CORILLIAN CORP
Form 10-Q
August 09, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from __________ to __________

Commission file number: 0-29291

CORILLIAN CORPORATION

(Exact name of registrant as specified in its charter)

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

(503) 629-3300

(Registrant s telephone number, including area code)

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

The number of shares of the Registrant s Common Stock, no par value, outstanding as of July 31, 2006 was 45,027,443 shares.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CORILLIAN CORPORATION

Condensed Consolidated Balance Sheets
(unaudited, in thousands)

	June 30, 2006	December 31, 2005 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 16,823	$ 16,722
Short-term investments	8,150	8,800
Accounts receivable, net	7,128	12,063
Revenue in excess of billings	2,670	2,387
Other current assets	3,380	3,307
Total current assets	38,151	43,279
Property and equipment, net	4,073	3,548
Goodwill	26,899	26,899
Intangibles, net	3,010	3,856
Other assets	1,686	1,757
Total assets	$ 73,819	$ 79,339
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,123	$ 6,261
Deferred revenue	12,597	15,522
Current portion of long-term debt and capital lease obligations		3
Other current liabilities	1,549	1,882
Total current liabilities	19,269	23,668
Other long-term liabilities	693	938
Total liabilities	19,962	24,606
Shareholders equity:		
Common stock	151,026	149,447
Accumulated other comprehensive income	47	61
Accumulated deficit	(97,216)	(94,775)
Total shareholders equity	53,857	54,733
Total liabilities and shareholders equity	$ 73,819	$ 79,339

(1) Derived from Corillian s

audited Consolidated Financial Statements as of December 31, 2005.

See accompanying Notes to Condensed Consolidated Financial Statements.

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CORILLIAN CORPORATION

Condensed Consolidated Statements of Operations

(unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Revenues	$ 14,625	$ 12,287	$ 28,897	$ 23,523
Cost of revenues	8,624	4,151	15,590	8,510
Gross profit	6,001	8,136	13,307	15,013
Operating expenses:				
Sales and marketing	2,253	1,719	4,566	3,489
Research and development	3,215	2,607	6,785	5,229
General and administrative	2,276	1,942	4,918	3,855
Total operating expenses	7,744	6,268	16,269	12,573
(Loss) income from operations	(1,743)	1,868	(2,962)	2,440
Other income, net	286	280	554	375
Net (loss) income before income taxes	(1,457)	2,148	(2,408)	2,815
Income taxes	13	50	33	63
Net (loss) income	$ (1,470)	$ 2,098	$ (2,441)	$ 2,752
Basic net (loss) income per share	$ (0.03)	$ 0.05	$ (0.05)	$ 0.07
Diluted net (loss) income per share	$ (0.03)	$ 0.05	$ (0.05)	$ 0.07
Shares used in computing basic net (loss) income per share	44,890	38,935	44,847	38,827
Shares used in computing diluted net (loss) income per share	44,890	40,051	44,847	40,151

See accompanying Notes to Condensed Consolidated Financial Statements.

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CORILLIAN CORPORATION
Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Six Months Ended June 30,	
	2006	**2005**
Cash flows from operating activities:		
Net (loss) income	$ (2,441)	$ 2,752
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	879	726
Stock-based compensation expense	1,147	
Amortization of intangible assets	846	
Equity in losses of joint venture		128
Recovery of bad debts		(1)
Loss (gain) on sale of assets	4	(8)
Income tax benefit from equity transactions		15
Excess tax benefits from stock-based compensation	(8)	
Changes in operating assets and liabilities:		
Accounts receivable, net	4,935	329
Revenue in excess of billings	(283)	38
Other current and long-term assets	7	(673)
Accounts payable and accrued liabilities	(1,130)	1,120
Deferred revenue	(2,925)	(4,078)
Other current and long-term liabilities	(569)	(229)
Net cash provided by operating activities	462	119
Cash flows from investing activities:		
Purchase of property and equipment	(1,408)	(446)
Proceeds from the sale of property and equipment		8
Purchases of available-for-sale investments	(2,500)	(2,650)
Proceeds from the sales of available-for-sale investments	3,150	2,050
Net cash used in investing activities	(758)	(1,038)
Cash flows from financing activities:		
Proceeds from the issuance of common stock	406	737
Repayments of long-term borrowings		(911)
Principal payments on capital lease obligations	(3)	(6)
Excess tax benefits from stock-based compensation	8	
Net cash provided by (used in) financing activities	411	(180)
Effect of exchange rate fluctuations on cash and cash equivalents	(14)	(1)
Increase (decrease) in cash and cash equivalents	101	(1,100)
Cash and cash equivalents at beginning of period	16,722	29,200

Cash and cash equivalents at end of period	$	16,823	$	28,100
Cash paid during the period for:				
Interest	$	8	$	14
Taxes		43		15
Supplemental disclosures of non-cash investing and financing activities:				
Deferred costs related to employee stock-based compensation	$	9	$	
Common stock issued for qbt Systems, Inc. acquisition		9		

See accompanying notes to Condensed Consolidated Financial Statements.

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CORILLIAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Corillian Corporation and subsidiaries have been prepared pursuant to Securities and Exchange Commission rules and regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in Corillian s annual report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 16, 2006.

The Condensed Consolidated Financial Statements include all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results for interim periods. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in Corillian s Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

(2) Summary of Significant Accounting Policies

Stock-Based Compensation Expense

On January 1, 2006, Corillian adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, (FAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the Employee Stock Purchase Plan (the ESPP) based on estimated fair values. FAS 123(R) supersedes Corillian s previous accounting under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) for periods beginning in 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to FAS 123(R). Corillian has applied the provisions of SAB 107 in its adoption of FAS 123(R).

