DIGITAL INSIGHT CORP
Form 10-K/A
November 25, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2001

Commission File Number 0-27459

DIGITAL INSIGHT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**77-0493142**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

26025 Mureau Road, Calabasas, California 91302
(Address of principal executive offices, including zip code)

(818) 871-0000
(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, $0.001 par value per share
(Title of Class)

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 such filing requirements for the past 90 days. YES x NO ¨

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

As of January 31, 2002, the aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sales price of the registrant s common stock of $23.44 as reported by the Nasdaq National Market System, was approximately $675 million. The shares of common stock held by each officer and director and by each person known to the registrant who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of January 31, 2002, the registrant had 31,583,686 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

This Form 10-K/A amends and restates in their entirety Items 1, 2, 3, 6, 7, 7A and 8 of the Form 10-K of Digital Insight Corporation for the year ended December 31, 2001.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, anticipate, intend, plan, believe, estimate, potential, or continue, the negativ other comparable terminology. These statements are only predictions. Actual events or results may differ materially from any forward-looking statement. In evaluating these statements, you should specifically consider various factors, including the risks outlined under Risk Factors in Item 1 of Part I.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

Overview

We are a leading provider of Internet banking services to banks, credit unions and savings and loans associations, based on the number of financial institutions and Internet banking end users we serve. We offer these financial institutions cost-effective outsourced solutions, branded in their name, which include Internet banking for their retail and business customers, an authorized loan decisioning and contact center and other supporting products and services, such as electronic bill payment, portal web site technology, wireless capability, advanced target marketing, and web site development and maintenance. In general, we provide our applications to financial institutions over the Internet, from facilities hosted by us, which require minimal software installation at the customer site. As of January 31, 2002, we had contracted with 1,585 financial institutions. These financial institutions had approximately 32.3 million potential Internet banking end users. As of January 31, 2002, approximately 3 million end users were actively using our Internet banking applications.

We provide financial institutions with comprehensive Internet applications that can be installed rapidly and cost-effectively with a look and feel that preserves their unique brand identity. Our applications are designed to be readily expandable, or scalable, as the number of end users grows. Our applications also offer high levels of security, up-time availability and system back-up. We work closely with leading data processing vendors so that financial institutions can leverage their investments in existing data processing systems by fully integrating them with the Internet applications we provide.

Industry Background

Consumers, businesses and financial institutions are increasingly recognizing that the Internet is a powerful and efficient medium for the delivery of banking services, including Internet banking, bill payment and other services for individuals, and cash management, payroll and other services for the business customers of financial institutions. Consumers and small businesses use Internet banking because of its 24 hours a day, 7 days a week convenience and the ability to perform a wide range of transactions from any personal computer or Internet-enabled device. Gartner Group, a technology research and advisory firm, estimates that 18.3 million U.S. households were banking online in 2001 according to its report published in October 2001.

Financial institutions are increasingly offering Internet-based banking services to address end-customer demand, generate additional revenue opportunities, reduce the cost of delivering their products and services through alternative, more cost-effective channels, and improve customer service. International Data Corporation, or IDC, estimates, in a report dated October 2001, that the number of banks and credit unions offering online banking services increased from 1,300 in 1998 to over 6,000 in 2001. IDC, a provider of technology intelligence, industry analysis and market data related to information technology, estimates that 75% of all U.S. banks and credit unions will offer online banking services by 2003, compared to 6% at the end of 1998. Internet banking offers financial institutions a cost-effective means to deliver their products and services to those customers who prefer to interact with their financial institution electronically. Internet banking enables financial institutions to generate additional revenues by providing a web-based service channel through which to cost-effectively offer a broader portfolio of products, access a larger addressable market and maintain service availability 24 hours a day 7 days a week. Internet banking also allows financial institutions to provide a primary financial destination to their customers by collecting and consolidating financial and other kinds of data from a number of sources, including all of the customer s accounts at that institution as well as information from other Internet sources such as online brokerage and insurance firms. Many believe that financial institutions find that Internet banking features attract and retain preferred banking clients and, over time, Internet-based branches divert traffic away from more costly service delivery channels.

Early Internet banking initiatives were undertaken primarily by large financial institutions. However, there are approximately 19,500 credit unions, banks, and savings and loans in the U.S. with assets of less than

$10 billion each. These community financial institutions hold approximately $2.3 trillion in deposits, or 42% of total U.S. customer deposits. Like their larger counterparts, these institutions are increasingly seeking to provide Internet-based services to enhance revenues, lower costs and improve customer service. Moreover, as a result of the adoption of Internet banking services by their larger competitors, community financial institutions are finding themselves under growing pressure to offer Internet-based banking services in order to avoid losing customers to other Internet-enabled financial institutions that offer these services.

Some community financial institutions, which are part of our target market, have been slow to adopt Internet banking services as a result of several factors. A financial institution undertaking its own Internet banking service must develop or acquire the relevant expertise, dedicate appropriate information technology resources, maintain security systems, processes and technology and spend significant time and capital on the project. In addition, a financial institution must work closely with its data processing vendor or vendors to develop and maintain workable interfaces between its core systems and its Internet applications.

In order to remain competitive and to manage costs, financial institutions are seeking low-cost, outsourced Internet-based banking applications. The application must be rapidly and cost-effectively implemented, interface seamlessly with the financial institution s data processing vendor or vendors, preserve and extend the financial institution s own brand and provide suitable features to end users. An Internet-based application must also be reliable, secure and scalable. Finally, the application should provide a platform for expanded services which over time would provide additional revenue opportunities to the financial institution and appeal to end users who are increasingly using the Internet to research, evaluate and purchase a broad array of products and services.

Digital Insight

We provide a comprehensive portfolio of cost-effective Internet banking solutions to financial institutions over the Internet, from facilities hosted by us, which require minimal software installation at the customer site. We generate recurring revenue from financial institutions based upon the number of end users and user transaction volume, as well as fees for hosting, developing and maintaining customer web sites. Our products include separate function-rich Internet banking applications for financial institutions retail and business banking customers. AXIS Internet Banking, our retail product, includes account management, account transfers and interfaces to personal financial management software, bill payment, stock quotes, check imaging and other expanded services. AXIS Cash Management, our business banking product, includes similar features as well as payroll/direct deposits, wire and inter-account fund transfers and other services. Our AXIS Lending Services provide a selection of automated lending products, including an Internet-based real time loan decisioning product, multi-channel automated underwriting services and a 24 hours a day, 7 days a week contact center staffed with certified loan officers. Supporting products and services include portal web site technology, wireless capability, advanced target marketing, and web site development and maintenance.

We offer the following benefits to financial institutions:

Comprehensive and Customizable Solution. We offer turnkey, subscription-based solutions with all critical applications hosted on our system, including application and web site hosting, reporting tools and customized online account presentations. Our Internet banking applications can be configured to offer financial institutions and end users a variety of standard and optional features. Our web site design and implementation services also enable financial institutions to establish Internet banking services with a look and feel that preserves their unique brand identity.

Rapid and Affordable Implementation. Our subscription-based applications can be rapidly implemented and represent an affordable alternative to internally developed Internet banking applications for financial institutions. Average implementation times for our Internet banking applications range from three to four months, depending on the availability of an existing interface with a financial institution s data processing vendor and the financial institution s schedule.

Reliable, Secure, and Scalable Service. Our service is highly reliable, with an up-time availability record for our Internet banking sites averaging 99.52% during the twelve-month period ended January 31, 2002. Our systems incorporate sophisticated data encryption techniques, a series of firewalls between the Internet and financial institutions, and several layers of security technology in order to guard against unauthorized access to our network. In addition, our systems can scale rapidly to accommodate increased numbers of end users. A financial institution can take advantage of our data center and the server infrastructure of its data processing vendor to scale to meet demand, without building its own separate server infrastructure.

Real Time and Batch Online Architecture. Our architecture allows either real time or batch communication with financial institutions core data processing systems. Our ability to offer both real time and batch processing capabilities allows us to connect, or interface, with whatever type of system the financial institution employs. Real time data processing allows for transactions conducted on the web site to be immediately reflected on the host system, and allows for transactions conducted at the financial institution to be immediately reflected on the web site. Batch processing systems transfer transaction data between the Internet banking data center and the financial institution s host system on a daily or periodic basis.

Extensive Data Processing Vendor Relationships. We provide direct connections, or interfaces, to multiple vendors of core banking software and data processing services to financial institutions. As of January 31, 2002, we have developed interfaces to most of the major data processing vendors representing nearly 75% of the major core processing systems serving our addressable market of financial institutions. We continue to develop and improve interfaces to existing and additional systems. By working directly with these vendors, we can quickly and cost-effectively install our systems with customers of these vendors that purchase our applications. Once installed, these interfaces allow relatively more rapid implementation of new customers to the same core processing system. Our interfaces also allow for tight integration with other functions supported by the data processing vendor, such as loan origination, online statements and check imaging. We believe that the number of data processing vendor interfaces we have developed provides us with a significant competitive advantage.

Platform for Value-Added Services. We enable financial institutions to expand their Internet presence beyond their core banking functions by providing additional value-added products and services to their customers. These services include bill payment, bill presentment, check imaging, account aggregation and training seminars. Our applications are also capable of gathering relevant end user account activity information and usage profiles, enabling financial institutions to market timely and appropriate services to target customers, thereby creating additional revenue opportunities. We believe that these additional product and service offerings will allow financial institutions to derive additional revenue from existing and new end users.

The Digital Insight Strategy

Our objective is to enhance our position as the leading provider of Internet banking services to financial institutions as well as to provide these institutions with a competitive platform that will permit them to recognize additional revenue-producing opportunities, enhance long-term cost-efficiencies and improve customer service. To achieve this objective, we intend to:

Increase the Number of Our Financial Institution Customers. Currently, there are approximately 19,500 credit unions, banks and savings and loans in the U.S. with assets of less than $10 billion. We intend to leverage our leading market position to further penetrate the substantial market for Internet banking applications. As of January 31, 2002, we had contracts with 1,585 financial institutions throughout the U.S. We intend to attract financial institutions through one or more of our three core product offerings, namely retail Internet banking, business Internet banking and lending services.

Pursue Cross-Selling Opportunities. We currently enable financial institutions to offer Internet banking applications and automated lending capabilities to their retail and business banking end users.

For those financial institutions that use these capabilities, we believe that we have a significant opportunity to sell them additional offerings as their needs evolve and their customer base grows. We intend to cross-sell additional products and services to our current customers.

Increase End User Penetration. As of January 31, 2002, financial institutions offering our Internet banking applications had approximately 32.3 million potential end users and an overall penetration of 10%. We work with financial institutions to expand the number of end users of our Internet banking and business banking applications through marketing assistance programs and sharing best practices. We intend to continue to train the staff of financial institutions in marketing and promoting Internet banking services using the information and skills we have gained through our experience in Internet banking implementations.

Pursue Strategic Merger and Acquisition Opportunities. We intend to continue to pursue opportunities to merge with or acquire businesses that can provide us with revenue growth through the addition of financial institution customers, complementary technologies or services, or other benefits.

Broaden Product and Service Offerings. We plan to continue to offer new and enhanced products and services to provide our customers with a comprehensive platform to market and distribute a broad range of financial products over the Internet. We intend to enhance the capabilities, or functionality, of our applications to further drive end user adoption and enable our customers to offer a broad portfolio of products to better compete against larger financial institutions.

Increase the Number of Our Interfaces to Core Data Processing Systems. We intend to increase the number of our interfaces to core data processing systems to allow our applications to interface with more financial institutions. We currently interface with most of the major vendors providing services to the major financial institutions in our addressable market and our goal is to continually increase this coverage. A group of our engineers is dedicated to developing interfaces to new data processing vendors. We are currently developing interfaces to additional systems and additional functionality to existing systems.

Products and Services

Our primary products are Internet retail and business banking and automated lending applications. These applications allow a financial institution to create a customized Internet banking presence using an array of standard and optional features. We complement our primary banking applications with additional tools, such as target marketing, check imaging, wireless capability, online statements and portal web sites, and with implementation and web site services.

AXIS Internet Banking

Our AXIS Internet Banking application is an Internet-based system through which financial institutions are able to provide Internet banking to their retail customers. Standard features of this application include:

Account information. End users can view balance information and transaction history for deposit accounts, such as checking and savings, and loan accounts, such as consumer, credit card, automobile and mortgage loans.

Funds transfer. End users can transfer funds among accounts, including making loan payments.

Interfaces with personal financial management software. End users can download their account information into Quicken and Microsoft Money through our personal financial management software, developed and tested to be compatible with these popular personal finance software under license from their respective manufacturers.

In addition to these standard features, financial institutions can also choose to include the following Internet banking optional features:

Bill payment. End users can pay bills electronically 24 hours a day, 7 days a week. End users can schedule one-time or recurring payments, and can view payment history at their convenience.

Online applications. End users can submit electronic loan, credit card or other applications safely and securely to their financial institution.

Online services and additional features. End users can track stock prices, calculate portfolio values, order U.S. Savings Bonds, request check images, and order checks.

Online statements. End users can receive online account statements through AXIS Internet Banking. Online statement capabilities help financial institutions reduce operating expenses associated with paper statements while enhancing their customers experience with online banking. End users are generally able to access their statements more quickly than with paper statements delivered through traditional methods.

Wireless banking. Through our wireless banking technology, end users can access their account information through a variety of wireless devices, including cellular phones, personal digital assistants and other devices. This service offers two-way messaging, instant notifications and technology that will allow viewer customization. Wireless devices communicate with our secure wireless networks using a variety of device and network dependent encryption technologies. Additional security measures we have implemented include a set of device-specific identifiers stored within our secure data center. Further measures, such as account masking validation within Internet Banking, ensure that digital phones are linked to the correctly validated user.

AXIS Cash Management

Our AXIS Cash Management application provides a full range of Internet business banking services, which can be offered by financial institutions to their business customers. We recently introduced an upgraded version of this application that includes more robust standard features such as:

Administration platform. Businesses can control access to business banking and account features in order to provide financial and audit controls for their staff.

Account information. Businesses can view account balances and transaction history, and reconcile accounts instantly.

Funds transfer. Businesses can actively manage their accounts, setting up future-dated transfers and automatic transfers of available balances among accounts. Businesses can better manage treasury and payroll funding activities through real time access to their accounts.

Stop payment placement. Businesses can place stop payment orders on checks.

File export. Businesses can export their account information into a computer file or into business financial management and accounting software.

Optional features of AXIS Cash Management include:

Bill payment. Businesses can pay bills electronically 24 hours a day, 7 days a week. Businesses can schedule one-time or recurring payments and can view payment history at their convenience.

Automated Clearing House services. Businesses can initiate electronic payments, including business-to-business payments and payroll and other direct deposit disbursements.

Wire transfers. Businesses can originate wire transfers of funds to accounts with other financial institutions or trade partners.

Online services and additional features. Businesses can complete predefined online forms, request photocopies, order checks, and track portfolios.

AXIS Lending Services

Our AXIS Lending Services enable financial institutions to provide a selection of automated lending products that offer rules-based underwriting on behalf of our financial institution clients, applying client-specific and client-defined rules to reach a credit decision. These products are offered through various channels to match consumer preferences, including real time loan evaluation over the Internet for consumer and real estate loans, and a 24 hours a day, 7 days a week contact center staffed with certified loan officers. Real-time loan evaluation over the Internet applies rules-based underwriting to a loan application that is entered on the Internet by the applicant. The underwriting process includes the retrieval of an electronic credit report and a credit decision response to the applicant, generally in a matter of minutes. Financial institutions can contract to have the entire loan process managed through a loan officer at our contact center or have the loan officer available only for special follow-up items raised in the Internet application process. Through AXIS Lending Services, we can simplify complex processes, such as tracking loan applications and delivering conditional approvals or referral decisions on behalf of financial institutions. AXIS Lending Services feature interfaces to major loan origination systems, online credit bureau verification, comprehensive scoring with custom guidelines, pre-qualification for real estate and consumer loans, and complete online underwriting for consumer loans. We also recently introduced DeskTop Lender which provides financial institutions loan officers with desktop decisioning through the Internet.

AXIS Management Console

Our Internet services management console provides financial institutions with a set of tools to actively manage their Internet banking system. With this management console, a financial institution can remotely manage its web site, generate reports on daily activities and keep transaction logs and activity records for site events. A financial institution can also use this management console to configure the target marketing module for specific promotions.

Additional Product Modules

Our AXIS Advanced Target Marketing module is designed to help make a financial institution s web site a cost-effective sales tool. AXIS Advanced Target Marketing allows financial institutions to individually target online account holders and present them with opportunities to purchase Internet banking products and services to fit their needs. Our AXIS Advanced Target Marketing module enhances and expands the marketing capabilities of our Internet Banking clients, which includes our Online Survey capability and expanded targeting parameters.

AXIS eCommerce allows financial institutions to provide a financial portal through which they can offer a wide array of financial products and information in a convenient, secure Internet environment, fully integrated with the financial institution s own products and content. Among the integrated financial services offered through AXIS eCommerce are discount brokerage services, auto researching and buying, travel services, insurance, credit reports, consumer tax services and IRA servicing.

For financial institutions without an existing web site, our team of experts develops a fully interactive site with proprietary and value-added financial services such as application forms, financial calculators and links to other web sites. For financial institutions with an existing web site, our implementation services are focused on integrating the Internet banking and/or business banking application into that site. In both instances, financial institutions can elect to have us host and maintain their web site.

Systems Architecture

Our applications are designed to be easily and rapidly deployed in an environment hosted and maintained by us in our data centers. Within our data centers, we provide servers and data storage, as well as data transmission capacity, known as bandwidth. The financial institution or data processing vendor is connected to our systems through our private network, which is based on a technology known as frame relay. Our systems architecture is designed to provide both real time and batch data acquisition, processing and presentation for Internet banking and other applications. Our application servers make use of software known as information exchange brokers that retrieve and initiate transactions using data located on financial institutions host systems, bill payment providers servers, stock information databases or relational databases. Our applications are driven by templates which define how data is to be presented. This template-driven approach allows customization by the financial institution by supporting multiple languages and multiple web site designs.

