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, 1999

Commission File Number: 0-26802

CHECKFREE HOLDINGS 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) 375-3387
(Registrant's telephone number, including area code)

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

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

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

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

The aggregate market value of our Common Stock held by our non-affiliates was approximately $1,483,923,000 on September 20, 1999.

There were 51,954,360 shares of our Common Stock outstanding on September 20, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Annual Report to Stockholders for the fiscal year ended June 30, 1999 are incorporated by reference in Part II.

Portions of our Proxy Statement for the 1999 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 Holdings Corporation and all entities owned or controlled by CheckFree Holdings Corporation, except where it is made clear that the term only means the parent company.

OVERVIEW

We are the leading provider of electronic billing and payment services. Our Electronic Commerce business provides services that allow consumers to:

- Receive electronic bills through the Internet;

- Pay any bill -- electronic or paper -- to anyone; and

- Perform customary banking transactions, including balance inquiries, transfers between accounts and on-line statement reconciliations.

We currently provide services for nearly 3 million consumers through over 350 financial institutions, Internet financial sites like Quicken.com and personal financial management software like Quicken, Microsoft Money and Managing Your Money. As part of our strategy to broaden availability of our electronic billing and payment services on the Internet, we recently entered into a distribution contract with Yahoo! Additionally, we recently extended a processing agreement with Bank One Corporation to provide services, including electronic billing and payment, to WingspanBank.com. We are currently in discussions with other Internet portals, including Excite@Home to whom we expect to begin providing our billing and payment services by December 31, 1999. We plan to undertake significant marketing initiatives with Yahoo!, WingspanBank.com and other Internet portals to dramatically accelerate the adoption of our services by consumers. We have developed relationships with over 1,100 merchants nationwide that enable us to remit more than 50% of all of our bill payments electronically. During the three-month period ended June 30, 1999, we processed an average of more than 12 million transactions per month and, for the year ended June 30, 1999, we processed more than 125 million transactions.

In March 1997, we introduced electronic billing - "E-Bill" - which enables merchants to deliver billing as well as marketing materials interactively to their customers over the Internet. We have signed contracts for E-Bill services with 64 of the country's largest billers, who together deliver more than 500 million bills each month. During the month of June 1999, we presented more than 13,000 electronic bills through more than 25 financial institutions and Internet portals, which is a more than 30% increase since March 1999 and more than double the number of bills presented through E-Bill services in February 1999.

We also are a leading provider of institutional portfolio management and information services and financial application software. Our Investment Services business offers portfolio management and information services for fee-based money managers and financial planners within investment advisory firms, brokerage firms, banks and insurance companies. Our fee-based money manager clients are typically sponsors or managers of wrap money management products or traditional money managers, managing investments of institutions and high net worth individuals. Our Software businesses provide electronic commerce and financial applications software and services for business and financial institutions. We design, market, license and support software products for automated clearinghouse, or ACH, processing, reconciliation and regulatory compliance.

During the fiscal year ended June 30, 1999, Electronic Commerce accounted for 68% of our revenues and Software and Investment Services each accounted for 16% of our revenues.

ELECTRONIC COMMERCE INDUSTRY BACKGROUND

The vast majority of today's financial transactions are completed using traditional paper-based methods. Many traditional financial transactions, however, can now be completed electronically due to the emergence of new communications, computing and security technologies. Many financial institutions and businesses have invested in these technologies and are creating the infrastructure for recording, reporting and executing electronic transactions. We believe the broad impact of the Internet will increase the use of electronic methods to execute financial transactions.

Persistence of Traditional Financial Transaction Processes

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

- Paper Checks. It is estimated that 67 billion checks were written in the U.S. in 1997. The use of checks imposes significant costs on financial institutions, businesses and their customers. These costs include the writing, mailing, recording and manual processing of checks.

- Paper Billing. It is estimated that over 18 billion paper bills are produced each year, with the cost of submitting a paper bill, including printing, postage and billing inserts, as high as $3.00 per bill.

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

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

The Internet's Role in Driving Electronic Commerce

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

- Expanding PC Ownership. Declining prices for PCs and rapid growth in the number of computer-literate consumers are driving increased penetration of PCs in U.S. homes. The Yankee Group estimates that by 1998 the percentage of U.S. consumer households owning a PC grew to 44% and expects this number to increase to 54% by the year 2001.

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

- Increasing Acceptance of Electronic Commerce. Consumers have grown increasingly comfortable with the security of electronic commerce and are willing to conduct large transactions on-line. IDC estimates that the total value of goods and services purchased over the Internet in the U.S. will increase from approximately $26 billion in 1998 to over $269 billion in 2002.

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

THE ELECTRONIC SOLUTION

We believe that consumers will move their financial transactions from traditional paper-based to electronic transactions if they have an easy-to-access, easy-to-use, compelling, secure and cost-effective solution for receiving and paying their bills electronically. We believe that these solutions should allow consumers at their access point of choice to:

- Receive electronic bills through the Internet;

- Pay any bill -- electronic or paper -- to anyone; and

- Perform customary banking transactions, including balance inquiries, transfers between accounts and on-line statement reconciliations.

We also believe that these functionalities must be delivered on a platform that:

- Is fully supported by end-to-end customer care;

- Is available 24 hours a day, 7 days a week; and

- Provides the highest level of security, availability and privacy.

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

THE CHECKFREE ADVANTAGE

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

Infrastructure

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

- Connectivity with Merchants. We have established electronic connectivity to over 1,100 merchants which allows us to remit over 50% of all of our bill payments electronically. Electronic remittance may be accomplished at a lower cost than remittances using the traditional paper-based method. In addition, electronic remittance significantly reduces payment exceptions and related costs associated with customer care.

- Scalable Genesis Platform. Our Genesis Platform, completed in 1998, is a fully integrated data processing system that was designed by our in-house engineers. The Genesis Platform was designed to be scaled to handle more than 30 million consumers. We have made significant investments in processes and technologies around our Genesis Platform to ensure that transactions are executed with the highest level of security, reliability and efficiency.

- Connectivity to Billers. We believe that our ability to provide consumers with access to electronic bills will substantially spur adoption of the electronic solution. By targeting the largest billers in key industries and in selected population centers, we believe we can quickly provide a significant number of bills to most consumers at their access point of choice. We have contracts with 64 billers, which represent the opportunity to deliver over 500 million bills per month, representing over 70% of the telecom bills, 24% of the utility bills, 22% of the mortgage bills and 28% of the credit card bills in the U.S. Our goal is to distribute bills from over 90 billers by the end of fiscal 2000. To encourage billers to utilize our services, we anticipate funding a portion of some billers' set-up costs.

- Experienced Customer Care Staff. We have over 600 trained, experienced customer care and merchant services staff who offer seamless end-to-end customer care. We believe that customer care that provides answers to all the questions that consumers may have about their transactions is a critical component of providing a compelling, easy-to-use solution that consumers will ultimately adopt.

Distribution

We believe that consumers are most attracted to an electronic solution that enables them to receive and pay all of their bills at a single site. For many consumers, the site they choose will be their financial institution's web site, while others will prefer Internet portals or sites operated by individual merchants. Through relationships with over 350 banks, brokerage houses, credit unions, Internet portals and financial services sites, we are able to distribute our services to whichever access and aggregation site the consumer prefers. Significant among these relationships are our agreements with:

- 23 of the 25 largest U.S. banks;
- 8 of the top 10 U.S. brokerage firms;
- Quicken.com;
- Yahoo!; and
- WingspanBank.com.

OUR BUSINESS STRATEGY

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

- Drive increased adoption of electronic commerce services by consumers. We believe that consumers will move their financial transactions from traditional paper-based methods to electronic transactions if they have an easy-to-access, easy-to-use, secure, compelling and cost-effective method for receiving and paying their bills electronically. We intend to use the broad adoption of the Internet by consumers to encourage the use of our web-based electronic commerce services by our financial institution customers. To further drive demand, we are also providing our services through Internet portals. This strategy should provide consumers with ready access to easy-to-use, cost-effective applications for receiving and paying their bills electronically. Part of our strategy to drive consumer adoption is partnering with Internet portals to offer our services to consumers on a free-trial basis. Initially, this strategy will result in foregone revenues, but we anticipate converting a majority of these new customers to fee-based services at the end of the trial period. As consumers continue to adopt electronic commerce services, financial institutions and billers will see greater efficiencies from providing electronic billing and payment services to their customers. Additionally, we believe that financial institutions and Internet portals that offer electronic banking will experience increased customer retention, have a superior marketing channel, and be able to offer enhanced customer service.

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

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

- Continue to improve operational efficiency and effectiveness. We believe that as our business grows and the number of transactions we process increases, we will be able to take advantage of operating efficiencies associated with increased volumes, thereby reducing our unit costs. Additionally, we expect to derive further operational efficiency and effectiveness by increasing our electronic links with billers, enabling a larger percentage of our consumer transactions to be processed electronically.

- Drive new forms of electronic commerce services. Our electronic commerce services are currently applied to banking, billing and payment and brokerage transactions. We believe that new applications will be developed as a result of the growth in electronic commerce generally, and

Internet-based commerce specifically. We intend to leverage our infrastructure and distribution to address the requirements of consumers and businesses in these new applications. For example, we plan to leverage our core payment and processing network to accomplish person-to-person and small business payments.

PRODUCTS AND SERVICES

Electronic Commerce

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

We have arrangements with more than 350 financial institutions through which electronic payment services are provided to their customers. Some of the financial institutions we serve include:

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

Bill Payment and Banking. Our bill payment services enable financial institution customers and direct consumer subscribers to pay bills electronically using a variety of devices such as PCs and touch-tone telephones. Bills paid by consumers using our bill payment services typically include credit card, monthly mortgage and utility bills, but a cornerstone of our services is that we can facilitate electronic payment by consumers to anyone, regardless of whether payment is ultimately made through an electronic or traditional paper method. Consumers can use our services to electronically make any payment from any checking account at any financial institution in the U.S. Recurring bills such as mortgages can be paid automatically and scheduled in advance, as specified by the consumer. As of June 30, 1999, we had nearly 3 million consumers using our bill payment and home banking services.

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

Revenues are generated through contracts with individual financial institutions. We typically negotiate with the financial institution an implementation fee, a base monthly fee per customer account on the service provided, and in some cases, a variable per transaction fee which may decrease based on the volume of transactions. Contracts typically have three to five year terms and generally provide for minimum fees if transaction volumes are not met. We utilize direct sales and distribution alliances to market to financial institutions and have the ability to customize services for each institution.

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

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

Investment Services

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

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

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

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

Software

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

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

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

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

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

We developed the Paperless Entry Processing System Plus, or PEP+, the most widely used, comprehensive ACH processing system in the United States. PEP+ is an on-line, real-time system providing an operational interface for originating and receiving electronic payments through the ACH.

Reconciliation. Our reconciliation products provide U.S. banks, international banks and corporate treasury operations with automated check and non-check reconciliations in high volume, multi-location environments. These systems are often tailored so that banks and multi-bank holding companies may deliver reconciliation services meeting the specific needs of corporate customers. Those reconciliation products are also designed for non-banking corporations that perform account reconciliation in-house as well as companies with many branch locations. Services provided by our reconciliation products include:

- Automated deposit verification;

- Consolidated bank account reconciliations and cash mobilization;

- Immediate and accurate funds availability data; and

- Improved cash control.

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

Our Account Reconciliation Package, or ARP, is one of the most widely used account reconciliation systems in the U.S. banking industry. The ARP/Service Management System, or ARP/SMS, developed in 1995 to replace and augment the existing ARP package, is a fully integrated on-line and real time system that enables banks to immediately process their customer transactions to produce accurate, timely reconciliations while streamlining back-office processes. ARP/SMS also groups accounts across banks within bank holding companies and allows banks to streamline their operations by reconciling their intra-bank transactions.

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

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

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

COMPETITION

Electronic Commerce

Portions of the electronic commerce market are becoming increasingly competitive. We face significant competition in all of our customer markets. A number of banks have developed, and others may in the future develop, home banking services in-house. For example, Chase Manhattan Corporation, First Union Corporation and Wells Fargo & Co. recently announced the formation of a new venture called Spectrum that will allow individuals and businesses to receive and pay bills electronically. A number of relatively small companies, such as Travelers Express, recently acquired by Marshall & Ilsley Bank Inc., compete with us in electronic bill payment. Additionally, TransPoint LLC, a joint venture among Microsoft Corporation, First Data Corporation and Citibank N.A., competes aggressively with us in the area of electronic billing and payment. TransPoint has announced its own agreements with financial institutions to offer on-line home banking and electronic billing and payment to consumers. We also compete for business bill payment customers with ACI and Deluxe Data, which provide ACH processing. We believe that our competitors, however, are a long way from being able to offer electronic commerce services comparable to the services we currently offer to our customers through multiple distribution channels.

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

Investment Services

Competition for portfolio services includes two main segments. We compete with providers of portfolio accounting software, including Advent Software, and PORTIA (a division of Thomson Financial). We also compete with service bureau providers such as Shaw Data (a SunGard Company) and FMC Service Bureau.

Software

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

Our product lines also have numerous competitors. The RECON-PLUS product competes with Chesapeake, Driscoll and Geac.

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

SALES, MARKETING AND DISTRIBUTION

Our sales, marketing and distribution efforts are designed to maximize access to potential customers. We market and support our services both directly and indirectly through a direct sales and technical sales support force of over 100 employees and, to achieve deeper market penetration, through select distribution alliances with companies which are involved in our target customer markets. In order to foster a better understanding of the needs of our larger bank customers, and to help us respond to identified needs, we employ a number of account managers assigned to specific banks. We solicit billers for our electronic billing and payment services through a regionally assigned sales force.

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

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

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

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

An element of our strategy is the creation and maintenance of distribution alliances that maximize access to potential customers for our electronic commerce services and related products. We believe that these partnerships 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 alliance partners who have maximum penetration and leading reputations for quality with our target customers. To date, we have entered into or are negotiating distribution alliances with several companies, including AT&T, Alltel, EDS, Fiserv, Five Paces, and Home Financial Network. We also have arrangements with MicroBank for RECON-PLUS for Windows. On October 29, 1997, we entered into a 10-year processing partnership with Integrion Financial Network, L.L.C. to provide financial institutions with a fully integrated, end-to-end, cost effective electronic billing and payment processing service employing Integrion's Gold Message Standard for Electronic Commerce, its Interactive Financial Services platform and our processing infrastructure. For more detailed information concerning the Integrion partnership, please refer to our Form 8-K filed on November 12, 1997.

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

CUSTOMER CARE AND TECHNICAL SUPPORT

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

The level and types of services we provide vary by customer market. The customer care group, consisting of more than 600 employees, supports payment inquiry, customer service and technical support and interfaces with the merchant systems group to improve posting efficiencies. Representatives in our business customer care group are individually assigned to business customers in order to provide high level customer service and technical support. Our consumer care group provides various levels of support that depend upon the customer's requirements. This includes providing direct customer care on a private label basis as well as research and support.

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

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

REMITTANCES

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

ACH. The ACH is used by banks, corporations and governmental entities for electronic settlement of transactions, direct deposits of payroll and government benefits and payment of bills like mortgages, utility payments and loans. We use the ACH to execute some of our customers' payment instructions. 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. See "Business -- Business Risks (The transactions we process expose us to credit risks)" and "Business -- Business Risks (Our business could become subject to increased government regulation, which could make our business more expensive to operate)."

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

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

Risk Mitigation. Our patented bill payment processing system (U.S. Letters Patent No. 5,383,113, issued on January 17, 1995) determines the preferred method of payment to balance processing costs, operational efficiencies and risk of loss. We manage our risks associated with the use of the various payment clearance systems through risk management systems, internal controls and system security. We also maintain a reserve for such risks, which reserve was $0.6 million at June 30, 1999, and we have not incurred losses in excess of 0.76% of our revenues in any of the past five years. As further protection against losses due to transmission errors, we maintain errors and omissions insurance. See "Business -- Business Risks (The transactions we process expose us to credit risks)" and "Business --Business Risks (We may be unable to protect our proprietary technology, permitting competitors to duplicate our products and services)."

TECHNOLOGY

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

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

We have implemented a logical, nationwide client-server system. Consumer, business and financial institution customers all act as clients communicating across dial-up telephone lines, private leased lines, a private X.25 network, a frame relay network or the Internet to our computing complex in Norcross, Georgia. Within this complex, there is a wide variety of application servers which capture transactions and route them to our back-end banking, billing and payment applications for processing. The back-end applications are run on either IBM mainframes, Tandems or Unix servers.

We have developed proprietary databases within our client-server system, including a financial institution file that allows accurate editing and origination of ACH and paper transactions to financial institutions. We have also developed a merchant information file consisting of over one million companies that allows accurate editing and initiation of payments to billers. These databases have been constructed over the past 15 years as a result of our transaction processing experience.