Corillian adopted FAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. Corillian s Condensed Consolidated Financial Statements as of and for the three and six months ended June 30, 2006 reflect the impact of FAS 123(R). In accordance with the modified prospective transition method, Corillian s Condensed Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of FAS 123(R). Stock-based compensation expense recognized under FAS 123(R) for the three and six months ended June 30, 2006 was $584,000 and $1.1 million, respectively. There was no stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP recognized during the three and six months ended June 30, 2005. See Note 5 for additional information.

FAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in Corillian s Condensed Consolidated Statement of Operations. Prior to the adoption of FAS 123(R), Corillian accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (FAS 123). Under the intrinsic value method, no stock-based compensation expense had been recognized in Corillian s Condensed Consolidated Statement of Operations because the exercise price of Corillian s stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

There was no stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP recognized during the three and six months ended June 30, 2005; however, pro forma stock-based compensation expense for the three and six months ended June 30, 2005 was $755,000 and $1.5 million, respectively, or $0.02 and $0.04, respectively, per diluted share.

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On December 22, 2005, Corillian s Board of Directors approved the acceleration of vesting of all employee stock options with an exercise price equal to or greater than $5.00. The closing share price of Corillian s stock on December 22, 2005 was $2.80. The acceleration of the vesting of these options did not result in a charge based on generally accepted accounting principles under APB 25. For pro forma disclosure requirements under FAS 123, Corillian recognized $1.2 million of stock-based compensation for all options for which vesting was accelerated during the fourth quarter of the year ended December 31, 2005. Corillian took this action to reduce future costs under FAS 123(R). In addition, because these options had exercise prices substantially in excess of current market values, the accelerated vesting did not provide material value to the affected option holders.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that are ultimately expected to vest during the period. Stock-based compensation expense recognized in Corillian s Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value determined in accordance with the pro forma provisions of FAS 123 and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value determined in accordance with the provisions of FAS 123(R). Corillian amortizes the fair value of awards over their applicable vesting period (generally four years) using the straight line method. As stock-based compensation expense recognized in the Condensed Consolidated Statement of Operations for the first six months of 2006 is based on awards ultimately expected to vest, expense has been reduced for estimated forfeitures. FAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In Corillian s pro forma information required under FAS 123 for the periods prior to 2006, Corillian accounted for forfeitures as they occurred.

Upon adoption of FAS 123(R), Corillian maintained its method of valuation of employee stock options granted using the Black-Scholes option pricing model, which was previously used for Corillian s pro forma information required under FAS 123. For additional information, see Note 5. Corillian s determination of fair value of share-based payment awards on the date of grant using an option pricing model is affected by Corillian s stock price as well as assumptions regarding a number of variables, including the risk-free interest rate, expected dividend yield, expected option life, and expected volatility over the term of the awards.

Computation of Net Income (Loss) per Share

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares primarily consist of employee stock options.

Statement of Financial Accounting Standards No. 128, *Earnings per Share* (FAS 128), requires that employee equity share options, non-vested shares and similar equity instruments granted by Corillian be treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options which is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that Corillian has not yet recognized, and the amount of benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

Reclassifications

Certain reclassifications have been made to prior-period balances in order to conform to the current period s presentation.

(3) Concentration of Business and Credit Risk

Results of operations are substantially derived from United States operations and substantially all assets reside in the United States. A majority of Corillian s revenues are generated from banks and other financial institutions. Accordingly, Corillian s near-term and long-term prospects depend on its ability to attract the technology expenditures of these companies. The market for Internet-based financial services is intensely competitive and rapidly changing. Additionally, the sale and implementation of Corillian s products and services are often subject to delays because of

Corillian s customers internal budgets and procedures for approving large capital expenditures and deploying new technologies within their networks. Corillian s financial condition, results of operations and liquidity could be materially affected if adverse conditions in the industry developed, such as a reduction in technology expenditures or a delay in the sales or implementation timeline. An inability of Corillian to generate demand for its product, whether as a result of

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competition, technological change, economic, or other factors, could have a material adverse result on Corillian s financial condition, results of operations or liquidity. During the three months ended June 30, 2006, one customer accounted for 12% of consolidated revenues. During the three months ended June 30, 2005, two customers individually accounted for more than 10% of Corillian s consolidated revenues that represented 28% of total revenues. During the six months ended June 30, 2006, one customer accounted for 13% of consolidated revenues. During the six months ended June 30, 2005, one customer accounted for 17% of consolidated revenues.

Corillian is exposed to concentration of credit risk principally from accounts receivable and revenue in excess of billings. As of June 30, 2006, one customer accounted for 10% of consolidated accounts receivable. As of December 31, 2005, one customer accounted for 18% of consolidated accounts receivable.

As of June 30, 2006, three customers individually accounted for more than 10% of Corillian s consolidated revenue in excess of billings balance that represented 36% of total revenues in excess of billings. As of December 31, 2005, three customers individually accounted for more than 10% of Corillian s consolidated revenue in excess of billings balance that represented 47% of total revenues in excess of billings.

Corillian is also subject to concentrations of credit risk from its cash, cash equivalents and short-term investments. Corillian limits its exposure to credit risk associated with cash, cash equivalents and short-term investments by placing its cash, cash equivalents and short-term investments with major financial institutions and by investing in investment-grade securities.