Data Centers

We currently provide our Internet banking services out of a data center located in Westlake Village, California and at our regional center in Norcross, Georgia. All financial institutions on our real time architecture are served through the Westlake Village data center; most batch financial institutions are served through the Norcross data center. In addition, we operate a smaller data center in Sacramento in connection with our lending division. All of our data centers currently have disaster recovery capabilities. These data centers allow for emergency backup and disaster recovery functions to each other in the event of system interruption or shutdown involving one of the data centers.

Each of our data centers provides a controlled access environment with security measures ranging from alarms, video cameras, security guards, biometric access controls and a centrally monitored key card access system. Our data centers are also equipped with a self-contained power system that includes a high capacity battery backup system, providing continuous power to all production systems. In addition, diesel power generators provide backup power to each of our facilities in Westlake Village, Norcross and Sacramento in the event of an extended power outage. We plan to maintain our Westlake Village and Norcross data centers in a manner that will continue to provide system redundancy, fail-over from one facility to the other and emergency backup capabilities.

While the architecture of the two systems was largely integrated by early 2001, the process of failing over to a recovery site currently involves some manual intervention and there is some attendant delay and loss of use of non-key features and functionality. The final data center integration efforts are now substantially complete. The resulting configuration permits further development of the redundancy and recovery mechanism already in place.

Customers

Our target market is the approximately 19,500 financial institutions in the United States with assets of less than $10 billion each. As of January 31, 2002, we had contracts with 1,585 financial institutions, 1,380 of which had contracted with us for Internet banking services, 502 of which had contracted for cash management services and 153 of which had contracted for lending services. There were approximately 3 million active Internet banking end users at January 31, 2002, up 80%, from 1.6 million at January 31, 2001. We had a total of 1,171 Internet banking clients with live sites at January 31, 2002, representing approximately 29.3 million potential end users and an overall penetration rate of 10%. The total number of potential end users of the 1,380 contracted Internet banking institutions was approximately 32.3 million.

For the year ended December 31, 2001, no individual financial institution accounted for over 10% of our total revenues.

Third-Party Relationships

We have relationships and have developed direct connections, or system interfaces, with most of the major vendors of core data processing software and outsourced data processing services to financial institutions. These system interfaces enable us to access a financial institution s host system to provide end users access to their account data. In addition to developing new interfaces, we are currently proceeding with initiatives to significantly enhance numerous existing interfaces in order to deliver more robust connectivity and increase operating efficiencies. As of January 31, 2002, we have developed interfaces to most of the major systems that provide services to financial institutions, some of which are supported within joint marketing arrangements that we have in place with data processing vendors.

We have a five-year marketing agreement with BISYS which began in April 1998, with automatic renewals for successive five-year terms unless terminated by either party prior to renewal. BISYS, which provides transaction processing and other administrative and computer processing services to banks and financial institutions, offers our products to its customer base. BISYS is entitled to retain a portion of the fees collected on implementation and monthly service.

To deliver bill payment services, we have relationships with major providers such as Metavante Corporation and CheckFree Services Corporation. Both Metavante and CheckFree support single, one-time payments or recurring payments via electronic payment methods, also known as Automated Clearing House transfers, as well as paper-based checks. Under either method, the payment is debited from a depositary account of the payor. Our previous agreement with Metavante expired in February 2001. Our new agreement, which has a term of four years, may be renewed for additional one-year terms following the expiration of the initial term in February 2005. Our agreement with CheckFree is renewable for additional one-year terms following the expiration of the initial term in March 2004. Our agreements require us to pay fixed, minimum and variable fees based on factors such as the number of customers, end users and bill payment transactions. The agreements also require us to pay certain minimum payments on a monthly or annual basis.

Sales and Marketing

We utilize a direct sales model. As of January 31, 2002, our sales and marketing staff consisted of 62 people, who are responsible for prospecting and acquiring new accounts and cross-selling additional products to those accounts. Our sales team is generally organized by geographic regions managed by regional sales directors who manage individual sales staff assigned to their region. We also have a dedicated national sales staff that targets larger institutions without regard to regions. We also have an internal add-on sales team to target existing customers for cross-selling opportunities.

Our typical sales cycle is approximately four to six months for new financial institution customers and approximately two months for follow-on or upgrade sales to existing financial institution customers. Our primary customer contact for new sales in smaller financial institutions is generally the chief executive officer, the chief financial officer or the chief information officer, or a combination of these three, and our primary contact in larger financial institutions is generally the head of retail banking or business banking. Our primary customer contact for follow-on sales is usually the functional manager or the direct manager of either home banking, cash management or lending, depending upon the solution sold.

Our primary marketing efforts are focused on building brand awareness among financial institutions and identifying potential customers. Our marketing efforts include:

- telemarketing;
- press relations;
- direct mail, which uses product and service literature as well as reprints of news articles;

trade shows; and

meetings with national and regional user groups of Internet banking services and third-party data processing vendors.

In addition, we receive marketing benefits from endorsements and promotional arrangements. We are exclusively endorsed by the American Bankers Association, or ABA, for our Internet banking product. The ABA endorsement, issued by the Corporation for American Banking, or CAB, an ABA subsidiary, was granted to us after an extensive due diligence process which included an analysis of our management, financial soundness, solution functionality, marketing capabilities and customer service standards, as well as a review of other national providers of Internet banking solutions. Our endorsement agreement requires CAB to promote our Internet banking services to all ABA members in the United States and permits us to display the American Bankers Association-Sponsored logo in all of our marketing materials related to Internet banking services. We provide CAB with a small percentage share of the revenues received from ABA members who have become our customers since the effective date of the endorsement agreement, with a guaranteed minimum payment of $800,000 by the end of the third year. The endorsement agreement expires on May 14, 2002 and is renewable for consecutive three-year terms. We are presently evaluating the terms of the renewal or whether to renew our ABA endorsement. In addition, we have promotional arrangements with several state banking associations that promote our products to their constituents in exchange for referral fees.

Product Development

As of January 31, 2002, our product development staff consisted of 180 software developers and engineers, as well as product and project managers. Their development efforts are focused on:

Enhancements to Existing Products. We are continuously developing new features and functions for our retail and business banking and lending products in order to provide a broader range of functions. Additional product enhancements will provide better and more streamlined usability for both our financial institutions and for their end users.

Introduction of New Product Lines. We are adding new products to our product line offerings, including consolidated bill presentment and additional payments products. We are also in the final stages of completing a new online lending platform, which will include an online mortgage lending module. These new features and products are in final testing on certain of our clients beta sites, where we are monitoring them for quality assurance.

Interfaces with Data Processing Vendors and Other Third Parties. We are continuing to enhance and expand our interfaces to financial institutions core data processing systems and other third-party systems, such as online check imaging.

Additional Web Site Customization. We intend to offer financial institutions additional options and capabilities for customization of their web sites by creating more templates and making these templates more flexible.

Enhancements to Target Marketing. Our Advanced Target Marketing product enables our financial institutions to better target their end users. Specific enhancements to this product include enabling our financial institution administrators to create pre-packaged campaigns to increase cross-selling of online products and services.

Other Products and Services. We are working to expand our offerings to include related financial service capabilities such as enhanced account aggregation through more robust end user reporting metrics and single sign-on capability; person-to-person payments which will allow end users to transfer money between accounts and between friends, family and associates; and personal financial management through tools embedded within our products which allow end users to effectively manage finances through such features as interest rate comparison and investment optimization calculators.

Any new or enhanced products we introduce may contain undetected or unresolved software or hardware defects when they are first introduced or as new versions are released. In the past, we have discovered errors in our products and it is possible that design defects will occur in new products. These defects could result in a loss of sales and additional costs as well as damage to our reputation and the loss of relationships with our customers.

Competition

The market for Internet banking services is highly competitive, and we expect that competition will intensify in the future. In the area of Internet banking, we primarily compete with other companies that provide outsourced Internet banking services to financial institutions, including Online Resources, S1 Community & Regional eFinance Group (a subsidiary of S1 Corporation and formerly known as Q-Up), FundsXpress, Financial Fusion (a subsidiary of Sybase), Netzee, and Liberty. Also, vendors such as Corillian and S1 Corporation, who primarily target the largest financial institutions, occasionally compete with us in our market segment. In addition, several of the vendors offering data processing services to financial institutions offer their own Internet banking solutions, including EDS, Fiserv, Jack Henry and Metavante. Local competition for Internet banking services is provided by more than 100 smaller online service outsourcing companies located throughout the U.S.

Our primary competition for providing the business banking services that financial institutions offer their business customers are vendors of cash management systems for large corporations such as ADP, Magnet, Politzer & HANEY and S1 Corporation.

We also face potential indirect competition from Internet portals such as Quicken.com, MSN.com, and Yahoo! which might serve as an alternative to financial institutions web sites, particularly for bill payment, bill presentment and account aggregation services. In addition, we could experience competition from our customer financial institutions and potential customers who develop their own online banking solutions. Rather than purchasing Internet banking products and services from third-party vendors, financial institutions could develop, implement and maintain their own services and applications. We can give no assurance that these financial institutions will perceive sufficient value in our products and services to justify investing in them.

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

- our market presence with financial institutions and related scale advantages;
- the reliability, security, speed and capacity of our systems and technical infrastructure;
- the comprehensiveness, scalability, ease of use and service level of our products and services;
- our ability to interface with vendors of data processing software and services;
- 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 support unique customer requirements.

We believe these factors will help enhance our competitive position, grow our market share and maintain our customer base. We also expect competition to increase significantly as existing or new companies enter our market and current competitors expand their product lines and services.

Government Regulation

The financial services industry is subject to extensive and complex federal and state regulation. Our current and prospective customers, which consist of financial institutions such as commercial banks, savings and loans associations, credit unions and savings banks, operate in markets that are also subject to rigorous regulatory oversight and supervision. Financial institutions must ensure that our services and related products work within the extensive and evolving regulatory requirements applicable to them, including those under federal and state truth-in-lending and truth-in-savings rules, usury laws, the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Electronic Fund Transfer Act, the Fair Credit Reporting Act, the Bank Secrecy Act, the USA Patriot Act of 2001, the Real Estate Settlement Procedures Act of 1974, the Bank Service Company Act, the Community Reinvestment Act, privacy and information security regulations, laws against unfair or deceptive practices, the Electronic Signatures in Global and National Commerce Act, and other state and local laws and regulations. The compliance of our products and services with these requirements depends on a variety of factors including the particular functionality, the interactive design and the classification of the financial institution. Our financial services customers must assess and determine what is required of them under these regulations and are responsible for ensuring that our system and the design of their web sites conform to their regulatory needs. We do not make representations to financial institutions regarding applicable regulatory requirements, and rely on each financial institution to identify its regulatory issues and to adequately specify appropriate responses. It is not possible to predict the impact that any of these regulations could have on our business.

We are not licensed by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the National Credit Union Administration or other federal or state agencies that regulate or supervise depository institutions or other providers of financial services. We are subject to examination by federal depository institution regulators under the Bank Service Company Act, the Examination Parity and Year 2000 Readiness for Financial Institutions Act and the Gramm Leach Bliley Act of 1999. Although we believe we are not subject to direct supervision by federal and state banking agencies relating to other regulations, we have from time to time agreed to examinations of our business and operations by these agencies. These regulators have broad supervisory authority to remedy any shortcomings identified in any such examination. We are also subject to encryption and security export laws and regulations which, depending on future developments, could render our business or operations more costly, less efficient or impossible.

Particularly in light of the recent terrorist attacks upon the U.S., federal, state or foreign authorities could adopt additional laws, rules or regulations affecting our business operations, such as requiring us or financial institutions to comply with data, record keeping, security, and other processing requirements. We may become subject to additional regulation as the market for our business evolves. It is possible that laws and regulations may be enacted with respect to the Internet, covering issues such as pricing, content, characteristics, taxation and quality of services and products. Existing regulations may be modified.

The Electronic Fund Transfer Act regulates certain electronic fund transfers made by providers of access devices and electronic fund transfer services. Under Regulation E of that Act, financial institutions are required, among other things, to provide certain disclosures to retail customers using electronic transfer services, to comply with certain notification periods regarding changes in the terms of service provided and to follow certain procedures for dispute resolutions. The Federal Reserve Board could adopt new rules and regulations for electronic fund transfers that could lead to increased operating costs and could also reduce the convenience and functionality of our services, possibly resulting in reduced market acceptance. If enacted or deemed applicable to us, the laws, rules or regulations applicable to financial services activities could render our business or operations more costly, burdensome, less efficient or impossible. We cannot assure that federal, state or foreign governmental authorities will not adopt new regulations addressing electronic financial services or operations generally that could require us to modify our current or future products and services. The adoption of laws or regulations affecting our business or that of financial institutions could have a material adverse effect on our business, financial condition and operating results.

A number of proposals at the federal, state and local level and by certain foreign governments 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 certain 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.

Proprietary Rights

Although we believe that our success is more dependent upon our technical expertise than our proprietary rights, our future success and ability to compete are dependent in part upon our proprietary technology. We have filed an application to register Digital Insight as our trademark. None of our technology is currently patented. Instead, we rely on a combination of contractual rights and copyright, trademark and trade secret laws to establish and protect our proprietary technology. Some of our competitors have patents or pending applications to obtain patents on their technology. Due to the nature of the technology associated with our products and services, we do not believe that our ability to compete currently depends to any significant extent on whether or not our technology is patented or patentable. We enter into confidentiality agreements with our employees, consultants, resellers and 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 by us 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. 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.

Employees

As of January 31, 2002, we had a total of 738 employees, including 19 part-time employees. Of these employees, 419 work in operations, 62 in sales and marketing, 180 in product development and 77 in finance and administration. None of our work force is currently unionized. We have not experienced any work stoppages and consider our relations with our employees to be good.

Recent Developments

On January 28, 2002, we acquired Virtual Financial Services, Inc. (ViFi), a privately owned company based in Indianapolis which provides Internet banking and related financial services to community-based financial institutions. As a result of that acquisition, we added over 150 new customers, over 425,000 active Internet banking end users and approximately 4 million potential Internet banking end users. We plan to migrate the ViFi customers to our AXIS platform and aggressively pursue cross-selling opportunities for our products and services with these customers.

Risk Factors

You should carefully consider the following risk factors in your evaluation of us. Our business and results of operations could be seriously harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you may lose part or all of your investment.

We have a history of losses, expect future losses and cannot assure you that we will achieve or maintain profitability.

Although our revenues have increased in every quarter since 1996, we have not achieved profitability and cannot be certain that we will realize sufficient revenues to achieve profitability. We incurred net losses of $18.2 million in the year ended December 31, 1999, $60.0 million in the year ended December 31, 2000, and $51.9 million for the year ended December 31, 2001. As of December 31, 2001, we had an accumulated deficit of $139.1 million. We plan to broaden our customer support capabilities, increase our market share, and continue to build our operational infrastructure. If growth in our revenues does not significantly outpace the increase in these expenses, we may not achieve or sustain profitability.

The expected fluctuations of our operating results could cause our stock price to fluctuate.

We expect that our operating results may fluctuate significantly in the future based upon a number of factors, many of which are not within our control. We base our operating expenses on anticipated revenue growth and our operating expenses are relatively fixed in the short term. Our revenue model is based largely on recurring revenues derived from actual end user counts. The number of our total end users is affected by many factors, many of which are beyond our control, including the number of new user registrations, end user turnover, loss of customers, and general consumer trends. We may expend substantial funds and management resources to increase end user penetration and still fail to achieve the targeted end user growth. Accordingly, our results of operations for a particular period may be adversely affected if the revenues based on the number of end users forecasted for that period are less than expected. As a result, if our revenues are lower than we expect in some future period, our operating results may be below the expectations of market analysts or investors. If this occurs, the price of our common stock would likely decrease.

Our operating results may also fluctuate in the future due to a variety of other factors, including:

- the overall level of demand for Internet banking services by consumers and businesses and the demand for our products, product enhancements and services in particular;
- loss of significant customers due to a non-renewal of the service contract, an acquisition of the customer by another financial institution, insolvency of the customer and other reasons;
- actions taken by our competitors, including the introduction of new products or changes in their pricing models;
- spending patterns and budgetary resources of financial institutions and their end user customers;
- technical difficulties, system downtime, system failures or reductions in service levels;
- the timing of upgrades to our computer hardware infrastructure;
- increases in operating costs beyond anticipated levels;
- a negative outcome in any significant legal proceeding or prolonged litigation;
- the timing of customer product implementations or our failure to timely complete scheduled product implementations; and
- governmental actions affecting Internet operations or content.

We may not achieve the benefits we expected from our recent acquisitions, which may have a material adverse effect on our business, financial condition and operating results.

We closed the acquisitions of *n*Front, Inc. (*n*Front) on February 10, 2000, 1View Network Corporation (1View) on June 21, 2000, AnyTime Access, Inc. (ATA) on July 31, 2000 and ViFi on January 28, 2002. We must overcome significant challenges in order to realize the benefits and synergies from these and future acquisitions, including the timely, efficient and successful execution of a number of post-acquisition events. Key events include:

- integrating the operations of the acquired companies with our operations;
- retaining the existing customers and strategic partners of each company;
- retaining and assimilating the key personnel of each company;
- offering the existing services of each company to the combined company s customers;
- developing new services that utilize the assets of the acquired companies; and
- maintaining uniform standards, controls, procedures and policies.

The successful execution of these post-acquisition events involves considerable risks and we may not be successful in executing them. These risks include:

- the potential disruption of our ongoing business and distraction of our management;
- the difficulty of incorporating acquired technology and rights into our products and services;
- unanticipated expenses related to technology integration;
- the impairment of relationships with employees and customers as a result of any integration of new management personnel; and
- potential unknown liabilities associated with the acquired businesses.