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

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

Significant numbers of high-level employees have been and will be hired to facilitate the accomplishment of the Genesis Project, and to manage the integrated site. We intend to operate the legacy platforms without substantial disruption until all of our customers have been migrated to the Genesis Platform. To date, over 2 million of our nearly 3 million customers have been migrated to the Genesis Platform.

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

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

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

Investment Services. Investment Services employs advanced technology for its portfolio management services and utilizes IBM RS/6000's to process the portfolio management software. Services are provided primarily as a service bureau offering with the data center residing at our Chicago office. This data center functions seven days a week, twenty-four hours a day. Clients can obtain access from their PCs either through a dedicated circuit or through dial-up applications. The Chicago data center is the communication center for more than 70 dedicated links together with four concentration hub sites located in New Jersey, New York, Boston and San Diego. Each of these hub sites supports the concentration of local dedicated links plus dial-up access. In addition to the dedicated private network, clients use frame relay services from several companies to access services.

RESEARCH AND DEVELOPMENT

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

- Distinctive benefits to customers;
- Ability to establish a leadership position in the market served;
- Sustainable technological advantages; and
- First to market.

We believe that in the emerging electronic commerce market it will be critical to rapidly develop, test and offer new services and enhancements. To that end, our goal for the time period from conceptualization to commercial availability of new services is less than one year. As of June 30, 1999, our research and development group consisted of approximately 250 employees. Additionally, we use independent third party software development contractors as needed. We spent 19.4% of revenues during the six-month transition period ended June 30, 1996, 18.6% of revenues during the fiscal year ended June 30, 1997, 15.5% of revenues during the fiscal year ended June 30, 1998, and 8.4% of revenues during the fiscal year ended June 30, 1999 on research and development. These research and development expenses have been reduced for capitalized software development costs of $1.3 million in the six-month transition period ended June 30, 1996, none in the fiscal year ended June 30, 1997, $0.7 million in the fiscal year ended June 30, 1998 and $7.4 million in the fiscal year ended June 30, 1999. We anticipate that we will continue to commit substantial resources to research and development activities for the foreseeable future.

GOVERNMENT REGULATION

We believe that we are not required to be licensed by the OCC, 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 OCC, however, periodically audits us, since we are a supplier of products and services to financial institutions. There can be no assurance that a federal or state agency will not attempt to regulate us, which could impede our ability to do business in the regulator's jurisdiction. A number of states have legislation regulating or licensing check sellers, money transmitters or service providers to banks, and we have registered under such legislation in specific instances. We do not believe that any state or federal legislation of this type materially affects us. In addition, through our processing agreements, we agree to comply with the data, recordkeeping, processing, and other requirements of applicable federal and state laws and regulations, Federal Reserve Bank operating letters, and the National Automated Clearing House Association Operating Rules imposed on our processing banks. We may be subject to audit or examination under any of these requirements. Violations of these requirements could limit or further restrict our access to the payment clearance systems or our ability to obtain access to such systems from banks. Further, the Federal Reserve rules provide that we can only access the Federal Reserve's ACH through a bank. If the Federal Reserve rules were to change to further restrict our access to the ACH or limit our ability to provide ACH 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, such as 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 basic rights, liabilities, and responsibilities of consumers who use electronic money transfer services and of financial institutions that offer these services. For us, Regulation E sets forth disclosure and investigative procedures. For consumers, Regulation E establishes procedures and time periods for reporting unauthorized use of electronic money transfer services and limitations on the consumer's liability if the notification procedures are followed within prescribed periods. Such limitations on the consumer's liability may result in liability to us.

Given the expansion of the electronic commerce market, it is possible that the Federal Reserve might revise Regulation E or adopt new rules for electronic funds transfer affecting users other than consumers. Congress has held hearings on whether to regulate providers of services and transactions in the electronic commerce market, and it is possible that Congress or individual states could enact laws regulating the electronic commerce market. If enacted, such laws, rules, and regulations could be imposed on our business and industry and could have a material adverse effect on our business, operating results and financial condition.

PROPRIETARY RIGHTS

We own the following federally registered trademarks and service marks:

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

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

- CEC CENTER FOR ELECTRONIC COMMERCE and Design(SM);
- CHECKFREE CHARITY NET(TM);
- CHECKFREE(SM);
- CHECKFREE CONNECT(SM);
- CHECKFREE E-BILL(SM);
- CHECKFREE ELECTRIC MONEY(SM);
- CHECKFREE RECON SELECT(TM);
- CHECKFREE YES/PC(TM);
- DEFAULT NAVIGATOR(TM);
- ECX(SM);
- M-PLAN(TM);
- MPLAN(SM);
- M-PREPS(TM);
- M-VEST(TM);
- MY-BILLS.COM(SM);
- RCM 2001...THE NEXT GENERATION(TM);.
- RECOVERY MANAGEMENT SYSTEM(TM);
- SSI(TM);
- SSI and Design(TM); and
- STYLE ANALYIS PLUS(TM).

We are awaiting further information to file applications for the following marks:

- CHECKFREE and Design(SM);
- CHECKFREE APECS;
- CHECKFREE A.R.M.(TM);
- CHECKFREE ARP;
- CHECKFREE ARP/SMS;
- CHECKFREE DIRECTCOLLECT;
- CHECKFREE IRS(TM);
- CHECKFREE IRS/SRS(TM);
- CHECKFREE LCR(TM);
- CHECKFREE RRS(TM);
- CHECKFREE RECON(TM);
- CHECKFREE RECON-PLUS(TM);
- CHECKFREE TRADE RECON(TM);
- CHECKFREE RPS(TM);
- CHECKFREE WEB RECON(TM); and
- REVOLUTIONIZING THE WAY MONEY MOVES(SM).

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

- billdelivery.com;
- billercare.com;
- billme.com;
- check-free.com;
- checkfree.com;
- checkfree-ecx.com;
- checkfreeva.com;
- custcare.com;
- ebills.com;
- ficare.com;
- getbills.com;
- mybills.com;
- paybills.org;
- paymybills.org;
- paythebill.com;
- rcm2001.com;
- stockcontrol.com; and
- cfree.com.

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

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

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

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

EMPLOYEES

As of August 31, 1999, we employed approximately 1,850 full-time employees, including approximately 450 in systems and development (including software development), over 600 in customer care, and approximately 125 in administration, financial control, corporate services, and human resources. We are not a party to any collective bargaining agreement and are not aware of any efforts to unionize our employees. We believe that our relations with our employees are good. We believe our future success and growth will depend in large measure upon our ability to attract and retain qualified technical, management, marketing, business development and sales personnel.

BUSINESS RISKS

We desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Many of the following important factors discussed below have been discussed in our prior filings with the Securities and Exchange Commission. In addition to the other information in this report, readers should carefully consider that the following important factors, among others, in some cases have affected, and in the future could affect, our actual results and could cause our actual consolidated results of operations for the fiscal year ended June 30, 1999, and beyond, to differ materially from those expressed in any forward-looking statements made by us, or on our behalf.

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.

The electronic commerce market is still evolving and currently growing at a rapid rate. We believe future growth in the electronic commerce market will be driven by the cost, ease-of-use and quality of products and services offered to consumers and businesses. In order to consistently increase and maintain our profitability, consumers and businesses must continue to adopt our services. 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.

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

Our future profitability will depend, in part, on our ability to successfully implement our strategy to increase adoption of electronic billing and payment methods. Our strategy includes substantial investments in programs designed to:

- Drive consumer awareness of electronic billing and payment;
- Encourage consumers to enroll for electronic billing and payment with our distribution partners;
- Build our infrastructure to handle seamless processing of transactions;
- Continue to develop state of the art, easy-to-use technology; and
- Increase the number of billers whose bills we can present and pay electronically.

Our investment in these programs will have a negative impact on our short-term profitability. Additionally, our failure to successfully implement these programs or to substantially increase 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.

WE MAY BE UNABLE TO REMAIN CONSISTENTLY PROFITABLE.

We have not consistently operated profitably to date. We incurred a loss from operations of $7.2 million and a net loss of $3.7 million in the fiscal year ended June 30, 1998, and had a loss from operations of $3.7 million and net income of $10.5 million for the fiscal year ended June 30, 1999. We intend to continue to make significant investments in our research and development, sales and marketing and customer care operations. As a result, we anticipate having a net loss from operations in fiscal 2000 and may experience net losses and may not be able to sustain or increase our profitability in the future.

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

If 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. Any failures in our security and privacy measures could have a material adverse effect on our business, financial condition and results of operations.

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

We rely on our relationships with financial institutions, businesses, billers, Internet portals and other third parties like Intuit Inc. to provide branding for our electronic commerce services and to market our services to their customers. These relationships are an important source of the growth in demand for our electronic commerce services. If any of these parties abandons, curtails or insufficiently increases its marketing efforts, it could have a material adverse effect on our business, financial condition and results of operations.

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

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

- Current and potential customers;
- Market share if the combined financial institution determines that it is more efficient to develop in-house home banking services similar to ours or offer our competitors' products or services; and
- Revenue if the combined financial institution is able to negotiate a greater volume discount for, or discontinues the use of, our products and services.

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

We rely on our relationships with three key financial institutions for a substantial portion of our subscriber base and the volume of electronic transactions that we process. As of June 30, 1999, these three financial institutions accounted for approximately 1.4 million subscribers, or approximately 50% of our total subscriber base. However, no single customer accounts for more than 10% of our revenues. The loss of the relationship with any of these key financial institutions or a significant decline in the number of transactions processed through them could have a material adverse effect on our business, financial condition and results of operations.

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

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

The profitability of our Software business depends, to a substantial degree, upon our software customers electing to periodically renew their maintenance agreements. In the event that 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.

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

The electronic commerce market is new and evolving rapidly, resulting in a dynamic competitive environment. We face significant competition in all of our customer markets. Increased competition or other competitive pressures may result in price reductions, reduced margins or loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations. Further, we expect competition to persist, intensify and increase in the future. A number of financial institutions have developed, and others in the future may develop, in-house home banking services similar to ours. For example, Chase Manhattan Corporation, First Union Corporation and Wells Fargo & Co. recently announced the formation of a new venture called Spectrum that will allow individuals and businesses to receive and pay bills electronically. Additionally, TransPoint LLC, a joint venture among Microsoft Corporation, First Data Corporation and Citibank N.A., has announced its own agreements with financial institutions to offer on-line home banking and electronic billing and payment services to consumers. We cannot assure you that we will be able to compete effectively against financial institutions, Spectrum, TransPoint or other current and future electronic commerce competitors.

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

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

OUR FUTURE PROFITABILITY IS DEPENDENT UPON AN INCREASE IN THE PROPORTION OF TRANSACTIONS WE PROCESS ELECTRONICALLY.

Our future profitability will depend, in part, on our ability to increase the percentage of transactions we process electronically. Compared with conventional paper-based transactions, electronic transactions:

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

Accordingly, if we are unable to increase the percentage of transactions that we process electronically, our margins could decrease, which could have a material adverse effect on our business, financial condition and results of operations.

THE TRANSACTIONS WE PROCESS EXPOSE US TO CREDIT RISKS.

The electronic and conventional paper-based transactions we process expose us to credit risks. These credits risks 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 attempt to manage all of these risks through our sophisticated risk management systems, which include our patented billing and payment processing system and agreements with some customers to guarantee our losses or to grant us reversal rights. There can be no assurance, however, that these efforts will be successful. Any losses resulting from returned transactions, merchant fraud or erroneous transmissions could result in liability to financial institutions, merchants or subscribers, which could have a material adverse effect on our business, financial condition and results of operations.

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

A system outage or data loss could have a material adverse effect on our business, financial condition and results of operations. To successfully operate our business, we must be able to protect our payment processing and other systems from interruption by events that are beyond our control. Events that could cause system interruptions include:

- Fire;
- Natural disaster;
- Power loss;
- Telecommunications failure;
- Unauthorized entry; and
- Computer viruses.

We are currently migrating subscribers from our pre-existing data processing platforms to a new system which we call the Genesis Platform. Our main processing facility is located in Norcross, Georgia, and we have other processing facilities located in Ohio, Illinois and Texas. During the transition from the pre-existing platforms to the Genesis Platform, we may be exposed to loss of data or unavailability of systems due to inadequate back-ups, reduced or eliminated redundancy, or both. Although we regularly back-up data from our operations and take other measures to protect against data loss and system failures, there is still some risk that we may lose critical data or experience system failures. As a precautionary measure, we have entered into disaster recovery agreements for the processing systems at all our sites, and we conduct business resumption tests on a scheduled basis. Our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur.

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

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

- Additional development costs;
- Diversion of technical and other resources from our other development efforts;
- Loss of credibility with current or potential customers;
- Harm to our reputation; or
- Exposure to liability claims.

In addition, we rely on technologies supplied to us by third parties that may also contain undetected errors or defects which 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, there can be no assurance that these measures will be successful in limiting our liability.

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.

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

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

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

THE YEAR 2000 ISSUE MAY ADVERSELY AFFECT OUR INFORMATION TECHNOLOGY SYSTEMS OR CAUSE OUR CURRENT OR POTENTIAL CUSTOMERS TO DELAY IMPLEMENTING OUR PRODUCTS AND SERVICES.

If our efforts, or the efforts of our customers and suppliers, fail to adequately address the Year 2000 issue, we would likely incur a substantial loss of revenue and suffer irreparable harm to our reputation. We use computer software, operating systems and embedded micro-processors containing date-related programs in the development and delivery of our products and services and in our own internal information technology systems. In order to accurately process transactions, we also rely on technologies provided by our customers and suppliers. Transaction processing relies on transmissions of data from PCs, through financial institutions and business web servers and the Internet, over third-party data and voice communication lines and through the Federal Funds System. The software we use in our products and in the delivery of our services contains, in addition to code written by our programmers, some software that we license from third parties.

We are in the process of testing our internal management information and other critical business systems to identify any Year 2000 issues. We also have inquired of our resellers, vendors and key suppliers about their Year 2000 readiness. To date, we are not aware of any significant resellers, vendors or key suppliers with Year 2000 issues that would materially adversely affect us. We cannot guarantee, however, that our information technology systems or those of other companies on which we rely will successfully address the Year 2000 issue. Any failure by us or other third parties on which we rely to address the Year 2000 issue could have a material adverse effect on our business, financial condition and results of operations.

We believe that the adoption of our products and services by existing and potential customers and subscribers may be adversely affected by the Year 2000 issue. As companies expend significant resources to correct or upgrade their current software systems for Year 2000 compliance, they may delay or cancel decisions to adopt our products and services. If this occurs, it could have a material adverse effect on our business, financial condition and results of operations.

A significant number of subscribers to our electronic bill payment service use personal financial management software which is not, or may not be, suitable for further use due to the Year 2000 issue. Although steps are being taken by the software publisher, and by our customers, to encourage upgrading to a Year 2000 compliant version of the software, in some cases, the subscriber will not upgrade and will instead have his account deleted. These circumstances will result in some loss of subscriber count and of revenue to us, and may also subject us to claims by subscribers whose access to the service is interrupted. We estimate that many of our subscribers are currently using software that was not originally Year 2000 compliant, and that about 200,000 of our subscribers may not upgrade their software and would subsequently be deleted as accounts. If these deleted subscriber accounts do not reapply for service, we would lose their associated revenue, which could have a material adverse effect on our business, financial condition and results of operations.

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 $250.1 million in the fiscal year ended June 30, 1999, and we intend to continue to grow our business significantly. To support our growth plans, we will have to significantly expand our existing management, operational, financial and human resources and management information systems and controls. If we are not able to manage our growth successfully, we will not grow as planned which could have a material adverse effect on our business, financial condition and results of operations.

IF WE ARE UNABLE TO RECRUIT AND RETAIN ADDITIONAL SKILLED PERSONNEL, OUR BUSINESS COULD BE ADVERSELY AFFECTED.

Our future success depends upon our ability to attract, train, assimilate and retain additional skilled personnel. Competition for qualified employees in all of our business segments is intense. A significant increase in our customer base would necessitate the hiring of a significant number of additional customer care and technical support personnel, as well as software developers and technicians, qualified candidates for which are currently in short supply. We cannot assure you that we will be able to retain our key employees or that we can attract, train, assimilate or retain other skilled personnel in the future.

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.

The electronic commerce industry is changing rapidly. To remain competitive, we must continue to enhance and improve the functionality and features of our products, services and technologies. For example, we are currently migrating our products and services from a PC-based platform to a web-based platform. 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.

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

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

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

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

OUR COMMON STOCK PRICE IS VOLATILE.

The market price of our common stock has been volatile in the past and may change rapidly in the future. The following factors, among others, may cause significant volatility in our stock price:

- Actual or anticipated fluctuations in our operating results;
- 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.

