CORILLIAN CORP
Form 10-K
March 16, 2007

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 0-29291

Corillian Corporation
(Exact name of registrant as specified in its charter)

Oregon	**91-1795219**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*
3400 NW John Olsen Place Hillsboro, Oregon	**97124**
(Address of principal executive offices)	*(Zip Code)*

(503) 629-3300
(Telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes o   No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 Yes o   No þ

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 the past 90 days. Yes þ   No o

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 the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

<div align="center">Large accelerated filer o   Accelerated filer þ   Non-accelerated filer o</div>

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o   No þ

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $131,186,154 as of the last business day of the most recently completed second fiscal quarter (June 30, 2006), based upon the closing price on the NASDAQ National Market reported for such date. Shares of Common Stock held by each executive officer and director and by each person who beneficially held more than 5% of the outstanding Common Stock and was deemed to be an affiliate have been excluded. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

As of February 28, 2007, 45,285,245 shares of Common Stock were issued and outstanding.

<div align="center">**DOCUMENTS INCORPORATED BY REFERENCE**</div>

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the Registrant s definitive proxy statement relating to its 2007 annual meeting of shareholders.

FORM 10-K

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PART I

Item 1. *Business*

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact made in this Annual Report on Form 10-K are forward-looking including but not limited to, expectations and beliefs regarding the acquisition of the company and its timing; statements regarding industry prospects; future results of operations or position; our expectations and beliefs regarding future revenue growth; the future capabilities and functionality of our products and services; our strategies and intentions regarding acquisitions and their integration; the outcome of any litigation to which we are a party; our accounting and tax policies; our future strategies regarding investments, product offerings, research and development, market share, and strategic relationships and collaboration; our dividend policies; our future capital requirements; and our intentions and expectations regarding credit facilities. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology including intend, could, may, will, should, expect, plan, anticipate, believe, estimate, predict, potential, future, or continue, the negative of these comparable terminology. These statements are only predictions. Actual events or results may differ materially from those expressed or implied in such forward-looking statements. In evaluating these statements, you should specifically consider various factors, including the risks described in greater detail in Part 1, Item 1A, Risk Factors, our registration statements and reports filed with the Securities and Exchange Commission, and contained in our press releases from time to time.

We do not guarantee future results, levels of activity, performance or achievements. We do not intend to update any of the forward-looking statements after the date of this document to conform them to actual results or to changes in our expectations.

The following discussion should be read in conjunction with our Consolidated Financial Statements and the related notes and other financial information appearing elsewhere in this Annual Report on Form 10-K.

Overview

We are a leading provider of solutions that enable banks, credit unions, brokers and other financial service providers to rapidly deploy Internet-based financial services. Our solutions allow consumers to conduct financial transactions, view personal and market financial information, pay bills and access other financial services on the Internet. We provide a set of applications for Internet banking, electronic bill presentment and payment, online fraud prevention, targeted marketing, data aggregation, alerts and online customer relationship management. Our solutions integrate into existing database applications and systems and enable our customers to monitor transactions across all systems in real time. Our solutions are also designed to support multiple lines of business, including consumer banking, small business banking, corporate banking and credit card management, and to scale to support millions of users. Our current customers include J.P. Morgan Chase, The Huntington National Bank, Capital One, Wachovia Bank and SunTrust Bank.

We were incorporated in Oregon in 1997.

You can access information about our company on our website on the Investor Relations page. The address is www.corillian.com/investors/. The contents of this website are not intended to be incorporated by reference into this report or any other report we file with the SEC. We make available, free of charge, copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these and other reports filed or furnished by us pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. To request a copy, send a written request to Corillian Corporation, Attention: Investor Relations, 3400 NW John Olsen Place, Hillsboro, Oregon 97124, and include the address to which the document should be mailed.

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Pending Acquisition of Corillian

On February 13, 2007, we entered into an Agreement and Plan of Merger (Merger Agreement) pursuant to which CheckFree Corporation (CheckFree) will acquire all of our outstanding shares of common stock for $5.15 per share in cash. CheckFree is a publicly traded Nasdaq company headquartered in Norcross, Georgia and is a provider of financial electronic commerce services and products. We expect the acquisition to close in the second quarter of 2007, subject to approval by our shareholders and certain regulatory matters, although there can be no assurance that the merger will be consummated in a timely manner, if at all. We intend to file a proxy statement and other relevant materials with the SEC, including a detailed description of the terms of the Merger Agreement, as well as other important information about the proposed transaction.

SHAREHOLDERS ARE URGED TO READ THE PROXY STATEMENT AND OTHER RELEVANT MATERIALS FILED WITH THE SEC AND POSTED TO OUR WEBSITE REGARDING IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTIONS.