(4) Net (Loss) Income per Share

The following table presents the calculation of basic and diluted net (loss) income per share (in thousands, except per-share amounts):

	Three Months Ended		Six Months Ended	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
Net (loss) income	$ (1,470)	$ 2,098	$ (2,441)	$ 2,752
Weighted-average shares basic	44,890	38,935	44,847	38,827
Effect of dilutive potential common shares		1,116		1,324
Weighted-average shares diluted	44,890	40,051	44,847	40,151
Net (loss) income per share basic	$ (0.03)	$ 0.05	$ (0.05)	$ 0.07
Net (loss) income per share diluted	$ (0.03)	$ 0.05	$ (0.05)	$ 0.07

Net loss for the three and six months ended June 30, 2006 included stock-based compensation expense under FAS 123(R) of $584,000 and $1.1 million, respectively. There was no stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123 for the three and six months ended June 30, 2005 because Corillian did not adopt the recognition provisions of FAS 123. See Note 5 for additional information.

Options to purchase employee stock options, including estimated options to purchase shares under the ESPP, of approximately 7.0 million and 6.8 million shares for the three and six months ended June 30, 2006, respectively, and approximately 2.2 million and 2.0 million for the three and six months ended June 30, 2005, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

(5) Employee Stock Benefit Plans

Employee Stock Purchase Plan

In March 2000, the Board of Directors approved the 2000 Employee Stock Purchase Plan (the ESPP) that became effective upon completion of Corillian s initial public offering on April 12, 2000. For the three and six months ended June 30, 2006 and 2005, Corillian issued 112,000 and 292,000 shares respectively, under the ESPP. As of June 30, 2006, 2.1 million shares were authorized for grant and 222,000 shares were available for issuance under the ESPP.

The ESPP includes an evergreen formula pursuant to which the number of shares authorized for grant will be increased annually by the lesser of (1) 333,333 shares, (2) an amount equal to two percent of the average number of shares of common stock outstanding on a fully diluted basis as of the end of Corillian s immediately preceding year, and (3) a lesser amount determined by the Board of Directors. In January 2006, an additional 333,333 shares of common stock became available for issuance under the ESPP pursuant to the evergreen formula.

Offering periods commence on February 1 and August 1 each year and have a 24-month duration. Each offering period consists of four consecutive purchase periods of six months duration. Participants purchase common stock on the last day of each purchase period. The purchase price is the lesser of 85% of the fair market value of the common stock on the first day of an offering period or 85% of the fair market value of the common stock on the purchase date. If the fair market value of Corillian s common stock on any purchase date of an offering period is less than the fair market value of Corillian s common stock on the first day of the offering period, then every participant shall automatically (a) be withdrawn from the offering period at the close of the purchase date after the acquisition of the shares of Corillian s common stock for the purchase period and (b) be enrolled in the offering period commencing on the first business date subsequent to the purchase period.

1997, 2000 and 2003 Stock Option Plans

Stock Option Program Description

Stock option grants are designed to reward employees for their long-term contributions to Corillian and provide incentives for them to remain with Corillian. The number and frequency of stock option grants are discretionary.

In 1997, Corillian s Board of Directors approved and adopted a Stock Option Plan (the 1997 Plan). Options granted pursuant to the 1997 Plan may be either incentive stock options or non-qualified stock options, at the discretion of the Board of Directors. In March 2000, the Board of Directors approved an amendment that capped the 1997 Plan at 3,453,193 shares, which was the number of shares subject to options at that time. Shares under the 1997 Plan generally vest in yearly installments over a period of three or four years following the date of grant. Options under the 1997 Plan generally expire five years from the date of grant, and generally expire three months after termination of employment with Corillian.

In March 2000, the Board of Directors approved the 2000 Stock Incentive Compensation Plan (the 2000 Plan). Options granted pursuant to the 2000 Plan may be either incentive stock options or non-qualified stock options, at the discretion of the Board of Directors. Shares under the 2000 Plan generally vest over a period of four years following the date of grant. Options under the 2000 Plan generally expire ten years from the date of grant, and generally expire three months after termination of employment with Corillian. The options will generally become exercisable for 25% of the option shares one year from the date of grant and then ratably over the following 12 quarters. As of June 30, 2006, 8.4 million shares were authorized for grant and 1.2 million shares remained available for issuance under the 2000 Plan. The 2000 Plan includes an evergreen formula pursuant to which the number of shares authorized for grant will be increased annually by the lesser of (1) 400,000 shares, and (2) an amount equal to one percent of the average outstanding shares of the common stock of Corillian as of the end of the immediately preceding year on a fully-diluted basis; plus any shares subject to outstanding awards under Corillian s 1997 Plan as of the effective date of the 2000 Plan that cease to be subject to such awards other than by reason of exercise or payment of such awards. In January 2006, an additional 400,000 shares of common stock became available for grant under the 2000 Plan pursuant to the evergreen formula.

In May 2003, Corillian s Board of Directors adopted the 2003 Nonqualified Stock Incentive Compensation Plan (the 2003 Plan) and authorized the issuance of 1,000,000 shares of common stock under the 2003 Plan. The 2003 Plan was not approved by Corillian s shareholders. Shares under the 2003 Plan generally vest over a period of four years following the date of grant. Options under the 2003 Plan generally expire ten years from the date of grant or three months after termination of employment with Corillian. The options will generally become exercisable for 25% of the option shares one year from the date of grant and then ratably over the following 12 quarters. As of June 30, 2006, approximately 275,000 shares remained available for issuance under the 2003 Plan.