We may not succeed in addressing these risks or any other problems encountered during the integration process.

If we fail to effectively manage our recent and any future growth, our results of operations and reputation could be harmed.

We have recently experienced significant growth. If we fail to effectively manage this growth and any future growth, our results of operations and reputation could be harmed. We continue to increase the scope of our operations and have significantly increased the number of our customers from approximately 400 as of September 30, 1999 to 1,585 as of January 31, 2002. Moreover, we plan to continue to hire a significant number of employees this year. This resulting growth has placed, and is expected to continue to place, significant demands on our personnel, management and other resources. We must continue to improve our operational, financial and management information systems to keep pace with the growth of our business.

Our ability to sell our products and grow our business could be significantly impaired if our management team is unable to work together effectively or if we lose the services of key personnel.

Our business is highly dependent on our executive officers. We have entered into compensation agreements with various personnel, but we do not have employment agreements with any of our employees. The loss of the services of any of our executive officers or the inability to identify, hire, train and retain other qualified personnel in the future could harm our business. For example, we have recently hired a new chief financial officer. There can be no guarantee that our new chief financial officer will be able to work effectively with our existing management team.

Competition for key personnel and other highly qualified technical and managerial personnel in the Internet banking services industry is intense, and we cannot assure you that we would be able to recruit management personnel to replace these individuals in a timely manner, or at all, on acceptable terms.

We currently rely on two independent data centers to provide our Internet banking products and services; any failure in either data center could cause us to lose customers.

In the event of a failure or interruption in our systems, our reputation could be materially adversely harmed and we could lose many of our current and potential customers.

All of our communications and network equipment related to our Internet banking operation is currently located in Westlake Village, California and at our regional center in Norcross, Georgia. We plan to maintain these two data centers in a manner that will continue to provide system redundancy, fail-over from one facility to the other and emergency backup capabilities. While the architecture of the two systems was largely integrated by early 2001, the process of failing over to a recovery site currently involves some manual intervention, and there is some attendant delay and loss of use of non-key features and functionality. We cannot assure you that these data centers will continue to provide full system redundancy, fail-over and disaster recovery capabilities as expected. In addition, we may experience problems during the recovery or fail-over process that could cause system failures and decreased levels of service. The final data center integration efforts are now substantially complete. The resulting configuration permits further development of the redundancy and recovery mechanisms already in place. Although we perform testing on a periodic basis to ensure that recovery mechanisms perform as planned, unexpected failure of any of these mechanisms may prevent a successful recovery.

Although we have a disaster recovery plan in place, we do not currently have the technology to provide instantly recovered, full Internet services if either the Westlake Village facility or the Norcross facility is not functioning. A natural disaster, such as a fire, an earthquake or a flood, at either of our facilities could result in failures or interruptions in providing our Internet banking products and services to our customers. Furthermore, our Westlake Village facility may be subject to rolling blackouts if the California energy crisis returns. Although we maintain and regularly test an uninterruptible power supply system for our critical systems, consisting of a back-up battery and a diesel generator, there is no assurance that this system will function properly, or at all, in case of a power loss. In addition to a potential loss of power, our systems are vulnerable to operational failures, telecommunications failure and similar events. For example, in July 2000, logical corruption to our system in one of our data centers caused an intermittent outage of approximately 48 hours while the problem was corrected. We have contracted to provide a certain level of service to our customers and, consequently, a failure or interruption of our system has in the past caused, and in the future could cause, us to refund fees to some of our customers to compensate for decreased levels of service. Even with the integration of our two facilities, we could experience a failure or interruption in our systems, which could lead to delays, loss of data or the inability to provide services to our customers.

We are dependent on the widespread adoption of Internet banking by financial institutions, which have historically been slow to do so.

We expect that we will continue to depend on Internet banking products and services for substantially all of our revenues in the foreseeable future. However, the market for Internet banking is still in the early adoption stage. To date, Internet banking has developed slowly within financial institutions, and purchasing decisions for Internet banking products are often delayed due to uncertainties relating to cost, return on investment and end user customer acceptance. In particular, some community financial institutions, which are part of our target market, have been slower to adopt Internet banking than larger banks. We cannot predict the size of the market for Internet banking among financial institutions, the rate at which that market will grow, or whether there will be widespread end user acceptance of Internet banking products and services such as ours.

We also depend on our financial institution customers to market and promote our products to their end user customers. Neither we nor our financial institution customers may be successful in marketing our current or future Internet banking products and services. Moreover, financial institutions generally agree to use our products and services pursuant to contracts with durations that range from one to five years. Upon expiration, these contracts may be discontinued and we may lose customers as a result. Unless our Internet banking products and services are successfully deployed and marketed by a large number of financial institutions and achieve widespread market acceptance by their end user customers for a significant period of time, we will not be able to achieve our business objectives and increase our revenues.

We depend on the efficient operation of the Internet, other networks and systems of third parties; if they do not operate efficiently, we will not be able to effectively provide our products and services.

We depend on the efficient operation of network connections from our customer financial institutions, their data processing vendors and bill payment providers. Further, portions of our revenue are dependent on continued usage by end users of Internet banking services and their connections to the Internet. Each of these connections, in turn, depends on the efficient operation of web browsers, Internet service providers and Internet backbone service providers, all of which have had periodic operational problems or have experienced outages. In addition, the majority of our services depend on real time connections to the systems of financial institutions, data processing vendors and bill payment providers. Any operational problems or outages in these systems would cause us to be unable to provide a real time connection to these systems and we would be unable to process transactions for end users, resulting in decreased revenues. In addition, any system delays, failures or loss of data, whatever the cause, could reduce customer and end user satisfaction with our products and services and harm our sales.

We depend on cooperation from data processing vendors for financial institutions, some of whom have resisted efforts in the past to allow the integration of our products and services with their systems.

Our products involve integration with products and systems developed by data processing vendors that serve financial institutions. If any of our products fail to be supported by financial institutions data processing vendors, we would have to redesign our products to suit these financial institutions. We cannot assure that any redesign could be accomplished in a cost-effective or timely manner. We rely on these vendors to jointly develop technology with us and to disclose source code specifications to enable our products to integrate effectively with their products and systems. In the past, some vendors have resisted integrating our products or have caused delays or other disruptions in the implementation process. Several of these data processing vendors offer or are planning to offer Internet banking products and services that are directly competitive with our products and services and have resisted efforts to allow us to integrate our products and services with their systems in the past. In addition, financial institutions data processing vendors may develop new products and systems that are incompatible with our products. Our failure to integrate our products effectively with financial institutions data processing vendors could result in higher implementation costs or the loss of potential customers.

Competition from third parties could reduce or eliminate demand or result in lower prices for our products and services.

The market for Internet banking services is highly competitive. We may not be able to compete successfully against our current or future competitors and, accordingly, we cannot be certain that we will be able to expand the number of our customers and end users, retain our current customers or third-party service providers or maintain our current pricing levels for our products and services. We face competition from three main areas: other companies with outsourced Internet banking offerings, vendors of data processing services to financial institutions, and smaller, local online service outsourcing companies. Also, vendors who primarily target the largest financial institutions occasionally compete in our target market. Many of our current and potential competitors have longer operating histories and may be in a better position to produce and market their services due to their greater financial, technical, marketing and other resources, as well as their significantly greater name recognition and larger installed bases of customers. In addition, many of our competitors have well-established relationships with our current and potential financial institution customers and data processing vendors and have extensive knowledge of our industry.

Security breaches could damage our reputation and business.

Our networks may be vulnerable to unauthorized access, computer viruses and other disruptive problems. We transmit confidential financial information in providing our services. Users of Internet banking and other electronic commerce services are concerned about the security of transmissions over public networks. Therefore, it is critical that our facilities and infrastructure remain secure and be perceived by the marketplace as secure. A material security breach affecting us could damage our reputation, deter financial institutions from purchasing our products, deter their end user customers from using our products, or result in liability to us. Further, any material security breach affecting our competitors could affect the marketplace s perception of Internet banking in general and have the same adverse effects.

Concerns over security and the privacy of end users have intensified both within and outside of the U.S., and may inhibit the growth of the Internet and other online services generally, especially as a means of conducting commercial transactions. Any well-publicized compromise of security could deter people from using the Internet or using it to conduct transactions that involve transmitting confidential information. We may need to expend significant capital or other resources to protect against the threat of security breaches or to alleviate problems caused by breaches. Although we intend to continue to implement state-of-the-art security measures, persons may be able to circumvent the measures that we implement in the future. Eliminating computer viruses and alleviating other security problems may result in interruptions, delays or cessation of service to users accessing web sites that deliver our services, any of which could harm our business.

Our failure to respond to rapid change in the market for Internet banking could cause us to lose revenue and harm our business.

The market for Internet banking services is new and unproven and is subject to rapid change. Our success will depend substantially upon our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing financial institution and end user requirements and incorporate technological advancements. If we are unable to develop new products and enhanced functionalities or technologies to adapt to these changes or if we cannot offset a decline in revenues of existing products by sales of new products, our business would suffer. In addition, our product development process involves a number of risks. Developing technologically advanced products is a complex and uncertain process requiring innovation as well as the accurate anticipation of technology and market trends. We budget our research and development expenditures based on planned product introductions and enhancements. If we fail to timely and cost-effectively develop new products that respond to new technologies and the needs of the Internet banking services market, we will lose revenue and our business will suffer.

The demand for our products and services could be negatively affected by reduced growth of commerce over the Internet or delays in the development of the Internet infrastructure.

Our future success depends heavily on the Internet being accepted and widely used for commerce. If Internet commerce does not continue to grow or grows more slowly than expected, our business would suffer. There are a number of reasons that consumers and businesses may reject the Internet as a viable commercial medium in general, or as a suitable vehicle for banking transactions in particular. These reasons include potentially inadequate network infrastructure, security concerns, slow development of enabling technologies, reliability and quality problems, and issues relating to ease and cost of access. In particular, the Internet infrastructure may not be able to support the demands placed on it by increased Internet usage and data transmission capacity requirements. In addition, delays in the development or adoption of new standards and protocols required to support increased levels of Internet activity or increased government regulation could cause the Internet to lose its viability as a commercial medium. Even if the required infrastructure, standards, protocols or complementary products, services or facilities are developed, we may incur substantial expenses adapting our solutions to changing or emerging technologies.

We could be subject to potential liability claims related to use of our products and services.

Financial institutions use our products and services to provide Internet banking services to their customers. Any errors, defects or other performance problems in our products and services could result in financial or other damages to these financial institutions for which we may be liable. A product liability claim brought against us, even if not successful, would likely be time consuming, result in costly litigation and could seriously harm our business and reputation. Although our contracts typically contain provisions designed to limit our exposure to liability claims, existing or future laws or unfavorable judicial decisions could negate these limitation of liability provisions. Moreover, we may be liable for transactions executed using Internet services based on our products and services even if the errors, defects or other problems are unrelated to our products and services.

Our stock price is volatile.

The market price of our common stock has fluctuated significantly in the past and in the future could fluctuate in response to the following particular factors:

- actual or anticipated variations in operating results;
- announcements by us or our competitors of new products, significant contracts, acquisitions, or relationships;
- additions or departures of key personnel;
- changes in estimates or ratings of securities analysts;
- future equity or debt offerings or acquisitions or our announcements of these transactions; and
- economic well-being of financial institutions.

In addition, in recent years, the stock market in general, and the Nasdaq National Market and the securities of technology companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

Our lending operation could be adversely impacted by a downturn in the credit industry and by seasonal demand.

A downturn in the credit industry, caused by increases in interest rates or a tightening of credit, among other factors, could harm our lending division s operations. A softening of demand for our outsourced solutions caused by a weakening of the economy generally may result in decreased revenues or lower growth rates. Also, the lending industry is generally subject to seasonal trends affecting loan demand.

Government regulation of our business could cause us to incur significant expenses, and failure to comply with certain regulations, if adopted, could make our business less efficient or impossible.

The financial services industry is subject to extensive and complex federal and state regulation. Financial institutions such as commercial banks, savings and loans associations, savings banks, and credit unions operate under high levels of governmental supervision. Our customers must ensure that our services and related products work within the extensive and evolving regulatory requirements applicable to them. We do not represent that our systems comply with such regulations.

Neither federal depository institution regulators nor other federal regulators of financial services require us to obtain any licenses. We are subject to examination by federal depository institution regulators under the Bank Service Company Act, the Examination Parity and Year 2000 Readiness for Financial Institutions Act and the Gramm Leach Bliley Act of 1999. Although we believe we are not subject to direct supervision by federal and state banking agencies relating to other regulations, we have from time to time agreed to examinations of our business and operations by these agencies. These regulators have broad supervisory authority to remedy any shortcomings identified in any such examination.

Except as noted above, our business is not subject to federal and state regulations applicable particularly to financial institutions. However, federal, state or foreign authorities could adopt laws, rules or regulations relating to the financial services industry that affect our business, such as requiring us or our customers to comply with data, record keeping and processing and other requirements. It is possible that laws and regulations may be enacted with respect to the Internet, covering issues such as end user privacy, pricing, content, characteristics, taxation and quality of services and products. Existing regulations may be modified. If enacted or deemed applicable to us, these laws, rules or regulations could be imposed on our activities or our business, thereby rendering our business or operations more costly, burdensome, less efficient or impossible and requiring us to modify our current or future products or services.

Our limited ability to protect our proprietary technology may adversely affect our ability to compete.

Our future success and ability to compete depend upon our proprietary technology. None of our technology is currently patented. Instead, we rely on a combination of contractual rights and copyright, trademark and trade secret laws to establish and protect our proprietary technology. We 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 by us 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. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain or use our products or technology. Monitoring unauthorized use of our products is difficult, and while we are unable to determine the extent to which piracy of our software products exists, software piracy can be expected to be a persistent problem. 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.

We may be found to infringe proprietary rights of others, which could harm our business.

We are subject to the risk of claims and litigation alleging infringement of the intellectual property rights of others. Third parties may assert infringement claims in the future with respect to our current or future products. Any assertion, regardless of its merit, could require us to pay damages or settlement amounts and could require us to develop non-infringing technology or pay for a license for the technology that is the subject of the asserted infringement. Any litigation or potential litigation could result in product delays, increased costs, or both. In addition, the cost of litigation and the resulting distraction of our management resources could adversely affect our operating results. We also cannot assure that any licenses for technology necessary for our business will be available or that, if available, these licenses can be obtained on commercially reasonable terms.

Consolidation of the banking and financial services industry could cause our sales to fall.

Consolidation of the banking and financial services industry could result in a smaller market for our products and services. A variety of factors could cause our customers to reassess their purchase or potential purchase of our products and could result in termination of services by existing customers. After consolidation, banks and other financial institutions may experience a realignment of management responsibilities and a reexamination of strategic and purchasing decisions. We may lose relationships with key constituencies within our customer s organization due to budget cuts, layoffs, or other disruptions following a consolidation. In addition, consolidation may result in a change in the technological infrastructure of the combined entity. Our products and services may not integrate with this new technological infrastructure. The acquiring institution may also have its own in-house system or outsource to competitors.

Terrorism and the possibility of further acts of violence may have a material adverse effect on our operations.

Terrorist attacks, such as the attacks that occurred on September 11, 2001, the response by the United States and further acts of violence or war may affect the market on which our common stock will trade, the markets in which we operate, and our operations and profitability. For example, prospective customers may delay or cancel technology purchase commitments, such as Internet banking, or shift their focus away from our products to security related technology in response to the terrorist attacks. Further terrorist attacks against the United States or other countries may occur. The potential near-term and long-term effect of these attacks on our business, the market for our common stock and the global economy is uncertain. The consequences of any terrorist attacks, or any armed conflicts that may result, are unpredictable, and we may not be able to foresee events that could have an adverse material effect on our business or the trading price of our common stock.

Our past and potential future acquisitions involve risks.

We may acquire complementary technologies or businesses in the future. Due to consolidation trends within the Internet banking services industry, our failure to successfully implement a long-term acquisition strategy could damage our competitive position. We closed our acquisitions of nFront on February 10, 2000, 1View on June 21, 2000, ATA on July 31, 2000 and ViFi on January 28, 2002. Future acquisitions may involve large one-time write-offs, including goodwill impairment charges, and amortization expenses related to intangible assets. In this regard, any of these factors could adversely affect our operating results or stock price. Acquisitions involve numerous risks, including:

- difficulties in assimilating the operations, products, technology, information systems and personnel of the acquired company with our operations;
- diverting our management s attention from other business concerns;
- impairing relationships with our employees, affiliates, strategic marketing alliances and content providers;
- the inability to maintain uniform standards, controls, procedures and policies;
- loss of acquired customers and strategic partners beyond projected thresholds;
- entering markets in which we have no direct prior experience; and
- losing key employees of the acquired company.

Some or all of these risks could result in a material adverse effect on our business, financial condition and operating results. In addition, we cannot assure you that we will be able to identify suitable acquisition candidates that are available for sale at reasonable prices. We may elect to finance future acquisitions with debt financing, which would increase our debt service requirements, or through the issuance of additional common or preferred stock, which could result in dilution to our stockholders. We cannot assure you that we will be able to arrange adequate financing, if required, for any acquisitions on acceptable terms.

Our charter and bylaws and Delaware law contain provisions which could discourage a takeover.

Provisions of our charter and bylaws may make it more difficult for a third party to acquire, or may discourage a third party from attempting to acquire, control of us, even if doing so would be beneficial to our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

- division of the board of directors into three separate classes;
- elimination of cumulative voting in the election of directors;
- prohibitions on our stockholders from acting by written consent and calling special meetings;
- procedures for advance notification of stockholder nominations and proposals; and
- the ability of the board of directors to alter our bylaws without stockholder approval.

In addition, our board of directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The issuance of preferred stock, while providing flexibility in connection with possible financings or acquisitions or other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock.