Our company, our directors, and certain of our executive officers, may be deemed to be participants in the solicitation of proxies from our shareholders with respect of the proposed transaction. Our shareholders may obtain information regarding the names, affiliations and interests of such individuals in the proxy statement.

All forward-looking statements in this Annual Report on Form 10-K, including those in the Managements Discussion and Analysis of Financial Condition, Results of Operations and Risk Factors, are based on managements plans for future operations without consideration given to the pending transaction.

Industry Background

The Internet has become an integral part of the daily lives of millions of consumers because of the functionality and convenience it offers. In addition to more traditional uses such as email, the Internet is being increasingly used to conduct financial transactions and deliver financial services. Internet users are increasingly demanding more Internet-based financial services, such as the ability to move money into various accounts and to various companies and individuals, to see all of their accounts with a financial institution in one place, and to purchase new products online. The benefits that consumers derive from Internet-based financial services include:

twenty-four hour, real-time, secure access to information and financial services from any Internet device;

convenient and inexpensive money movement tools;

improved personal finance management; and

the presentation of comprehensive consolidated financial data.

The growth in Internet usage and the popularity of personal finance content have changed the competitive landscape of the financial service industry by requiring financial institutions to compete based on the features they offer in the Internet channel as well as other delivery channels while focusing on lowering the expenses of their technology infrastructure. Within this environment, we believe many financial institutions are recognizing they will require more cost-effective Internet-based financial solutions with greater functionality to help them differentiate their service and product offerings and expand their market share. In addition, financial institutions will need these solutions to easily integrate with disparate systems and applications and provide technological efficiencies and time-to-market advantages.

Significant challenges are involved in deploying Internet finance solutions. Most notably, multiple diverse computing environments, including existing systems, packaged applications, Internet application servers and other emerging technologies, must be integrated and must be able to communicate with each other to provide customers with real-time data and to allow them to conduct financial transactions. In addition, external systems, such as those of credit card companies and bill payment providers, must be integrated with internal systems in a secure and reliable manner. These technical challenges are magnified by the speed with which these services must be brought to market. Most financial institutions do not have the technical skills or resources to rapidly design and deploy these services. In addition, although some financial institutions have the technical skills and resources to develop and deploy Internet finance solutions, they are subject to significant time-to-market competitive pressures. For most of

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these financial service providers, internally developing and deploying Internet finance solutions can be expensive, take years to complete and require significant ongoing expenses. As a result, many of these financial service providers are realizing that if they want to deploy an Internet-based financial product or service and integrate disparate applications more quickly and efficiently, they need a comprehensive, outsourced packaged software and service solution.

The Corillian Solutions

We are a leading provider of solutions that enable financial service providers to deploy Internet-based financial services and to integrate disparate applications across their multiple delivery channels and lines of business. Our solutions include comprehensive suites of software that may be combined with our professional services to form a complete outsourced solution for offering Internet-based financial services or combined with the personnel of the financial institution to accelerate the deployment of online services and reduce the risks and lower the costs for the financial institution.

We believe our products and services provide the following benefits to our customers:

Accelerated Time to Market. Using our solutions, financial institutions can deploy Internet-based financial services to their customers quickly and reliably. In addition, we provide comprehensive systems integration and implementation services and customer support to complement the flexible architecture of our solutions.

Highly Scalable and Extensible Platform. Our software platform has been designed to be highly scalable to meet the evolving needs of our customers. Independent laboratory test results indicate that Corillian Voyager can support Internet banking programs for more than 20 million users. In addition, Corillian Voyager has been designed using universal standards, including eXtensible Markup Language for communication and Open Financial Exchange for financial transactions. This architecture enables our customers to deploy new Internet-based financial services by adding applications to our platform at any time and by integrating future applications with any Internet connected point-of-presence.

Flexibility and Control. We offer our customers the ability to take total control of the development and management of our solutions or to rely on us for these services. Customers can use their own internal personnel for implementation, a combination of our personnel and internal personnel, just our personnel or other third parties. In addition, customers have the option of hosting the Corillian products on their own premises or having the solutions hosted in our managed facility. Our customers may request that we host their solution because they lack sufficient resources or the appropriate systems to host the solution on their premises. In addition, our customers can reduce their information technology costs by outsourcing application hosting services with us. We offer customers the opportunity to transfer operation of their solution to their own premises at any time. This flexibility provides our customers with the option to gain operational control of a deployment over time as their needs and desires change.

