the fair value upon actual vesting will be also be recorded as an increase or decrease to revenue.

In January 1998 the Company entered into a ten-year processing agreement with a strategic partner. Under the terms of the agreement, the partner acquired ten-year warrants exercisable at $20 15/16 for ten million shares of the Company's Common Stock. Three million warrants vested upon the execution of a related processing outsourcing agreement on March 9, 1998. During the year ended June 30, 2001, the strategic partner's business was dissolved and they therefore do not have the ability to earn any of the remaining seven million warrants. During each of the fiscal years ended June 30, 2000 and 2001 the strategic partner exercised 750,000 of the vested options and 1,500,000 remain outstanding at June 30, 2002.

In March 1997 the Company entered into a consulting agreement with a third party. Under the terms of the agreement the consultant acquired 5-year options exercisable at $13.00 for up to 50,000 shares of the Company's Common Stock. In June 1998, upon the execution of a processing agreement with a key customer, 25,000 of the options vested. The remaining 25,000 options vested in March 2002. In March 2002, the consultant exercised all 50,000 options. Any shares acquired by the consultant under the terms of the agreement are subject to certain transfer restrictions.

CONVERTIBLE SUBORDINATED NOTES - In November 1999 the Company issued $172,500,000 million of convertible subordinated notes. Each $1,000 note may be converted, at the holder's option, into 13.6612 shares of common stock at a conversion rate of $73.20 per share. The fair market value of the Company's stock on June 30, 2002 was $15.64 per share. Please refer to Note 10 for further information regarding the convertible subordinated notes.

NOTE 15. EARNINGS PER SHARE

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

	Year Ended June 30, 2000			Year Ended June 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	(32,320)	53,367	$ (0.61)	$(363,135)	80,863	$(4.49)
Effective of dilutive securities:						
Options and warrants	--	--	--	--	--	--
Convertible notes	--	--	--	--	--	--
Diluted EPS	$ (32,320)	53,367	$ (0.61)	(363,135)	$ 80,863	$(4.49)

	Year Ended June 30, 2002		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$(440,950)	87,452	$(5.04)
Effective of dilutive securities:			
Options and warrants	--	--	--
Convertible notes	--	--	--
Diluted EPS	$(440,950)	87,452	$(5.04)

Anti-dilution provisions of SFAS 128 require consistency between diluted per-common-share amounts and basic per-common-share amounts in loss periods. The number of anti-dilutive equivalent shares excluded from the per-share calculations is 6,157,241, 5,561,894 and 3,255,624 for the years ended June 30, 2000, 2001 and 2002, respectively. The after-tax effect of interest expense on the convertible subordinated notes of approximately $4,384,000, $9,198,000 and $9,498,000 for the years ended June 30, 2000, 2001 and 2002, respectively, has not been added back to the numerator, as its effect would be anti-dilutive.

NOTE 16. EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN - The Company has a defined contribution 401(k) retirement plan covering substantially all of its U.S.-based employees. Under the plan eligible employees may contribute a portion of their salary until retirement and the Company, at its discretion, may match a portion of the employee's contribution. In January 2002, the Company added a similar plan covering substantially all its non U.S.-based employees. Total expense under both plans amounted to $2,886,000, $3,528,000 and $3,035,000, for the years ended June 30, 2000, 2001 and 2002, respectively.

DEFERRED COMPENSATION PLAN - In January 1999, the Company established a deferred compensation plan (the "DCP") covering highly compensated employees as defined by the DCP. Under the plan, eligible employees may contribute a portion of their salary on a pre-tax basis. The DCP is a non-qualified plan, therefore the associated liabilities are included in the Company's June 30, 2001 and 2002 Consolidated Balance Sheets. In addition, the Company has established a rabbi trust to finance obligations under the DCP with corporate-owned life insurance policies on participants. The cash surrender value of such policies is also included in the Company's June 30, 2001 and 2002 Consolidated Balance Sheets. Total expense under the DCP for the years ended June 30, 2000, 2001 and 2002 amounted to $162,000, $77,000 and $176,000, respectively.