We are also subject to Section 203 of the Delaware General Corporation Law, which, subject to exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that this stockholder became an interested stockholder. The preceding provisions of our charter and bylaws, as well as Section 203 of the Delaware General Corporation Law, could discourage potential acquisition proposals, delay or prevent a change of control and prevent changes in our management.

ITEM 2. PROPERTIES

Our principal offices currently occupy approximately 46,000 square feet in Calabasas, California, pursuant to a lease that expires May 31, 2003. During 2000, we entered into an agreement, which expires April 7, 2005, to lease approximately 52,130 square feet of office space in Westlake Village, California. This facility houses one of our principal data centers.

We assumed leases in Athens and Norcross, Georgia in conjunction with our acquisition of *n*Front. These leases have been sublet and the subtenants will occupy and pay rent on these facilities in 2002. We currently lease and occupy approximately 58,672 square feet of office space in Norcross, Georgia. This lease expires July 5, 2005. We also currently occupy approximately 18,989 square feet of office space in Sacramento, California under a lease we assumed in connection with our ATA acquisition which will expire February 28, 2005. We also occupy approximately 17,265 square feet of office space at a second location in Sacramento under a new lease which commenced on September 26, 2001 and which will expire December 31, 2004.

We believe that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

ITEM 3. LEGAL PROCEEDINGS

In Re Digital Insight Corporation Initial Public Offering Securities Litigation

On December 6, 2001, we and three of our current and former officers and directors as well as most of the managing underwriters in our previous public offerings were named as defendants in a class-action lawsuit filed in the United States District Court for the Southern District of New York. The lawsuit is captioned In re Digital Insight Corp. Initial Public Offering Securities Litigation, No. 01 CV 11231. The claims are based on allegations that the underwriter defendants solicited and received from certain investors, in exchange for allocating Digital Insight shares to the investors in connection with the previous public offerings, additional, excessive and undisclosed commissions and undisclosed commitments to purchase additional Digital Insight shares in the aftermarket. The complaint alleges claims based on Sections 11 and 15 of the Securities Act of 1933 and on Section 10(b) of the Securities Exchange Act of 1934 against Digital Insight and the individual defendants, and claims based on Section 20(a) of the Securities Exchange Act of 1934 against the individual defendants. The complaint also alleges claims solely against the underwriter defendants under Section 12(2) of the Securities Act of 1933, and Section 10(b) of the Securities Exchange Act of 1934. The individual defendants have been dismissed from the lawsuit without prejudice. We dispute these claims and intend to defend this lawsuit vigorously.

FundsXpress Financial Network, Inc. Litigation

We and five of our current and former employees are parties to a lawsuit filed by FundsXpress Financial Network, Inc. on March 4, 2002 in the United States District Court for the Western District of Texas, Austin Division. The plaintiff is a competing provider of Internet banking services to financial institutions. The first amended complaint asserted claims of trade secret misappropriation under common law; conversion; tortious interference with contract; copyright infringement; and unfair competition. The claims were based on allegations that we conspired with ex-employees of the plaintiff to steal trade secrets and other confidential proprietary information of the plaintiff for purposes of destroying or severely damaging the plaintiff s ability to compete with us. The pleading sought a permanent injunction, compensatory damages of $25 million, exemplary damages of $50 million, costs and attorneys fees.

The plaintiff filed a second amended complaint on June 28, 2002 which adds claims of trade secret misappropriation under California Civil Code Section 3426 and receipt, concealment and use of stolen property in violation of California Penal Code Section 496(a). The second amended complaint is not clear about the damages sought by the plaintiff; there are damage allegations in different sections of the pleading that range from $25 million to $150 million, plus punitive or treble damages.

The second amended complaint also asserts new claims for defamation and federal false advertising, trade disparagement and trade libel under Section 43(a) of the Lanham Act. These new claims are based on allegations that we engaged in the systematic defamation, disparagement, and trash-talking of FundsXpress in the marketplace. The plaintiff seeks additional damages of not less than $50 million as a result of our allegedly defamatory statements.

The plaintiff filed a third amended complaint on August 14, 2002. The third amended complaint is in most material respects similar to the second amended complaint, other than containing a new civil liability claim for violation of the Federal Criminal Computer Fraud Abuse Act.

We dispute all of the plaintiff s claims, particularly its purported damages, and intend to vigorously defend the lawsuit. We are still in the discovery stage of litigation.

The outcome of any litigation is inherently uncertain. We do not believe that an unfavorable outcome from these legal matters would have a material adverse impact on our overall business, but such an outcome may be material to the consolidated results of operations of a future period or periods. Even a favorable resolution of these lawsuits could result in a distraction of our management resources and significant litigation costs.

PART II

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data included in this table is derived from our consolidated financial statements for the years presented, which have been audited and reflect our merger with *n*Front in February 2000. The merger was accounted for as a pooling of interests and, accordingly, all prior periods have been restated to combine the results of Digital Insight and *n*Front. *n*Front s historical year end was June 30, and as such the restated consolidated financial statements as of December 31, 1998 and for the years ended December 31, 1997 and 1998 combine the Digital Insight historical financial statements for each of these periods with the historical financial statements of *n*Front as of June 30, 1999 and for the years ended June 30, 1998 and 1999. The consolidated financial statements as of December 31, 1999 and 2000 are presented on a conformed period basis. No adjustments have been necessary to conform accounting policies of the entities. There were no intercompany transactions requiring elimination in any period presented.

The selected consolidated financial data includes the results of the purchase method acquisitions of 1View Network Corporation and AnyTime Access, Inc. for periods subsequent to their acquisition dates of June 2000 and July 2000, respectively.

During the fourth quarter of 2000, we adopted Staff Accounting Bulletin No. 101 (SAB 101) Revenue Recognition in Financial Statements. Prior to the adoption of SAB 101, we recognized implementation fee income upon completion of the implementation process, which was typically 90 to 120 days after contract initiation. We also deferred the implementation costs and recognized them upon completion of the implementation. Under SAB 101, we now defer recognition of certain upfront implementation fees and related direct incremental implementation costs and recognize them ratably over the greater of the initial customer contract term or the estimated life of the customer service relationship, generally three to five years. The adoption of SAB 101 resulted in a negative cumulative effect adjustment of approximately $2.5 million at January 1, 2000 to reflect the increase in deferred implementation revenue, which was partially offset by the increase in deferred direct implementation costs.

	Year Ended December 31,				
	2001(1)	2000(1)	1999(2)	1998(2)	1997(2)
	(In thousands, except per share data)				
Consolidated Statement of Operations Data					
Revenues	$ 94,635	$ 54,428	$ 26,245	$ 13,195	$ 5,054
Cost of revenues	55,377	33,281	15,682	7,864	2,754
Gross profit	39,258	21,147	10,563	5,331	2,300
Operating expenses	93,205	82,376	30,022	13,361	5,386
Loss from operations	(53,947)	(61,229)	(19,459)	(8,030)	(3,086)
Interest and other income, net	1,999	3,740	1,441	282	111
Accretion of redeemable convertible preferred stock			(136)	(273)	(36)
Net loss attributable to common stockholders before cumulative effect of change in accounting method	(51,948)	(57,489)	(18,154)	(8,021)	(3,011)
Cumulative effect of change in accounting method		(2,515)			
Net loss attributable to common stockholders	$ (51,948)	$ (60,004)	$ (18,154)	$ (8,021)	$ (3,011)
Basic and diluted net loss per share before cumulative effect of change in accounting method	$ (1.77)	$ (2.25)	$ (1.26)	$ (0.80)	$ (0.31)
Per share cumulative effect of change in accounting method		(0.10)			
Basic and diluted net loss per share	$ (1.77)	$ (2.35)	$ (1.26)	$ (0.80)	$ (0.31)
Shares used to compute basic and diluted net loss per share	29,301	25,534	14,389	10,055	9,651

	As of December 31,				
	2001	2000	1999	1998	1997
	(In thousands)				
Consolidated Balance Sheet Data					
Cash, cash equivalents and short-term investments	$ 53,634	$ 81,710	$ 79,031	$ 4,886	$ 3,407
Long-term investments	13,334				
Working capital (deficit)	54,396	73,569	73,921	(31)	1,941
Total assets	236,628	282,226	103,488	13,172	6,069
Long-term portion of capital lease obligations and long-term debt	6,293	3,928	393	390	92
Total liabilities	39,737	42,391	17,304	8,088	2,781
Redeemable convertible preferred stock				15,092	6,819
Total stockholders equity (deficit)	196,891	239,835	86,184	(10,008)	(3,531)

(1)

Revenue recognized during 2000 and 2001 that was included in the SAB 101 cumulative effect adjustment was $3.1 million and $2.4 million, respectively.

(2) In 2000, we adopted SAB 101, which changed the way we recognize upfront implementation fees and related direct incremental implementation costs. Previously, we recognized implementation fee revenue and related costs upon the completion of the implementation process. Under SAB 101, we now defer recognition of certain implementation fee revenue and related direct incremental costs and recognize them ratably over the greater of the initial life of the customer contract or the estimated life of the customer service relationship, generally three to five years. The pro forma net loss and net loss per share assuming this change of accounting principle for SAB 101 for periods prior to the adoption are as follows:

	1999	1998	1999
	(in thousands, except per share data)		
Pro forma net loss	$(3,503)	$(8,33)	$(19,791)
Pro forma net loss per share	$(0.36)	$(0.83)	$(1.38)

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

The following discussion should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto.

Overview

We are a leading provider of Internet banking services to banks, credit unions, and savings and loans associations, based on the number of financial institutions and Internet banking end users we serve. We offer these financial institutions cost-effective outsourced solutions, branded in their name, which include Internet banking for their retail and business customers, an authorized loan decisioning and contact center, and other supporting products and services, such as electronic bill payment, portal web site technology, wireless capability, advanced target marketing, and web site development and maintenance. In general, we provide our solutions to our customers over the Internet, from facilities hosted by us, which require minimal software installation at the customer site.

In February 2000, we completed our merger with *n*Front. The merger was accounted for as a pooling-of-interests and accordingly, our financial statements for all prior periods have been restated to combine the results of Digital Insight and *n*Front. No adjustments were necessary to conform accounting policies of the entities. There were no intercompany transactions requiring elimination in any period presented. During 2000, we also completed our acquisitions of 1View and ATA. Both of these transactions were accounted for under the purchase method of accounting. These acquisitions allowed us to expand our product line to include an electronic bill presentment and payment product and an online loan origination and decisioning product. The purchase method of accounting differs from the pooling-of-interests method in that only operating results for the period subsequent to the acquisition dates are included in our consolidated results of operations, and a new basis of accounting is established for tangible assets acquired and liabilities assumed, as well as recording acquisition goodwill and identifiable intangible assets for the portion of the purchase price in excess of tangible assets acquired and liabilities assumed.

Revenues consist primarily of recurring service fees and to a lesser extent, implementation fees and other revenues. We derive revenues primarily from long-term service contracts with financial institution customers, which pay recurring service fees based primarily on the number of end users or end user transactions, or fixed monthly amounts for hosting and maintaining web sites, as well as upfront implementation fees and optional services. Revenue from recurring service fees are recognized as services are provided.

During the fourth quarter of 2000, we adopted Staff Accounting Bulletin No. 101 (SAB 101) Revenue Recognition in Financial Statements. Prior to the adoption of SAB 101, we recognized implementation fee revenue upon the completion of the implementation process, which was typically 90 to 120 days after contract initiation. We also deferred the direct implementation costs and recognized them upon completion of the implementation. Under SAB 101, we defer recognition of certain implementation fee revenue, which includes set up fees for each service element purchased by customers and mandatory training, that are not the culmination of a separate earnings process and recognize them ratably over the greater of the initial life of the customer contract or the estimated life of customer service relationship, generally three to five years. We also defer recognition of the related direct incremental implementation costs and recognize them ratably over the same period. Direct incremental implementation costs are comprised primarily of salaries and benefits of implementation personnel, consulting fees paid to third party implementation consultants and set up fees paid to third-party vendors. The adoption of SAB 101 resulted in a $2.5 million cumulative effect adjustment at January 1, 2000 and a $1.6 million increase in our net loss for 2000 to reflect the increase in deferred implementation revenue partially offset by the increase in deferred direct implementation costs. The revenue recognized in 2000 and 2001 that was included in the SAB 101 cumulative effect adjustment was $3.1 million and $2.4 million, respectively.

Other revenues are derived from the sale of hardware purchased from third-party vendors, web site design services, optional consulting and training services purchased separately by customers after implementation and license fees for licensing technology to non-service customers. These other revenues are recognized upon the completion or delivery of the product or service assuming we have no remaining obligations, the amounts due are fixed and determinable and collection of the related receivable is probable.

Direct incremental implementation costs are comprised primarily of salaries and benefits of implementation personnel, consulting fees paid to third-party implementation consultants and set up fees paid to third-party vendors.

Cost of revenues is comprised primarily of salaries and related personnel expenses, network costs, expenses related to the operation of our data centers and fees paid to third parties, including bill payment vendors, data processing vendors and communication services providers. Cost of revenues also include the recognition of deferred implementation costs which are being recognized ratably over the term of the customer relationship as discussed above.

Sales, general and administrative expenses consist primarily of salaries and related expenses for executive, sales, marketing, finance, human resources and administrative personnel and other general corporate expenses. In addition, these expenses include marketing expenses such as trade shows, promotional costs and end user marketing campaigns.

Research and development expenses consist primarily of salaries, related personnel expenses and consultant fees related to the design, development, testing and enhancement of our products and our data processing vendor interface software.

We have recorded aggregate deferred stock-based compensation of $14.6 million through December 31, 2001, including $6.6 million and $2.2 million of deferred stock-based compensation recorded in connection with the acquisitions of 1View and ATA, respectively. The remaining unamortized balance of deferred stock-based compensation of $1.4 million will be fully amortized by March 31, 2003.

As of December 31, 2001, we had contracts with 1,438 financial institutions, 1,219 of which had contracted for Internet banking services, 499 of which had contracted for cash management services and 154 of which had contracted for lending services. We had approximately 2.4 million active Internet banking end users at the end of the year, up 60% from 1.5 million from a year earlier. We had a total of 992 Internet banking clients with live sites at December 31, 2001, which represented approximately 25.4 million potential end users and an overall penetration of 9.5 %. The total number of potential end users of the 1,219 contracted Internet banking institutions was approximately 28.1 million.

During 2001, we strategically restructured our business to reduce operating expenses. The process included a review of potentially redundant functions and facilities. The majority of these redundancies resulted from the three acquisitions completed in 2000. As a result of this process, 58 employee positions were eliminated and our facility in San Francisco, California was closed. In 2001, we recorded a restructuring charge of approximately $3.3 million, comprised of approximately $1.6 million for severance payments and related benefits for employees whose positions were eliminated, approximately $1.0 million in deferred stock-based compensation expense for the acceleration of stock options and approximately $707,000 for exit costs as a result of the closure of the San Francisco facility and related lease termination.

In January 2002, we announced another restructuring and cost reduction program. During 2002, we plan to restructure certain operations by geographically consolidating certain business functions. Although this consolidation is expected to reduce costs by eliminating additional redundant costs that resulted from our acquisitions, we do not expect the cost savings to begin to occur until late in 2002. The restructuring program will require an initial increase in staffing to manage the consolidated operations and we plan to reduce excess staff upon completion of the consolidation. We expect to record a restructuring charge of approximately $2.0 million to $2.3 million in the first quarter of 2002.

We performed an impairment assessment of our long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 121 at December 31, 2001 in connection with assessing the impact of implementation of SFAS No. 142 Goodwill and Other Intangible Assets. No impairment was indicated by the comparison of future undiscounted cash flows to the book value of the long-lived assets. However, as discussed further in New Accounting Standards below, we anticipate that in the first quarter of 2002 there will be a goodwill impairment charge of approximately $30.0 million relating to the ATA acquisition as a result of applying the fair value method for assessing impairment as required by the adoption of SFAS No. 142.

In addition to the SFAS No. 142 impairment charge noted above, we expect to record an asset impairment charge of approximately $3.0 million in the first quarter of 2002 for long-lived assets primarily comprised of purchased computer software and equipment that were abandoned or removed from operations in the first quarter of 2002.

Results of Operations

Comparison of Year Ended December 31, 2001 to Year Ended December 31, 2000

Results of Operations. Net loss for the years ended December 31, 2001 and 2000 was approximately $51.9 million and approximately $60.0 million, respectively.

Revenues. Revenues for the year ended December 31, 2001 were approximately $94.6 million, an increase of 74%, from approximately $54.4 million for the prior year.

Revenues for the year ended December 31, 2001 included approximately $79.0 million related to the Internet banking division compared to approximately $48.0 million for the prior year. This increase of approximately $31.0 million, or 65%, resulted from an increased number of new financial institutions and end users combined with sales of additional services to our existing customer base. During 2001, active Internet banking end users increased 60% from approximately 1.5 million at December 31, 2000 to approximately 2.4 million at December 31, 2001.

Revenues for the year ended December 31, 2001 included approximately $15.6 million relating to the lending division compared to approximately $6.4 million for the prior year. This increase of approximately $9.2 million resulted from a full year of operations in 2001 compared to a partial year of operations subsequent to the acquisition date in the prior year. In addition, our lending division is experiencing a shift in the mix of our lending application volumes toward Internet applications and away from the historical emphasis on call center applications. Internet applications produce slightly lower revenue per transaction; however the costs associated with Internet applications are relatively lower than those associated with our call center applications. Therefore, the shift in mix resulted in slightly lower revenues, but higher gross margins per transactions.

Cost of Revenues. Cost of revenues for the year ended December 31, 2001 was approximately $55.4 million, an increase of 66%, from approximately $33.3 million for the prior year.

Cost of revenues for the year ended December 31, 2001 included approximately $44.3 million related to the Internet banking division compared to approximately $27.6 million for the prior year. This increase of approximately $16.7 million, or 61%, was primarily due to the cost to implement and service additional financial institutions and to a lesser extent, increased expense due to increased depreciation expense related to assets purchased to support our data center infrastructure.