Advanced Technology and Continued Innovation. We believe our solutions provide a comprehensive solution with a broad range of applications across multiple lines of business that can be delivered on the desktop or by wireless access. We offer certified Internet financial applications using the Open Financial Exchange data standard, and we have helped to define industry standards through organizations like the Web Services Interoperability Organization.

Reduced Cost of Internet Operations. Our products lower the costs associated with our customers Internet banking operations primarily by reducing the cost of internal development and hardware requirements. Our software solutions provide all of the functionality for Internet-based financial services in a single comprehensive package. This eliminates the cost of purchasing, integrating and installing separate solution components from multiple vendors.

Strategy

Our objective is to extend our leadership in Internet finance solutions. To that end, we seek to establish Corillian Voyager as the platform of choice for Internet finance. To achieve this objective, we intend to pursue the following strategies:

Increase Market Share. To date, we have focused our sales and marketing efforts to target the largest financial service providers. We intend to continue targeting large, industry-leading financial service providers by increasing our sales and marketing efforts. We have also successfully developed other markets, including small to mid-size financial institutions, and we intend to continue our efforts towards expanding our penetration of these markets.

Expand Breadth of Product and Service Offerings. Our current financial applications include features for Internet banking, electronic bill presentment and payment, online money movement, identity management, interfacing with personal finance managers through the Open Financial Exchange data standard, consumer banking, small business banking, corporate banking, credit card management, alerts and data aggregation. We recently expanded our product offerings to include cash management, identity management and fraud detection, and we intend to expand our product offerings to include new applications, particularly in the area of credit card management and cash management.

Leverage and Expand Strategic Relationships. We intend to leverage our relationships with leading systems integrators and value-added resellers to extend our reach and provide our customers with more comprehensive, customized solutions. We intend to continue to expand and build additional relationships with value-added resellers. In addition, we believe that forging relationships with key technology vendors is critical to delivering a comprehensive solution to financial service providers. Our strategic partners include Microsoft Corporation, NCR Corporation and Matrix Ltd, one of the leading systems integration firms in Israel. We intend to develop additional relationships to expand the scope of our functionality, and for co-marketing and distribution purposes.

Collaborate with Technology Leaders. Our products and services adhere to existing industry standards and have been designed to meet the openness and scalability required of Internet solutions. We will continue to collaborate with companies to develop new technologies and to encourage the adoption and implementation of universal standards that can foster and simplify the exchange of financial information through the Internet. We intend to continue investing in research and development to meet the needs of our customers as they evolve their Internet offerings.

Products and Services

Our solutions enable financial institutions and other Internet financial service providers to offer their customers a variety of financial services over the Internet, including Internet banking, electronic bill presentment and payment, web content management and data aggregation. We also offer a variety of services to support our customers throughout the process of implementing and maintaining our solutions. License and professional services accounted for 65% of consolidated revenues in 2006, 67% in 2005 and 71% in 2004. Post-contractual support accounted for 29% of consolidated revenues in 2006, 26% in 2005 and 22% in 2004. Hosting accounted for 6% of consolidated revenues in 2006 and 7% in 2005 and 2004, respectively.

Corillian Voyager(tm)

Corillian Voyager is a highly secure and reliable software platform upon which we have built a menu of applications to support multiple lines of business within banking. Corillian Voyager has been designed to be highly scalable to meet the evolving needs of our customers. We currently support more than 20 million users on a single instance of Corillian Voyager for our largest customer and can support even larger volumes. In addition, Corillian Voyager has

been designed using universal standards, including eXtensible Markup Language for communication and Open Financial Exchange for financial transactions. This architecture enables our customers to deploy new Internet-based financial services by adding applications to our platform at any time and by integrating future applications to any Internet connected point-of-presence.

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Line of Business Applications

Consumer Banking. Corillian Consumer Banking enables financial institutions to offer their retail customers secure, real-time access to transactional banking services through the Internet. These services can be delivered to the desktop or accessed by wireless devices. Internet users can receive their consolidated account information and transaction history and conduct financial transactions, such as transfers and loan payments, over the Internet 24 hours a day, seven days a week. The financial institutions can choose standard browser-based user interfaces or more customized Internet templates and online screens.

Small Business Banking. Corillian Small Business Banking enables financial institutions to offer their small business customers secure, real-time access to account details and money movement functions through an Internet browser or accounting packages such as QuickBooks. Businesses can control access to business banking features, accounts and transaction levels to provide financial and audit controls for their staff, and can reconcile accounts instantly.