In addition, the stock market has experienced significant price and volume fluctuations, which have particularly affected the trading prices of equity securities of many technology companies. These price and volume fluctuations often have been unrelated to the operating performance of the affected companies. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. This type of litigation, regardless of the outcome, could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

AVAILABILITY OF SIGNIFICANT AMOUNTS OF 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 otherwise could adversely affect the market price for our common stock. As of September 1, 1999, we had outstanding 51,885,635 shares of common stock, of which 33,995,495 shares of our issued and outstanding common stock were held by nonaffiliates and the holders of the remaining 17,890,140 shares were entitled to resell them only pursuant to a registration statement under the Securities Act of 1933 or an applicable exemption from registration thereunder such as an exemption provided by Rule 144, Rule 145 or Rule 701 under the Securities Act of 1933. As of September 1, 1999, we had outstanding options to purchase 5,175,794 shares of our common stock, of which options for 1,400,465 shares were fully vested and exercisable at an average weighted exercise price of approximately $9.00 per share. As of September 1, 1999, we had issued warrants to purchase 10,700,000 shares of our common stock, of which warrants for 3,025,000 shares were fully vested and exercisable at a weighted exercise price of approximately $20.87 per share. In addition, our employees are entitled to purchase up to 745,945 shares under our Associate Stock Purchase Plan and receive up to 810,537 shares under our 401(k) Plan. Any shares purchased thereunder will be eligible for future sale following the expiration of applicable holding periods.

Intuit Inc., which holds 10,175,000 shares of our common stock, and Integrion Financial Network, L.L.C., its members and former members, which collectively hold warrants to purchase up to 10,000,000 shares of our common stock, of which warrants for 3,000,000 shares are fully vested and exercisable, are entitled to "piggy-back" and demand registration rights subject to specified conditions and restrictions. If Intuit or Integrion, by exercising their registration rights, cause a large number of shares to be registered and sold in the public market, such sales may have an adverse effect on the market price of our common stock.

THE LOSS OF KEY EXECUTIVES COULD ADVERSELY AFFECT OUR BUSINESS.

Our success depends to a significant degree upon the continued contributions of our key management, including:

- Peter J. Kight, our founder, Chairman and Chief Executive Officer;
- Mark A. Johnson, our Vice Chairman, Corporate Development;
- Peter F. Sinisgalli, our President; and
- Ravi Ganesan, our Executive Vice President and Chief Technology Officer.

If for any reason any of these officers ceased to be active in our management, it could have a material adverse effect on our business, financial condition and results of operations.

WE MAY NOT BE SUCCESSFUL IN MAKING ACQUISITIONS AND, EVEN IF WE ARE, RISKS ARISING FROM THOSE ACQUISITIONS COULD HAVE A MATERIAL ADVERSE EFFECT ON US.

We have expanded, and plan to continue to expand, our operations through the acquisition of additional businesses that complement our core skills and have the potential to increase our overall value. We may not be able to identify and acquire compatible businesses. Acquisitions involve many risks, which could have a material adverse effect on our business, financial condition and results of operations, including:

- Acquired businesses may not achieve anticipated revenues, earnings or cash flow;
- Integration of acquired businesses and technologies may not be successful and we may not realize

anticipated economic, operational and other benefits in a timely manner, particularly if we acquire a business in a market in which we have limited or no current expertise or with a corporate culture different from our own;

- Financing of future acquisitions may require issuing common stock or debt for some or all of the purchase price, which could result in dilution of the ownership interests of our stockholders or recognizing amortization expense related to goodwill and other intangible assets;
- Competing with other companies, many of which have greater financial and other resources, to acquire attractive companies makes it more difficult to acquire suitable companies on acceptable terms; and
- Disruption of our existing business, distraction of management and other resources and difficulty in maintaining our current business standards, controls and procedures.

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

At September 1, 1999, our directors, executive officers and principal stockholders and their affiliates collectively owned approximately 34% 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.

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

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

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

We believe that we are not required to be licensed by the Office of the Comptroller of the Currency, or OCC, the Federal Reserve Board or other federal agencies that regulate or monitor banks or other types of providers of electronic commerce services. A number of states have legislation regulating or licensing check sellers, money transmitters or service providers to banks, and we have registered under this legislation in specific instances. Because electronic commerce in general, and most of our products and services in particular, are so new, the application of many of these laws and regulations is uncertain and difficult to interpret. The entities responsible for interpreting and enforcing these laws and regulations could amend those 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. The adoption of any of these laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for our products or services, increase our cost of doing business or could otherwise have a material adverse effect on our business, financial condition and results of operations.

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

WE MAY NOT BE ABLE TO OBTAIN ADEQUATE FINANCING TO IMPLEMENT OUR GROWTH STRATEGY.

Successful implementation of our growth strategy will likely require continued access to capital. If we do not generate sufficient cash from operations, our growth could be limited unless we are able to obtain capital through additional debt or equity financings. We cannot assure you that debt or equity financings will be available as required for acquisitions or other needs. If additional funds are raised through the issuance of equity securities, the percentage ownership of our then current stockholders may be reduced. In addition, we may issue equity securities that have rights, preferences or privileges senior to those of the holders of our common stock. Even if financing is available, it may not be on terms that are favorable to us or sufficient for our needs. If we are unable to obtain sufficient financing, we may be unable to fully implement our growth strategy.

ITEM 2. PROPERTIES.

We lease the following office facilities:

- Approximately 229,000 square feet in Norcross, Georgia;
- Approximately 100,000 square feet in Phoenix, Arizona;
- Approximately 51,000 square feet in Aurora, Illinois;
- Approximately 30,000 square feet in Owings Mills, Maryland;
- Approximately 32,000 square feet in Austin, Texas;
- Approximately 17,000 square feet in Jersey City, New Jersey;
- Approximately 14,000 square feet in Downers' Grove, Illinois;
- Approximately 10,000 square feet in Chicago, Illinois;
- Approximately 3,000 square feet in San Diego, California;
- Approximately 3,000 square feet in Ashburn, Virginia;
- Approximately 2,000 square feet in Boston, Massachusetts; and
- Approximately 1,000 square feet in Houston, Texas.

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

Additionally, on May 8, 1998, we purchased an office building in Dublin, Ohio comprising 149,961 square feet, for a price of $14,288,600. We completed the relocation of our Columbus, Ohio personnel and equipment from our space located in Worthington, Ohio to the Dublin, Ohio facility at the end of 1998. In June 1999, we sold our Worthington, Ohio property and escrowed funds to pay off the State of Ohio of State Economic Development Revenue Bonds associated with that property

ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings pending against us.

On May 24, 1999, we announced that we had reached an amicable resolution to the issues that led to Intuit Inc.'s lawsuit filed in March 1999 and the subsequent arbitration proceedings.

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	COMMON STOCK PRICE LOW
FISCAL 1998		
First Quarter	$23.13	$16.50
Second Quarter	$31.44	$20.25
Third Quarter	$28.50	$20.00
Fourth Quarter	$30.63	$20.44
FISCAL 1999		
First Quarter	$31.50	$ 8.25
Second Quarter	$23.44	$ 5.75
Third Quarter	$46.00	$20.63
Fourth Quarter	$69.13	$24.50
FISCAL 2000		
First Quarter (through September 20, 1999)	$44.25	$29.00

On September 20, 1999, the last reported bid price for our common stock on the Nasdaq National Market was $43.56 per share. As of September 20, 1999, there were approximately 548 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 restricts the payment of dividends on our common stock. Our board of directors will determine future dividend policy based on our results of operations, financial condition, capital requirements and other circumstances. During the last ten years, we have not paid cash dividends.

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

DATE	TYPE OF SECURITIES	NUMBER OF SHARES	UNDERWRITER / PURCHASER	CONSIDERATION	EXEMPTION CLAIMED
September 22, 1998	Common Stock	25,000	CheckFree	263,438	Section 4(1)
September 23, 1998	Common Stock	25,000	CheckFree	274,375	Section 4(1)
September 24, 1998	Common Stock	100,000	CheckFree	1,029,380	Section 4(1)
September 25, 1998	Common Stock	50,000	CheckFree	498,750	Section 4(1)
September 28, 1998	Common Stock	60,000	CheckFree	611,250	Section 4(1)
September 29, 1998	Common Stock	100,000	CheckFree	1,021,215	Section 4(1)
September 30, 1998	Common Stock	215,000	CheckFree	2,123,125	Section 4(1)
October 1, 1998	Common Stock	220,000	CheckFree	2,099,372	Section 4(1)
October 2, 1998	Common Stock	145,000	CheckFree	1,373,745	Section 4(1)
October 3, 1998	Common Stock	60,000	CheckFree	560,628	Section 4(1)
October 8, 1998	Common Stock	3,706,341	CheckFree	21,305,711	Section 4(1)
March 8, 1999	Common Stock	537,314	Former stockholders of Mobius Group, Inc.	All outstanding shares of Mobius Group, Inc.	Section 3(a)(10)

ITEM 6. SELECTED FINANCIAL DATA.

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

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

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

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

Except for the historical information contained herein, the matters discussed in our Annual Report on Form 10-K include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief and expectations, such as statements concerning our future profitability ,our operating and growth strategy, and Year 2000 issues. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, the factors set forth under the caption "Business -- Business Risks" included elsewhere in this Annual Report on Form 10-K and other factors detailed from time to time in our filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect, our businesses and financial results in the future and could cause actual results to differ materially from plans and projections. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included in this Annual Report on Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. All forward-looking statements made in this Annual Report on Form 10-K are based on information presently available to our management. We assume no obligation to update any forward-looking statements.

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

None.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated balance sheets as of June 30, 1999 and 1998 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 1999, 1998 and 1997 and the notes to the financial statements, together with the independent auditors' report thereon appear in our Annual Report and are incorporated herein by reference.

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item is included under the captions "ELECTION OF DIRECTORS," "EXECUTIVE OFFICERS" and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in our Proxy relating to our 1999 Annual Meeting of Stockholders to be held on November 4, 1999, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

PART IV

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

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

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

Independent Auditors' Report.

Consolidated Balance Sheets as of June 30, 1999 and 1998.

Consolidated Statements of Operations for each of the three years in the period ended June 30, 1999.

Consolidated Statements of Stockholders' Equity for each of the three years in the period ended June 30, 1999.

Consolidated Statements of Cash Flows for each of the three years in the period ended June 30, 1999.

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 of Merger, dated as of December 22, 1997, among the Company, CheckFree Corporation, and CheckFree Merger Corporation. (Reference is made to Exhibit 2 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(a)	Restated Certificate of Incorporation of the Company. (Reference is made to Exhibit 3(a) to the Current Report on Form 8-K, dated December 22, 1997, filed with the Securities and Exchange Commission on December 30, 1997, and incorporated herein by reference.)
3(b)	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(c)	Form of Specimen Stock Certificate. (Reference is made to Exhibit 3(c) 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.)
4(a)	Articles FOURTH, FIFTH, SEVENTH, EIGHTH, TENTH AND ELEVENTH of the Company's Restated Certificate of Incorporation (contained in the Company's Restated Certificate of Incorporation filed as Exhibit 3(a) hereto) and Articles II, III, IV, VI and VIII of the Company's By-Laws (contained in the Company's By-Laws filed as Exhibit 3(b) hereto).

4(b)	Rights Agreement, dated as of December 16, 1997, by and between the Company and The Fifth Third Bank, as Rights Agent. (Reference is made to Exhibit 4.1 to Amendment No. 1 to Registration Statement on Form 8-A, filed with the Securities and Exchange Commission on May 12, 1999, and incorporated herein by reference.)
10(a)	CheckFree Holdings 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 Holdings 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 Holdings 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 Holdings 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 Holdings 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)	Electronic Bill Payment Services Agreement, dated March 10, 1995, between the Company and FiTech, Inc. (Reference is made to Exhibit 10(gg) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)**
10(k)	Amendment to Bill Payment and Remote Banking Services Agreement, dated July 1, 1995, between the Company and FiTech, Inc. (Reference is made to Exhibit 10(hh) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)**

10(l)	ACH Operations Agreement, dated April 1, 1994, between the Company and Society National Bank. (Reference is made to Exhibit 10(ii) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(m)	Merchant Processing Agreement, dated March 13, 1995, between the Company and Society National Bank. (Reference is made to Exhibit 10(jj) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(n)	Lease, dated August 1, 1993, between the Company and the Director of Development of the State of Ohio. (Reference is made to Exhibit 10(rr) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(o)	Guaranty Agreement, dated August 1, 1993, between the Company and The Provident Bank. (Reference is made to Exhibit 10(ss) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(p)	Demand Mortgage Note, dated August 25, 1993, of the Company. (Reference is made to Exhibit 10(tt) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(q)	Irrevocable Letter of Credit from Society National Bank for the Company, dated August 25, 1993 (including second renewal thereof). (Reference is made to Exhibit 10(uu) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(r)	Open-End Mortgage, Assignment of Rents and Security Agreement, dated August 25, 1993, with the Company as mortgagor and Society National Bank as mortgagee. (Reference is made to Exhibit 10(vv) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(s)	Loan and Security Agreement, dated August 25, 1993, between the Company and Society National Bank. (Reference is made to Exhibit 10(ww) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(t)	Commercial Note Variable Rate, dated January 3, 1995, of the Company. (Reference is made to Exhibit 10(xx) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(u)	Reimbursement Agreement, dated August 25, 1993, between the Company and Peter J. Kight. (Reference is made to Exhibit 10(yy) to Registration Statement on Form S-1, as amended (Registration No. 33-95738), filed with the Securities and Exchange Commission on August 14, 1995, and incorporated herein by reference.)
10(v)	License Agreement, dated October 27, 1995, between the Company and Block Financial Corporation. (Reference is made to Exhibit 10(ddd) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission, and incorporated herein by reference.)**
10(w)	Joint Marketing and Trademark License Agreement, dated December 28, 1995, between the Company and Electronic Data Systems Corporation. (Reference is made to Exhibit 10(eee) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission, and incorporated herein by reference.)**

10(x)		Joint Marketing Agreement, dated November 3, 1995, between the Company and Fiserv, Inc. (Reference is made to Exhibit 10(fff) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission, and incorporated herein by reference.)**
10(y)		Payment Services, Software Development and Marketing Agreement, dated as of February 27, 1996, between the Company and CyberCash. (Reference is made to Exhibit 10(a) to the Form 10-Q for the quarter ended March 31, 1996, filed with the Securities and Exchange Commission, and incorporated herein by reference.) **
10(z)		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(aa)		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(bb)		Agreement for ACH Services between the Company and The Chase Manhattan Bank, N.A., dated as of July 1, 1996. (Reference is made to Exhibit 10(qqq) to the Form 10-K for the transition period ended June 30, 1996, filed with the Securities and Exchange Commission, and incorporated herein by reference.)
10(cc)		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(dd)		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(ee)		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.)
13	*	Portions of the Annual Report to Stockholders for the year ended June 30, 1999.
21	*	Subsidiaries of the Company.
23	*	Consent of Deloitte & Touche LLP.
24	*	Power of Attorney.
27	*	Financial Data Schedule.
99	*	Financial Statement Schedule and Independent Auditors' Report.

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* Filed with this report.

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

(b) REPORTS ON FORM 8-K.

We filed the following Current Reports on Form 8-K since March 31, 1999:

(i) Current Report on Form 8-K, dated May 24, 1999, filed with the Securities and Exchange Commission on May 24, 1999 (Items 5 and 7).

(ii) Current Report on Form 8-K, dated June 15, 1999, filed with the Securities and Exchange Commission on June 15, 1999 (Items 5 and 7).

(iii) Current Report on Form 8-K, dated June 24, 1999, filed with the Securities and Exchange Commission on June 24, 1999 (Items 5 and 7).

(c) EXHIBITS.

The exhibits to this report follow the Signature Page.

(d) FINANCIAL STATEMENT SCHEDULES.

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

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 HOLDINGS CORPORATION

Date: September 24, 1999

By: /s/Allen L. Shulman
Allen L. Shulman, Executive Vice President, Chief Financial Officer and General Counsel

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 24th day of September, 1999.