General Option Information

A summary of option activity under Corillian s stock option plans are as follows:

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	Options Outstanding	
	Number Outstanding	Weighted-Average Exercise Price per Share
Outstanding at December 31, 2005	6,375,329	$ 3.94
Granted	467,000	3.41
Exercised	(95,059)	1.12
Canceled/forfeited/expired	(272,745)	4.85
Outstanding at June 30, 2006	6,474,525	$ 3.94

The total pretax intrinsic value of options exercised during the three and six months ended June 30, 2006 was approximately $70,000 and $212,000, respectively. Upon the exercise of stock options, Corillian issues new shares of common stock from its authorized shares. Net cash proceeds from the exercise of stock options and purchases under the ESPP were $406,000 and $737,000 for the six months ended June 30, 2006 and 2005, respectively.

The following table summarizes significant ranges of outstanding and exercisable options under Corillian s stock option plans as of June 30, 2006:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
$0.68-$0.68	4,250	6.58	$ 0.68	$ 9,818	3,313	$ 0.68	$ 7,653
$0.72-$0.86	884,953	6.81	0.86	1,884,950	615,911	0.86	1,311,890
$0.88-$2.87	1,033,967	7.31	2.79	206,793	623,250	2.75	149,580
$2.90-$2.99	486,000	9.32	2.91	38,880	22,188	2.90	1,997
$3.00-$3.00	983,875	7.08	3.00		668,251	3.00	
$3.01-$3.28	653,542	8.78	3.17		138,542	3.17	
$3.29-$3.74	661,333	8.62	3.45		174,731	3.44	
$3.77-$5.01	658,815	6.40	4.29		519,098	4.26	
$5.31-$9.94	668,165	6.77	6.63		668,165	6.63	
$10.00-$19.50	439,625	4.32	13.38		439,625	13.38	
Total	6,474,525	7.29	$ 3.94	$ 2,140,441	3,873,074	$ 4.62	$ 1,471,120

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on Corillian s closing stock price of $2.99 as of June 30, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of June 30, 2006 was 1.3 million shares.

Valuation and Expense Information under FAS 123(R)

The following table summarizes stock-based compensation expense under FAS 123(R) for the three and six months ended June 30, 2006 which was allocated as follows (in thousands):

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	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Cost of revenues	$ 129	$ 243
Stock-based compensation expense included in cost of revenues	129	243
Sales and marketing	113	224
Research and development	121	241
General and administrative	221	439
Stock-based compensation expense included in operating expenses	455	904
Total stock-based compensation expense	$ 584	$ 1,147

As of June 30, 2006, approximately $9,000 of stock-based compensation expense was capitalized as deferred project costs and is included in other assets. There was no stock-based compensation expense recognized for the three and six months ended June 30, 2005.

The following table presents the impact of Corillian s adoption of FAS 123R on selected line items from the condensed consolidated financial statements for the three and six months ended June 30, 2006 (in thousands, except per-share amounts):

	Three Months Ended June 30, 2006		Six Months Ended June 30, 2006	
	As Reported Following FAS 123(R)	If Reported Following APB 25	As Reported Following FAS 123(R)	If Reported Following APB 25
Loss from operations	$ (1,743)	$ (1,159)	$ (2,962)	$ (1,815)
Net loss	$ (1,470)	$ (886)	$ (2,441)	$ (1,294)
Basic and diluted net loss per share	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.03)

The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in each period for the three and six months ended June 30, 2005 (in thousands, except per-share amounts):

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income, as reported	$ 2,098	$ 2,752
Deduct: Stock-based compensation expense determined under fair value value based method for all awards	(755)	(1,461)
Pro forma net income	$ 1,343	$ 1,291

Basic and diluted- as reported	$	0.05	$	0.07
Basic and diluted- pro forma	$	0.03	$	0.03

Stock-based compensation expense in the table above does not include any tax benefit associated with stock-based compensation due to Corillian s overall tax position and the uncertainty surrounding the realizability of its deferred tax assets. As of June 30, 2006, total compensation cost related to non-vested stock options not yet recognized was $4.1 million which is expected to be recognized over the next 16 months on a weighted-average basis.

Upon adoption of FAS 123(R), Corillian continued its methodology of calculating the value of employee stock options on the date of grant using the Black-Scholes model which it also used for the purpose of the pro forma financial information in accordance with FAS 123.

The fair value of employee stock options was estimated using the following weighted average assumptions and fair values:

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	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Weighted average fair value of grants	$2.18	$ 1.93	$2.16	$ 1.91
Expected volatility	74%	79%	75%	79%
Risk-free interest rate	5.1%	3.8%	4.9%	4.0%
Expected dividends	0%	0%	0%	0%
Expected life (in years)	4.8	4.0	4.8	4.0

The fair value of employee stock options granted under the ESPP was estimated using the following weighted average assumptions and fair values:

	Three and Six Months Ended	
	June 30, 2006	June 30, 2005
Weighted average fair value of grants	$ 0.97	$ 1.46
Expected volatility	48%-55%	44%-81%
Risk-free interest rate	4.7%-4.8%	1.9%-3.2%
Expected dividends	0%	0%
Expected life (in years)	0.5-2.0	0.5-2.0

Corillian estimates volatility based on its historical stock price volatility for a period consistent with the expected life of its options. The risk-free interest rate assumption is based upon federal treasury instrument rates equal to the expected life of Corillian s employee stock options. The dividend yield assumption is based on Corillian s history and expectation of dividend payouts. The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding based on historical experience of exercises and cancellations. The historical experience of exercises and cancellations were weighted against the estimated life of outstanding options at June 30, 2006 using the simplified approach as allowed under SAB 107. Prior to 2006, the expected life and expected volatility of stock options were based upon historical data. Prior to the adoptions of FAS 123(R), forfeitures of employee stock options were accounted for on an as-incurred basis.