Corporate Banking. Corillian Corporate Banking provides financial institutions a way to deliver a complete set of online money movement services to corporations. Corillian Corporate Banking integrates seamlessly and in real-time with financial institution back-office systems. As a result, corporations can make treasury management decisions based on reliable, up-to-date information, and act on them instantly. Corporate banking customers can transfer funds, view and create information reports, receive alerts on account activity, view positive pay exceptions, access lockbox accounts, manage cash concentration and delegate authority to conduct transactions and view information across complex organizations.

Credit Card Management. Corillian Credit Card Management enables financial institutions to offer their credit card customers secure, real-time access to transactional credit card services through the Internet. These services can be delivered to the desktop or accessed by wireless devices. Credit card users can receive consolidated account information and transaction history, view statements, pay bills and conduct other financial transactions over the Internet 24 hours a day, seven days a week. The financial institutions can choose standard browser-based user interfaces or more customized Internet templates and online screens.

Wealth Management. Corillian Wealth Management provides access to investment accounts within and across financial institutions, and enables planning and financial management based on that information. Wealth Management customers can view their accounts, initiate trades, conduct research, set up watch lists, make payments, and view stock tickers, market data and electronic trade confirmations. Further, Corillian Wealth Management enables advisors, or other authorized representatives, to perform transactions on behalf of their customers.

Enterprise Applications

Corillian Payments. Corillian Payments enables financial service providers to offer their customers electronic bill payment services and to deliver bills to customers through a standard Internet page, through supported personal finance management software, such as Quicken or Microsoft Money, or as a digital image of a scanned paper bill. A financial service provider can choose to deliver its own bills, the bills of direct billing businesses, or the bills of third-party bill presentment providers, such as CheckFree Corporation, Princeton eCom (recently acquired by Online Resources Corporation) or Metavante Corporation. By consolidating all bill presentment and payment options, Corillian Payments enables Internet users to pay bills in the same program where they do most of their financial transactions. This application also enables financial institutions to extend their product and service features for their customers and to present bills on behalf of their business customers.

Corillian Alerts. Corillian Alerts enables financial institutions to provide their customers with alerts on various types of activities. Balance alerts allow customers to define account balance thresholds (both high and low) that, if exceeded, will send an alert. Customers can also define notification rules based on transaction type, statement availability, and receipt of a secure message. Enhanced alerting and delivery options allow customers to receive notification for extended transaction types, such as bill payment, Positive Pay, ACH, Wire, and transactions awaiting approval via wireless devices, fax, messenger, and via text-to-speech, with user specified priorities.

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Corillian eStatements. Corillian eStatements enables financial institutions to provide their customers with online statements. The customers are notified when statements are ready, can view their statement whenever and from wherever they would like, and need not contend with a paper-based statement.

Corillian OFX. Corillian OFX enables financial institutions to offer their customers the ability to integrate their financial information with personal financial management software, such as Quicken, QuickBooks and Microsoft Money, or Internet portals such as Yahoo! Finance and MSN MoneyCentral. Each of our solutions was designed using the Open Financial Exchange data standard. This data specification streamlines the process that financial service companies must employ to connect with financial data centers and to interface with personal financial management software.

Corillian Personal Money Manager. Corillian Personal Money Manager enables a financial institution to provide its customers with a customer-driven online check registry and personal financial management tools. As a result, a financial institution s customer can categorize transactions according to his or her defined preferences and prepare budget, spending and cashflow reports.

ACH and Wire Transfers. ACH and wire transfers allow corporate customers to move funds between accounts at any financial institution, collect receivables from customers, or electronically pay suppliers, employees, and others. Receivers and templates improve the ease and efficiency of executing transfers. Customers can also make electronic state and federal tax payments using convenient templates that are kept up-to-date automatically.

Enterprise Entitlements. Corillian Enterprise Access Management provides financial institutions and their customers robust organizational modeling, user management, business rules, approval workflow, audit logging and on-behalf-of capabilities, in a simple, yet extremely powerful, authorization system. Corillian Enterprise Access Management is accessible via Web services for financial institutions seeking a way to centrally manage user access across the enterprise.

Corillian Security Solutions. We have several solutions that help clients reduce the risk of system compromise and increase the confidence of their online customers. These offerings are focused on assisting the client in deploying and maintaining a secure online platform. Security Solutions include:

    Corillian Fraud Detection System. Early warning system for Internet-based attacks against web sites;

    Corillian Intelligent Authentication. Solution designed to provide multi-layered, multi-factor authentication without sacrificing usability;

    Web site Investigation & Forensics. Tools and techniques for separating normal from abusive or fraudulent web site activity;

    Secure Coding Workshop. Workshop covering state-of-the-art secure coding techniques for web sites;

    Delivery System Security Review. Delivery system review to help ensure resistance to security threats; and

    Code-level Security Review. Code-level review by Senior Security Engineers for potential security issues (Voyager-Specific).