Signature	Title
*Peter J. Kight Peter J. Kight	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
*Mark A. Johnson Mark A. Johnson	Vice Chairman - Corporate Development and Marketing and Director
*Allen L. Shulman Allen L. Shulman	Executive Vice President, Chief Financial Officer and General Counsel (Principal Financial Officer)
*Gary A. Luoma, Jr. Gary A. Luoma, Jr.	Vice President and Chief Accounting Officer (Principal Accounting Officer)
*William P. Boardman William P. Boardman	Director
*George R. Manser George R. Manser	Director
*Eugene F. Quinn Eugene F. Quinn	Director
*Jeffrey M. Wilkins Jeffrey M. Wilkins	Director

*By: /s/Curtis A. Loveland
Curtis A. Loveland,
Attorney-in-Fact

Exhibit 13

SELECTED FINANCIAL DATA

Our selected consolidated financial data as of and for the fiscal years ended June 30, 1997, 1998 and 1999 have been derived from our consolidated financial statements included elsewhere in this Annual Report, which have been audited by Deloitte and Touche, LLP, independent auditors, whose report thereon is also included elsewhere in this Annual Report. Our selected consolidated financial data as of and for the six-months ended June 30, 1996 and the years ended December 31, 1994 and 1995 have been derived from our audited consolidated financial statements, which are not included in this Annual Report. The selected consolidated financial data as of and for the six-months ended June 30, 1995 and the twelve months ended June 30, 1996 are derived from unaudited consolidated financial statements, which, in the opinion of management, reflect all adjustments necessary for a fair representation of the respective periods. The selected consolidated financial data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto elsewhere in this Annual Report. The earnings per share amounts prior to fiscal year 1998 have been restated to comply with Statement of Financial Accounting Standards 128 "Earnings per Share" (SFAS 128) as required. For further discussion of earnings per share and the impact of SFAS 128, see Note 1 to the consolidated financial statements.

	YEAR ENDED DECEMBER 31,		TWELVE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,		YEAR ENDED JUNE 30,		
	1994	1995	1996	1995	1996	1997	1998	1999
STATEMENT OF OPERATIONS:								
Revenues:								
Processing, servicing and merchant discount	$ 38,282	$ 49,330	$ 59,053	$ 23,581	$ 33,305	$ 104,522	$ 159,255	$ 201,059
License fees	--	--	10,970	--	10,970	33,088	28,952	15,975
Maintenance fees	--	--	1,978	--	1,978	22,567	25,848	17,746
Other	984	--	4,788	--	4,787	16,268	19,809	15,351
Total revenues .	39,266	49,330	76,789	23,581	51,040	176,445	233,864	250,131
Expenses								
Cost of processing, servicing and support ...	24,212	30,258	51,236	14,461	35,438	102,721	129,924	146,704
Research and development .	4,724	6,876	13,765	3,019	9,907	32,869	36,265	21,085
Sales and marketing	4,427	7,242	21,349	3,060	17,167	32,670	28,839	32,354
General and administrative	2,598	4,134	9,598	1,915	7,338	18,707	20,677	31,466
Depreciation and amortization	1,922	2,485	8,246	1,194	6,997	24,919	24,999	24,630
In-process research and development	--	--	122,358	--	122,358	140,000	719	2,201
Charge for stock warrants	--	--	--	--	--	--	32,827	--
Exclusivity amortization .	--	--	--	--	--	5,958	2,963	--
Total expenses .	37,883	50,995	226,552	23,649	199,205	357,844	277,213	258,440
Net gain on dispositions of assets	--	--	--	--	--	6,250	36,173	4,576
Income (loss) from operations	1,383	(1,665)	(149,763)	(68)	(148,165)	(175,149)	(7,176)	(3,733)
Interest:								
Income	298	2,135	3,104	535	1,659	2,153	3,464	2,799
Expense	(795)	(645)	(484)	(330)	(325)	(834)	(632)	(618)
Income (loss) before income tax	886	(175)	(147,143)	137	(146,831)	(173,830)	(4,344)	(1,552)
Income tax expense (benefit)	400	40	(8,650)	62	(8,628)	(12,017)	(641)	(12,009)
Income (loss) before extraordinary item	486	(215)	(138,493)	75	(138,203)	(161,813)	(3,703)	10,457
Extraordinary item	--	--	(364)	--	(364)	--	--	--
Net income (loss)	$ 486	$ 215	$(138,857)	$ 75	$(138,567)	$(161,813)	$ (3,703)	$ 10,457
Diluted income (loss) per common share before extraordinary item........	$ 0.02	$ (0.01)	$ (4.14)	$ --	$ (3.69)	$ (3.44)	$ (0.07)	$ 0.18
Diluted income (loss) per common share	$ 0.02	$ (0.01)	$ (4.15)	$ --	$ (3.70)	$ (3.44)	$ (0.07)	$ 0.18
Equivalent number of shares outstanding	27,103	28,219	33,435	29,299	37,420	46,988	55,087	56,529
BALANCE SHEET DATA:								
Working capital	$ 11,399	$ 81,792	$ 45,496	$ 10,481	$ 45,496	$ 20,002	$ 78,238	$ 24,245
Total assets	30,512	115,642	196,230	31,696	196,230	223,836	250,112	252,761
Long-term obligations, less current portion	8,213	7,282	8,324	7,735	8,324	8,401	6,467	3,882
Total stockholder's equity	16,372	99,325	137,675	16,493	137,675	148,644	183,854	186,903

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

OVERVIEW

We are the leading provider of electronic billing and payment services. Our Electronic Commerce business provides services that allow customers to:

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

We currently provide services for nearly 3 million consumers through over 350 financial institutions, Internet financial sites like Quicken.com and personal financial management software like Quicken, Microsoft Money and Managing Your Money. As part of our strategy to broaden availability of our electronic billing and payment services on the Internet, we recently entered into a distribution contract with Yahoo! Additionally, we recently extended a processing agreement with Bank One Corporation to provide services, including electronic billing and payment, to WingspanBank.com. We are currently in discussions with other Internet portals, including Excite@Home, to whom we expect to begin providing our billing and payment services by December 31, 1999. We plan to undertake significant marketing initiatives with Yahoo!, WinspanBank.com and other Internet portals to dramatically accelerate the adoption of our services by consumers. We have developed relationships with over 1,100 merchants nationwide that enable us to remit approximately 50% of all of our bill payments electronically. During the three-month period ended June 30, 1999, we processed an average of more than 12 million transactions per month and, for the twelve months ended June 30, 1999, we processed more than 125 million transactions.

In March 1997, we introduced electronic billing - "E-Bill" - which enables merchants to deliver billing as well as marketing materials interactively to their customers over the Internet. As of June 30, 1999, we have signed contracts for E-Bill services with 64 of the country's largest billers, who together deliver more than 500 million bills each month. During the month of June 1999, we presented and paid more than 13,000 electronic bills through 20 financial institutions and Internet portals, which is a more than 30% increase since March 1999 and more than double the number of bills presented through E-Bill services in February 1999.

We are also a leading provider of portfolio management and information services and financial applications software. During the fiscal year ended June 30, 1999, Electronic Commerce accounted for 68% of our revenues, Software accounted for 16% of our revenues, and Investment Services accounted for another 16% of our revenues.

Our current business was developed through expansion of our core electronic commerce business and the acquisition of companies operating in similar or complimentary businesses. Our major acquisitions include Servantis Systems Holdings, Inc. in February 1996, Security APL, Inc. in May 1996, Intuit Services Corporation in January 1997 and Mobius Group, Inc. in March 1999.

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

RESULTS OF OPERATIONS

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

	YEAR ENDED JUNE 30,		
	1997	1998	1999
Total revenues	100.0%	100.0%	100.0%
Expenses:			
Cost of processing, servicing and support	58.2	55.6	58.7
Research and development	18.6	15.5	8.4
Sales and marketing	18.5	12.3	12.9
General and administrative	10.6	8.8	12.6
Depreciation and amortization	14.1	10.7	9.8
In-process research and development	79.3	0.3	0.9
Charge for stock warrants	--	14.0	--
Exclusivity amortization	3.4	1.3	--
Total expenses	202.8	118.5	103.3
Net gain on dispositions of assets	3.5	15.4	1.8
Loss from operations	(99.3)	(3.1)	(1.5)
Interest:			
Income	1.2	1.5	1.1
Expense	(0.4)	(0.3)	(0.2)
Loss before income taxes	(98.5)	(1.9)	(0.6)
Income tax benefit	(6.8)	(0.3)	(4.8)
Net income (loss)	(91.7)%	(1.6)%	4.2%

YEARS ENDED JUNE 30, 1998 AND 1999

Revenues. Our total reported revenue increased by $16.2 million, or 7%, from $233.9 for the year ended June 30, 1998 to $250.1 million for the year ended June 30, 1999. This increase in revenue was due to growth in our Electronic Commerce and Investment Services segments, offset by a decrease in our Software segment. The decrease in our Software segment revenue was the result of our divestitures of certain of our software businesses. We divested our recovery management business in August 1997, our item processing business in March 1998, our wire and electronic banking businesses in April 1998, our leasing business in July 1998, our mortgage business in September 1998 and our imaging business in October 1998.

On a pro forma basis, excluding the impact of our divested software businesses, the discontinuance of our web investor business in our Electronic Commerce segment in June 1998, and revenue from the Mobius Group acquisition in our Investment Services segment in March 1999, our total revenue increased 21%, from $204.4 million for the year ended June 30, 1998 to $246.4 million for the year ended June 30, 1999. The increase in our pro forma revenue from fiscal 1998 to fiscal 1999 was driven by increases of 23% in our Electronic Commerce segment, 26% in our Investment Services segment and 6% in our Software segment. Our growth in pro forma Electronic Commerce revenue was driven primarily by subscriber growth from approximately 2.4 million at June 30, 1998 to nearly 3.0 million at June 30, 1999. Our growth in pro forma Investment Services revenue was driven primarily by an increase in portfolios managed from approximately 500,000 at June 30, 1998 to approximately 700,000 at June 30, 1999, offset by lower average revenue per portfolio, as marketing efforts have shifted the mix of new business toward retail versus institutional portfolios. Although demand has been somewhat dampened due to customer focus on Year 2000 projects, in our Software segment we had moderate pro forma revenue growth, primarily due to increased implementations in our ACH product line.

Our reported processing and servicing revenue increased by $41.8 million, or 26%, from $159.3 million for the year ended June 30, 1998 to $201.1 million for the year ended June 30, 1999. On a pro forma basis, adjusted for revenue contributed by our acquisition of Mobius Group in March 1999 and the discontinuance of our web investor business in our Electronic Commerce segment in June 1998, revenue increased by 26% from $158.4 million for the year ended June 30, 1998 to $199.2 million for the year ended June 30, 1999. This growth was primarily the result of increases in our subscribers in our Electronic Commerce segment and the number of portfolios managed in our Investment Services segment as discussed in the foregoing paragraph. In January 1999, we announced the signing of a material Internet distribution agreement with Yahoo!. Although there are no guarantees in the timing or extent of its success, we believe this agreement has the potential to provide significant increases in the number of our subscribers over the next year and beyond. Due to introductory promotional pricing incentives, we do not expect significant incremental revenue from this channel in fiscal year 2000. Longer term, our per subscriber revenue contribution from the portal channel is expected to be comparable to our existing financial institution channel.

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

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

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

Cost of Processing, Servicing and Support. Our processing, servicing and support costs consist primarily of data processing costs, customer care, technical support, third party transaction fees and consulting delivery costs. The cost of processing, servicing and support was $129.9 million or 55.6% of total revenue for the year ended June 30, 1998 and $146.7 million or 58.7% of total revenue for the year ended June 30, 1999. Our processing, servicing and support cost as a percentage of servicing only revenue (which includes all revenue except license revenue) was 63.4% for the year ended June 30, 1998 and 62.7% for the year ended June 30, 1999.

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

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

Sales and Marketing. Our sales and marketing expenses consist primarily of salaries and commissions of sales and product marketing associates, public relations and advertising costs, customer acquisition fees, and royalties paid to distribution partners. Our sales and marketing costs were $28.8 million or 12.3% of total revenue for the year ended June 30, 1998 and $32.4 million or 12.9% of total revenue for the year ended June 30, 1999. Reduced sales and marketing expenses resulting from our divested software businesses have been replaced by increased sales expenses related to activities in our electronic billing area and funding for the creation and launch of a new trade group, the Electronic Banking Association, which is expected to increase the general population's awareness of, and interest in, the electronic banking industry. Additionally, during the fourth quarter of fiscal 1999, we experienced a system error that led some users of our electronic bill payment service to experience intermittent problems accessing and using the system. In response to this situation, we provided service fee credits of approximately $1.9 million, over and above contractually determined penalties, to our financial institution customers. Our sales and marketing expenses are expected to increase in fiscal 2000 upon the launch of products related to our Yahoo! distribution agreement.

General and Administrative. Our general and administrative expenses consist primarily of salaries for administrative, executive, accounting and finance, and human resource employees. Our general and administrative expenses were $20.7 million or 8.8% of total revenue for the year ended June 30, 1998 and $31.5 million or 12.6% of total revenue for the year ended June 30, 1999. During the year ended June 30, 1999 we recognized several non-recurring charges including: $1.3 million in real estate expenses related to the sale of a facility in Columbus, Ohio and a separate move to a new facility in Jersey City, New Jersey, $0.9 million in charges related to an uncompleted follow-on stock offering in June 1999, $0.6 million in charges related to the establishment of a benefits company intended to better manage future benefit expenses in anticipation of growth in associates, and charges to third parties to support various other tax and legal related matters. The divestiture of our various software businesses has not resulted in a corresponding reduction in existing infrastructure since business specific systems and administrative functions must remain to support our retained software businesses and our growing Electronic Commerce and Investment Services segments. As anticipated revenue growth materializes, we expect general and administrative expenses to decline as a percentage of revenue from its current level and return to levels more in line with our historical experience.

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

In-Process Research and Development. The in-process research and development charge of $2.2 million incurred in fiscal 1999 resulted from our purchase of the Mobius Group in March 1999. Please refer to the Notes to Consolidated Financial Statements included herein for a detailed discussion of this charge. Since the Mobius acquisition, the M-Plan Retirement and Estate Planning Module was delivered on schedule in May 1999 and the M-Search Revision, M-Vest Revision and M-Plan Cash Flow, Tax and Education modules are all expected to be delivered as planned on the expected release dates as outlined in the footnote referred to above. The in-process research and development charge of $0.7 million in fiscal 1998 resulted from our acquisition of Advanced Mortgage Technology, Inc. in October 1997. The related development projects from the AMTI acquisition continued as planned until the time the software and assets of the mortgage product line, including these projects, were sold in September 1998.

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

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

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

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

Our interest expense remained constant at $0.6 million for the years ended June 30, 1998 and 1999. At the end of fiscal 1999 we paid off approximately $2.5 million in debt related to the sale of our building in Columbus, Ohio. We expect leasing activities to increase in fiscal 2000 that will more than offset interest expense savings resulting from the debt reduction.

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

YEARS ENDED JUNE 30, 1997 AND 1998

Revenues. Our total revenue increased by $57.5 million, or 32.6%, from $176.4 million for the year ended June 30, 1997 to $233.9 million for the year ended June 30, 1998. We eliminated estimated purchased profits in deferred revenues assumed in our Servantis acquisition in February 1996 as a purchase accounting adjustment, reducing 1997 revenue by approximately $7.8 million.

On a pro forma basis, our total revenue increased 32.3% as a result of growth of 50% in our Electronic Commerce segment, 33% in our Investment Services segment and 6% in our Software segment. The pro forma results are defined as prior year results excluding the elimination of purchased profits and adjusting for our Intuit Services Corporation acquisition and divestitures of our securities business which was sold in October 1996, our credit card processing business which was sold in March 1997, and our recovery management business which was sold in August 1997. Our pro forma growth in our Electronic Commerce segment was driven primarily by an increase in subscribers from approximately 1.7 million at June 30, 1997 (which number includes the Intuit Services Corporation subscribers acquired in January 1997) to approximately 2.4 million at June 30, 1998. Our Investment Services revenue growth was primarily due to an increase in portfolios managed from approximately 350,000 at June 30, 1997 to over 500,000 at June 30, 1998. Growth in our Software segment was primarily the result of license and related maintenance and services growth in the reconciliation and compliance product lines from fiscal 1997 to fiscal 1998. It should be noted that the rate of our subscriber growth is primarily determined by the direct marketing efforts of our financial institution clients. Historical subscriber growth, therefore, may not be indicative of future growth. For example, in the fourth quarter of fiscal 1998, many of our financial institution clients reduced marketing efforts to their customers to convert from a PC-based software offering to a more efficient web-based offering, which resulted in a lower rate of subscriber growth that continued throughout fiscal 1999.

Our reported processing and servicing revenue increased from $94.5 million for the year ended June 30, 1997 to $159.3 million for the year ended June 30, 1998. On a pro forma basis, excluding the elimination of purchased profits and the sale of our recovery management business, processing and servicing revenue increased by 46% from $109.4 million for the year ended June 30, 1997 to $159.3 million for the year ended June 30, 1998. This growth was due primarily to the increase in subscribers in our Electronic Commerce segment and the increase in portfolios managed in our Investment Services segment previously discussed.