GROUP MEDICAL PLANS - Effective January 1, 2000, the Company converted all of its U.S.-based employees to a group medical self-insurance plan. The Company has employed an administrator to manage this plan. Under terms of this plan, both the Company and eligible employees are required to make contributions. The administrator reviews all claims filed and authorizes the payment of benefits. The Company has stop-loss insurance coverage on all individual claims exceeding $150,000. Prior to January 1, 2000, the Company had a group medical self-insurance plan covering certain of its employees, and medical insurance coverage under managed care health plans covering the remaining employees. The Company provides medical insurance coverage to its non U.S.-based employees through local managed care health plans. Total expense for medical insurance coverage amounted to $7,359,000, $11,116,000, and $11,588,000 for the years ended June 30, 2000, 2001 and 2002, respectively. Under the self-insurance plan, the Company expenses amounts as claims are incurred and recognizes a liability for incurred but not reported claims. At June 30, 2001 and 2002, the Company accrued $4,061,000 and $4,153,000, respectively, as a liability for costs incurred but not paid under this plan.

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

NOTE 17. REORGANIZATION CHARGE

During the year ended June 30, 2002, the Company announced it would streamline operations in its Electronic Commerce division, refine its strategy for the i-Solutions business unit of its Software division, and discontinue certain product lines associated with its Investment Services division. As a result of these actions, the Company closed or consolidated operations in several locations and eliminated certain other positions in the Company. The streamlining of its Electronic Commerce division operations results from efficiencies gained from the consolidation of three legacy transaction processing platforms to its Genesis platform and resulted in the closing of its San Francisco, California location on April 30, 2002; its Houston, Texas location on June 30, 2002; and its Austin, Texas location by September 30, 2002. The refinement in strategy for the i-Solutions business resulted in the closing of its Ann Arbor, Michigan and Singapore locations on March 19, 2002.

As a result of these actions, the Company recorded $16,365,000 of reorganization charges, including $1,640,000 of non-cash asset impairment charges, $10,962,000 of severance and related benefits costs for the termination of 707 employees, and $3,763,000 of other exit costs, including lease termination fees and other closure, employee and professional costs. These amounts are included in reorganization charge in the Company's Consolidated Statement of Operations. Revenues and operating income related to the discontinued product lines in the Investment Services division are immaterial to the Company. The Company anticipates the reorganization plan to be substantially complete by June 2003.

A summary of activity related to the reorganization charges recorded in the year ended June 30, 2002, is as follows (in thousands):

	REORGANIZATION CHARGES (1)	CASH PAYMENTS	REORGANIZATION RESERVE AT JUNE 30, 2002
Severance and other employee costs	$10,962	$(6,261)	$ 4,701
Office closure and business exit costs .	3,677	(649)	3,028
Other exit costs	86	(15)	71
Total	$14,725	$(6,925)	$ 7,800

(1) Excludes $1,640,000 of non-cash asset impairment charges

In conjunction with the reorganization activities described above, the Company revised the estimated useful lives of the Existing Product Technology and Customer Base intangible assets related to the product lines that are to be discontinued from its Mobius Group acquisition, the Workforce intangible asset from its strategic agreement with Bank of America, and certain property and equipment assets associated with office locations that were to be closed. This resulted in additional depreciation and amortization expense of $3,318,000 for the year ended June 30, 2002, which represents an after-tax impact of $2,710,000 and an impact to earnings per share of $(0.03) for the year ended June 30, 2002.