Corillian MultiPoint Integrator. Corillian MultiPoint Integrator is an integration platform combined with a suite of applications designed to simplify and enhance integration between multiple applications and legacy systems for

financial institutions, service providers, and data processors. Corillian MultiPoint Integrator allows over 300 clients to quickly integrate legacy systems with Web and database applications. The systems process online, real-time transactions through the communications hub of Corillian MultiPoint Integrator for home banking, loan origination, kiosks, teller platforms, call center systems, or electronic funds transfer networks.

Corillian Member Advantage(tm)

Corillian Member Advantage is a hosted solution targeted to the credit union and community banking industries. This solution consists of our best-in-class online banking solution, but is available in a shared hardware and software environment in which we can lower the operational costs considerably, thereby enabling smaller

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financial institutions to enjoy the same industry leading solutions that larger banks are able to deploy, but in a more cost effective manner.

Professional Services

We offer a menu of professional services designed to fulfill our customers needs throughout the process of product design, implementation and operation. Our services include:

Implementation Services. Our implementation services begin during the pre-sales process. Our implementation experts perform an analysis of a potential customer s product requirements and determine how these products can best be integrated with the customer s existing host infrastructure. We then develop a site survey and a project plan recommendation. Once we are chosen to install our applications, our professional service team works with the customer to ensure that every solution is integrated with the customer s existing financial transaction system for delivery over the Internet. If necessary, we write custom interfaces to handle transaction requests, validate those requests and convert them to a standard format for Internet-based presentation or to the Open Financial Exchange format for delivery to personalized financial management software. We also customize our Internet templates to provide our customers with a user interface that complements our brand recognition, design elements, color schemes and corporate logos. The implementation process is generally completed in 3 to 9 months, depending on the complexity of the project. The fees for our implementation services vary from project to project, depending on the size of the customer and the products and services selected by the customer.

Hosting Services. We offer hosting services to our customers that prefer to have us handle all of their Internet-based financial systems. Under this service option, the customer s Corillian Voyager servers reside at our managed facility, and our staff monitors and maintains the servers. Our services include weekly log auditing, installation and configuration of servers, and staff to help our customers manage system performance and daily operations. We charge a monthly hosting fee that varies based on the needs of the customer, the scope of its online services and the solutions deployed.

Consulting Services. By consulting with our staff, our customers can select and design an electronic commerce strategy. In addition to consulting with our customers on the range of products and services available to them, we help our customers with product and Internet site design. For customers that lack in-house network security professionals, we help develop the appropriate network and security protection features to ensure a secure system.

Support Services. We offer several levels of technical and maintenance support for our customers. These levels are designed to meet our customers needs and those of their customers. Our support fees vary based on which level of support the customer selects. In addition to technical support, we provide annual maintenance support for each customer. These maintenance services entitle the customer to updates and modifications of our solutions.

Directory Management Services. Corillian Directory Management Services enable a financial institution to manage and consolidate the detailed information about billers needed to effectively match and route payments to multiple remittance processors. Directory management tools can be licensed to automate and analyze the directory content allowing the financial institution to obtain the highest possible electronic payment rate. Alternatively, we offer a subscription-based service that forwards a daily update to the financial institution s biller directory that includes biller adds, changes and deletions from all remittance providers. The service also includes a monthly analysis of paper payments that can route electronically with recommended payee changes, enabling the financial institution to proactively manage its bill payments, continually optimize payment routing and improve electronic payment rates.

Training Services. We make available to our customers a variety of training services and supporting materials to help them use our applications. All courses are led by our staff and can be conducted at the customer s location or our

headquarters.

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Systems and Technology

Corillian Voyager

Corillian Voyager is a scalable platform that uses a three-tiered architecture, connecting end-users to the existing host systems of financial institutions. Corillian Voyager routes and validates requests, formats transaction responses, and stores and forwards bill payment instructions.

The three layers of the Corillian Voyager architecture each have a specific functional focus. The Web Server layer is responsible for presentation interaction with the customer, handling hyper-text mark-up language to the browser or the Open Financial Exchange data standard to the connected financial software or wireless device. The Transaction Processor layer controls the business logic for the user s request, directs the request to the appropriate host target, and assembles the results. The Host Server layer interprets and formats the transaction for the existing host system, then analyzes and returns the data fields from the response. Optional applications provide incremental services, such as batch processing of bill payment transactions or collection of electronic bills.