Our reported merchant discount revenue decreased from $10.0 million for the year ended June 30, 1997 to $0 for the year ended June 30, 1998 due to the sale of our credit card processing business in March 1997.

Our reported license fee revenue decreased from $33.1 million for the year ended June 30, 1997 to $29.0 for the year ended June 30, 1998. On a pro forma basis, adjusting for the sales of our securities and recovery management businesses, license revenue increased from $26.3 million in fiscal 1997 to $29.0 million in fiscal 1998. Increases in our pro forma license revenue were driven primarily by growth in reconciliation and compliance software sales.

Our reported maintenance revenue increased from $22.6 million for the year ended June 30, 1997 to $25.8 million for the year ended June 30, 1998. On a pro forma basis, excluding elimination of purchased profits and adjusting for the sales of our securities and recovery management businesses, our maintenance revenue increased from $25.2 million for the year ended June 30, 1997 to $25.8 million for the year ended June 30, 1998. Increases from maintenance price increases of approximately 7% and first year maintenance from new license sales were offset by customer retention rates in the mid-to-upper 80% range.

Our reported other revenue, consisting mainly of consulting fees, increased from $16.3 million for the year ended June 30, 1997 to $19.8 million for the year ended June 30, 1998. On a pro forma basis, excluding the elimination of purchased profits and adjusting for the sales of our securities and recovery management businesses, other revenue increased from $15.9 million for fiscal 1997 to $19.8 million for fiscal 1998. Year to date increases were due to increased implementations in all of our business segments.

Cost of Processing, Servicing and Support. Our cost of processing, servicing and support was $102.7 million or 58.2% of total revenue for the year ended June 30, 1997 and $129.9 million or 55.6% of total revenue for the year ended June 30, 1998. Our cost of processing, servicing and support as a percentage of servicing only revenue (which includes all revenue except license revenue) and net of purchased profits of $6.5 million in the 1997 servicing only revenue, was 68.5% for the year ended June 30, 1997 and 63.4% for the year ended June 30, 1998. The efficiency improvement from fiscal 1997 to fiscal 1998 was due primarily to the economies of scale and leverage inherent in our business model as well as an increase in the percentage of electronic transaction processing versus paper processing, which resulted in lower customer care and remittance costs per transaction. For the year ended June 30, 1998, we added 10% to the rate of payments processed electronically. Electronic transactions for Intuit Services Corporation operations alone increased from 10% at June 1997 to 19% at June 1998.

Research and Development. Our research and development costs were $32.9 million or 18.6% of total revenue for the year ended June 30, 1997 and $36.3 million or 15.5% of total revenue for the year ended June 30, 1998. Excluding purchased profits, research and development costs were 17.8% of total revenue for the year ended June 30, 1997 and 15.5% of total revenue for the year ended June 30, 1998. The absolute dollar increase of $3.4 million was primarily due to additional resources supporting our platform integration efforts referred to as project Genesis and efforts associated with Year 2000 compliance activities. There were no software development costs capitalized for Year 2000 activities or for project Genesis in either fiscal year, however approximately $0.7 million of software development cost was capitalized in fiscal 1998 for initial phases of key customer care and electronic billing initiatives.

Sales and Marketing. Our sales and marketing costs were $32.7 million or 18.5% of total revenues for the year ended June 30, 1997 and $28.8 million or 12.3% of total revenues for the year ended June 30, 1998. In conjunction with our purchase of Intuit Services Corporation, we agreed to pay a $1.0 million per month marketing charge to Intuit, Inc. for six months commencing in February 1997. Excluding purchased profits and five months of Intuit, Inc. marketing charges in fiscal 1997 and one month in fiscal 1998, our sales and marketing costs were 15.0% of total revenue for the year ended June 30, 1997 and 11.9% of total revenue for the years ended June 30, 1998. Underlying costs as a percentage of revenue has declined due to economies of scale and leverage inherent in our business model.

General and Administrative. Our general and administrative expenses were $18.7 million or 10.6% of total revenue for the year ended June 30, 1997 and $20.7 million or 8.8% of total revenue for the year ended June 30, 1998. Excluding purchased profits, our general and administrative expenses were 10.2% of total revenue for the year ended June 30, 1997 and 8.8% of total revenue for the year ended June 30, 1998. Overall, our general and administrative costs decreased as a percentage of revenue from fiscal 1997 to fiscal 1998 due to our ability to leverage corporate support services as revenue continues to grow.

Depreciation and Amortization. Our depreciation and amortization expenses increased slightly from $24.9 million for the year ended June 30, 1997 to $25.0 million for the year ended June 30, 1998. Amortization declined due to the sales of our securities business in October 1996, our recovery management business in August 1997, our item processing business in March 1998 and our wire and electronic banking businesses in April 1998, reductions in intangible assets related to the release of a deferred tax benefit valuation allowance in the quarter ended September 30, 1997 and a purchase price adjustment related to our Intuit Services Corporation acquisition in the quarter ended December 31, 1997. These reductions were offset by depreciation and amortization resulting from purchases of property, plant and equipment required for Genesis development, data center centralization and in support of growth of the business and tangible and intangible asset additions related to our purchase of Intuit Services Corporation in January 1997.

In-Process Research and Development. The in-process research and development charge of $140.0 million in 1997 was related to our purchase of Intuit Services Corporation and $0.7 million in 1998 was related to our purchase of Advanced Mortgage Technologies, Inc. Amounts allocated to in-process research and development for each of the acquisitions were based on independent appraisals and were expensed at the time of the related acquisition.

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

Exclusivity Amortization. The exclusivity amortization expense in the years ended June 30, 1997 and 1998 were the result of the exclusivity arrangement we entered into with Intuit, Inc. in connection with our purchase of Intuit Services Corporation in January 1997.

Net Gain on Dispositions of Assets. The net gain on dispositions of assets totaling $6.3 million in the year ended June 30, 1997 resulted from the sale of the credit card business in March 1997. The gain of $36.2 million in fiscal 1998 was the net result of several transactions. We realized gains on the sales of our recovery management business of $28.2 million, our item processing business of $3.2 million, and electronic banking and wire businesses of $14.7 million. These gains were offset by an anticipated loss from the pending sale of the leasing business of $4.7 million, expected losses on non-cancelable contracts and related costs totaling $1.0 million resulting in the decision to exit the web investor portion of our Investment Services segment and charges totaling $4.2 million for certain equipment and other assets related primarily to data center consolidations where we determined the book value of the assets exceeded their net realizable value.

Interest. Our interest income increased by $1.3 million or 59%, from $2.2 million for the year ended June 30, 1997 to $3.5 million for the year ended June 30, 1998. This increase was the result of an increase in average cash and investments from $39.2 million to $49.3 million combined with an increase in average yield.

Our interest expense decreased from $0.8 million for the year ended June 30, 1997 to $0.6 million for the years ended June 30, 1998 due to lower outstanding notes payable and capital lease obligations from fiscal 1997 to fiscal 1998.

Income Taxes. Our effective income tax benefit was 6.9% for the year ended June 30, 1997 and 14.8% for the year ended June 30, 1998. For both years, the difference between our effective rate and the statutory rate of 35% was due primarily to non-deductible in-process research and development expenses, non-deductible intangible amortization, and state and local taxes.

SEGMENT INFORMATION

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

	YEAR ENDED JUNE 30,		
	1997	1998	1999
	(in thousands)		
Operating Revenue:			
Electronic Commerce	$ 85,926	$ 137,972	$ 169,443
Software	68,113	66,143	41,384
Investment Services	22,406	29,749	39,304
Total Operating Revenue	$ 176,445	$ 233,864	$ 250,131
Operating Income (Loss):			
Operating Income (Loss) Excluding Specific Items:			
Electronic Commerce	$ (20,487)	$ (1,342)	$ (5,490)
Software	4,324	8,393	14,637
Investment Services	2,171	6,225	8,093
Corporate	(21,449)	(20,116)	(23,348)
Specific Items:			
Exclusivity Amortization	(5,958)	(2,963)	--
In-Process Research and Development	(140,000)	(719)	(2,201)
Charge for Stock Warrants	--	(32,827)	--
Net Gain on Dispositions of Assets	6,250	36,173	4,576
Total Operating Income (Loss)	$ (175,149)	$ (7,176)	$ (3,733)

YEARS ENDED JUNE 30, 1998 AND 1999

Revenue in our Electronic Commerce segment increased by 23%, or $31.4 million, from $138.0 million for the year ended June 30, 1998, to $169.4 million for the year ended June 30, 1999. This increase was primarily due to an increase in subscribers from approximately 2.4 million at June 30, 1998 to approximately 3.0 million at June 30, 1999.

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

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

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

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

Revenues in our Software segment declined by $24.7 million or 37%, from $66.1 million for the year ended June 30, 1998 to $41.4 million for the year ended June 30, 1999. This decline reflects the impact of the divestiture of several of our software businesses. Excluding the effects of the divestitures, revenue in our Software segment rose by $2.2 million or 6%, from $37.4 million in the year ended June 30, 1998 to $39.6 million for the year ended June 30, 1999. Despite this increase, our license revenue was lower than anticipated due primarily to purchasing moratoriums imposed by potential customers who deferred new software purchases as a result of addressing their internal Year 2000 issues. This slowdown in license sales was offset by greater maintenance and consulting revenue resulting from prior sales of software licenses.

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

Revenues in our Investment Services segment increased by $9.6 million, or 32%, from $29.7 million for the year ended June 30, 1998 to $39.3 million for the year ended June 30, 1999. On March 8, 1999, we acquired Mobius Group to augment the product line of this segment. Investment consultants and asset managers may now use Mobius Group's M-Vest service to determine the ideal asset allocation for their clients; use M-Search to determine the ideal investment manager candidates; use CheckFree APL and APL wrap products to provide investment platform and trading tools; and use either M-Watch or CheckFree APL for their investment oversight and reporting to the end client. Excluding the effects of the acquisition, revenue increased by $7.6 million, or 26%, from $29.7 million for the year ended June 30, 1998 to $37.4 million for the years ended June 30, 1999. The increase was due primarily to an increase in the number of institutional portfolios managed from approximately 500,000 at June 30, 1998 to approximately 715,000 at June 30, 1999, offset somewhat by an increase in the number of retail brokerage accounts managed which carry a lower unit price.

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

Expenses in our Corporate segment represent charges for human resources, legal, finance and various other unallocated overhead charges. The Corporate segment charges were $20.1 million and $23.3

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

YEARS ENDED JUNE 30, 1997 AND 1998

Revenue in our Electronic Commerce business unit increased by $52.0 million, or 61%, from $85.9 million for the year ended June 30, 1997 to $137.9 million for the year ended June 30, 1998. On a pro forma basis, assuming twelve months of Intuit Services Corporation results are included in and the credit card processing business is excluded from reported results, our revenue increased 50%. This growth was driven primarily by growth in subscribers from approximately 1.7 million at June 30, 1997 to approximately 2.4 million at June 30, 1998.

Operating losses in our Electronic Commerce segment improved from $20.5 million for the year ended June 30, 1997 to $1.3 million for the year ended June 30, 1998. On a pro forma basis, operating results improved from a loss of $31.4 million for the year ended June 30, 1997 to a loss of $1.3 million for the year ended June 30, 1998. Favorable operating results are primarily due to continued revenue growth as well as continued efficiency improvements in remittance and customer care costs, reduction in costs from the integration of Intuit Services Corporation and significant economies of scale and leverage inherent in the segment's business model. Cost improvements in customer care and remittance are primarily the result of growth in the percentage of electronic versus paper payments, year over year. In the fourth quarter of fiscal 1998, many of our financial institution clients reduced marketing efforts toward new subscribers to allow them time to convert from a PC based software front-end offering to a more efficient web-based offering. This resulted in a decline in quarter over quarter subscriber growth and had a dampening effect on subscriber growth going forward.

Revenue in our Software segment decreased from $68.1 million for the year ended June 30, 1997 to $66.1 million for the year ended June 30, 1998. On a pro forma basis, adjusting the prior year to exclude the effect of purchased profits and to eliminate results of the divested credit management business, revenue increased by 6% year over year. Revenue growth was primarily the result of increased license sales driven by growth in our reconciliation and compliance products and related maintenance and services revenue generated from new license sales in fiscal 1997 and 1998.

Operating profits in our Software segment improved from $4.3 million for the year ended June 30, 1997 to $8.4 million for the year ended June 30, 1998. On a pro forma basis, operating income increased from $5.3 million to $8.3 million for the same periods, respectively. Gains on the sale of divested businesses allowed us to release a deferred tax benefit valuation allowance which in turn reduced goodwill and other intangible assets resulting from our Servantis acquisition. Additionally, at the end of the third quarter of fiscal 1998, when we announced intentions to divest software units, related intangible assets were reclassified on the balance sheet as assets held for sale and we discontinued amortization on these assets at that time. The resulting decrease in intangible amortization in our Software segment on a year over year basis was approximately $3.7 million, which was the primary reason for the improvement.

Revenue in our Investment Services segment increased from $22.4 million for the year ended June 30, 1997 to $29.7 million for the year ended June 30, 1998. This improvement is due primarily to an increase in portfolios managed from approximately 350,000 at June 30, 1997 to approximately 500,000 at June 30, 1998.

Operating profits in our Investment Services segment increased from $2.2 million for the year ended June 30, 1997 to $6.2 million in the year ended June 30, 1998. Improvements in operating results were due to revenue growth and the leverage and economies of scale inherent in the segment's business model.

Our Corporate segment incurred expenses of $21.4 million for the year ended June 30, 1997 and $20.1 million for the year ended June 30, 1998. The improvement was due to successful efforts to assimilate the various acquisitions and leverage the existing infrastructure in response to overall growth in the business.

YEAR 2000 READINESS

The following statements are "Year 2000 Readiness Disclosures" in conformance with the Year 2000 Information and Readiness Disclosure Act (15 U.S.C. 1) enacted on October 19, 1998.

Our goal is to ensure that all systems and products will be ready for any date-based processing related to the millennium. The following readiness disclosure is presented for all of our business segments; Electronic Commerce, Software and Investment Services.

State of Readiness. We are moving all of our Electronic Commerce segment processing to Year 2000-ready environments and are making satisfactory progress to ensure that all of our systems will be ready for any date-based functions related to the millennium. Previous implementation phases included building a Year 2000-ready data center and the physical move of the processing systems to that center. The final implementation phase includes the migration of customers from our Chicago and Columbus systems to the Year 2000-ready Genesis Platform followed by applicable testing on that system which will be completed by September 30, 1999. In anticipation of limited customer migration from our Austin system to Genesis before January 1, 2000, we have made the Austin system Year 2000 ready and testing with financial institutions is substantially complete. Our Electronic Commerce processing systems are subject to regulation by the Office of the Comptroller of the Currency and are required to meet their Year 2000 readiness requirements by June 30, 1999 and we are substantially complete in these requirements. All Software segment products have been made Year 2000 ready and only minor efforts necessary to remediate internal support systems remain. Prior to the acquisition of Mobius Group, all Investment Services customer-related processing systems had been made Year 2000 ready and only customer testing and final remediation of internal systems at Mobius Group remain. Final corporate initiatives require resources to complete installation of date related "patches" to related infrastructure hardware and software applications. All remaining remediation efforts are on target to be completed during the quarter ended September 30, 1999.

We maintain and periodically update an inventory of all information technology and non-information technology systems. We have solicited most of our third party vendors to determine the status of their Year 2000 readiness and those functions that are likely to have a material effect on us have been identified and assessed. We have received responses from all of our critical vendors and over half of our other vendors. Validation is based on third party representations and/or internal testing. To date, in excess of 95% of our mission critical applications are deemed to be Year 2000-ready. Based on a review of third party representations, we are not currently aware of any third party issue applicable to the Year 2000 that is likely to have a material impact on the conduct of our business, the results of our operations or our financial condition. We have not performed our own tests on many of these third party systems and not assurances can be given that these systems are Year 2000 ready.

Costs to Address Our Year 2000 Issues. Although the development of the Genesis Platform has taken into account relevant Year 2000 issues, the planned conversion was not accelerated due to Year 2000 issues and year 2000 related costs in the development of the Genesis Platform are therefore not included in our costs below. The following chart reflects our Year 2000 specific costs. The fiscal year 1998 costs were attributed to remediation of legacy systems and applications. The cost to complete includes remediation, testing and verification, but is primarily budgeted to remedy any Year 2000 related situations that we have not yet anticipated. The estimate of total cost has increased by $0.7 million since our last estimate at March 31, 1999 due to additional support we are providing our financial institution customers in their testing requirements and our decision to perform a complete revalidation of our testing. We believe that associated costs are adequately budgeted and provided for in our operating plans.