Cost of revenues for the year ended December 31, 2001 included approximately $11.1 million related to the lending division compared to approximately $5.7 million for the prior year. This increase of approximately $5.4 million resulted from a full year of operations in 2001, compared to a partial year of operations subsequent to the acquisition date in the prior year.

Gross Profit. Gross profit increased to approximately $39.3 million for the year ended December 31, 2001 from approximately $21.1 million for the prior year. Gross margin for the Internet banking division increased to 44% for the year ended December 31, 2001 from 43% for the prior year. Gross margin for the lending division as a percent of revenue increased to 29% for the year ended December 31, 2001 from 10% for the prior year. The increase in gross margin for the lending division was due in part to the shift away from the lower margin telephone-supported lending application services to the higher margin Internet-based lending application services.

Sales, General and Administrative. Sales, general and administrative expenses for the year ended December 31, 2001 were approximately $30.8 million, a decrease of approximately $700,000, compared to approximately $31.5 million for the prior year. As a percentage of revenue, sales, general and administrative expenses were 33% for the year ended December 31, 2001 compared to 58% for the prior year. This decrease was due primarily to a $1.1 million decrease in advertising expenses, partially offset by a slight increase in administrative expense to support the growth of our business.

Research and Development. Research and development expenses for the year ended December 31, 2001 were approximately $23.4 million, an increase of approximately $1.3 million, compared to approximately $22.1 million for the prior year. This increase was primarily due to higher personnel expenses required for the functional enhancements of existing products and the development of new products. Research and development expenses, as a percentage of revenue, decreased to 25% for the year ended December 31, 2001, from 41% for the year ended December 31, 2000, primarily as a result of an increase in revenues.

Amortization of Goodwill and Intangible Assets. Amortization of goodwill and intangible assets increased to approximately $35.7 million for the year ended December 31, 2001 from approximately $16.1 million for the year ended December 31, 2000, as a result of a full year of amortization in 2001 compared to a partial year s amortization in the prior year. This increase was primarily due to the acquisitions of 1View and ATA which generated goodwill and intangible assets of approximately $150.2 million, which are being amortized on a straight-line basis over the estimated lives of three to six years.

Restructuring Charge. In connection with our 2001 restructuring plan, we recorded a restructuring charge of approximately $3.3 million for the year ended December 31, 2001.

Interest and Other Income, Net. Interest and other income, net, was approximately $2.0 million for the year ended December 31, 2001, a decrease of $1.7 million, compared to approximately $3.7 million for the prior year. This decrease was primarily due to lower rates of return on our investments, lower average cash balances invested and an increase in interest expense due to increased outstanding debt.

Comparison of Year Ended December 31, 2000 to Year Ended December 31, 1999

Results of Operations. Net loss for the years ended December 31, 2000 and 1999 was approximately $60.0 million and $18.2 million, respectively. Using the historical method of revenue recognition, the net loss would have been approximately $56.1 for the year ended December 31, 2000.

Revenues. Revenues for the year ended December 31, 2000 were approximately $54.4 million, an increase of 107%, from approximately $26.2 million for the prior year.

Revenues for the year ended December 31, 2000 included approximately $48.0 million related to the Internet banking division compared to approximately $26.2 million for the prior year. This increase of approximately $21.8 million, or 83%, resulted from an increased number of new financial institutions and end users combined with sales of additional services to our existing customer base, partially offset by a SAB 101 revenue adjustment of approximately $5.1 million. During 2000, active Internet banking end users increased 100% from approximately 750,000 at December 31, 1999 to approximately 1.5 million at December 31, 2000.

Revenues for the year ended December 31, 2000 included approximately $6.4 million related to the lending division acquired during the year.

Cost of Revenues. Cost of revenues for the year ended December 31, 2000 was approximately $33.3 million, an increase of 112%, from approximately $15.7 million for the prior year.

Cost of revenues for the year ended December 31, 2000 included approximately $27.6 million related to the Internet banking division compared to approximately $15.7 million for the prior year. This increase of approximately $11.9 million, or 76%, was primarily due to increased costs to implement and service additional financial institutions combined with continued investment in our data center infrastructure partially offset by a SAB 101 adjustment of approximately $3.1 million.

Cost of revenue for the year ended December 31, 2000 included approximately $5.7 million related to the lending division acquired during the year.

Gross Profit. Gross profit increased to approximately $21.1 million for the year ended December 31, 2000 from approximately $10.6 million for the prior year. Gross margin for the Internet banking division increased to 43% for the year ended December 31, 2000 from 40% for the prior year. Gross margin for the lending division was 10% for the year ended December 31, 2000.

Sales, General and Administrative. Sales, general and administrative expenses were approximately $31.5 million for the year ended December 31, 2000 compared to approximately $22.3 million for the prior year. This increase was primarily due to an increase in sales commissions associated with higher revenues, higher personnel expenses for sales and marketing staff, increased staffing for finance and accounting, new senior management positions and growth in recruiting and human resource expenses. As a percentage of revenue, sales, general and administrative expenses were 58% for the year ended December 31, 2000 compared to 85% for the prior year.

Research and Development. Research and development expenses were approximately $22.1 million for the year ended December 31, 2000 compared to approximately $7.8 million for the prior year. This increase was primarily due to higher personnel and consulting expenses required for the functional enhancements of existing products and the development of new products. Research and development expenses as a percentage of revenue were 41% for the year ended December 31, 2000, compared to 30% for the prior year.

Amortization of Goodwill and Intangible Assets. Amortization of goodwill and intangible assets was approximately $16.1 million for the year ended December 31, 2000.

Merger-Related Expenses. In connection with the merger of *n*Front, we incurred related expenses of approximately $12.7 million comprised of direct transaction costs and non-recurring redundant costs.

Interest and Other Income, Net. Interest and other income, net, was approximately $3.7 million for the year ended December 31, 2000, an increase of $2.3 million, compared to approximately $1.4 million for the prior year. This increase was primarily due to interest earned on higher average cash balances in the year ended December 31, 2000 as a result of our public offerings in October 1999 and August 2000 and of *n*Front s public offering in July 1999.

Critical Accounting Policies and Estimates

Management s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, investments, deferred taxes, impairment of long-lived assets, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We apply the following critical accounting policies in the preparation of our consolidated financial statements:

Revenue Recognition Policy. We recognize revenue as discussed in the Overview section.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Investments. We record an impairment charge when we believe an asset has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future.

Deferred Taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to subsequently determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Similarly, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would reduce income in the period such determination was made.

Impairment of Long-Lived Assets. We evaluate the recoverability of our identifiable intangible assets, goodwill and other long-lived assets in accordance with SFAS No. 121 which generally requires us to assess these assets for recoverability when events or circumstances indicate a potential impairment by estimating the undiscounted cash flows to be generated from the use and ultimate disposition of these assets. Upon implementation of SFAS No. 142 on January 1, 2002, we will use the fair value method to assess our goodwill on at least an annual basis and the undiscounted cash flows method will continue to be used for qualifying identifiable intangible assets and other long-lived assets. As discussed in the

Overview and New Accounting Standards sections, we anticipate recording a goodwill impairment charge upon adoption of SFAS No. 142 in the first quarter of 2002. These impairment assessments could result in additional impairment charges to reduce the carrying values of these assets in the future.

Contingencies and Litigation. We evaluate contingent liabilities including threatened or pending litigation in accordance with SFAS No. 5, Accounting for Contingencies and record accruals when the outcome of these matters is deemed probable and the liability is reasonably estimable. We make these assessments based on the facts and circumstances and in some instances based in part on the advice of outside legal counsel.

Segment Reporting

Since the acquisition of ATA in July 2000, we have managed our business in two reportable segments: the Internet banking division and the lending division. The results of operations from these reportable segments were as follows for the years ended December 31, 2001 and 2000:

	Internet banking division(1)	Lending division(2)	Corporate and other(3)	Total
		(in thousands)		
Year ended December 31, 2001:				
Revenues	$ 79,045	$ 15,590	$	$ 94,635
Gross profit	34,793	4,465		39,258
Loss from operations	(13,391)	(1,551)	(39,005)	(53,947)
Year ended December 31, 2000:				
Revenues	$ 48,040	$ 6,388	$	$ 54,428
Gross profit	20,477	670		21,147
Loss from operations	(30,457)	(1,989)	(28,783)	(61,229)
Total assets at December 31, 2001	$ 148,153	$ 88,475		$ 236,628
Total assets at December 31, 2000	$ 173,253	$ 108,973		$ 282,226

(1) Loss from operations includes amortization of deferred stock-based compensation of $3.8 million and $4.8 million for the years ended December 31, 2001 and 2000, respectively.

(2) Loss from operations includes amortization of deferred stock-based compensation of $1.0 million and $453,000 for the years ended December 31, 2001 and 2000, respectively. Amounts for the year end December 31, 2000 represent operations from the date of acquisition.

(3) Represents amortization of goodwill and intangible assets, a restructuring charge and merger-related expenses. The restructuring charge includes amortization of deferred stock-based compensation of $940,000 for the year ended December 31, 2001.

For the year ended December 31, 2001, no customer accounted for more than 10% of our total revenues. We have no foreign operations.

Provision for Income Taxes

We incurred operating losses from inception through December 31, 2001, and therefore have not recorded any significant provision for income taxes. Due to the uncertainty surrounding the realization of the benefits in future tax returns, we have recorded a valuation allowance for the full amount of our net operating loss carryforwards and other deferred tax assets. As of December 31, 2001, we had net operating loss carryforwards for federal and state tax purposes of approximately $100.5 million and $43.5 million, respectively. The state tax loss carryforwards began to expire in 2001 and the federal tax loss carryforwards begin to expire in 2011. Under the provisions of the Internal Revenue Code of 1986, as amended, certain substantial changes in ownership may limit the amount of net operating loss carryforwards that could be utilized annually in the future to offset taxable income.

Liquidity and Capital Resources

At December 31, 2001, we had cash and cash equivalents of approximately $15.3 million, short-term investments of approximately $38.3 million and long-term investments of approximately $13.3 million. A $10.0 million certificate of deposit is pledged as collateral against a multiple disbursement note we signed in connection with an equipment line of credit with a bank. The remaining investments are in commercial paper. Our intent is to hold these investments to maturity. For financial statement presentation we classify our investments as short-term and long-term, based upon their maturity dates, except for a portion of the $10.0 million certificate of deposit that has been reclassified to long-term investments to correspond to the long-term portion of the multiple disbursement note. All of our investments except for the $10.0 million certificate of deposit are readily marketable.

The value of our commercial paper is sensitive to changes in the level of U.S. interest rates and the market ratings of the underlying companies. Therefore, if our commercial paper is sold prior to its maturity date, a gain or loss may result.

In May 2001, we renewed a $10.0 million secured revolving credit commitment from a bank, which matures in July 2002. Interest on the outstanding borrowings is payable monthly. The interest rate on this credit commitment is equal to the bank s prime rate. The credit commitment is collateralized by all of our assets. As of December 31, 2001, we had no outstanding advances under the credit commitment. As of January 31, 2002, we had $4.0 million of advances under this credit commitment.

In August 2000, we obtained a $10.0 million equipment leasing line of credit evidenced by a multiple disbursement note from a bank, collateralized by the participating equipment and a $10.0 million certificate of deposit. The terms of the note were revised in August 2001 to allow principal to be borrowed from time to time prior to October 31, 2001. Interest will accrue at either (i) the bank s prime rate less 1% or (ii) 1.5% above the rate stated on the certificate of deposit pledged as collateral for the note. Under the revised terms, interest and principal will be paid in 34 monthly installments, commencing November 30, 2001. As of December 31, 2001, we had $9.4 million in borrowings outstanding under this note and the interest rate on the note was 4.6% per annum.

Cash used in operating activities was approximately $10.0 million for the year ended December 31, 1999, approximately $40.2 million for the year ended December 31, 2000 and approximately $8.9 million for the year ended December 31, 2001. The decrease in cash used in operating activities from 2000 to 2001 was primarily due to the net changes in operating assets and liabilities and a decrease in the net loss. The increase in cash used in operating activities from 1999 to 2000 was primarily due to an increase in our net loss from approximately $18.0 million in 1999 to approximately $60.0 million in 2000. The net loss for the year ended December 31, 2000 included $12.7 million of costs related to our merger with *n*Front.

Cash used in investing activities was approximately $37.3 million for the year ended December 31, 1999, approximately $4.3 million for the year ended December 31, 2000, and approximately $54.1 million for the year ended December 31, 2001. The increase in cash used in investing activities from 2000 to 2001 was primarily due to the purchasing of investments with excess cash. The decrease in cash used in investing activities from 1999 to 2000 was primarily due to the use of our invested excess cash, which was partially offset by infrastructure expansion and expenditures for equipment for our backup data centers.

Cash provided by financing activities was approximately $93.6 million for the year ended December 31, 1999, approximately $64.7 million for the year ended December 31, 2000, and approximately $6.8 million for the year ended December 31, 2001. The decrease in cash provided by financing activities from 2000 to 2001 was primarily due to the public offering of our common stock in 2000, partially offset by increased debt payments. The decrease in cash provided by financing activities from 1999 to 2000 was primarily due to the difference in net proceeds of our secondary public offering, which was completed in 2000, compared to the net proceeds of our public offering in 1999.

We have no material commitments other than our revolving credit commitment, our multiple disbursement note, obligations under our operating and capital leases, and minimum vendor purchase commitments. Our commitments under these obligations are as follows:

	Payment Schedule						
	Total	2002	2003	2004	2005	2006	Thereafter
	(in thousands)						
Long term debt	$ 9,411	$ 3,529	$ 3,529	$ 2,353	$	$	$
Capital lease obligations	1,613	1,202	411				
Operating leases	9,776	3,363	2,921	2,708	780	4	
Minimum vendor purchase commitments	16,917	5,667	6,000	5,167	83		
Total obligations	$ 37,717	$ 13,761	$ 12,861	$ 10,228	$ 863	$ 4	$

Future capital requirements will depend upon many factors, including the timing of research and product development efforts and the expansion of our marketing efforts. We expect to continue to expend significant amounts on expansion of facility infrastructure, ongoing research and development, computer and related data center equipment, and personnel.

We believe that our cash and cash equivalents balances and funds available under our existing lines of credit will be sufficient to satisfy our cash requirements for at least the next 12 months. We intend to invest our cash in excess of current operating requirements in interest-bearing, investment grade obligations.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (the FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The new standard requires companies to record derivatives on the balance sheet as assets or liabilities measured at fair value. Under SFAS No. 133, gains or losses resulting from changes in the values of derivatives are to be reported in the statement of operations or as a deferred item, depending on the use of the derivatives and whether they qualify for the hedge accounting. We adopted SFAS No. 133 in the first quarter of 2001. To date, we have not engaged in any hedging activity and therefore the adoption of this new standard has had no significant impact on us.

In July 2001, the FASB issued SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 establishes a new standard for accounting and reporting requirements for business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method for combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment only approach. Upon adoption of SFAS No. 142, goodwill will be tested at the reporting unit annually and whenever events or circumstances occur indicating that goodwill might be impaired. Amortization of goodwill, including goodwill from past business combinations, will cease. The adoption date for SFAS No. 141 and 142 will be January 1, 2002. We anticipate recording a goodwill impairment charge of approximately $30.0 million from the adoption of SFAS No. 142 in the first quarter of 2002. In addition, excluding the impact of the ViFi acquisition, annual amortization expense will decrease by approximately $25.0 million in 2002.

In August of 2001, the FASB issued SFAS No. 143, Accounting for Obligations Associated with the Retirement of Long-Lived Assets, which establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with early adoption permitted. We expect to adopt SFAS No. 143 effective January 1, 2003 and do not expect that the adoption of this new standard will have a significant impact on our results of operations and financial position.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This Statement supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. This Statement also supersedes the accounting and reporting provisions of APB Opinion No. 30 (APB 30), Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for segments of a business to be disposed of. This Statement also amends ARB No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a temporarily controlled subsidiary. The adoption date for SFAS No. 144 will be January 1, 2002. The impact to us of adopting this new accounting standard is being assessed in conjunction with SFAS No. 142, which is discussed above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to the impact of interest rate changes and changes in the market values of our investments. Our interest income is sensitive to changes in the general level of U.S. interest rates. In this regard, changes in U.S. interest rates affect the interest earned on our cash equivalents. Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We invest our excess cash in debt instruments of the U.S. government and its agencies, and in high-quality corporate issuers and, by policy, limit the amount of credit exposure to any one issuer. We protect and preserve our invested funds by limiting default, market and reinvestment risk. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. The fair value of our investment portfolio would not be significantly impacted by either a 100 basis point increase or decrease in interest rates, due mainly to the fixed-rate, short-term nature of the substantial majority of our investment portfolio.

We are also exposed to the impact of interest rate changes as they affect our revolving credit commitment and the multiple disbursement note. The interest rate charged on these credit facilities varies with the bank s prime rate and, consequently, our interest expense will fluctuate with changes in the general level of U.S. interest rates. As of December 31, 2001, we had no outstanding advances under our revolving credit commitment and $9.4 million under the multiple disbursement note. The rate at December 31, 2001 on our multiple disbursement note was 4.6%. If interest rates were to increase by 100 basis points, the impact on our multiple disbursement note would not be significant.

There were no significant changes in our market risk during 2001.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements are submitted as a separate section of this Form 10-K/A beginning on page F-1.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 25, 2002
DIGITAL INSIGHT CORPORATION

By: /s/ JOHN DORMAN

John Dorman
Chairman of the Board and
Chief Executive Officer

CERTIFICATIONS

I, John Dorman, certify that:

1. I have reviewed this annual report on Form 10-K/A of Digital Insight Corporation;

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

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

Date: November 25, 2002

/s/ JOHN DORMAN

John Dorman
Chairman of the Board and
Chief Executive Officer

I, Elizabeth S.C.S. Murray, certify that:

1. I have reviewed this annual report on Form 10-K/A of Digital Insight Corporation;

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

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

Date: November 25, 2002

/s/ ELIZABETH S.C.S. MURRAY

Elizabeth S.C.S. Murray
Executive Vice President and
Chief Financial Officer

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Digital Insight Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders equity (deficit) and cash flows present fairly, in all material respects, the financial position of Digital Insight Corporation and subsidiaries (the Company) at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed on the index and appearing on page F-26 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the consolidated financial statements, the Company adopted Staff Account Bulletin No. 101 in the year ended December 31, 2000, and changed its method of recognizing implementation revenue and related direct incremental implementation costs.