Corillian Technology

Our systems are designed to provide real-time data acquisition, processing and presentation for applications used to offer Internet-based financial services. Specific components and features of the technology we use to provide these benefits include:

> *Scalable Framework.* Each of the layers of Corillian Voyager is a software component that can be replicated within the Corillian Voyager configuration for redundancy and scalability. By adding an incremental component, work is distributed among servers across a network.

> *Flexible Interfaces.* Our solutions are designed to integrate with virtually any existing host system, providing a means for financial service providers to easily bring existing applications to the Internet. Our host server technology allows multiple simultaneous access to different existing and third-party systems. In addition, browser interfaces are customizable in form and function, allowing the financial service provider to display unique branding, advertising, and extended functionality.

> *Advanced Architecture.* The open architecture of Corillian Voyager enables flexible integration and rapid deployment of our line of business applications, as well as Corillian-certified applications from our partners. Powered by Microsoft® Windows Server 2003 and Microsoft.NET, Corillian Voyager is built to incorporate emerging Internet finance technology. This architectural standard allows our applications to interoperate with other application servers, such as teller and call center platforms and automated teller machine delivery systems.

> *Open Financial Exchange Data Standard.* Our solutions employ the Open Financial Exchange data standard, which was developed by Microsoft, CheckFree and Intuit to provide a unified specification for the electronic exchange of financial data among financial institutions, businesses and consumers over the Internet. This data specification standardizes the connection to financial data centers and to personal financial management software. By using the Open Financial Exchange data standard, all financial information retrieved from a financial institution can be quickly downloaded to consumer software programs, such as Microsoft Money and Quicken.

Customers

We primarily target banks and credit unions that are seeking scalable, reliable and advanced solutions that enable them to offer Internet-based financial services. We have provided our solutions primarily to mid-sized and large financial institutions (primarily banks) and large credit unions. In 2006, Capital One represented 13% of our consolidated revenues.

Strategic Alliances and Partnerships

We have marketing, technology, and resale alliances with a number of companies in the technology and financial services industries and will continue to pursue new alliances with additional companies within these

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industries. These alliances are intended to help us address new vertical markets and market segments and to enable us to provide our customers with access to additional resources and technology to enhance and customize our solutions. Some of our more significant strategic partners include:

CheckFree Corporation

CheckFree designs, develops and markets services that enable consumers to make electronic payments and collections, automate paper-based recurring financial transactions and conduct secure transactions on the Internet. CheckFree is our primary partner for remittance processing and was a developer with Intuit and Microsoft of the Open Financial Exchange data standard. We have developed a number of Voyager interfaces to CheckFree systems and resell a bill payment service provided by CheckFree called CheckFree Web.

Microsoft Corporation

Microsoft is the publisher of the Windows 2000 Server network, the Microsoft Money personal financial management program and Microsoft s new Money Explorer and MSN Money Professional products and services, and the provider of the MoneyCentral financial portal. In 2001, we signed a multi-year alliance agreement with Microsoft to deliver a joint enterprise eFinance solution to financial institutions worldwide. The agreement spans technology development, marketing, sales and support of solutions based on the Corillian Voyager platform, Microsoft Windows 2000 and 2003 Server network operating systems, and .NET, Microsoft s platform for XML web services.

NCR Corporation

In February 2001, we entered into an agreement with NCR Corporation that provides for NCR s use of the Corillian Voyager platform as its core consumer banking component for mid- to large-sized financial institutions. NCR is a leader in providing Relationship Technology^{tm} solutions to customers worldwide in the retail, financial, communications, manufacturing, travel and transportation, and insurance markets. NCR customizes the Corillian Voyager software to allow financial institutions greater flexibility in delivering Internet financial services to their customers. NCR s Internet banking service is run in a managed server model from its secure and high availability data centers in Columbia, Maryland and Dallas, Texas.

In November 2003, we extended our distribution agreement with NCR to provide NCR the right to license the Corillian Voyager platform as a part of a shared-server Internet banking solution to service small-sized financial institutions. Under the terms of the agreement, NCR will market the Voyager-enabled solution to its existing shared-server customer base, as well as new prospects in the United States. The shared-server solution will be hosted by NCR from its secure and high availability data center in Columbia, Maryland.

In February 2004, we amended our distribution agreement with NCR to provide NCR the right to market our Voyager-enabled solutions to financial institutions in markets around the world.

Matrix Ltd.

Matrix Ltd. is a leading systems integration company in Israel. Employing 2,000 software professionals, Matrix supplies advanced information technology services to over 500 clients. The company is part of the Formula Group, Israel s premier IT group, publicly traded in the United States (Nasdaq: FORTY News). Matrix has partnered with us to serve as a reseller and systems integrator to deliver next-generation online banking services to Israeli banks.