BUSINESS SEGMENT	FISCAL 1997	FISCAL 1998	FISCAL 1999	COST TO COMPLETE	TOTAL
			(IN THOUSANDS)		
Electronic Commerce	$ 0	$ 100	$ 1,360	$ 800	$ 2,260
Software	--	500	525	100	1,125
Investment Services	--	375	937	239	1,551
Corporate	--	--	270	100	370
Total	$ 0	$ 975	$ 3,092	$ 1,239	$ 5,306

Risks of Our Year 2000 Issues. In order to accurately process transactions, we must rely on technology supported by our customers and suppliers. Transaction processing relies on transmissions of data from consumer personal computers, through financial institution and merchant web servers and the Internet, over third party data and voice communication lines, and through the Federal Funds System. Failure by us, our customers or our suppliers to adequately address the Year 2000 issues in a timely manner could impede our ability to process transactions and can have a direct impact on our ability to generate revenue per our agreements with financial institution, portfolio management, merchant and direct customers. This in turn could have a material impact on the conduct of our business, the results of our operations and our financial condition. Accordingly, we plan to address all Year 2000 issues before problems materialize. We believe that associated costs are adequately budgeted to handle any remaining issues. Should our efforts or the efforts of our customers and suppliers fail to adequately address relevant Year 2000 issues, the most likely worst case scenario would be a total loss of revenue.

Our Contingency Plans. We are internally reviewing and testing all mission critical systems and major components for Year 2000 readiness. Contingency plans are in place to address mission critical customer related processes such as back-up communications plans for incoming customer payment and portfolio transactions, paper based payment transaction processing in the event of failure of electronic payment systems and alternative power supply in the event of prolonged power outages. We will continue to incorporate additional Year 2000 considerations into our business contingency plans as necessary.

We cannot guarantee that our efforts will prevent all consequences and there may be undetermined future costs due to business disruption that may be caused by customers, suppliers or unforeseen circumstances.

LIQUIDITY AND CAPITAL RESOURCES

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

	SUMMARY OF CASH FLOWS FOR YEAR ENDED JUNE 30,		
	1997	1998	1999
	(IN THOUSANDS)		
Cash flow provided by (used in) operating activities	$ (8,472)	$(11,673)	$ 25,571
Cash flow provided by (used in) investing activities	25,553	12,767	(16,217)
Cash flow provided by (used in) financing activities	(5,982)	3,355	(33,443)
Net increase (decrease) in cash and cash equivalents	$ 11,099	$ 4,449	$(24,089)

During the quarters ended September 30, 1998 and December 31, 1998, we expended approximately $31.2 million to repurchase shares of our own stock. In spite of this expenditure, we retained approximately $23.0 million in cash, cash equivalents and short-term investments as of June 30, 1999. Our June 30, 1999 balance sheet reflects a current ratio of 1.41 and working capital of $24.2 million.

Over the next fiscal year, we expect to generate positive cash flow from our operations. Additionally, we are negotiating a significant lease line of credit to finance future equipment needs in support of expected growth. We believe that existing cash, cash equivalents, short-term investments and available financing alternatives will be more than sufficient to meet our presently anticipated requirements for the foreseeable future. To the extent that additional capital resources are required, we have access to an untapped $20.0 million line of credit and are in the process of expanding this credit facility as well.

For the year ended June 30, 1999, we generated $25.6 million of cash flow from operations. Of this amount, $14.3 million represented net proceeds from trading securities transactions, which GAAP requires us to reflect in cash flow from operations.

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

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

For the year ended June 30, 1998, we used $11.7 million of cash flow in operating activities. During this year, $24.5 million in net investments in trading securities were reflected as cash used in operations. In previous periods, all of our investments were classified as available for sale, and, therefore, related investment activities did not impact operating cash flow. The change to trading securities reflects efforts to maximize yields within our conservative investment guidelines and not to significantly impact the risk profile of our portfolio. From an investing perspective, we generated $54.9 million of cash from the sale of various software businesses, $24 million from sales and maturities of available-for-sale investments, $8.9 million from receipt of a purchase price adjustment related to our Intuit Services Corporation acquisition and $0.3 from the sales of other assets. Investing receipts were offset by $27.9 million in investment in property additions, primarily for computer and operational equipment and facilities related to completion of the Genesis Platform, $20.3 million in the purchase of investments, $14.9 million of investment in a note receivable in conjunction with the proposed purchase of a building in Dublin, Ohio, $10.0 million as final payment on the purchase of Intuit Services Corporation; payment of $1.0 million for the purchase of Advanced Mortgage Technology, Inc., and $0.7 million in capitalization of software development costs. From a financing perspective, $5.4 million of cash was provided by stock option exercises under our Stock Option Plans, stock purchases under our Associate Stock Purchase Plan and our matching contributions under our 401(k) Plan, which was offset by payments of $1.1 million in satisfaction of an outstanding note payable and $0.9 million in capital lease obligations. As a result of the above, our current ratio improved from 1.3 at June 30, 1997 to 2.3 at June 30, 1998 and related working capital increased from $20.0 million at June 30, 1997 to $78.2 million at June 30, 1998.

For the year ended June 30, 1997, we used $8.5 million for operating activities. The sale of businesses generated proceeds of $29.5 million while $0.6 million was received from the exercise of stock options during the year. We invested $11.4 million, net of cash acquired, for the purchase of Intuit Services Corporation. Some stockholders from the Security APL acquisition exercised options to sell

276,469 common shares back to us at a price of $19.00 per share. We received proceeds of $19.5 million on net maturities and sales of available-for-sale investments and we invested $9.1 million in property and software additions. Principal payments on capital leases totaled $1.1 million.

INFLATION

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

RECENT ACCOUNTING PRONOUNCEMENTS

In March 1998, the Accounting Standards Executive Committee ("AcSEC") issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which is effective for fiscal years beginning after December 15, 1998. The Statement distinguishes accounting for the costs of computer software developed or obtained for internal use from guidance under SFAS 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." The adoption of SOP 98-1 is not expected to have a material impact on the Company's software capitalization policies or financial statement disclosures.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which will require that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet. SFAS 133 will be effective for the Company's first quarter of fiscal 2001. The Company is in the process of evaluating the effects of this new statement.

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, our operating and growth strategy, and Year 2000 issues. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, the factors set forth under the caption "Business -- Business Risks" in the Annual Report on Form 10-K for the year ended June 30, 1999 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 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 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 Holdings Corporation and Subsidiaries:

We have audited the accompanying consolidated balance sheets of CheckFree Holdings Corporation (the "Company") and its subsidiaries as of June 30, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 1997, 1998, and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at June 30, 1998 and 1999, and the results of their operations and their cash flows for the years ended June 30, 1997, 1998, and 1999 in conformity with generally accepted accounting principles.

Atlanta, Georgia
August 9, 1999

CHECKFREE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 1998 AND 1999

	1998	1999
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 36,535	$ 12,446
Investments	24,533	10,266
Accounts receivable, net	32,960	45,660
Assets held for sale	15,881	--
Note receivable	14,882	--
Prepaid expenses and other assets	4,678	7,800
Deferred income taxes	7,231	6,513
Total current assets	136,700	82,685
PROPERTY AND EQUIPMENT, Net	50,920	69,823
OTHER ASSETS:		
Capitalized software, net	11,387	20,059
Intangible assets, net	30,474	45,875
Investments	1,006	1,875
Deferred income taxes	12,889	21,920
Other noncurrent assets	6,736	10,524
Total other assets	62,492	100,253
	$ 250,112	$ 252,761
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 8,536	$ 9,634
Accrued liabilities	25,160	26,971
Current portion of long-term obligations	1,180	1,640
Deferred revenue	19,710	20,195
Income taxes payable	3,876	--
Total current liabilities	58,462	58,440
ACCRUED RENT AND OTHER	1,329	3,536
OBLIGATIONS UNDER CAPITAL LEASES- Less current portion	6,467	3,882
COMMITMENTS (Note 21)		
STOCKHOLDERS' EQUITY:		
Preferred stock- 15,000,000 authorized shares, $.01 par value; no amounts issued or outstanding	--	--
Common stock- 150,000,000 authorized shares, $.01 par value; issued 56,364,839 and 57,305,659 shares, respectively; outstanding 56,364,839 and 51,756,278 shares, respectively	564	518
Additional paid-in-capital	492,109	480,385
Less:		
Treasury stock- at cost; 963,295 shares, no shares, respectively	(4,362)	--
Accumulated deficit	(304,457)	(294,000)
Total stockholders' equity	183,854	186,903
	$ 250,112	$ 252,761

See notes to consolidated financial statements

CHECKFREE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED JUNE 30, 1997	1998	1999
	(IN THOUSANDS, EXCEPT SHARE DATA)		
REVENUES:			
Processing and servicing	$ 94,528	$ 159,255	$ 201,059
Merchant discount	9,994	--	--
License fees	33,088	28,952	15,975
Maintenance fees	22,567	25,848	17,746
Other	16,268	19,809	15,351
Total revenues	176,445	233,864	250,131
EXPENSES:			
Cost of processing, servicing and support	102,721	129,924	146,704
Research and development	32,869	36,265	21,085
Sales and marketing	32,670	28,839	32,354
General and administrative	18,707	20,677	31,466
Depreciation and amortization	24,919	24,999	24,630
In-process research and development	140,000	719	2,201
Charge for stock warrants	--	32,827	--
Exclusivity amortization	5,958	2,963	--
Total expenses	357,844	277,213	258,440
Net gain on dispositions of assets	6,250	36,173	4,576
LOSS FROM OPERATIONS	(175,149)	(7,176)	(3,733)
OTHER:			
Interest income	2,153	3,464	2,799
Interest expense	(834)	(632)	(618)
LOSS BEFORE INCOME TAXES	(173,830)	(4,344)	(1,552)
INCOME TAX BENEFIT	(12,017)	(641)	(12,009)
NET INCOME (LOSS)	$ (161,813)	$ (3,703)	$ 10,457
BASIC EARNINGS (LOSS) PER SHARE:			
Net income (loss) per common share	$ (3.44)	$ (0.07)	$ 0.20
Equivalent number of shares	46,988,225	55,086,742	52,444,375
DILUTED EARNINGS (LOSS) PER SHARE:			
Net income (loss) per common share	$ (3.44)	$ (0.07)	$ 0.18
Equivalent number of shares	46,988,225	55,086,742	56,529,165

See notes to consolidated financial statements

CHECKFREE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT SHARE DATA)

	NUMBER OF SHARES OF COMMON STOCK	COMMON STOCK AT PAR	ADDITIONAL PAID-IN CAPITAL	NUMBER OF SHARES OF TREASURY STOCK
BALANCE- JUNE 30, 1996	42,274,800	$ 423	$ 276,822	(757,536)
Net loss	--	--	--	--
Stock options exercised	636,309	6	591	--
Tax benefit associated with exercise of stock options	--	--	887	--
Issuance of common stock and stock options pursuant to acquisitions	12,635,212	126	176,550	--
Treasury stock acquired	--	--	--	(284,016)
BALANCE- JUNE 30, 1997	55,546,321	555	454,850	(1,041,552)
Net loss	--	--	--	--
Stock options exercised	708,661	8	2,204	--
Employee stock purchases	109,857	1	1,572	--
401(k) match	--	--	--	78,257
Warrants issued	--	--	32,827	--
Tax benefit associated with exercise of stock options	--	--	656	--
BALANCE- JUNE 30, 1998	56,364,839	564	492,109	(963,295)
Net income	--	--	--	--
Stock options exercised	354,758	3	1,605	--
Employee stock purchases	48,748	1	968	48,631
401(k) match	--	--	--	74,981
Treasury stock acquired	--	--	--	(4,709,698)
Treasury stock retired	(5,549,381)	(55)	(33,610)	5,549,381
Issuance of common stock pursuant to acquisition	537,314	5	17,995	--
Tax benefit associated with exercise of stock options	--	--	1,318	--
BALANCE- JUNE 30, 1999....................	51,756,278	$ 518	$ 480,385	--

(IN THOUSANDS, EXCEPT SHARE DATA)

	TREASURY STOCK AT COST	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
BALANCE- JUNE 30, 1996	$ (629)	$ (138,941)	$ 137,675
Net loss	--	(161,813)	(161,813)
Stock options exercised	--	--	597
Tax benefit associated with exercise of stock options	--	--	887
Issuance of common stock and stock options pursuant to acquisitions	--	--	176,676
Treasury stock acquired	(5,378)	(5,378)	(5,378)
BALANCE- JUNE 30, 1997	(6,007)	(300,754)	148,644
Net loss	--	(3,703)	(3,703)
Stock options exercised	(47)	--	2,165
Employee stock purchases	--	--	1,573
401(k) match	1,692	--	1,692
Warrants issued	--	--	32,827
Tax benefit associated with exercise of stock options	--	--	656
BALANCE- JUNE 30, 1998	(4,362)	(304,457)	183,854
Net income	--	10,457	10,457
Stock options exercised	--	--	1,608
Employee stock purchases	1,070	--	2,039
401(k) match	963	--	963
Treasury stock acquired	(31,336)	--	(31,336)
Treasury stock retired	33,665	--	--
Issuance of common stock pursuant to acquisition	--	--	18,000
Tax benefit associated with exercise of stock options	--	--	1,318
BALANCE- JUNE 30, 1999....................	$ --	$ (294,000)	$ 186,903

See notes to consolidated financial statements

CHECKFREE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED JUNE 30, 1997	1998	1999
	(IN THOUSANDS)		
OPERATING ACTIVITIES:			
Net income (loss)	$ (161,813)	$ (3,703)	$ 10,457
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Write off of in-process research and development	140,000	719	2,201
Write off of capitalized software	3,619	--	--
Issuance of warrants	--	32,827	--
Exclusivity amortization	4,938	2,963	--
Depreciation and amortization	24,919	24,999	24,630
Deferred income tax provision	(13,101)	(5,499)	854
Net gain on dispositions of assets	(6,250)	(36,173)	(4,576)
Purchases of investments- Trading	--	(28,799)	(10,416)
Proceeds from maturities and sales of investments, net- Trading	--	4,267	24,683
Change in certain assets and liabilities (net of acquisitions and dispositions):			
Accounts receivable	(10,952)	(5,095)	(6,976)
Prepaid expenses and other	(2,976)	(1,834)	1,434
Accounts payable	1,249	1,492	988
Accrued liabilities	4,203	(568)	(2,194)
Deferred revenue	7,509	239	1,739
Income tax accounts	183	2,492	(17,253)
Net cash provided by (used in) operating activities	(8,472)	(11,673)	25,571
INVESTING ACTIVITIES:			
Purchase of property and software	(9,114)	(27,939)	(40,444)
Proceeds from sale of assets	29,488	54,990	18,435
Purchase of note receivable	--	(14,882)	--
Proceeds from repayment of note receivable	--	--	14,882
Proceeds from purchase price adjustment	--	8,889	--
Capitalization of software development costs	--	(731)	(8,031)
Purchase of business, net of cash acquired	(11,363)	(11,000)	(190)
Purchases of investments- Held to maturity	(3,000)	(1,006)	(1,875)
Proceeds from maturities and sales of investments- Held to maturity	--	--	1,006
Purchases of investments- Available for sale	--	(19,311)	--
Proceeds from maturities and sales of investments- Available for sale	19,542	23,757	--
Net cash provided by (used in) investing activities	25,553	12,767	(16,217)
FINANCING ACTIVITIES:			
Repayment of notes payable and other debt extinguishment	(69)	(1,144)	--
Principal payments under capital lease obligations	(1,082)	(931)	(3,327)
Escrow deposit associated with capital lease obligation	--	--	(3,637)
Proceeds from stock options exercised, including related tax benefits	597	2,165	2,926
Proceeds from employee stock purchase plan	--	1,573	1,931
Proceeds from employee 401(k)plan	--	1,692	--
Purchase of treasury stock	(5,378)	--	(31,336)
Payments on stockholder notes	(50)	--	--
Net cash provided by (used in) financing activities	(5,982)	3,355	(33,443)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,099	4,449	(24,089)
CASH AND CASH EQUIVALENTS:			
Beginning of period	20,987	32,086	36,535
End of period	$ 32,086	$ 36,535	$ 12,446

See notes to consolidated financial statements

CHECKFREE HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 1997, 1998 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - CheckFree Holdings Corporation (the "Company") is the parent company of CheckFree Corporation ("CFC"), the principal operating company of the business. CFC was organized in 1981 and is a leading provider of transaction processing services, software and related products to financial institutions and businesses and their customers throughout the United States. See Note 19 for a description of the Company's business segments. Following a number of acquisitions and divestitures, CFC reorganized its corporate structure on December 22, 1997. In connection with the reorganization, holders of common stock ("Common Stock") of CFC became holders of an identical number of shares of Common Stock of the Company. The restructuring was effected by a merger conducted pursuant to Section 251(g) of the Delaware General Corporation Law, which provides for the formation of a holding company structure without a vote of the stockholders of the Company.