As stock-based compensation expense recognized in the Consolidated Statement of Operations for the three and six months ended June 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. FAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. In Corillian s pro forma information required under FAS 123 for the periods prior to 2006, Corillian accounted for forfeitures as they occurred.

Accuracy of Fair Value Estimates

Corillian s determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by Corillian s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to Corillian s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because Corillian s employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the existing valuation models may not provide an accurate measure of the fair value of Corillian s employee stock options. Although the fair value of employee stock options is determined in accordance with FAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

(6) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as changes in shareholders equity exclusive of transactions with owners. To date, only foreign currency translation adjustments have been reported in comprehensive income (loss) for

Corillian. All other amounts have not been material to Corillian s financial position or results of operations.

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(7) Commitments and Contingencies

(a) Operating Leases

In March 2006, Corillian amended and renewed the lease at its Omaha, Nebraska location. The terms of the new lease reduce the rentable square feet from 9,220 rentable square feet to 4,273 rentable square feet. The amended lease commenced on April 1, 2006 and extends through March 31, 2011. Monthly rent for the renewed period ranges from $6,142 to $6,410 per month, as compared to its previous rate of $13,446 per month.

In March 2006, Corillian extended the lease at its Toledo, Ohio location for a period of six months, commencing on May 1, 2006 and continuing through October 31, 2006. Monthly rent for the renewed period remained at its previous rate of $9,728 per month.

(b) Long-term debt

In March 2006, Corillian extended the terms of its existing line of credit to extend through June 1, 2006. In May 2006, Corillian extended the terms of its existing line of credit to extend through June 1, 2007 and amended its quick ratio and net income requirement covenants. Under the amendment, the quick ratio covenant was amended to 1.35 to 1.0 from 1.40 to 1.0. The net income covenant was amended to require Corillian to have positive net income on a semi-annual basis beginning for the semi-annual period ending December 31, 2006, as well as have positive net income on a quarterly basis beginning for the quarter ended December 31, 2006. Under the original line of credit agreement, the net income covenant required Corillian to have positive net income on an annual basis and three out of four quarters each year. As of June 30, 2006, Corillian did not have an outstanding balance on this line of credit.

As of December 31, 2005, Corillian was in violation of the net income requirements under its line of credit agreement. Corillian obtained a waiver from its lender, dated February 8, 2006, that waived the default rights with respect to the breach for the period ending December 31, 2005. Due to amending its debt covenants, Corillian was not in violation of its covenant requirements as of June 30, 2006. However, if its results of operations don t improve during the second half of 2006, Corillian may be in violation in future periods.

(c) Environmental liability

In connection with the acquisition of InteliData, Corillian assumed an environmental clean-up liability associated with prior tenants operations at InteliData s former New Milford, Connecticut property. In January 2000, InteliData sold the property and the building. In connection with the sale, InteliData agreed to undertake limited remediation of the property in accordance with applicable state and federal law. The property is not a listed federal or state Superfund site and InteliData has not been named a potentially responsible party at the property. The remediation plan agreed to with the purchaser allowed InteliData to use engineering and institutional controls (e.g., deed restrictions) to minimize the extent and costs of the remediation. Moreover, InteliData obtained environmental insurance, which is now retained by Corillian, to pay for remediation costs up to $6,600,000 in excess of a retained exposure limit of $600,000. As of June 30, 2006, the $600,000 deductible had been exhausted. As of June 30, 2006, Corillian had approximately $296,000 recorded as estimated undiscounted future liabilities, of which approximately $50,000 was recorded as a current liability, and recorded a receivable of $873,000 due from its insurance provider, of which $635,000 was recorded as a current asset. Corillian considers the collection of these insurance recoveries to be probable. Corillian recorded these amounts in accordance with SOP 96-1, *Environmental Remediation Liabilities,* and as part of purchase accounting in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations.* Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative clean-up methods and technologies, the uncertainty of insurance coverage, and the unresolved extent of Corillian s responsibility, it is difficult to determine the ultimate outcome of these matters, however, any additional liability is not expected to have a material adverse effect on Corillian s financial position, results of operations, or liquidity.

Corillian has engaged a legal firm and an environmental specialist firm to represent it regarding this matter. The timing of the ultimate resolution of this matter is uncertain.

(d) Indemnification

Corillian s product license and services agreements include a limited indemnification provision for claims from third-parties relating to Corillian s intellectual property. Such indemnification provisions are accounted for in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. To date, claims under such indemnification provisions have not been significant.

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(8) Segment Information

Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, (FAS 131) establishes standards for reporting information related to operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to shareholders. FAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate, discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions about how to allocate resources and assess performance. Corillian s chief operating decision maker, as defined under FAS 131, is its chief executive officer. Corillian operates in a single segment.

(a) Geographic Information

Results of operations are substantially derived from United States operations and substantially all assets reside in the United States. Direct operating expenses related to Corillian s international operations were insignificant for the three and six months ended June 30, 2006 and 2005.