Online Resources Corporation

In 2006, Princeton eCom was acquired by Online Resources Corporation. Since 1984, Princeton eCom has continuously delivered Integrated Payment Solutions, driving growth in the electronic bill payment industry. It offers an end-to-end, hosted solution in Electronic Bill Presentment and Payment (EBPP) and bill pay for online banking and financial services. Currently, over 1,400 financial institutions and 130 billers use Princeton eCom s hosted solution for bill presentment and electronic payment. We securely integrate with the Princeton eCom bill

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payment and bill presentment-processing engine, providing our financial services customers a complete Electronic Bill Payment and Presentment solution. We resell the payment processing services of Princeton eCom (now operating as Online Resources).

Quova, Inc.

Founded in January 2000, Quova, Inc. is the leading provider of geolocation services to online businesses, including five of the world s six largest global Internet companies. Quova s patented technology provides the geographic location of website visitors in real time, enabling businesses to detect fraud, manage digital rights, target content, conduct site analysis and ensure regulatory compliance. We embed Quova s technology into our Corillian Fraud Detection System and Intelligent Authentication™ products to help financial institutions proactively detect and prevent online fraud.

Sales and Marketing

We sell our software and services primarily through our direct sales organization. As of December 31, 2006, our sales and marketing force consisted of 34 personnel, including 9 in marketing. Our direct sales efforts have historically been focused on domestic financial service providers, such as banks and credit unions. We complement our direct sales efforts through joint sales and marketing arrangements with Internet-based technology vendors, such as NCR Corporation and Matrix Ltd.

Our sales process features a multi-tiered approach that requires the involvement of our field sales personnel, our technical professionals and members of our senior management. Our sales process simultaneously targets senior business executives, personnel responsible for Internet-based initiatives and systems engineers. We employ this multi-leveled approach to accelerate the purchasing cycle.

Our products are complex, and sales and implementations can be delayed due to our customers procedures for approving large capital expenditures and deploying new technologies within their networks. As a result, our sales cycle can vary significantly and typically ranges from three to nine months.

Research and Development

Our research and development expenses totaled $13.5 million in 2006, $10.8 million in 2005, and $6.7 million in 2004. As of December 31, 2006, our research and development staff consisted of 89 personnel, including 68 engineers. Their development efforts are focused on:

Enhancements to Existing Products and Services. We continue to update and modify our solutions to enhance quality, performance and scalability, to extend functionality to address our customers changing needs, and to take advantage of improved technology within our industry.

Developing New Products and Services. We are working to expand our product and service offerings. We intend to expand our product offerings to include new consumer banking functions, as well as applications for wealth management and corporate cash management.

Participating in Technology Testing and Collaboration. We have participated in the development of industry data standards and will continue to collaborate with companies to develop new technologies and to encourage the adoption and implementation of open standards that can foster and simplify the exchange of financial information through the Internet.

Competition

The market for providing solutions to the Internet financial services industry is highly competitive, and we expect that competition will intensify in the future. We compete with a variety of companies in various segments of the Internet-based financial services industry, and our competitors vary in size and in the scope and breadth of the products and services they offer. In the area of Internet consumer banking, we primarily compete with other companies that provide outsourced Internet finance solutions to large financial institutions, including S1 Corporation and Financial Fusion, Inc. Within this market segment, we also compete with companies that offer software

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platforms designed for internal development of Internet-based financial services software, such as IBM s WebSphere, and the internal information technology personnel of financial institutions that want to develop their own solutions. In addition, vendors such as Digital Insight Corp. (recently acquired by Intuit Inc.), FundsXpress, Financial Network, Inc., Fidelity National Information Services, Inc. and Online Resources Corporation, who primarily target community financial institutions, occasionally compete with us for large financial institutions and compete with us regularly for smaller financial institutions. Several of the vendors offering data processing services to financial institutions, including Fiserv, Inc., Jack Henry & Associates, Inc. and Metavante Corporation, offer their own Internet banking solutions. Local competition for Internet consumer banking services is provided by many smaller Internet service outsourcing companies located throughout the United States. Our primary competition for providing the business banking services that financial institutions offer their commercial customers are vendors of cash management systems for large corporations such as FundTech Corporation, Digital Insight Corp. (recently acquired by Intuit Inc.) and Politzer & Haney Inc. (recently acquired by Transaction Systems Architects, Inc.).

In the market for consumer online banking solutions, we estimate that we routinely compete with six competitors. In terms of providing consumer online banking solutions to the leading financial institutions in the United States and supporting the most consumers performing online banking transactions, we are the leading provider of consumer online banking solutions. In the market for business online banking solutions, we estimate that we routinely compete with seven competitors. We recently entered the market for business online banking solutions and are building our position in this market.