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

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

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

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

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments (primarily United States government agency obligations and commercial paper) purchased with maturities of three months or less to be cash equivalents. Substantially all cash and cash equivalents are on deposit with six financial institutions.

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

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

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

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

Amortization of software costs totaled $7,687,000, $5,198,000 and $2,567,000, for the years ended June 30, 1997, 1998 and 1999, respectively.

Intangible Assets - The costs of identified intangible assets are generally amortized on a straight-line basis over periods from 8 months to 15 years. Goodwill is amortized on a straight-line basis over 10 to 15 years. At each balance sheet date, a determination is made by management to ascertain whether the intangible assets have been impaired based on several criteria, including, but not limited to, sales trends, undiscounted operating cash flows, and other operating factors.

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

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

Impairment of Long-Lived Assets - In accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company periodically assesses the likelihood of recovering the cost of long-lived assets based on its expectations of future profitability and undiscounted cash flows of the related business operations. These factors, along with management's plans with respect to the operations, are considered in assessing the recoverability of property, equipment and purchased intangibles. During 1998, in conjunction with the Company's platform integration efforts referred to as project Genesis, the Company consolidated three processing centers from Chicago, Illinois, Austin, Texas, and Columbus, Ohio, into one processing center located in Norcross, Georgia. As a result of this consolidation and a physical inventory of fixed assets at the related business units, all identified assets which were determined to have no alternative use or value were written off. Of the total write-off of $4.0 million, $3.0 million was recorded in the quarter ended September 30, 1997 and the remaining $1.0 million in the quarter ended June 30, 1998.

Comprehensive Income - On July 1, 1998, the Company adopted SFAS 130, "Reporting Comprehensive Income." The Statement requires disclosure of total non-shareowner changes in equity and its components. Total non-shareowner changes in equity includes all changes in equity during a period except those resulting from investments by and distributions to shareowners. The only component of other comprehensive income applicable to the Company would be unrealized holding gains or losses on the Company's available-for-sale securities. There were no available-for-sale securities held during the year ended June 30, 1999 and the carrying value of available-for-sale securities held during the years ended June 30, 1998 and 1997 approximated market value. As a result, there were no reported unrealized gains or losses on available-for-sale securities during the years ending June 30, 1997, 1998 and 1999.

Business Segments - On July 1, 1998, the Company adopted 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. The adoption of SFAS 131 did not have a material impact on the Company's financial statement disclosures.

Recent Accounting Pronouncements - In March 1998, the Accounting Standards Executive Committee ("AcSEC") issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which is effective for fiscal years beginning after December 15, 1998. The Statement distinguishes accounting for the costs of computer software developed or obtained for internal use from guidance under SFAS 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." The adoption of SOP 98-1 is not expected to have a material impact on the Company's software capitalization policies or financial statement disclosures.

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which will require that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet. SFAS 133 will be effective for the Company's first quarter of fiscal 2001. The Company is in the process of evaluating the effects of this new statement.

Reclassifications - Certain amounts in the prior years' financial statements have been reclassified to conform to the 1999 presentation.

REVENUE RECOGNITION

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

  As part of processing certain types of transactions, the Company earns interest from the time money is collected from its customers until the time payment is made to the applicable merchants. These revenues, which are generated from trust account balances not included on the Company's balance sheet, are included in processing and servicing and totaled $3,228,000, $9,676,000 and $11,846,000, for the years ended June 30, 1997, 1998 and 1999, respectively.

- Merchant Discount - Merchant discount revenues are recognized when the services are performed. Interchange fees incurred in the settlement of merchant credit card transactions are included in processing and servicing expenses.

- License Fees - On July 1, 1998, the Company adopted SOP 97-2, "Software Revenue Recognition". The Statement provides guidance for recognizing revenue on software transactions and supersedes SOP 91-1, "Software Revenue Recognition". In accordance with the provisions of SOP 97-2, the Company recognizes revenue from software license agreements when there is persuasive evidence that an arrangement exists, the fee is fixed and determinable, collectibility is probable and the software has been shipped, provided that no significant obligation remains under the contract.

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

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

EXPENSE CLASSIFICATION

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

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

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

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

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

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

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

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

2. ACQUISITIONS AND DISPOSITIONS

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

	INTANGIBLE ASSET	USEFUL LIFE
	(IN THOUSANDS)	
Goodwill	$10,392	15
Customer base	4,429	15
Tradenames	3,709	10
Existing product technology	1,864	5
Workforce	940	5

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

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

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

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

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

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

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

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

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

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

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

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

- Analysis of the stage of completion of each project;
- Exclusion of value related to research and development yet-to-be completed as part of the on-going IPR&D projects; and
- The contribution of existing products/technologies.

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

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

- The Retirement and Estate Planning module has been sent to a development partner for testing and identification of errors. Due to the nature of the product and the necessity that all calculations work correctly in order for the product to be commercially viable and to function as designed, this testing is considered a significant part of the development effort.
- The cash flow module reports have not been developed. As the reports are the only output seen by the end user, this represents a major development effort.
- The Company has not yet determined how it will integrate tax tables into its tax calculation in the tax module. Significant work remains to complete reports and database fields.
- For the education module, significant data gathering had not occurred and, therefore, the code had not yet been written for the calculations, the database fields, and the reports.
- Significant risks still exist related to the completion and reintegration of the M-Plan Modules (Retirement and Estate Planning and Cash Flow, Tax, and Education Modules). For example, a user who borrows for education purposes from his retirement fund should see his retirement decrease (in the Retirement Module) and education investment increase (in the Education Module).
- The M-Plan Modules are based entirely on new technology, since they are written in C++ for a windows platform and utilize no existing technology.
- M-Vest is Mobius Group's current asset allocation system. There is an on-going development program to migrate this program to run on 32-bit hardware. This effort requires significant changes to interfaces, to reports and some core algorithms.

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

- Each of the acquired IPR&D projects have not demonstrated their technological or commercial feasibility as of the valuation date. Significant risks exist because of uncertainties the Company may face in the form of time and costs necessary to produce technologically feasible products.
- If the proposed products fail to become viable, there is uncertainty that the Company would be able to realize any value from the sale of the technology to another party.

On October 3, 1997, the Company acquired certain assets of Advanced Mortgage Technologies, Inc. ("AMTI") for cash of $1.0 million. The acquisition was treated as a purchase for accounting purposes, and accordingly, the assets and liabilities were recorded based on their fair values at the date of the acquisition. Of the total purchase price, $0.2 million was allocated to goodwill and $0.1 million to other identifiable intangible assets. Additionally, $0.7 million was allocated to in-process research and development, which was charged to operations at the time of the acquisition.

On January 27, 1997, the Company acquired Intuit Services Corporation ("ISC") for a total of $199.0 million, including 12.6 million shares of common stock valued at $177.2 million, the present value of cash payments due to Intuit, Inc. under the Services and License Agreement of $19.6 million and acquisition costs of $2.2 million. The acquisition was treated as a purchase for accounting purposes, and, accordingly, the assets and liabilities were recorded based on their fair values at the date of the acquisition. Of the total purchase price, $28.9 million was allocated to goodwill. In addition, $140.0 million was allocated to in-process research and development, which was charged to operations at the time of the acquisition. $7.9 million was allocated to an exclusivity agreement with Intuit, Inc. and was amortized on a straight-line basis over the contractual life of eight months. A further $3.5 million was allocated to other identifiable intangible assets and $20.3 million allocated to tangible assets. ISC's operations are included in the consolidated results of operations from the date of the acquisition.

Consistent with the Company's policy for internally developed software, the Company determined the amounts to be allocated to in-process research and development based on whether technological feasibility had been achieved and whether there was any alternative future use for the technology. As of the date of the acquisitions, the Company concluded that the in-process research and development had no alternative future use after taking into consideration the potential for usage of the software in different products, resale of the software and internal usage.

The unaudited pro forma results of operations of the Company for the years ended June 30, 1998 and 1999, assuming the acquisitions occurred at the beginning of each period are as follows (in thousands, except per share data):

	YEAR ENDED JUNE 30,	
	1998	1999
Total revenues	$ 239,701	$ 255,427
Net income (loss)	$ (3,417)	$ 13,462
Basic earnings per share:		
Net income (loss) per common share	$ (0.06)	$ 0.25
Equivalent number of shares	55,624	52,815
Diluted earnings per share:		
Net income (loss) per common share	$ (0.06)	$ 0.24
Equivalent number of shares	55,624	56,900

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 $2.2 million arising from the Mobius acquisition in 1999. Previous operations of AMTI were insignificant and therefore, require no pro forma considerations. 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.

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

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

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

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

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

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

On March 26, 1997, the Company sold certain assets and certain contracts and licensed certain proprietary software for processing automatic accounts receivable through credit cards or the Automated Clearing House resulting in a net gain on the sale of $6.3 million.

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

3. INVESTMENTS

Investments consist of the following (in thousands):

	JUNE 30, 1998	JUNE 30, 1999
Held-to-Maturity-State Obligations	$ 1,006	$ --
Held-to-Maturity-U.S. Government Agency Obligations	--	1,875
Trading	24,533	10,266
Total	$ 25,539	$ 12,141

Held-to-Maturity - The difference between the amortized cost and the aggregate fair value of held-to-maturity investments at June 30, 1998 and 1999 was insignificant. The held-to-maturity investment at June 30, 1998 was sold to provide funding for treasury stock purchases. The realized gain on the sale of this investment was insignificant.

Trading - Trading investments are classified as current assets and are recorded at fair value.

Contractual maturities of debt securities classified as held-to-maturity at June 30, 1999 are as follows:

Due after one year through five years	$ 1,875

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.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	JUNE 30, 1998	JUNE 30, 1999
Trade accounts receivable	$ 22,739	$ 31,366
Unbilled trade accounts receivable	10,654	16,334
Other receivables	3,037	2,390
Total	36,430	50,090
Less allowance for doubtful accounts	3,470	4,430
Accounts receivable, net	$ 32,960	$ 45,660

5. ASSETS HELD FOR SALE

In April 1998, the Company announced plans to divest several of its software businesses through the sale of software and related assets. Assets of the Company's mortgage, leasing, imaging, and safe box accounting businesses totaling $15.9 million at June 30, 1998, were comprised of trade, unbilled, and other accounts receivable (net of an allowance for doubtful accounts), property and equipment dedicated to the businesses, capitalized software, and other purchased intangible assets. Sales of all businesses, with the exception of safe box accounting, were completed during the year ended June 30, 1999. The Company decided not to divest the safe box accounting business and its assets are therefore included with the Company's other operating assets at June 30, 1999.

6. NOTE RECEIVABLE

In May 1998, in anticipation of a tax-free exchange of property, the Company loaned $14.9 million to a third party to purchase a building on its behalf. Interest of 8% was earned monthly commencing in June 1998. In June 1999, the Company completed its tax-free exchange and the note was paid in full. At June 30, 1998, the estimated fair value of the note receivable approximated the carrying value based on currently available instruments with similar interests rates and remaining maturities.

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

7. INCOME TAXES

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

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

	YEAR ENDED JUNE 30,		
	1997	1998	1999
Current:			
Federal	$ --	$ 3,795	$(10,555)
State and local	1,084	1,063	(2,308)
Total current	1,084	4,858	(12,863)
Deferred federal and state	(13,101)	(5,499)	854
Total income tax benefit	$(12,017)	$ (641)	$(12,009)

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,		
	1997	1998	1999
Computed "expected" tax benefit	$(60,844)	$ (1,520)	$ (543)
Nondeductible in-process research and development of acquired businesses	49,000	252	770
Nondeductible intangible amortization	839	1,189	1,137
State and local taxes, net of federal income tax benefits	(553)	21	(1,741)
Loss from medical benefits subsidiary	--	--	(10,665)
Other, net	(459)	(583)	(967)
Total income tax benefit	$(12,017)	$ (641)	$(12,009)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 1998 and 1999 are as follows (in thousands):

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

	JUNE 30, 1998	JUNE 30, 1999
Deferred tax assets:		
Federal and state net operating loss carryforwards	$ 1,155	$ 12,739
Federal and state tax credit carryforwards	--	2,145
Intangible assets	1,870	--
Allowance for bad debts and returns	1,699	1,996
Accrued compensation and related items	1,731	2,028
Stock warrants	12,964	12,964
Reserve accruals	3,212	3,410
Total deferred tax assets	22,631	35,282
Deferred tax liabilities:		
Capitalized software	(1,926)	(2,246)
Property and equipment	(19)	(2,327)
Deferred revenue	--	(128)
Intangible assets	--	(1,354)
Prepaid expenses	(566)	(794)
Total deferred tax liabilities	(2,511)	(6,849)
Net deferred tax asset	$ 20,120	$ 28,433

At June 30, 1999, the Company has approximately $3,072,000 of state and $9,667,000 of federal net operating loss carryforwards available, expiring in 2009 to 2013 and 2009 to 2019, respectively. Additionally, at June 30, 1999, the Company has approximately $306,000 of state and $1,839,000 of federal tax credit carryforwards available, expiring in 2008 to 2009 and 2009 to 2019, respectively. During the year ended June 30, 1999, the Company established a subsidiary to administer the Company's employee medical benefits program. The Company recognized a one-time combined federal and state tax benefit of $12.2 million arising from the creation of this subsidiary.

8. PROPERTY AND EQUIPMENT

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

	JUNE 30, 1998	JUNE 30, 1999
Land and land improvements	$ 3,146	$ 4,341
Building and building improvements	16,692	31,226
Computer equipment and software licenses	55,526	72,138
Furniture and equipment	9,002	11,404
Total	84,366	119,109
Less accumulated depreciation and amortization	33,446	49,286
Property and equipment, net	$ 50,920	$ 69,823

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

9. INTANGIBLE ASSETS

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

	JUNE 30, 1998	JUNE 30, 1999
Workforce	$ 5,179	$ 6,171
Tradenames	815	4,568
Customer base	1,231	5,758
Goodwill	28,927	39,318
Total	36,152	55,815
Less accumulated amortization	5,678	9,940
Intangible assets, net	$ 30,474	$ 45,875

10. ACCRUED LIABILITIES

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

	JUNE 30, 1998	JUNE 30, 1999
Salaries and related costs	$ 9,374	$ 10,307
Liabilities associated with contract and other losses	5,655	-
Processing fees	2,335	908
Reserve for returns and chargebacks	1,944	1,664
Other	5,852	14,092
Total	$25,160	$ 26,971

The liabilities associated with contract and other losses at June 30, 1998 is comprised of $4.7 million related to an estimated loss from the sale of the leasing business that occurred on July 7, 1998 (see Note 2, "Acquisitions and Dispositions") and $1.0 million for accrued contract losses and related costs which resulted from the decision to exit the Web Investor business.

11. LINE OF CREDIT

In May, 1997 the Company obtained a working capital line-of-credit, which enables the Company to borrow up to $20 million, based on the collateral of eligible accounts receivable. The line expires in October 1999, and contains certain restrictive covenants, including defined quarterly operating results, minimum tangible net worth requirements, and the prohibition of dividend payments. No amounts were outstanding under the line at June 30, 1998 and 1999.

12. OBLIGATIONS UNDER CAPITAL LEASES

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

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

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

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

	JUNE 30, 1998	JUNE 30, 1999
Land and land improvements	$ 3,146	$ -
Building and building improvements	4,526	-
Computer equipment and software licenses	2,371	3,654
Total	10,043	3,654
Less accumulated depreciation and amortization	2,017	2,266
Property and equipment, net	$ 8,026	$ 1,388

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,	
2000	$944
2001	3,253
2002	390
2003	373
2004	62
Thereafter	-
Total future minimum lease payments	5,022
Less amount representing interest	182
Net future minimum lease payments	$4,840

13. OPERATING LEASES

The Company leases certain office space and equipment under operating leases. Certain leases contain renewal options and generally provide that the Company shall pay for insurance, taxes and maintenance. In addition, certain leases include rent escalations throughout the terms of the leases. Total expense under all operating lease agreements for the years ended June 30, 1997, 1998 and 1999, was $5,882,000, $5,800,000 and $8,492,000, respectively.

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

FISCAL YEAR ENDING JUNE 30,	
2000	$11,464
2001	10,922
2002	8,966
2003	5,650
2004	3,837
Thereafter	16,271
Net future minimum lease payments	$57,110

14. EMPLOYEE BENEFIT PLANS

Retirement Plan - The Company has a defined contribution 401(k) retirement plan covering substantially all of its employees. Under the plan eligible employees may contribute a portion of their salary until retirement and the Company, at its discretion, may match a portion of the employee's contribution. Total expense under the plan amounted to $1,862,000, $859,000 and $1,218,000, for the years ended June 30, 1997, 1998 and 1999, respectively.