/s/ PRICEWATERHOUSECOOPERS LLP

Century City, California
January 29, 2002

DIGITAL INSIGHT CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,334	$ 71,523
Short-term investments	38,300	10,187
Accounts receivable, net of allowance for doubtful accounts of $518 and $221 at December 31, 2001 and 2000, respectively	19,133	14,403
Accumulated implementation costs	4,973	4,551
Other current assets	2,893	3,907
Total current assets	80,633	104,571
Property and equipment, net	37,784	36,352
Goodwill and intangible assets, net	98,382	135,067
Accumulated implementation costs	5,941	5,173
Long-term investments	13,334	
Other assets	554	1,063
Total assets	$ 236,628	$ 282,226
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,142	$ 5,308
Accrued compensation and related benefits	3,465	3,237
Customer deposits and deferred revenue	7,434	12,442
Other accrued liabilities	7,465	6,477
Line of credit		1,000
Current portion of capital lease obligations	1,202	2,265
Current portion of long-term debt	3,529	278
Total current liabilities	26,237	31,007
Capital lease obligations	411	1,706
Long-term debt	5,882	2,222
Customer deposits and deferred revenue	7,207	7,456
Total liabilities	39,737	42,391
Commitments and contingencies (Note 9)		
Stockholders equity:		
Common stock; $.001 par value, 100,000,000 shared authorized; 29,638,479 and 28,902,998 shares issued and outstanding at December 31, 2001 and 2000, respectively	30	29
Additional paid in-capital	337,461	333,845
Stockholders notes receivable	(124)	(115)
Deferred stock-based compensation	(1,409)	(6,805)
Accumulated deficit	(139,067)	(87,119)
Total stockholders equity	196,891	239,835

Total liabilities and stockholders equity	$ 236,628	$ 282,226

The accompanying notes are an integral part of these consolidated financial statements.

DIGITAL INSIGHT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	For the year ended December 31,		
	2001	**2000**	**1999**
Revenues	$ 94,635	$ 54,428	$ 26,245
Cost of revenues (including amortization of stock-based compensation of $760, $394 and $78 for the years ended December 31, 2001, 2000 and 1999, respectively)	55,377	33,281	15,682
Gross profit	39,258	21,147	10,563
Operating expenses:			
Sales, general and administrative (including amortization of stock-based compensation of $1,134, $1,195 and $1,039 for the years ended December 31, 2001, 2000 and 1999, respectively)	30,780	31,454	22,250
Research and development (including amortization of stock-based compensation of $2,923, $3,626 and $104 for the years ended December 31, 2001, 2000 and 1999, respectively)	23,420	22,139	7,772
Amortization of goodwill and intangible assets	35,729	16,125	
Restructuring charge (including amortization of stock-based compensation of $940 for the year ended December 31, 2001)	3,276		
Merger-related expenses		12,658	
Total operating expenses	93,205	82,376	30,022
Loss from operations	(53,947)	(61,229)	(19,459)
Interest and other income, net	1,999	3,740	1,441
Net loss before cumulative effect of change in accounting method	(51,948)	(57,489)	(18,018)
Accretion of redeemable convertible preferred stock			(136)
Net loss attributable to common stockholders before cumulative effect of change in accounting method	(51,948)	(57,489)	(18,154)
Cumulative effect of change in accounting method		(2,515)	
Net loss attributable to common stockholders	$ (51,948)	$ (60,004)	$ (18,154)
Basic and diluted net loss per share before cumulative effect of change in accounting method	$ (1.77)	$ (2.25)	$ (1.26)
Per share cumulative effect of change in accounting method		(0.10)	
Basic and diluted net loss per share	$ (1.77)	$ (2.35)	$ (1.26)
Shares used to compute basic and diluted net loss per share	29,301	25,534	14,389

The accompanying notes are an integral part of these consolidated financial statements.

DIGITAL INSIGHT CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)
(in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Stockholders Notes Receivable	Deferred Stock-Based Compensation	Accumulated Deficit	Total Stockholders Equity (Deficit)
Balance at December 31, 1998	10,636,377	$ 11	$ 4,618	$ (201)	$ (2,732)	$ (11,704)	$ (10,008)
Interest on stockholders notes				(15)			(15)
Stock options exercised	344,573		204				204
Warrants to purchase Series B preferred stock			147				147
Accretion of redeemable convertible preferred stock			(136)				(136)
Proceeds from the issuance of common stock	32,959		504				504
Deferred stock-based compensation			1,768		(1,768)		
Amortization of deferred stock-based compensation					1,221		1,221
Conversion of redeemable convertible preferred stock	5,953,306	6	23,473				23,479
Issuance of common stock in initial public offerings	6,051,500	6	86,057				86,063
Adjustment to conform year ends			136			2,607	2,743
Net loss						(18,018)	(18,018)
Balance at December 31, 1999	23,018,715	23	116,771	(216)	(3,279)	(27,115)	86,184
Issuance of common stock and options in acquisition of 1View Network Corporation	629,313	1	38,739		(6,568)		32,172
Issuance of common stock, options and warrants in acquisition of AnyTime Access, Inc.	2,001,186	2	112,675		(2,173)		110,504
Issuance of common stock in public offerings	2,150,000	2	62,358				62,360
Stock options exercised	988,440	1	1,740				1,741
Issuance of warrants to purchase common stock			473				473
Proceeds from other issuances of common stock	115,344		1,089				1,089
Amortization of deferred stock-based compensation					5,215		5,215
Interest on stockholders notes				(12)			(12)
Payment on stockholders notes				113			113
Net loss						(60,004)	(60,004)
Balance at December 31, 2000	28,902,998	29	333,845	(115)	(6,805)	(87,119)	239,835
Amortization of deferred stock-based compensation					5,757		5,757
Deferred stock-based compensation			361		(361)		
Proceeds from other issuances of common stock	147,404		1,224				1,224
Interest on stockholders notes				(9)			(9)

Stock options exercised	588,077	1	2,031				2,032
Net loss						(51,948)	(51,948)
Balance at December 31, 2001	29,638,479	$ 30	$ 337,461	$ (124)	$ (1,409)	$ (139,067)	$ 196,891

The accompanying notes are an integral part of these consolidated financial statements.

DIGITAL INSIGHT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the year ended December 31,		
	2001	**2000**	**1999**
Cash flows from operating activities:			
Net loss	$ (51,948)	$ (60,004)	$ (18,018)
Adjustments to reconcile net loss to net cash used in operating activities:			
Cumulative effect of change in accounting method		2,515	
Depreciation and amortization of property and equipment	11,258	5,983	1,914
Amortization of deferred stock-based compensation	5,757	5,215	1,221
Amortization of goodwill and intangible assets	35,729	16,125	
Interest income on stockholders note receivable	(9)	(12)	(15)
Loss from sale of property and equipment		167	
Adjustment to conform fiscal year ends for pooled acquisition			3,275
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(4,730)	(4,152)	(5,337)
Accumulated implementation costs	(1,190)	(9,445)	(144)
Other current assets	1,014	696	(3,539)
Other assets	509	(602)	961
Accounts payable	(2,166)	(621)	2,433
Accrued compensation and related benefits	228	(1,644)	3,133
Customer deposits and deferred revenue	(5,257)	11,054	3,569
Other accruals	1,944	(5,466)	566
Net cash used in operating activities	(8,861)	(40,191)	(9,981)
Cash flows from investing activities:			
Purchase of investments	(59,447)		(27,757)
Acquisition of property and equipment	(12,690)	(19,846)	(9,576)
Disposal of equipment			69
Acquisition payment		(2,000)	
Proceeds from maturity of investments	18,000	17,570	
Net cash used in investing activities	(54,137)	(4,276)	(37,264)
Cash flows from financing activities:			
Principal payments on debt	(8,946)	(4,587)	(1,378)
Proceeds from debt	12,499	4,000	
Net proceeds from public issuance of common stock		62,360	86,567
Proceeds from other issuances of common stock	3,256	2,943	204
Proceeds from issuance of redeemable convertible preferred stock			8,440
Repurchase of redeemable convertible preferred stock			(200)
Net cash provided by financing activities	6,809	64,716	93,633
Net (decrease) increase in cash and cash equivalents	(56,189)	20,249	46,388
Cash and cash equivalents, beginning of period	71,523	51,274	4,886
Cash and cash equivalents, end of period	$ 15,334	$ 71,523	$ 51,274
Supplementary disclosures of cash flow information:			
Cash paid during the year for interest	$ 504	$ 188	$ 32
Supplemental non-cash investing and financing activities:			
Acquisition of property and equipment under capital lease obligation		(6,610)	
Capital lease obligations incurred		6,610	892
Warrants issued		473	147
Conversion of mandatorily redeemable convertible preferred stock to common stock			23,479

Effect of acquisitions:	
Accounts receivable and other assets	(3,062)
Property and equipment	(3,651)
Goodwill and intangible assets	(151,189)
Accounts payable, accrued compensation and benefits and other accruals	12,139
Capital lease obligation	695
Customer deposits and deferred revenue	392
Deferred stock-based compensation	(8,741)
Common stock issued in acquisition	151,417

The accompanying notes are an integral part of these consolidated financial statements.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Digital Insight Corporation (the Company), which incorporated in March 1997 in Delaware, provides Internet banking services to credit unions, small to mid-sized banks and savings and loans. Its Internet banking services include Internet banking and bill payment services for individual customers, business banking for business customers, a target marketing program to increase financial services to end users, and customized web site design and implementation and other services. In addition, the Company, through its acquisition of AnyTime Access, Inc. (ATA) in 2000, is a provider of services that allow credit unions, banks and insurance companies to outsource their consumer loan origination and processing functions. Substantially all of the Company s revenues are derived from these services.

On February 10, 2000, the Company merged with *n*Front, Inc. (*n*Front). The merger was accounted for as a pooling of interests; therefore, the financial results for the Company and *n*Front have been combined for the historical periods presented in accordance with the pooling of interests method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles generally accepted in the United States. Actual results could differ from those estimates.

Cash, cash equivalents and investments

The Company considers all highly liquid investments purchased with a maturity at the time of purchase of three months or less to be cash equivalents. Cash equivalents at December 31, 2001 consist of money-market funds and commercial paper.

The Company considers all investments maturing after three months but within 12 months to be short-term investments and investments maturing after 12 months to be long-term investments. Investments are comprised primarily of certificates of deposit and commercial paper. The Company classifies, at the date of acquisition, its investments into categories in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Currently, the Company classifies its investments as held-to-maturity. These securities are stated at amortized cost plus accrued interest.

Property and equipment

Property and equipment is carried at cost. Assets held under capital leases are recorded at the present value of the minimum lease payments at lease inception. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the asset.

When assets are sold or retired, the asset and related depreciation allowance is eliminated from the records and any gain or loss on disposal is included in operations. Expenditures for maintenance and repairs are charged to operations when incurred.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capitalized software costs

The Company capitalizes the costs of computer software developed or obtained for internal use in accordance with Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Capitalized computer software costs consist of purchased software licenses, implementation costs, consulting and payroll-related costs for certain projects that qualify for capitalization. The Company expenses costs related to preliminary project assessment, research and development, re-engineering, training and application maintenance as incurred. Costs capitalized at December 31, 2001 and 2000 were approximately $16.7 million and approximately $11.6 million, respectively. The capitalized software costs are being depreciated on a straight-line method over a period of three years upon being placed in service. Amortization of approximately $3.9 million and approximately $1.6 million was charged for the years ended December 31, 2001 and 2000, respectively. No amortization had been charged for the year ended December 31, 1999.

Goodwill and intangible assets

Goodwill and intangible assets represent the excess purchase price over the estimated fair value of the tangible assets acquired and liabilities assumed in the acquisitions of 1View Network Corporation (1View) ($38.7 million) and ATA ($111.5 million). Goodwill and intangible assets are amortized using the straight-line method over the periods benefited, one to six years. At December 31, 2001, goodwill and intangible assets are comprised of the following components (in thousands):

	1View	ATA	Total
Goodwill	$ 33,783	$ 85,301	$ 119,084
Assembled workforce		1,490	1,490
Customer relationships		20,230	20,230
Acquired technology	4,900	4,140	9,040
Covenant not-to-compete		380	380
	38,683	111,541	150,224
Less accumulated amortization	(19,642)	(32,200)	(51,842)
	$ 19,041	$ 79,341	$ 98,382

Impairment of long-lived assets

The Company assesses potential impairments to its long-lived assets, including identifiable intangible assets and goodwill, periodically in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, Accounting For the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company also periodically assesses the impairment of enterprise level goodwill for which separately identifiable operating unit cash flows do not exist in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 17 Intangible Assets. An impairment review is performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered by the Company include, but are not limited to: significant under performance relative to expected historical or projected future operating results; significant changes in the manner of use of the acquired assets or the strategy for the Company s overall business; significant negative industry or economic trends; a significant decline in the Company s stock price for a sustained period of time; and the Company s market capitalization relative to net book value. When the Company determines that the carrying value of a long-lived asset may not be recoverable based upon the existence of one or more or the above indicators of impairment, the Company estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expected future undiscounted cash flows is less than the carrying amount of the asset, then the Company recognizes an impairment loss. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset, determined either based on the market value if available, or discounted cash flows, if not. Goodwill and identifiable intangible assets for the 1View acquisition are evaluated at the enterprise level, as no separate identifiable cash flows exist for that operation. Goodwill and identifiable intangible assets are evaluated at the business unit level for the ATA business as the lending division generates separately identifiable cash flows. The Company performed an impairment assessment of its long lived assets, including goodwill and identifiable intangibles, in accordance with SFAS No. 121 at December 31, 2001 in connection with assessing the impact of implementation of SFAS No. 142 Goodwill and Other Intangible Assets. An impairment assessment of enterprise level goodwill was also performed in accordance with APB No. 17 at December 31, 2001. No impairment was indicated by the comparison of future undiscounted cash flows to the book value of the long-lived assets, including goodwill and identifiable intangibles at both the business unit and enterprise level. However as discussed further in the New accounting standards section of Note 2, the Company anticipates that there will be an impairment of a portion of the ATA goodwill as a result of applying the fair value method for assessing impairment as required by the adoption of SFAS No. 142 in the first quarter of 2002.

Fair value of financial instruments

The Company s financial instruments include cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable, accrued liabilities and debt. The carrying value of these financial instruments approximates fair value due to their short-term nature or the current market trends.

Concentration of credit risk

The market for Internet banking in the United States, in which the Company operates, is characterized by rapid technological developments, frequent new product introductions and changes in end user requirements. The Company s future success will depend on its ability to develop, introduce and market enhancements to its existing products and services, to introduce new products and services in a timely manner, which meet customer requirements, and to respond to competitive pressures and technological advances. Further, the emergence of new industry standards, whether through adoption by official standards committees or widespread use by financial institutions or other financial institution data processing vendors, could require the Company to redesign its products and services.

During the years ended December 31, 2001, 2000 and 1999, no customer accounted for 10% or more of total revenues.

The Company performs ongoing credit evaluations of its customers financial condition and limits the amount of credit extended when deemed necessary, but generally does not require collateral. Management believes that any risk of loss is significantly reduced due to the nature of the customers being financial institutions and credit unions as well as the number of its customers and geographic areas. The Company maintains an allowance for doubtful accounts. Write-offs of accounts receivable were insignificant during the years ended December 31, 2001, 2000 and 1999.

The Company has cash in financial institutions which is insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000 per institution. At December 31, 2001 and 2000, the Company had cash and cash equivalent accounts in excess of the FDIC insured limits.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue recognition

The Company derives revenues primarily from long-term service contracts with financial institution clients, who pay recurring fees based primarily on the number of end users, end user transactions, or flat monthly amounts for hosting and maintaining web sites, as well as up-front implementation fees and optional services. Revenue from recurring service fees are recognized as services are provided.

During the fourth quarter of 2000, the Company adopted Staff Accounting Bulletin No. 101 (SAB 101) Revenue Recognition in Financial Statements. Prior to the adoption of SAB 101, the Company recognized implementation fee revenue upon the completion of the implementation process, which was typically 90 to 120 days after contract initiation. The Company also deferred the direct implementation costs and recognized them upon completion of the implementation. Under SAB 101, the Company defers recognition of certain implementation fee revenue, which includes set up fees for each service element and mandatory training, that are not the culmination of a separate earnings process and recognizes them ratably over the greater of the initial life of the customer contract or the estimated life of the customer service relationship, generally three to five years. The company also defers the recognition of the related direct incremental implementation costs and recognizes them ratably over the same period. The adoption of SAB 101 resulted in a $2.5 million cumulative effect adjustment at January 1, 2000 and a $1.6 million increase in net loss for the 2000 operating results to reflect the increase in deferred implementation revenue partially offset by the increase in deferred implementation costs. The revenue recognized in 2001 and 2000 that was included in the SAB 101 cumulative effect adjustment amounted to approximately $2.4 million and 3.1 million, respectively. The net loss and net loss per share under SAB 101 for 1999 on a pro forma basis are as follows (in thousands, except per share data):

	As Reported	Pro Forma
Net loss	$ (18,154)	$ (19,791)
Net loss per share	$ (1.26)	$ (1.38)

Other revenue are derived from the sale of hardware purchased from third party vendors, web site design, optional consulting and training services purchased separately by customers after implementation, which represents the culmination of a separate earnings process, and license fees for licensing technology to non-service customers. These other revenues are recognized upon the completion or delivery of the product or service assuming: no company obligations remain; amounts are fixed and determinable; and collection of the related receivable is reasonably assured.