We believe that our ability to compete successfully depends upon a number of factors, including:

> our market presence with financial service providers;

> the reliability, scalability, security, speed and performance of our solutions and services;

> the comprehensiveness, ease of use and service level of our products and services;

> our ability to continue to interface with financial service providers and their technology;

> our pricing policies and the pricing policies of our competitors and suppliers;

> the timing of introductions of new products and services by us and our competitors; and

> our ability to meet our customers expectations.

We expect competition to continue to increase as new companies enter our market and existing competitors expand their product lines and services. In addition, many companies that provide outsourced Internet finance solutions are consolidating, creating larger competitors with greater resources and more products than us.

Intellectual Property

Although we believe our success is more dependent upon our technical expertise than our proprietary rights, our future success and ability to compete is dependent in part upon our proprietary technology. We have received trademark registrations for the name Corillian and our logo. None of our technology is patented, but we have established an internal patent team of engineers and in-house counsel to monitor and evaluate as part of the new product development cycle our technologies and business methods for patentability. We have several patent applications pending in the United States Patent and Trademark Office.

We rely on a combination of contractual rights and copyright, trademark and trade secret laws to establish and protect our proprietary technology. We require all of our employees to sign an assignment of patents and inventions agreement and generally enter into confidentiality agreements with our employees, consultants, resellers, customers and potential customers. We also limit access to and distribution of our source code, and further limit the disclosure and use of other proprietary information. We cannot assure that the steps taken in this regard will be adequate to prevent misappropriation of our technology or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. We also cannot assure that we will not infringe upon the intellectual property rights of third parties.

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Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain or use our products or technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. The costs of defending our proprietary rights or claims that we infringe on third-party proprietary rights may be high.

Government Regulation

Numerous federal agencies have recently adopted rules and regulations protecting consumer privacy and establishing guidelines for financial institutions to follow in selecting technology vendors for solutions such as our solutions. We believe our business does not currently subject us to any of these rules or regulations that would adversely affect our business. However, these rules and regulations are new and may be interpreted to apply to our business in a manner that could make our business more onerous or costly.

As the Internet continues to evolve, we expect federal, state and foreign governments to adopt more laws and regulations covering issues such as user privacy, taxation of goods and services provided over the Internet, pricing, content and quality of products and services. If enacted, these laws and regulations could limit the market for Internet-based financial services.

If enacted or deemed applicable to us, some laws, rules or regulations applicable to financial service activities could render our business or operations more costly and less viable. The financial services industry is subject to extensive and complex federal and state regulation, and financial institutions operate under high levels of governmental supervision. Our customers must ensure their services and related products work within the extensive and evolving regulatory requirements applicable to them. We may become subject to direct regulation as the market for our business evolves. Federal, state or foreign authorities could adopt laws, rules or regulations affecting our business operations, such as requiring us to comply with data, record keeping and other processing requirements. Any of these laws, rules or regulations, or new laws, rules and regulations affecting us or our customers, could lead to increased operating costs and could also reduce the convenience and functionality of our services, possibly resulting in reduced market acceptance.

A number of proposals at the federal, state and local level and by the governments of significant foreign countries would, if enacted, expand the scope of regulation of Internet-based financial services and could impose taxes on the sale of goods and services and other Internet activities. Any development that substantially impairs the growth of the Internet or its acceptance as a medium for transaction processing could have a material adverse effect on our business, financial condition and operating results.

Backlog

As of December 31, 2006, we had a backlog of unfilled orders of $53.2 million, as compared to a backlog of $43.0 million as of December 31, 2005. We expect $39.2 million of our backlog as of December 31, 2006 will be filled during fiscal year 2007. Backlog represents contractual customer commitments, including fees for licenses, professional services, maintenance, hosting and subscriptions. Backlog is not necessarily indicative of revenues to be recognized in a specified future period. There are many factors that would impact our filling of backlog, such as our progress in completing projects for our customers and our customers meeting anticipated schedules for customer-dependent deliverables. We provide no assurances that any portion of our backlog will be filled during any fiscal year or at all, or that our backlog will be recognized as revenues in any given period.

Employees

As of December 31, 2006, we had a total of 316 employees, consisting of 149 in operations, 9 in marketing, 25 in sales, 89 in research and development, and 44 in general and administration. None of our work force is unionized. We have not experienced any work stoppages and consider our relations with our employees to be good.

Certain Financial Information

Financial information relating to foreign and domestic sales and assets for the three years ended December 31, 2006, 2005 and 2004, is set forth in Note 9 of the Notes to the Consolidated Financial Statements attached hereto.

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