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

Group Medical Plans - The Company has a group medical self-insurance plan covering certain of its employees. The Company has employed an administrator to manage this plan. Under terms of this plan, both the Company and eligible employees are required to make contributions to this plan. The administrator reviews all claims filed and authorizes the payment of benefits. The Company has stop-loss insurance coverage on all individual claims exceeding $100,000. In addition, the Company offers medical insurance coverage under managed care health plans. Total expense for medical insurance coverage amounted to $3,458,000, $3,752,000, and $4,430,000, for the years ended June 30, 1997, 1998 and 1999, 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, 1998 and 1999, the Company accrued $308,000 and $315,000 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.

15. COMMON STOCK

During 1995, the company adopted the 1995 Stock Option Plan (the "1995 Plan). The 1995 Plan replaces in its entirety the 1993 Stock Option Plan (the "1993 Plan"). The options granted under the 1995 and 1993 Plans may be either incentive stock options or non-statutory stock options. The terms of the options granted under the 1995

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

and 1993 Plans are at the sole discretion of a committee of members of the Company's Board of Directors, not to exceed ten years. Generally, options vest at either 33% or 20% per year from the dated of grant. The 1995 Plan originally provided that the Company may grant options for not more than 5,000,000 shares of common stock to certain key employees, officers and directors. In November of 1998, the 1995 Plan was amended by a vote of the Company's shareholders to extend the maximum option grants to not more than 8,000,000 shares. Options granted under the 1995 and 1993 Plans are exercisable according to the terms of each option, however, in the event of a change in control or merger as defined, the options shall become immediately exercisable. At June 30, 1999, 2,920,684 additional shares are available for grant in the aggregate for all Plans.

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

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

The following table summarizes stock option activity from July 1, 1996 to June 30, 1999:

	YEAR ENDED					
	JUNE 30, 1997		JUNE 30, 1998		JUNE 30, 1999	
	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..........	2,908,218	$ 4.58	4,441,461	$ 9.59	4,365,562	$ 15.23
Granted....................................	2,282,056	14.32	1,377,334	25.60	1,575,057	36.40
Exercised..................................	(636,309)	1.01	(708,661)	3.17	(354,758)	4.56
Cancelled..................................	(112,504)	14.88	(744,572)	12.63	(389,261)	16.12
Outstanding - End of period................	4,441,461	$ 9.59	4,365,562	$ 15.23	5,196,600	$ 18.69
Options exercisable at end of period.......	1,218,341	$ 1.17	1,352,516	$ 6.81	1,394,269	$ 9.00
Weighted average per share fair value of options granted during the year.......		$ 6.68		$ 10.77		$ 17.65

The following table summarizes information about options outstanding at June 30, 1999:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
		WEIGHTED AVERAGE		WEIGHTED AVERAGE	
Range of Exercise Price	NUMBER	REMAINING CONTRACTUAL LIFE	EXERCISE PRICE	NUMBER	EXERCISE PRICE
$ 0.85 - $10.00..............	764,769	4.4	$ 1.17	672,427	$ 1.03
$10.01 - $20.00..............	3,014,916	8.4	13.30	623,955	15.03
$20.01 - $30.00..............	266,815	8.9	25.55	97,887	25.25
$30.01 - $40.00..............	196,300	9.7	34.85	-	-
$40.01 - $50.00..............	953,800	9.8	44.56	-	-
	5,196,600		$ 18.69	1,394,269	$ 9.00

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

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, 1997, 1998 and 1999, respectively: dividend yield of 0% in all periods; expected volatility of 47%, 48% and 49%; risk-free interest rates of 6.41%, 5.21%, and 5.87%; and expected lives of 3-5 years.

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. Approximately 39% of eligible employees participated in the Plan in the second half of the year ended June 30, 1997, approximately 32% in the first half of fiscal 1998, approximately 49% in the second half of fiscal 1998, approximately 30% in the first half of fiscal 1999 and approximately 31% in the second half of fiscal 1999. Under the Plan, 53,013 shares were issued in July of 1997, 56,844 in January of 1998, 48,631 in July of 1998, 48,748 in January of 1999 and 46,819 in July of 1999 from employees' salary withholdings from the respective previous six-month period. 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:

	SIX MONTH PERIOD ENDED				
	JUNE 30, 1997	DECEMBER 31, 1997	JUNE 30, 1998	DECEMBER 31, 1998	JUNE 30, 1999
Fair value of options........	$3.93	$14.10	$ 9.68	$ 7.18	$5.51
Assumptions:					
Risk-free interest rate...	5.1%	5.0%	5.0%	4.9%	4.9%
Expected life............	3 months	3 months	3 months	3 months	3 months
Volatility................	47.0%	48.0%	48.0%	49.0%	49.0%
Dividend yield............	0.0%	0.0%	0.0%	0.0%	0.0%

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

	YEAR ENDED JUNE 30,		
	1997	1998	1999
Pro forma net income (loss).............	$ (164,089)	$ (9,521)	$1,032
Pro forma net income (loss) per share; Basic and Diluted..................	$ (3.49)	$ (0.17)	$ 0.02

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

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

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

In January 1998 the Company entered into a 10-year processing agreement with a strategic partner. Under the terms of the agreement, the partner acquired 10-year warrants exercisable at $20 15/16 for 10 million shares of the Company's Common Stock. Three million warrants vested upon the execution of a related processing outsourcing agreement on March 9, 1998 which resulted in the Company recording a non-cash charge of $32.4 million. The charge was based on a Black-Scholes option pricing model valuation of $10.80 per vested share using the following assumptions: risk-free rate of 5.7%, expected life of 10 years, and volatility rate of 56.4%. The remaining seven million warrants are to vest upon achievement of specific performance targets set forth in the agreement. Any shares acquired by the strategic partner under the terms of this agreement are subject to certain transfer and other restrictions. In March 1997 the Company entered into a consulting agreement with a third party. Under the terms of the agreement the consultant acquired 5-year options exercisable at $13.00 for up to 50,000 shares of the Company's Common Stock. In June of 1998, upon the execution of a processing agreement with a key customer, 25,000 of the options vested, which resulted in the Company recording a non-cash charge of $418,000. The charge was based on a Black-Scholes option pricing model valuation of $16.73 per vested share using the following assumptions: risk-free rate of 5.6%, expected life of 4 years, and volatility rate of 56.4%. The remaining 25,000 options are to vest upon achievement of specific performance targets by key customers set forth in the agreement. Any shares acquired by the consultant under the terms of the agreement are subject to certain transfer restrictions. In accordance with the terms of a joint marketing agreement, a strategic partner has warrants to purchase up to 650,000 shares of the Company's Common Stock should the partner attain certain customer acquisition targets.

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 78,257 shares in September 1997 and 74,981 shares in August 1998 out of treasury to fund its 401(k) match that had accrued during the years ended June 30, 1997 and 1998, respectively.

At June 30, 1996 certain stockholders had an option to sell up to 280,565 shares of common stock to the company at $19.00 per share, which expired on September 30, 1996. Of the eligible shares, 276,469 were sold to the Company and were recorded as treasury stock.

16. PREFERRED STOCK

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

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

17. EARNINGS PER SHARE

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

	YEAR ENDED JUNE 30, 1997			YEAR ENDED JUNE 30, 1998			YEAR ENDED JUNE 30, 1999		
	LOSS (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT	LOSS (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
Basic EPS	$ (161,813)	46,988	$ (3.44)	$ (3,703)	55,087	$ (0.07)	$ 10,457	52,444	$ 0.20
Effect of dilutive securities-options and warrants	-	-		-	-		-	4,085	
Diluted EPS	$ (161,813)	46,988	$ (3.44)	$ (3,703)	55,087	$ (0.07)	$ 10,457	56,529	$ 0.18

Anti-dilution provisions of SFAS 128 require consistency between diluted per-common-share amounts and basic per-common-share amounts in loss periods. The number of anti-dilutive equivalent shares excluded from the per share calculations are 1,218,000 and 1,725,000 for the years ended June 30, 1997 and 1998, respectively.

18. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	YEAR ENDED JUNE 30, (IN THOUSANDS) 1997	1998	1999
Interest paid	$ 585	$ 632	$ 618
Income taxes paid	$ 1,147	$ 1,434	$ 1,688
Supplemental disclosure of non-cash investing and financing activities:			
Capital lease additions and purchase of other long-term assets	$ 1,914	$ 650	$ 3,379
Stock funding of 401(k) match	$ -	$ -	$ 963
Purchase price of business acquisitions	$ 200,997	$ 1,000	$ 19,100
Less: Issuance of common stock and stock options pursuant to acquisitions	177,188	-	18,000
Liabilities assumed	1,619	145	887
Net present value of future payment due	9,610	-	-
Cash acquired in acquisitions	1,217	-	23
Net cash paid	$ 11,363	$ 855	$ 190

19. BUSINESS SEGMENTS

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

- Electronic Commerce - Electronic commerce includes electronic home banking, electronic billing, electronic bill payment and business payments. These services are primarily directed to financial institutions and businesses and their customers.

- Software - Software services includes end-to-end software products for ACH processing, account reconciliation, wire transfer, mortgage loan origination and servicing, lease accounting and debt recovery. These products and services are primarily directed to financial institutions and large corporations.

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

- Investment Services - Investment services includes investment portfolio management services and investment trading and reporting services. These products and services are primarily directed to institutional investment managers.

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

The accounting policies of the segments are the same as those described in Note 1 "Summary of Significant Accounting Policies". The Company evaluates performance based on revenues and operating income (loss) of the respective segments. No single customer accounted for 10% or more of consolidated revenues for the years ended June 30, 1997, 1998 and 1999. Foreign sales for the periods presented are insignificant. 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, 1997, 1998 and 1999 (in thousands):

	YEAR ENDED JUNE 30,		
	1997	1998	1999
Revenues:			
Electronic Commerce	$ 85,926	$ 137,972	$ 169,443
Software	68,113	66,143	41,384
Investment Services	22,406	29,749	39,304
Total	$ 176,445	$ 233,864	$ 250,131
Operating income (loss):			
Electronic Commerce- including charge for acquired in-process research and development of $140,000 in 1997	$(160,195)	$ (39,423)	$ (5,490)
Software- including charge for acquired in-process research and development of $719 in 1998	4,324	48,854	18,083
Investment Services- including charge for acquired in-process research and development of $2,201 in 1999	2,171	5,040	5,892
Corporate	(21,449)	(21,647)	(22,218)
Total	$(175,149)	$ (7,176)	$ (3,733)
Identifiable assets:			
Electronic Commerce	$ 59,265	$ 70,192	$ 80,223
Software	61,701	39,346	34,194
Investment Services	23,187	21,187	49,098
Corporate	79,683	119,387	89,246
Total	$ 223,836	$ 250,112	$ 252,761
Capital expenditures:			
Electronic Commerce	$ 3,182	$ 19,532	$ 9,258
Software	1,171	2,197	1,189
Investment Services	1,973	895	4,764
Corporate	2,788	5,315	25,233
Total	$ 9,114	$ 27,939	$ 40,444
Depreciation and amortization:			
Electronic Commerce	$ 2,094	$ 9,964	$ 14,214
Software	10,501	6,051	2,069
Investment Services	4,379	4,558	5,336
Corporate	7,945	4,426	3,011
Total	$ 24,919	$ 24,999	$ 24,630

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

20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following quarterly financial information for the years ended June 30, 1998 and 1999 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 1998				
Total revenue	$ 52,087	$ 56,515	$ 61,750	$ 63,512
Income (loss) from operations	17,187	(2,771)	(29,223)	7,731
Net income (loss)	9,771	(1,692)	(17,540)	5,758
Basic earnings per share:				
Net income (loss) per common share	$ 0.17	$ (0.03)	$ (0.32)	$ 0.10
Equivalent number of shares	56,703	55,028	55,281	55,376
Diluted earnings per share:				
Net income (loss) per common share	$ 0.17	$ (0.03)	$ (0.32)	$ 0.10
Equivalent number of shares	56,920	55,028	55,281	55,735
FISCAL 1999				
Total revenue	$ 56,814	$ 59,605	$ 62,960	$ 70,752
Income (loss) from operations	(3,462)	(1,408)	349	788
Net income (loss)	(1,468)	11,375	(308)	858
Basic earnings per share:				
Net income (loss) per common share	$ (0.03)	$ 0.22	$ (0.01)	$ 0.02
Equivalent number of shares	55,510	51,326	51,218	51,695
Diluted earnings per share:				
Net income (loss) per common share	$ (0.03)	$ 0.22	$ (0.01)	$ 0.02
Equivalent number of shares	55,510	52,553	51,218	56,839

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

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

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

In the fourth quarter of 1998 the Company recorded adjustments to reduce its 401(k) match accrual by $2.4 million and its management incentive bonus accrual by $1.7 million. Both incentive amounts had been provided for ratably over the year in anticipation of achievement of financial results that would have resulted in distribution of the amounts accrued in accordance with related plan provisions.

21. COMMITMENTS

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

Exhibit 21

Subsidiaries of the Registrant
- ------------------------------

CheckFree Corporation, a Delaware corporation
CheckFree Investment Corporation, a Delaware corporation
CheckFree Investment Services, Inc., a Delaware corporation
CheckFree Management Corporation, a Wisconsin corporation

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 and 333-70599) on Form S-8 and the Registration Statements (No. 333-20479 and 333-79695) on Form S-3 of CheckFree Holdings Corporation of our reports dated August 9, 1999, appearing in and incorporated by reference in the Annual Report on Form 10-K of CheckFree Holdings Corporation for the year ended June 30, 1999.

/s/Deloitte & Touche LLP

Atlanta, Georgia
September 24, 1999

Exhibit 24

POWER OF ATTORNEY

Each director and/or officer of CheckFree Holdings Corporation (the "Corporation") whose signature appears below hereby appoints Peter J. Kight, Mark A. Johnson, 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, 1999, and likewise to sign and file with the Commission any and all amendments to the Form 10-K, and the Corporation hereby also appoints such persons as its attorneys-in-fact and each of them as its attorney-in-fact with like authority to sign and file the Form 10-K and any amendments thereto granting to each such attorney-in-fact full power of substitution and revocation, and hereby ratifying all that any such attorney-in-fact or the undersigned's substitute may do by virtue hereof.

IN WITNESS WHEREOF, we have hereunto set our hands this 20th day of September, 1999.

Signature	Title
/s/Peter J. Kight ------------------------- Peter J. Kight	Chairman of the Board of Directors and Chief Executive Officer
/s/Mark A. Johnson ------------------------- Mark A. Johnson	Vice Chairman
/s/Allen L. Shulman ------------------------- Allen L. Shulman	Executive Vice President, Chief Financial Officer and General Counsel
/s/Gary A. Luoma, Jr. ------------------------- Gary A. Luoma, Jr.	Vice President, Chief Accounting Officer and Assistant Secretary
/s/William P. Boardman ------------------------- William P. Boardman	Director
/s/George R. Manser ------------------------- George R. Manser	Director
/s/Eugene F. Quinn ------------------------- Eugene F. Quinn	Director
/s/Jeffrey M. Wilkins ------------------------- Jeffrey M. Wilkins	Director

5
1,000
U.S. DOLLARS

YEAR
JUN-30-1999
JUL-01-1998
JUN-30-1999
1
12,446
10,266
50,090
4,430
0
82,685
119,109
49,286
252,761
58,440
3,882
0
0
518
186,385
252,761
0
250,131
0
258,440
0
0
618
(1,522)
(12,009)
10,457
0
0
0
10,457
.18
.18

Exhibit 99

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of CheckFree Holdings Corporation and Subsidiaries as of June 30, 1998 and 1999, and for the years ended June 30, 1997, 1998 and 1999, and have issued our report thereon dated August 9, 1999; such financial statements and report are included in your 1999 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of CheckFree Holdings Corporation and Subsidiaries, listed in Item 14. This financial statement schedule is the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Atlanta, Georgia
August 9, 1999

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED JUNE 30, 1997, 1998 and 1999

	BALANCE AS OF BEGINNING OF PERIOD	AMOUNT ASSUMED IN BUSINESS COMBINATION	CHARGES TO COSTS AND EXPENSES	CHARGES TO OTHER DEDUCTIONS	DEDUCTIONS	BALANCE AS OF END OF PERIOD
Allowance for Doubtful Accounts						
1997.....................	$2,279	1,000	9,196	--	8,258	4,217
1998.....................	4,217	--	3,441	--	4,188	3,470
1999.....................	3,470	309	1,246	--	595	4,430
Reserve for Returns and Chargebacks						
1997.....................	543	--	1,920	--	1,237	1,226
1998.....................	1,226	--	2,080	--	1,362	1,944
1999.....................	1,944	--	1,932	--	2,212	1,664