NOTE 18. INCOME TAXES

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

	YEAR ENDED JUNE 30,		
	2000	2001	2002
Current:			
Federal	$ --	$ --	$ --
State and local	--	--	--
Foreign	--	--	281
Total current	--	--	281
Deferred federal and state	(11,437)	(115,362)	(99,152)
Total income tax benefit	$ (11,437)	$(115,362)	$ (98,871)

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

	YEAR ENDED JUNE 30,		
	2000	2001	2002
Computed "expected" tax benefit	$ (15,315)	$(167,243)	$(188,937)
Nondeductible in-process research and development of acquired businesses	2,415	6,510	--
Nondeductible intangible amortization	3,572	60,346	101,294
State and local taxes, net of federal income tax benefits	(1,636)	(14,917)	(11,685)
Other, net	(473)	(58)	457
Total income tax benefit	$ (11,437)	$(115,362)	$ (98,871)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2001 and 2002 are as follows (in thousands):

	JUNE 30,	
	2001	2002
Deferred tax assets:		
Federal and state net operating loss carryforwards	$ 72,972	$ 80,692
Federal and state tax credit carryforwards	4,300	5,311
Allowance for bad debts and returns	1,278	951
Accrued compensation and related items	1,420	1,227
Stock warrants	21,484	18,298
Property and equipment	602	451
Other investments	3,335	3,143
Deferred revenue	2,749	2,254
Reserve accruals	8,172	7,188
Total deferred tax assets	116,312	119,515
Deferred tax liabilities:		
Capitalized software	(69,864)	(24,063)
Intangible assets	(174,482)	(123,629)
Prepaid expenses	(94)	--
Total deferred tax liabilities	(244,440)	(147,692)
Net deferred tax liabilities	$(128,128)	$ (28,177)

At June 30, 2002, the Company has approximately $218,671,203 of state and $196,561,289 of federal net operating loss carryforwards available, expiring in 2009 to 2016 and 2009 to 2022, respectively. Additionally, at June 30, 2002, the Company has approximately $868,297 of state and $4,746,364 of federal tax credit carryforwards available, expiring in 2008 to 2012 and 2009 to 2022, respectively.

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

NOTE 19. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	YEAR ENDED JUNE 30,		
	2000	2001	2002
		(IN THOUSANDS)	
Interest paid	$ 5,982	$ 12,119	$ 12,041
Income taxes paid (received), net	$ (229)	$ (1,442)	$ 49
Supplemental disclosure of non-cash investing and financing activities:			
Capital lease additions and purchase of other long-term assets	$ 5,688	$ 5,716	$ 1,539
Stock funding of 401(k) match	$ 1,059	$ 2,487	$ 3,621
Stock funding of Associate Stock Purchase Plan	$ 2,287	$ 3,587	$ 4,433
Purchase price of business acquisitions	$ 239,900	$ 1,351,649	$ --
Issuance of common stock and stock options pursuant to acquisitions	(240,000)	(1,350,083)	--
Cash acquired in acquisitions	(9,052)	(97,200)	--
Acquisition costs paid in prior period	--	(965)	--
Net cash received	$ (9,152)	$ (96,599)	$ --

NOTE 20. BUSINESS SEGMENTS

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

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

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

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

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

The accounting policies of the segments are the same as those described in Note 1 "Summary of Significant Accounting Policies." The Company evaluates performance based on revenues and operating income (loss) of the respective segments. Segment operating income (loss) excludes intangible asset amortization, in-process research and development costs and significant one-time charges related to various business and asset acquisitions. There are no intersegment sales.

The following sets forth certain financial information attributable to the Company's business segments for the years ended June 30, 2000, 2001 and 2002:

	YEAR ENDED JUNE 30,		
	2000	2001	2002
	(IN THOUSANDS)		
Revenues:			
Electronic Commerce	$ 213,391	$ 301,532	$ 352,054
Software	42,012	62,175	58,849
Investment Services	54,792	69,613	79,574
Total	$ 310,195	$ 433,320	$ 490,477
Segment operating income (loss):			
Electronic Commerce	$ (18,248)	$ (13,083)	$ 39,010
Software	10,536	837	5,789
Investment Services	15,830	20,347	24,376
Corporate	(26,120)	(35,746)	(36,500)
Total	(18,002)	(27,645)	32,675
Purchase accounting amortization	(18,517)	(393,436)	(394,009)
Impairment of intangible assets	--	--	(155,072)
Reorganization charge	--	--	(16,365)
One-time marketing charge	--	(25,000)	--
In-process research and development	(6,900)	(18,600)	--
Charge associated with warrants	--	--	(2,748)
Net other income (expense)	(338)	(13,816)	(4,302)
Total loss before income taxes	$ (43,757)	$ (478,497)	$ (539,821)
Identifiable assets:			
Electronic Commerce	$ 102,220	$ 1,603,069	$ 1,218,340
Software	273,120	206,746	63,792
Investment Services	47,246	50,113	41,347
Corporate	290,528	324,025	313,998
Total	$ 713,114	$ 2,183,953	$ 1,637,477
Capital expenditures:			
Electronic Commerce	$ 18,299	$ 28,355	$ 15,654
Software	1,773	2,938	2,074
Investment Services	2,868	6,771	2,643
Corporate	16,555	9,317	3,148
Total	$ 39,495	$ 47,381	$ 23,519
Depreciation and amortization:			
Electronic Commerce	$ 19,282	$ 350,277	$ 385,729
Software	12,317	62,485	32,887
Investment Services	7,634	9,421	10,706
Corporate	3,597	5,312	6,243
Total	$ 42,830	$ 427,495	$ 435,565

No single customer accounted for 10% or more of consolidated revenues for the year ended June 30, 2000. For the years ended June 30, 2001 and 2002, one customer accounted for $44,500,000 and $60,022,000 of consolidated revenues, respectively. Revenues for that customer were generated through the Electronic Commerce and Software segments for the year ended June 30, 2001 and through the Electronic Commerce, Software and Investment Services segments for the year ended June 30, 2002. Foreign sales for the year ended June 30, 2000 were insignificant. Foreign sales based on the location of the customer, for the years ended June 30, 2001 and 2002 were $7,636,000 and $10,772,000, respectively.

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

	YEAR ENDED JUNE 30,	
	2001	2002
United States	$1,804,275	$1,238,961
Other	2,471	3,151
Total	$1,806,746	$1,242,112

NOTE 21. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following quarterly financial information for the years ended June 30, 2001 and 2002 includes all adjustments necessary for a fair presentation of quarterly results of operations (in thousands, except per share data):

	QUARTER ENDED			
	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 30
FISCAL 2001				
Total revenue	$ 90,757	$ 107,721	$ 113,069	$ 121,773
Loss from operations	(76,363)	(150,570)	(123,255)	(114,493)
Net loss	(58,358)	(116,022)	(101,067)	(87,688)
Basic earnings per share:				
Net loss per common share	$ (0.91)	$ (1.34)	$ (1.17)	$ (1.01)
Equivalent number of shares	64,216	86,286	86,682	86,774
Diluted earnings per share:				
Net loss per common share	$ (0.91)	$ (1.34)	$ (1.17)	$ (1.01)
Equivalent number of shares	64,216	86,286	86,682	86,774

	QUARTER ENDED			
	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 30
FISCAL 2002				
Total revenue	$ 116,675	$ 121,338	$ 124,586	$ 127,878
Loss from operations	(112,045)	(258,251)	(95,337)	(69,886)
Net loss	(88,947)	(215,133)	(77,459)	(59,411)
Basic earnings per share:				
Net loss per common share	$ (1.02)	$ (2.47)	$ (0.89)	$ (0.67)
Equivalent number of shares	87,090	87,217	87,446	88,063
Diluted earnings per share:				
Net loss per common share	$ (1.02)	$ (2.47)	$ (0.89)	$ (0.67)
Equivalent number of shares	87,090	87,217	87,446	88,063