Revenues are comprised of the following components (in thousands):

	2001	2000	1999
Recurring service fees	$ 81,347	$ 46,459	$ 16,894
Ratably recognized implementation fees	6,133	3,722	
	87,480	50,181	16,894
Implementation and other fees recognized prior to SAB 101			9,351
Other revenues	7,155	4,247	
Total revenues	$ 94,635	$ 54,428	$ 26,245

Direct incremental implementation costs are comprised primarily of salaries and benefits of implementation personnel, consulting fees paid to third party implementation consultants, and set up fees paid to third party vendors. Deferred direct incremental implementation costs are included in accumulated implementation costs in the accompanying balance sheets.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Advertising expense

The Company expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2001, 2000 and 1999 amounted to $68,900, $1,142,000 and $246,700, respectively.

Research and development

Research and development costs are charged to operations as incurred.

Income taxes

The Company uses the liability method to account for income taxes. Under this method, deferred taxes are determined based on differences between the financial statement and tax basis of assets and liabilities, and is measured at the enacted tax rates that will be in effect when those differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Stock-based compensation

The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation for stock options is measured as the excess, if any, of the fair market value of the Company s stock price at the date of grant as determined by the Board of Directors over the amount an employee must pay to acquire the stock. The pro forma disclosures of net income and earnings per share as if the fair value based method of accounting defined in SFAS No. 123, Accounting for Stock-Based Compensation had been applied, have been presented in Note 14.

Net loss per share

The Company computes net loss per share in accordance with SFAS No. 128, Earnings per Share, and Securities and Exchange Commission Staff Accounting Bulletin No. 98 (SAB 98). Under the provisions of SFAS No. 128 and SAB 98, basic and diluted net loss per share is computed by dividing the net loss available to common stockholders for the period by the weighted average number of shares of common stock outstanding during the period, less shares subject to repurchase rights. The calculation of diluted net loss per share excludes potential common shares if the effect is antidilutive. Potential common shares are composed of common stock subject to repurchase rights and incremental shares of common stock issuable upon the exercise of stock options and warrants.

Comprehensive income

The Company accounts for comprehensive income in accordance with SFAS No. 130, Reporting Comprehensive Income which establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in stockholders equity during a period from non-owner sources. To date, the Company has not had any transactions that are required to be reported in comprehensive income other than net losses.

Segments

The Company discloses information for reportable segments and other information required by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company manages its business in two reportable segments: the internet banking division and the lending division.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New accounting standards

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The new standard requires companies to record derivatives on their balance sheets as assets or liabilities, measured at fair value. Under SFAS No. 133, gains or losses resulting from changes in the values of derivatives are to be reported in the statement of operations or as a deferred item, depending on the use of the derivatives and whether they qualify for hedge accounting. The Company adopted SFAS No. 133 in the first quarter of 2001. To date, the Company has not engaged in any hedging activity, therefore the adoption of this new standard did not have a significant impact on the Company.

In July 2001, the FASB issued SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 establishes new standards for accounting and reporting requirements for business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interest method for combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment only approach. Upon adoption of SFAS No. 142, goodwill will be tested at the reporting unit annually and whenever events or circumstances occur indicating that goodwill might be impaired. Amortization of goodwill, including goodwill from past business combinations will cease. The adoption date for SFAS No. 141 and 142 will be January 1, 2002. The Company performed an impairment analysis at December 31, 2001 under SFAS No. 121, and no impairment was indicated by the comparison of future undiscounted cash flows to the book value of long-lived assets, including goodwill and identifiable intangible assets, of ATA. The Company also performed an impairment analysis by applying the fair value method under SFAS No. 142 as of December 31, 2001, using both a discounted cash flow approach and market approach; an impairment of goodwill is anticipated for ATA. The Company anticipates recording an impairment charge of approximately $25 million to $30 million from the adoption of SFAS No. 142. in the first quarter of 2002. In addition, annual amortization expense related to the goodwill will decrease by approximately $25 million in 2002, excluding the impact of the acquisition of Virtual Financial Services, Inc. (ViFi) discussed in Note 20.

In August of 2001, the FASB issued SFAS No. 143, Accounting for Obligations Associated with The Retirement of Long-Lived Assets, which establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with early adoption permitted. The Company expects to adopt SFAS No. 143 effective January 1, 2003 and does not expect that the adoption of this new standard will have a significant impact on its results of operations and financial position.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This Statement supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. This statement also supersedes the accounting and reporting provisions of APB Opinion No. 30 (APB 30), Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for Segments of a Business to Be Disposed Of. This Statement also amends ARB No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a temporarily controlled subsidiary. The adoption date for SFAS No. 144 will be January 1, 2002. The impact to the Company of adopting this new accounting standard is being assessed in conjunction with SFAS No. 142, which is discussed above.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 2000 and 1999 in order to conform to the 2001 presentation.

3. *n*FRONT BUSINESS COMBINATION

The Company consummated its Agreement and Plan of Merger (the Agreement) with *n*Front on February 10, 2000 in a stock-for-stock transaction which was accounted for as a pooling of interests. Pursuant to the Agreement, all outstanding shares of *n*Front stock and options to purchase *n*Front stock were converted into 8,253,735 shares of the Company s common stock and options to purchase 627,926 shares of the Company s common stock, respectively. In connection with the merger, the Company recorded a one-time charge relating to non-recurring merger costs of $12.7 million comprised of direct transaction costs and nonrecurring redundant costs.

As the merger was accounted for as a pooling of interests, all prior periods have been restated. *n*Front s historical year end was June 30 and the Company s consolidated financial statements for the year ended December 31, 1999 were restated to conform year ends. Accordingly, an adjustment for *n*Front s operating results for the period of overlap from January 1, 1999 through June 30, 1999 has been reflected as an adjustment to accumulated deficit in the 1999 consolidated financial statements. No adjustments were necessary to conform accounting policies of the entities. There were no intercompany transactions requiring elimination in any period presented.

4. ACQUISITIONS

On June 21, 2000, the Company completed its acquisition of 1View, a company based in San Francisco, California that provides electronic information aggregation solutions for the financial services market. The purchase price consisted of $2 million in cash and 921,872 shares of common stock and shares underlying options to purchase common stock in exchange for all of the outstanding shares and options of 1View. The fair value of the common stock issued in connection with the acquisition was valued at approximately $38.7 million. The estimated fair value of the Company stock issued was $42 per share based on the average trading price for the 4 days before, 4 days after and including the public announcement date of the transaction. Vested and unvested employee stock options were valued using the Black-Scholes pricing model and the intrinsic value related to unvested employee options was allocated to deferred stock-based compensation. The acquisition was accounted for using the purchase method of accounting. The purchase accounting resulted in goodwill and identifiable intangible assets of approximately $38.7 million, which is being amortized on a straight-line basis over the estimated useful life of three years. Deferred stock-based compensation of approximately $6.6 million was included for the unvested stock options assumed in connection with the acquisition, which is being amortized over the estimated service period of the employees.

On July 31, 2000, the Company completed its acquisition of ATA, a company based in Sacramento, California that provides services and solutions that allow credit unions, banks and other financial institutions to outsource certain consumer communication and other administrative functions associated with consumer loan originations. The Company issued 2,121,862 shares of common stock and shares underlying options and warrants to purchase common stock with an estimated fair value of approximately $112.7 million in exchange for all of the outstanding shares, options and warrants of ATA. The estimated fair value of the Company stock issued was $53 per share based on the average trading price for the 4 days before, 4 days after and including the public announcement date of the transaction. Vested and unvested employee stock options and warrants were valued using the Black-Scholes pricing model and the intrinsic value related to unvested employee options was allocated

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to deferred stock-based compensation. The acquisition was accounted for using the purchase method of accounting. The purchase accounting resulted in goodwill and identifiable intangible assets of approximately $111.5 million, which is being amortized over the estimated useful lives of one to six years. Deferred stock-based compensation in the amount of approximately $2.2 million was included for the unvested stock options assumed in connection with the acquisition, which is being amortized over the estimated service period of the employees.

5. CASH, CASH EQUIVALENTS AND INVESTMENTS

At December 31, 2001, cash and cash equivalents, short-term investments and long-term investments consist of the following (in thousands):

	Cost	Unrealized losses	Unrealized Gains	Estimated Fair Value
Cash and cash equivalents				
Cash	$ 4,085	$	$	$ 4,085
Money market funds	4,729			4,729
Commercial paper	6,520	(3)		6,517
	$ 15,334	$ (3)	$	$ 15,331
Short-term investments				
Certificate of deposit	$ 4,764	$	$	$ 4,764
Commercial paper	33,536	(7)	150	33,679
	$ 38,300	$ (7)	$ 150	$ 38,443
Long-term investments				
Certificates of deposit	$ 5,882	$	$	$ 5,882
Commercial paper	7,452	(2)	50	7,500
	$ 13,334	$ (2)	$ 50	$ 13,382

At December 31, 2000, cash and cash equivalents and short-term investments consist of the following (in thousands):

	Cost	Unrealized losses	Unrealized Gains	Estimated Fair Value
Cash and cash equivalents				
Cash	$ 5,122	$	$	$ 5,122
Money market funds	6,412			6,412
Commercial paper	59,989	(27)	2	59,964
	$ 71,523	$ (27)	$ 2	$ 71,498
Short-term investments				
Certificate of deposit	$ 10,187	$	$	$ 10,187

There were no realized gains or losses on investments for the years ended December 31, 2001 and 2000 and a net realized gain of $758,000 for the year ended December 31, 1999. The certificate of deposit held at December 31, 2001 is pledged as collateral for the Company s $10 million multiple disbursement note, as further discussed in Note 8. Accordingly, we have classified a portion of the certificate of deposit pledged as a long-term investment to correspond to the long-term portion of the multiple disbursement note.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. PROPERTY AND EQUIPMENT

	December 31, 2001	December 31, 2000
Property and equipment includes the following (in thousands):		
Leasehold improvements	$ 6,309	$ 4,618
Equipment	33,589	23,383
Software	16,682	11,617
Furniture and fixtures	4,723	3,683
Construction in process	574	5,886
	61,877	49,187
Less accumulated depreciation and amortization	(24,093)	(12,835)
	$ 37,784	$ 36,352

Assets acquired under capitalized lease obligations are included in property and equipment and totaled approximately $5,147,000 with related accumulated amortization of approximately $1,919,000 and $901,000 at December 31, 2001 and 2000, respectively.

7. REVOLVING LINE OF CREDIT

In May 2001, the Company renewed its $10 million secured revolving credit commitment (the Revolver) from a bank, which matures in July 2002. Interest on the outstanding borrowings is payable monthly. The interest rate on the Revolver is equal to the bank s prime rate. The Revolver is collateralized by all of the Company s assets. The Company had no outstanding advances as of December 31, 2001 and $1 million outstanding as of December 31, 2000 on the Revolver.

Under covenants of the Revolver, the Company is required to (i) maintain a tangible net worth of not less than $20 million at all times, (ii) maintain a ratio of total senior liabilities to tangible net worth of not more than 1.5 to 1, (iii) ensure quarterly losses do not exceed specified amounts, and (iv) maintain liquid assets of not less than the greater of (a) twice the amount of Revolver and other bank debt outstanding, or (b) the total cash expenditures (as defined). The Company was in compliance with the covenants at December 31, 2001.

8. LONG-TERM DEBT

In August 2000, the Company obtained a $10 million equipment leasing line of credit evidenced by a Multiple Disbursement Note from a bank, collateralized by the participating equipment and a $10 million certificate of deposit. The terms of the note were revised in August 2001 to allow principal to be borrowed from time to time prior to October 31, 2001. Interest will accrue at either (i) the bank s prime rate less 1% or (ii) 1.5% above the rate stated on the certificate of deposit pledged as collateral for the note. Under the revised terms, interest and principal will be paid in 34 monthly installments, commencing November 30, 2001. As of December 31, 2001, the Company had $9.4 million in borrowings outstanding under this note and the interest rate on the note was 4.6% per annum.

9. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities and certain equipment under non-cancelable operating and capital leases with various expiration dates through 2005. Certain of the facilities leases have renewal options. Additionally, the terms of the facilities leases provide generally for rental payments on a graduated scale. The Company

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recognizes rent expense on a straight-line basis over the lease period. Rent expense under the facility leases was approximately $3,335,000, $2,289,000 and $768,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Future minimum lease payments under all noncancelable capitalized and operating leases for the next five years ending December 31 are as follows (in thousands):

	Capital	Operating
2002	$ 1,285	$ 3,363
2003	430	2,921
2004		2,708
2005		780
2006		4
Total minimum lease payments	1,715	$ 9,776
Amount representing interest	(102)	
Present value of capitalized lease obligations	1,613	
Less: current portion of capitalized lease obligations	(1,202)	
Long-term portion of capitalized lease obligations	$ 411	

In February 2001, the Company entered into a long-term contract with a vendor to provide bill payment services. The contract includes minimum annual purchase commitments as follows (in thousands):

2002	$ 5,667
2003	6,000
2004	5,167
2005	83
Total	$ 16,917

Payments made to the vendor under the long-term contract amounted to approximately $7,291,000 for the year ended December 31, 2001.

From time to time the Company may be involved in litigation arising in the normal course of its business. Although the Company is not a party to any litigation that it believes would have a material adverse effect, individually or in the aggregate, on the Company s business, financial condition, results of operations or liquidity, it is possible that in the future we could become a party to such proceedings.

On December 6, 2001, the Company and three of the current and former officers and directors as well as most of the managing underwriters in the Company s previous public offerings were named as defendants in a class-action lawsuit filed in the United States District Court for the Southern District of New York. The lawsuit is captioned In re Initial Public Offering Securities Litigation, Joe Curtis McCollum vs. Digital Insight Corp. et al., No. 01 CV 11231. The claims are based on allegations that the underwriter defendants solicited and received from certain investors, in exchange for allocating Digital Insight shares to the investors in connection with the previous public offerings, additional, excessive and undisclosed commissions and undisclosed commitments to purchase additional Digital Insight shares in the aftermarket. The complaint alleges claims based on Sections 11 and 15 of the Securities Act of 1933. The complaint also alleges claims solely against the underwriter defendants under Section 12(2) of the Securities Act of 1933, and Section 10(b) of the Securities Exchange Act of 1934. The Company intends to defend this lawsuit vigorously.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. INCOME TAXES

As of December 31, 2001, the Company had estimated net operating loss carryforwards for federal and state purposes of approximately $100.5 million and $43.5 million, respectively. State net operating loss carryforwards began to expire in 2001 and federal tax net operating loss carryforwards begin to expire in 2011.

Given its history of operating losses and potential limitations on the utilization of net operating losses, the Company has recorded a full valuation allowance against its deferred tax assets as there is uncertainty surrounding the realization of the benefits in future tax returns. Accordingly, the accompanying statements of operations include no benefit for income taxes.

The components of the Company s deferred taxes are (in thousands):

	December 31,	
	2001	**2000**
Deferred tax assets:		
Net operating loss carryforwards	$ 38,055	$ 34,683
Research credit carryforwards	527	527
Stock compensation	(359)	3,371
Accruals, reserves and other	(5,298)	(1,561)
Amortization of acquired intangible assets		(9,791)
	32,925	27,229
Deferred tax asset valuation allowance	(32,925)	(27,229)
Net deferred tax assets	$	$

11. STOCKHOLDERS NOTES RECEIVABLE

Effective October 23, 1997, under the Company s 1997 Stock Plan, two former officers of the Company exercised their options to purchase 309,250 shares each of the Company s common stock. In consideration, each former officer executed a note payable to the Company for $93,000 at an annual interest rate of 7%. The notes are payable at the earlier of ten years from the date of execution or 30 days after termination. The former officers have the option to prepay all or any portion of the principal or interest without penalty.

Upon separation from the Company in October 2000, one of these former officers paid $113,000 in repayment of his note. Interest income realized for the years ended December 31, 2001, 2000 and 1999 on the loans was $9,000, 12,000 and $15,000, respectively.

12. COMMON AND PREFERRED STOCK WARRANTS

In connection with certain borrowings in 1998 and 1999, the Company issued warrants to purchase redeemable convertible preferred stock, which after the Company s initial public offering resulted in warrants to purchase 28,819 and 22,222 shares of common stock for $3.47 and $2.70 per share, respectively. Using the Black-Scholes pricing model, the Company estimated that the aggregate fair value of the warrants was $211,000. The warrants were exercised in 2000 and the Company issued 21,648 shares of common stock in March 2000, for a purchase price equivalent to $75,119, and 20,819 shares of common stock in May 2000 for a purchase price equivalent of $56,211. The Company recognized interest expense of $60,000 related to the warrants in 1999.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On May 31, 2000, the Company issued a warrant to purchase 35,000 shares of common stock at a price per share of $40.5625 to Aurum Technologies, Inc. in connection with the execution of a vendor agreement. This warrant expired unexercised on May 31, 2001. Using the Black-Scholes pricing model, the Company estimated that the aggregate fair market value of the warrant was $473,000, and is amortizing the charge over the 36 month term of the agreement.

In conjunction with its acquisition of ATA, the Company has assumed all outstanding warrants of ATA, which converted into warrants to purchase 48,208 shares of common stock. The exercise price for these warrants range from $4.42 to $25.95 per share. These warrants expire in various periods through July 2009. The Company utilized the Black-Scholes pricing model to compute the fair value of the ATA warrants at the date of acquisition and included this amount in the purchase price of ATA.

Warrants to purchase 11,447 shares of common stock at an exercise price of $25.95 per share remain outstanding at December 31, 2001.

13. COMMON STOCK

In July 1999, *n*Front completed its initial public offering of 2,026,500 shares for net proceeds of approximately $31.6 million.

In October 1999, Digital Insight completed its initial public offering of 4,025,000 shares of common stock for net proceeds of approximately $54.5 million.