Geographic revenue information for the three and six months ended June 30, 2006 and 2005 are presented below. Prior year international revenues were updated to include revenues for all Corillian customers with geographic locations outside of the United States, as compared to revenues from Corillian s international operations presented in prior years (in thousands).

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Revenues from:				
United States	$ 13,902	$ 12,038	$ 27,405	$ 22,770
All foreign countries	723	249	1,492	753
	$ 14,625	$ 12,287	$ 28,897	$ 23,523

(b) Revenues

Corillian s chief decision-maker monitors the revenue streams of licenses and various services. There are many shared expenses generated by the various revenue streams. Because management believes that any allocation of the expenses to multiple revenue streams would be impractical and arbitrary, management has not historically made such allocations internally. The chief decision-maker does, however, monitor revenue streams at a more detailed level than those depicted in the accompanying condensed consolidated statement of operations.

Revenues derived from Corillian s licenses and services are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
License and professional services	$ 9,088	$ 8,137	$ 18,884	$ 15,457
Post-contractual support	4,504	3,240	8,401	6,158
Hosting	1,033	910	1,612	1,908
	$ 14,625	$ 12,287	$ 28,897	$ 23,523

(9) Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.* This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* The interpretation prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Corillian is currently evaluating what impact, if any, this statement will have on its financial statements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward-Looking Statements and Risk Factors

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact made in this Quarterly Report on Form 10-Q are forward-looking including but not limited to, statements regarding industry prospects; future results of operations or position; Corillian s expectations and beliefs regarding future revenue growth; the future capabilities and functionality of Corillian s products and services; Corillian s strategies and intentions regarding acquisitions and their integration; the outcome of any litigation to which Corillian is a party; Corillian s accounting and tax policies; Corillian s future strategies regarding investments, product offerings, research and development, market share, and strategic relationships and collaboration; Corillian s dividend policies; Corillian s future capital requirements; and Corillian s intentions and expectations regarding credit facilities. These statements relate to future events or Corillian s future financial performance. In some cases, you can identify forward-looking statements by terminology including intend, could, may, will, should, expect, plan, antic believe, estimate, predict, potential, future, or continue, the negative of these terms or other comparable termi These statements are only predictions. Actual events or results may differ materially from those expressed or implied in such forward-looking statements. In evaluating these statements, you should specifically consider various factors, including the risks described in greater detail in Exhibit 99.1 to this Report, Corillian s registration statements and reports filed with the Securities and Exchange Commission, and contained in Corillian s press releases from time to time. You are advised to read the more detailed and thorough discussion of the following risks Corillian faces in its business contained in Exhibit 99.1 to this Report.

Corillian has a history of losses and may incur losses in future periods if it is not able to, among other things, increase its sales to new and existing customers.

Corillian s quarterly results fluctuate significantly and may fall short of anticipated levels, which may cause the price of its common stock to decline.

A small number of customers account for a substantial portion of Corillian s revenues in each period; Corillian s results of operations and financial condition could suffer if it loses customers or fails to add additional customers to its customer base.

If Corillian, or its implementation partners, do not effectively implement Corillian s solutions, Corillian may not achieve anticipated revenues or gross margins.

If Corillian s goodwill or amortizable intangible assets become impaired, Corillian may be required to record a significant charge to earnings.

The lengthy sales cycles of Corillian s products may cause revenues and operating results to be unpredictable and to vary significantly from period to period.

Subscription-based licensing of Corillian products and services may have an adverse effect on near-term revenue.

Corillian may not achieve anticipated revenues if Corillian does not successfully introduce new products or develop upgrades or enhancements to its existing products.

Acquisitions may be costly and difficult to integrate, divert management resources or dilute shareholder value.

Corillian s partners may be unable to fulfill their service obligations and cause Corillian to incur penalties or other expenses with its customers.

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Corillian s facility and operations may be disabled by a disaster or similar event, which could damage its reputation and require Corillian to incur financial loss.

Competition in the market for internet-based financial services is intense and could reduce Corillian s sales and prevent Corillian from achieving profitability.

Consolidation in the financial services industry could reduce the number of Corillian s customers and potential customers.

If Corillian loses key personnel, Corillian could experience reduced sales, delayed product development and diversion of management resources.

If Corillian does not develop international operations as expected or fails to address international market risks, Corillian may not achieve anticipated sales growth.

If Corillian becomes subject to intellectual property infringement claims, these claims could be costly and time consuming to defend, divert management attention or cause product delays.

Network or internet security problems could damage Corillian s reputation and business.

New technologies could render Corillian s products obsolete.

Defects in Corillian s solutions and system errors in its customers data processing systems after installing Corillian s solutions could result in loss of revenues, delay in market acceptance and injury to Corillian s reputation.

Corillian s products and services must interact with other vendors products, which may result in system errors.

If Corillian becomes subject to product liability litigation, it could be costly and time consuming to defend.

If Corillian is unable to protect its intellectual property, Corillian may lose a valuable competitive advantage or be forced to incur costly litigation to protect its rights.

Increasing government regulation of the internet and the financial services industry could limit the market for Corillian s products and services, impose on Corillian liability for transmission of protected data and increase its expenses.

Newly issued and proposed accounting standards could increase the Company s stock-based compensation expenses and could adversely affect the Company s ability to award employees with equity instruments.

Corillian does not guarantee future results, levels of activity, performance or achievements. Corillian does not plan to update any of the forward-looking statements after the date of this document to conform them to actual results or to changes in its expectations.