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

NOTE 22. GUARANTOR FINANCIAL INFORMATION

CheckFree Management Corporation is a guarantor of the Company's $172,500,000 convertible subordinated notes that were issued November 29, 1999. CheckFree Management Corporation was formed as a medical claims management subsidiary in order to appropriately minimize, control, and manage the medical claims liabilities of the Company and its subsidiaries. As of June 30, 2001 and 2002, the Company and its subsidiaries own approximately 89% of CheckFree Management Corporation. As of June 30, 2001 and 2002, the assets of CheckFree Management Corporation represent less than 2% of the total consolidated assets of the Company, and therefore, separate financial statements and financial disclosures are not deemed significant.

EXHIBIT 21

Subsidiaries of CheckFree Corporation:

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

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

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements (Nos. 33-98440, 33-98444, 33-98442, 33-98446, 333-21799, 333-21795, 333-70599, 333-35812, 333-35814, and 333-50322) on Form S-8 and the Registration Statements (Nos. 333-94757 and 333-50494) on Form S-3 of CheckFree Corporation of our reports dated August 8, 2002, appearing in and incorporated by reference in the Annual Report on Form 10-K of CheckFree Corporation for the year ended June 30, 2002.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
September 25, 2002

EXHIBIT 24

POWER OF ATTORNEY

Each director and/or officer of CheckFree Corporation (the "Corporation") whose signature appears below hereby appoints Peter J. Kight, Peter F. Sinisgalli, and Curtis A. Loveland as the undersigned's attorneys or any of them individually as the undersigned's attorney, to sign, in the undersigned's name and behalf and in any and all capacities stated below, and to cause to be filed with the Securities and Exchange Commission (the "Commission"), the Corporation's Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended June 30, 2002, and likewise to sign and file with the Commission any and all amendments to the Form 10-K, and the Corporation hereby also appoints such persons as its attorneys-in-fact and each of them as its attorney-in-fact with like authority to sign and file the Form 10-K and any amendments thereto granting to each such attorney-in-fact full power of substitution and revocation, and hereby ratifying all that any such attorney-in-fact or the undersigned's substitute may do by virtue hereof.

IN WITNESS WHEREOF, we have hereunto set our hands this 8th day of August, 2002.

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of CheckFree Corporation and subsidiaries as of June 30, 2001 and 2002, and for the years ended June 30, 2000, 2001 and 2002, and have issued our report thereon dated August 8, 2002; such consolidated financial statements and report are included in your 2002 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of CheckFree Corporation and subsidiaries, listed in Item 14. This consolidated 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 consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
August 8, 2002

CHECKFREE CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED JUNE 30, 2000, 2001 AND 2002

	BALANCE AS OF BEGINNING OF PERIOD	AMOUNT ASSUMED IN BUSINESS COMBINATION	CHARGES TO TO COSTS AND EXPENSES	CHARGES TO OTHER DEDUCTIONS	DEDUCTIONS	BALANCE AS OF END OF PERIOD
Allowance for Doubtful Accounts						
2000............................	4,430	268	2,615	-	3,310	4,003
2001............................	4,003	-	50	-	1,090	2,963
2002............................	2,963	-	689	-	1,652	2,000
Reserve for Returns and Chargebacks						
2000............................	1,664	-	4,212	-	3,471	2,405
2001............................	2,405	-	3,847	-	1,589	4,663
2002............................	4,663	-	(514)	-	2,443	1,706

EXHIBIT 99(b)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CheckFree Corporation (the "Company") on Form 10-K for the fiscal year ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter J. Kight, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Peter J. Kight

Peter J. Kight, Chairman and Chief Executive Officer
of CheckFree Corporation
September 25, 2002

EXHIBIT 99(c)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CheckFree Corporation (the "Company") on Form 10-K for the fiscal year ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David E. Mangum, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David E. Mangum

David E. Mangum, Executive Vice President and
Chief Financial Officer of CheckFree Corporation
September 25, 2002