In August 2000, Digital Insight completed its secondary public offering of 2,150,000 shares of common stock for net proceeds of approximately $62.3 million.

14. STOCK-BASED COMPENSATION PLANS

Options under the Company s stock-based compensation plans may be granted for periods of up to ten years, with the exception of an incentive stock option (ISO) granted to an optionee who owns stock representing more than 10% of the voting power of all classes of stock of the parent or subsidiary, in which case the term of the option shall be five years, provided that (i) the exercise price of an ISO and nonqualified stock option (NSO) shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively, and (ii) the exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. Options generally vest in monthly installments over four years following the date of grant, subject to the optionee s continuous service. However, for first time grants, the initial vesting shall occur twelve months from the vesting start date, at which time 25% of the shares will be vested. The remaining shares are vested over the remaining three years.

1997 Stock Plan

In August 1997, the Company adopted the 1997 Stock Plan (the 1997 Plan). The 1997 Plan provides for the granting of stock options and common stock to employees and consultants of the Company. Options granted under the 1997 Plan may be either ISO or NSO. ISOs may be granted only to Company employees (including officers and directors who are also employees). NSOs may be granted to Company employees and consultants. As of December 31, 2001, the Company has reserved 3,000,000 shares of common stock for issuance under the 1997 Plan. At December 31, 2001, there were 1,166,228 shares of common stock available for future grant under the 1997 Plan.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1999 Stock Plan

In June 1999, the Company adopted the 1999 Stock Incentive Plan (the 1999 Plan). At December 31, 2001, the Company has reserved 4,500,000 shares of common stock for issuance under the 1999 Plan. The 1999 Plan allows grants of ISOs, NSOs and restricted stock to employees, non-employee board members and consultants. At December 31, 2001, there were 279,470 shares of common stock available for future grant under the 1999 Plan.

The 1999 Plan is subject to annual increases on March 1 of each year, equal to 750,000 shares, 5% of the Company s shares outstanding on that date, or a lesser amount determined by the board of directors.

1View Plan

In connection with the acquisition of 1View, the Company assumed the Stock Option Plan of 1View, including incentive and non-statutory stock options to purchase 292,559 shares of common stock with an exercise price of $0.44 per share. Options granted under the 1View Plan are exercisable over a maximum term of ten years from the date of grant and generally vest over periods up to four years. At December 31, 2001, there were 156,435 shares of common stock available for future grant. The Company does not intend to grant any additional options under this plan.

ATA Plan

In connection with the acquisition of with ATA, the Company assumed the Stock Option Plan of ATA, including incentive and non-statutory stock options to purchase 68,347 shares of common stock with exercise prices ranging from $0.48 per share to $37.62 per share. Options granted under the ATA Plan are exercisable over a maximum term of ten years from the date of grant and generally vest over periods up to four years. At December 31, 2001, there were 121,740 shares of common stock available for future grant. The Company does not intend to grant any additional options under this plan.

2001 Non-Employee Director Stock Option Plan

On May 3, 2001, the Company adopted the 2001 Non-Employee Director Stock Option Plan, which provides for the granting of stock options to outside directors who are not employees of the Company. The options granted under this plan are NSOs. At December 31, 2001, the Company has reserved 250,000 shares of common stock for issuance under this plan. The plan is subject to annual increases on March 1 of each year, equal to the lesser of 50,000 shares, 1/10 of one percent of the outstanding common shares on such date, or a lesser amount determined by the board of directors. As of December 31, 2001, there were 100,000 shares of common stock available for future grant.

Stock option activity under the plans is as follows:

	1999		2000		2001	
	Options Outstanding	Exercise Price Per Share	Options Outstanding	Exercise Price Per Share	Options Outstanding	Exercise Price Per Share
Outstanding at January 1	1,436,204	$ 0.30-$1.00	2,042,276	$ 0.30-$44.50	4,091,681	$ 0.19-$83.88
Assumed from *n*Front			627,926	$ 2.12-$75.99		
Assumed from 1View			292,559	$0.44		
Assumed from ATA			68,347	$ 0.48-$37.62		
Granted	1,061,785	$ 1.75-$44.50	2,529,142	$ 0.19-$83.88	2,357,450	$ 7.55-$22.81
Cancelled	(110,765)	$ 0.30-$13.00	(480,129)	$ 0.19-$81.00	(956,413)	$ 0.19-$80.00
Exercised	(344,948)	$ 0.30-$39.94	(988,440)	$ 0.30-$22.45	(588,077)	$ 0.19-$17.44
Outstanding at December 31	2,042,276	$ 0.30-$44.50	4,091,681	$ 0.19-$83.88	4,904,641	$ 0.19-$83.88

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Options outstanding and exercisable by price range as of December 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Outstanding**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Exercisable**	**Weighted-Average Exercise Price**
\$ 0.0000 \$ 8.50	974,831	7.1	\$ 2.95	556,212	\$ 1.7577
\$ 8.6000 \$17.00	2,206,774	9.0	\$ 12.47	259,505	\$ 12.2427
\$17.1000 \$25.50	494,653	8.5	\$ 21.66	100,373	\$ 23.0258
\$25.6000 \$34.00	162,535	6.9	\$ 30.49	66,302	\$ 30.7590
\$34.1000 \$42.00	754,385	7.8	\$ 37.54	310,718	\$ 37.5152
\$42.6000 \$51.00	50,100	8.1	\$ 45.73	22,798	\$ 45.7647
\$51.1000 \$59.50	500	8.3	\$ 51.25	208	\$ 51.2500
\$59.6000 \$68.00	50,500	7.1	\$ 62,40	22,776	\$ 62.3747
\$68.1000 \$76.50	197,863	7.3	\$ 73.30	100,063	\$ 73.2996
\$76.6000 \$84.00	12,500	6.2	\$ 79.50	5,726	\$ 79.5048
	4,904,641	8.2	\$ 19.4433	1,444,681	\$ 21.0610

1999 Employee Stock Purchase Plan

On June 21, 1999, the Company adopted the 1999 Employee Stock Purchase Plan (the Purchase Plan), which provides for the issuance of a maximum of 600,000 shares of common stock. Eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of the Company s common stock on every May 1 and November 1 of each year. The price of the common stock purchased under the Purchase Plan is equal to 85% of the lower of the fair market value of the common stock on the offering date of each two-year offering period or the specified purchase date. During the year ended December 31, 2001, 119,795 shares were purchased for approximately \$1.2 million and 81,985 shares were purchased for approximately \$1.1 million during the year ended December 31, 2000. At December 31, 2001, there were 398,220 shares of common stock available for future purchase.

Deferred stock-based compensation

Through December 31, 2001, the Company recorded deferred stock-based compensation of \$14,597,000 (including deferred stock-based compensation of \$6,568,000 and \$2,173,000 recorded in connection with the acquisitions of 1View and ATA, respectively) related to the issuance of stock options at prices subsequently determined to be below fair market value. These charges are being amortized over the estimated service period of the employees. Amortization of \$5,757,000, \$5,215,000 and \$1,221,000 has been recognized as stock-based compensation expense in the years ended December 31, 2001, 2000 and 1999, respectively.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair value disclosures

The Company applies the provisions of APB 25 and related interpretations in accounting for employee stock-based compensation arrangements. For the years ended December 31, 2001, 2000 and 1999 had compensation cost been determined pursuant to SFAS No. 123, the Company s net loss would have been as follows (in thousands, except per share data):

	Year Ended December 31,		
	1999	2000	2001
Net loss:			
As reported	$ (18,154)	$ (60,004)	$ (51,948)
Pro forma	(20,893)	(94,155)	(83,243)
Net loss per share basic and diluted:			
As reported	$ (1.26)	$ (2.35)	$ (1.77)
Pro forma	(1.44)	(3.69)	(2.84)

The Company calculated the minimum fair value of each option grant on the date of grant using the Black-Scholes pricing model with the following assumptions:

	Year Ended December 31,		
	2001	2000	1999
Expected life (years)	5	4	4
Risk free interest rate	4.39%	5.9%	5.5%
Expected volatility	90%	110%	80%
Dividend yield			

15. EMPLOYEE BENEFITS

Effective September 1, 1998, the Company adopted a Defined Contribution Profit Sharing Plan. This plan includes a 401(k) salary deferral plan. Employees are eligible to participate in the plan upon meeting minimum eligibility requirements. Contributions to the 401(k) are in the form of employee-salary deferrals. The plan allows the Company to make matching contributions, in amounts determined by the Company, to an employee s deferrals and provides for additional discretionary contributions by the Company. Through December 31, 2001, the Company had not made any matching or additional discretionary contributions under the plan.

16. RESTRUCTURING CHARGE

In February 2001, the Company strategically restructured its business to reduce operating expenses. The process included a review of potentially redundant functions and facilities. The majority of these redundancies resulted from the three acquisitions completed in 2000. As a result of this process, 58 employee positions were eliminated and the Company s facility in San Francisco, California was closed. During 2001, the Company recorded a restructuring charge of approximately $1,629,000 for severance payments and related benefits for employees whose positions were eliminated, approximately $940,000 in deferred stock-based compensation expense for the acceleration of stock options and approximately $707,000 for exit costs as a result of the closure of the San Francisco facility and related lease termination.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Employee related	Exit costs	Deferred stock-based compensation	Total
Restructuring accrual (in thousands)				
Restructuring accrual	$ 1,629	$ 707	$ 940	$ 3,276
Cash payments	(1,376)	(707)		(2,083)
Non-cash disposals			(940)	(940)
Accrual at December 31, 2001	$ 253	$	$	$ 253

The remaining employee related portion of the restructuring reserve is expected to be paid out in the first quarter of 2002.

17. REPORTABLE SEGMENTS

Since the acquisition of ATA in July 2000, the Company has managed its business in two reportable segments: the Internet banking division and the lending division. The results of operations from these reportable segments were as follows for the years ended December 31, 2001 and 2000 (in thousands):

	Internet banking division(1)	Lending division(2)	Corporate and Other(3)	Total
Year ended December 31, 2001:				
Revenue	$ 79,045	$ 15,590	$	$ 94,635
Gross profit	34,793	4,465		39,258
Loss from operations	(13,391)	(1,551)	(39,005)	(53,947)
Year ended December 31, 2000:				
Revenue	$ 48,040	$ 6,388	$	$ 54,428
Gross profit	20,477	670		21,147
Loss from operations	(30,457)	(1,989)	(28,783)	(61,229)
Total assets at December 31, 2001	$ 148,153	$ 88,475		$ 236,628
Total assets at December 31, 2000	$ 173,253	$ 108,973		$ 282,226

(1) Loss from operations includes amortization of deferred stock-based compensation of $3,800 and $4,762 for the years ended December 31, 2001 and 2000, respectively.

(2) Loss from operations includes amortization of deferred stock-based compensation of $1,017 and $453 for the years ended December 31, 2001 and 2000, respectively. Amounts for the year end December 31, 2000 represent operations from the date of acquisition.

(3) Represents amortization of goodwill and intangible assets, a restructuring charge and merger-related expenses. The restructuring charge includes amortization of deferred stock-based compensation of $940 for the year ended December 31, 2001.

For the year ended December 31, 2001, no customer comprised more than 10% of revenues. The Company has no foreign operations.

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. NET LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share for the years indicated (in thousands, except per share data):

	Year Ended December 31,		
	2001	2000	1999
Net loss attributable to common stockholders before cumulative effect of accounting change	$ (51,948)	$ (57,489)	$ (18,154)
Cumulative effect of change in accounting method		(2,515)	
Net loss attributable to common stockholders	$ (51,948)	$ (60,004)	$ (18,154)
Weighted average shares	29,301	25,724	14,710
Weighted average unvested common shares subject to repurchase		(190)	(321)
Denominator for basic and diluted calculation	29,301	25,534	14,389
Net loss per share:			
Basic and diluted before cumulate effect of change in accounting method	$ (1.77)	$ (2.25)	$ (1.26)
Per share cumulative effect of change in accounting method		(0.10)	
Basic and diluted	$ (1.77)	$ (2.35)	$ (1.26)

The following table sets forth common stock equivalents that are not included in the diluted net loss per share calculation above because to do so would be antidilutive for the periods indicated (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Weighted average effect of common stock equivalents:			
Redeemable convertible preferred stock			3,827
Warrants		48	65
Unvested common shares subject to repurchase		190	321
Employee stock options	1,092	2,847	2,448
	1,092	3,085	6,661

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following table presents summarized quarterly financial data for the years ended December 31, 2001 and 2000 (in thousands, except per share data).

	Quarter Ended			
2001	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**
Revenues	$ 20,416	$ 22,686	$ 24,524	$ 27,009
Gross profit	6,786	9,461	10,697	12,314
Net loss	$ (20,026)	$ (13,283)	$ (9,938)	$ (8,701)
Basic and diluted net loss per share	$ (0.69)	$ (0.45)	$ (0.34)	$ (0.29)
Shares used to compute basic and diluted net loss per share	28,924	29,276	29,429	29,565

	Quarter Ended			
2000	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**
Revenues	$ 8,732	$ 11,125	$ 16,395	$ 18,176
Gross profit	3,577	5,092	6,546	5,932
Net loss before cumulative effect of change in accounting method	$ (20,907)	$ (5,782)	$ (14,253)	$ (16,547)
Basic and diluted net loss before cumulative effect of change in accounting method per share	$ (0.92)	$ (0.25)	$ (0.53)	$ (0.58)
Net loss	$ (23,422)	$ (5,782)	$ (14,253)	$ (16,547)
Basic and diluted net loss per share	$ (1.03)	$ (0.25)	$ (0.53)	$ (0.58)
Shares used to compute basic and diluted net loss per share	22,803	23,418	27,079	28,765

During the fourth quarter of 2000, the Company adopted SAB 101. Quarterly results for the year ended December 31, 2000 in the table above have been restated to reflect the change in accounting method. The cumulated effect of this change for the period prior to January 1, 2000 of $2.5 million is included in net for the first quarter. The effect of this change on quarterly net loss and related net loss per share in 2000 is as follows (in thousands, except per share amount):

	Effect of Change for Year 2000	
Quarter	**Net loss**	**Net loss per share**
First Quarter	$ (511)	$ (0.02)
Second Quarter	(388)	(0.02)
Third Quarter	(169)	(0.01)
Fourth Quarter	(491)	(0.02)
Full Year	$ (1,559)	$ (0.06)

20. SUBSEQUENT EVENTS

On January 28, 2002, the Company completed the acquisition of Virtual Financial Services, Inc. (ViFi), pursuant to an Agreement and Plan of Merger, dated as of January 3, 2002. ViFi was a privately-owned company based in Indianapolis, Indiana that provided retail and commercial Internet banking, electronic bill payment, cash

DIGITAL INSIGHT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

management services, credit and debit card processing, online brokerage, document management, web site design, target marketing and aggregation services via PC-based or wireless access. As a result of the merger, all the outstanding shares of ViFi were converted into an aggregate of $3,750,000 in cash, $3,750,000 in promissory notes, and 1,901,907 shares of the Company s common stock. In addition, the Company assumed options to acquire ViFi stock that, as a result of the merger, converted into options to purchase an aggregate of 111,978 shares of the Company s common stock.

In January 2002, the Company announced a restructuring and cost reduction program. During 2002, the Company plans to restructure certain operations by geographically consolidating certain business functions. Although this consolidation is expected to reduce costs by eliminating additional redundant costs that resulted from our acquisitions, the cost savings is not expected to begin to occur until late in 2002. The Company expects to record an estimated restructuring charge of approximately $2.0 million to $2.3 million in the first quarter of 2002.

21. SUBSEQUENT EVENT (Unaudited)

The Company is party to a lawsuit filed by Funds Express Financial Network, Inc. on March 4, 2002, in the United States District Court for the Western District of Texas, Austin Division. The plaintiff is a competing provider of Internet banking services to financial institutions. The plaintiff has asserted claims of trade secret misappropriation, conversion, tortuous interference with contract, copyright infringement, and unfair competition. The claims are based on allegations that the Company conspired with ex-employees of the plaintiff to steal trade secrets and other confidential proprietary information of the plaintiff for purposes of destroying or severely damaging the plaintiff s ability to compete with the Company. The plaintiff seeks a permanent injunction, compensatory damages of $25 million, exemplary damages of $50 million, cost and attorney s fees.

Without the admission of liability or a waiver of any defenses, the Company has agreed to a stipulation and an order regarding a preliminary injunction in which the Company is enjoined from:

Accessing, using or disclosing the plaintiff s trade secrets or confidential information;

Infringing any of the plaintiff s copyrights; and

Retaining any of the plaintiff s trade secrets, confidential information or copyrighted works, or using the plaintiff s intellectual property to sell the Company s products or services to financial institutions.

The Company also agreed to certain other stipulations, including the removal of any access to the plaintiff s intellectual property, the return of such materials to the plaintiff and an accounting of the location of the plaintiff s intellectual property destroyed or returned. By agreeing to such stipulations, the Company has not admitted to any actual or potential liability nor has the Company waived any of the Company s defenses. The Company disputes the plaintiff s claims and intends to defend this lawsuit vigorously.

The outcome of any litigation is inherently uncertain and even a favorable resolution of this lawsuit could result in distraction of the Company s management resources and significant litigation costs.

DIGITAL INSIGHT CORPORATION

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Balance at Beginning of Year	Charged to Costs and Expenses	Write-offs	Balance at End of Year
Allowance for doubtful accounts				
December 31, 2001	$ 221	$ 461	$ (164)	$ 518
December 31, 2000	86	144	(9)	221
December 31, 1999	19	67		86
Valuation allowance for deferred tax assets				
December 31, 2001	$ 27,229	$ 5,696		$ 32,925
December 31, 2000	10,153	17,076		27,229
December 31, 1999	4,601	5,552		10,153

EXHIBIT INDEX

Exhibit Number	Description
23.2	Consent of PricewaterhouseCoopers LLP, Independent Accountants