Overview

Substantially all of Corillian s revenues are derived from licensing its software and performing professional services for its customers, both through direct sales channels and indirect sales partners. These professional services include implementation of software solutions, custom software engineering, consulting, maintenance, training and hosting. In most cases, Corillian recognizes revenues for licenses, implementation, training and custom engineering services using the percentage-of-completion method. Revenues relating to maintenance and hosting services are recognized ratably over the term of the associated maintenance or hosting contract. Revenues derived from consulting services are recognized as the services are performed and revenues from transactional services are recognized as transactions are processed. Corillian generally licenses its applications on an end-user basis, with its initial license fee based on a fixed number of end users. As a customer increases its installed base of end users beyond the initial fixed number of end users, Corillian s software license requires the customer to pay Corillian an additional license fee to cover additional increments of end users. Revenues from additional seat sales are generally recognized in the period in which the licenses are sold.

Corillian s results for the three and six months ended June 30, 2006 reflected an increase in revenues to $14.6 million for the three months ended June 30, 2006 from $12.3 million for the three months ended June 30, 2005 and to $28.9 for the six months ended June 30, 2006 from $23.5 for the six months ended June 30, 2005. Corillian s net loss for the three and six months ended June 30, 2006 was $1.5 million and $2.4 million, respectively. Included in the net losses for the three and six months ended June 30, 2006 was $584,000 and $1.1 million in stock-based compensation, respectively, due to the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (FAS 123(R)) and $423,000 and $846,000 of amortization of intangibles, respectively, related to companies acquired in the third quarter of 2005. Included in Corillian s results of operations for the three and six months ended June 30, 2006 were approximately $1.1 million and $770,000, respectively, of previously capitalized costs related to a low margin license and implementation project that was recognized under completed contract accounting.

Corillian s backlog was $47.4 million at June 30, 2006 compared to $43.0 million at December 31, 2005. Included in its June 30, 2006 backlog amount, is $643,000 related to estimated usage-based revenues from contracts acquired in the InteliData acquisition, all of which is expected to be recognized as revenue over the next 12 months. Corillian previously excluded these amounts from backlog as it did not have enough history with these contracts to reliably estimate future usage-based revenues over the remaining contractual period.

Backlog is not necessarily indicative of revenues to be recognized in any given future period. For example, some of the fees reflected in backlog may be accounted for as funded research and development, depending on the nature of the work to be performed by Corillian. There are many factors that would impact Corillian s filling of backlog, such as its progress in completing projects for its customers, Corillian s customers meeting anticipated schedules for customer-dependent deliverables, and Corillian s customers satisfying their contractual obligations. Corillian provides no assurances that any portion of its backlog will be filled during any year or at all or that its backlog will be recognized as revenues in any given period.

Critical Accounting Policies and Estimates

Management s discussion and analysis of financial condition and results of operations is based upon Corillian s Condensed Consolidated Financial Statements. The preparation of Condensed Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles requires Corillian to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Corillian bases its 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. Estimates related to software revenue recognition, accrual for contracts in a loss position, valuation of long-lived assets, including intangible assets, which include goodwill and the valuation allowance for deferred tax assets require higher degrees of judgment than others in their application. Actual results may differ from these estimates under different assumptions or conditions.

Certain of Corillian s accounting policies require higher degrees of judgment than others in their application. These include revenue recognition, income taxes, goodwill and intangibles and stock-based compensation. Corillian s policy and related procedures for software revenue recognition are summarized below.

Revenue Recognition

Corillian recognizes revenues from software licensing agreements in accordance with the provisions of Statement of Position (SOP) No. 97-2, *Software Revenue Recognition,* as amended by SOP No. 98-9, *Modification of SOP No. 97-2, Software Revenue Recognition, with Respect to Certain Transactions.* Corillian s software arrangements generally include software licenses, implementation and custom software engineering services, post-contractual customer support, training services and may also include hosting services. Corillian s software licenses are, in general, functionally dependent on implementation, training and certain custom software engineering services; therefore, software licenses and implementation and training services, together with custom software engineering services that are essential to the functionality of the software, are combined and recognized using the percentage-of-completion method of contract accounting in accordance with SOP No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* Corillian has determined that post-contractual customer support and hosting services can be separated from software licenses, implementation, training and custom software engineering services because (a) post-contractual customer support and hosting services are not essential to the functionality of any other element in the arrangement, and (b) sufficient vendor-specific objective evidence exists to permit the allocation of revenue to these service elements. The hosting element can be accounted for separately from the license element, as the customer can take possession of the software without significant penalty, in accordance with Emerging Issues Task Force (EITF) 00-3, *Application of AICPA Statement of Position 97-2 to Arrangements that Include the Right to Use Software Stored on Another Entity s Hardware.*

The percentage-of-completion is measured by the percentage of contract hours incurred to date compared to the estimated total contract hours for each contract. Corillian has the ability to make reasonably dependable estimates relating to the extent of progress towards completion, contract revenues and contract costs. Any estimation process, including that used in preparing contract accounting models, involves inherent risk. Profit estimates are subject to revision as the contract progresses towards completion. Revisions in profit estimates are charged to income in the period that the facts giving rise to the revision become known. Corillian reduces the inherent risk relating to revenue and cost estimates in percentage-of-completion models through various approval and monitoring processes and policies. Risks relating to service delivery, usage, productivity and other factors are considered in the estimation process. Cumulative revenues recognized may be less or greater than cumulative billings at any point in time during a contract s term. The resulting difference is recognized as deferred revenue or revenue in excess of billings, respectively. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Vendor-specific objective evidence has been established on post-contractual customer support and hosting services using the renewal rate. Corillian allocates revenue to the elements in multiple element arrangements using the residual method. The difference between the total software arrangement fee and the amount deferred for post-contractual customer support and hosting services is allocated to software license, implementation, training and custom software engineering services and recognized using contract accounting.

Revenues for post-contractual customer support are recognized ratably over the term of the support services period, generally a period of one year. Services provided to customers under customer support and maintenance agreements generally include technical support and unspecified product upgrades deliverable on a when and if available basis. Revenues from hosting services for transactions processed by Corillian are recognized ratably over the hosting term.

Pursuant to SOP No. 81-1, on projects where reasonable estimates cannot be made due to inherent hazards, but where there is an assurance no loss will be incurred, Corillian limits revenue recognition in the period to the amount of project costs incurred in the same period, and postpones recognition of profits until results can be estimated more precisely. Under this zero profit methodology, equal amounts of revenues and costs, measured on the basis of performance during the period, are presented in Corillian s consolidated statements of operations.

Corillian generally licenses Corillian Voyager on an end-user basis, with its initial license fee based on a fixed number of end users. As a customer increases its installed base of end users beyond the initial fixed number of end users, Corillian s software license agreements require customers to pay Corillian an additional license fee to cover additional increments of end users. Revenues from additional license seat sales, less any amounts related to maintenance included in the arrangement, are generally recognized in the period in which the licenses are sold.

In arrangements where Corillian does not have an obligation to install its products, but may become involved in the installation of these products, Corillian recognizes non-refundable license fees over the estimated implementation period for the customer or reseller s project. If Corillian determines that the customer or reseller can successfully install Corillian s products in a production environment without Corillian s involvement, Corillian will recognize non-refundable license fees in the period in which delivery occurs, assuming all other SOP No. 97-2 revenue recognition criteria are met.

In certain arrangements, Corillian may defer all revenues and related costs of revenues until delivery is complete and customer acceptance is obtained. These arrangements have certain elements of risk such as an obligation to deliver new products when technological feasibility has not been obtained at the onset of the arrangement or an obligation to deliver software customized to a customer specifications. In arrangements where Corillian is providing customized functionality on a best efforts basis, Corillian generally recognizes revenues as services are performed. Revenue from transactional services are recognized as transactions are processed.

Where Corillian s customers enter into arrangements to purchase Corillian s software and services on a subscription basis, Corillian recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements*. Under these arrangements, Corillian defers recognition of the implementation and license revenue and recognizes them

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ratably over the greater of the initial life of the customer contract or the estimated life of the customer service relationship. Costs associated with implementation are deferred and recognized ratably over the life of the arrangements.

Income Taxes

Corillian has established a valuation allowance for certain deferred tax assets, including those for net operating loss and tax credit carryforwards. Such a valuation allowance is recorded when it is more likely than not that the deferred tax assets will not be realized. This determination was based on an evaluation of positive and negative factors, including Corillian s history of having net losses, quarterly losses since the third quarter of 2005, future projections and limitations on the use of net operating loss carryforwards. As of June 30, 2006 and December 31, 2005, Corillian maintained a full valuation allowance on net deferred tax assets. Corillian will continue to evaluate the need for a valuation allowance in future reporting periods.

Goodwill and Intangible Assets

Goodwill and intangible assets are accounted for in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations,* (FAS 141) and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (FAS 142). To determine whether or not goodwill is impaired, a test is performed comparing the book value of the reporting unit to its fair value. Corillian performed its annual goodwill impairment analysis during the fourth quarter of 2005 and identified no impairment. Corillian will perform the impairment test more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. For goodwill, the impairment determination is made at the reporting unit level and consists of two steps. First, Corillian determines the fair value of the reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FAS 141. The residual fair value after this allocation is the implied fair value of the reporting unit.

FAS 142 requires purchased intangible assets, other than goodwill, to be amortized over their estimated useful lives, unless an asset has an indefinite life. Purchased intangible assets with definite useful lives are carried at cost less accumulated amortization. Amortization expense is recognized over the estimated useful lives, which range from one to six years.

Stock-based Compensation Expense

On January 1, 2006, Corillian adopted FAS 123(R) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the Employee Stock Purchase Plan (the ESPP) based on estimated fair values. Stock-based compensation expense recognized under FAS 123(R) for the three and six months ended June 30, 2006 was $584,000 and $1.1 million, respectively. There was no stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP recognized during the three and six months ended June 30, 2005. See Note 5 to the Condensed Consolidated Financial Statements for additional information.

Upon adoption of FAS 123(R), Corillian continued its methodology of calculating the value of employee stock options on the date of grant using the Black-Scholes model which it also used for the purpose of the pro forma financial information in accordance with Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (FAS 123). The use of a Black-Scholes model requires the use of estimates of employee exercise behavior data and other assumptions including expected volatility, risk-free interest rate, and expected dividends. The fair value of employee stock options was estimated using the following weighted average assumptions and fair values:

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	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Weighted average fair value of grants	$ 2.18	$ 2.16
Expected volatility	74%	75%
Risk-free interest rate	5.1%	4.9%
Expected dividends	0%	0%
Expected life (in years)	4.8	4.8

Corillian estimates volatility based on its historical stock price volatility for a period consistent with the expected life of its options. The risk-free interest rate assumption is based upon federal treasury instrument rates equal to the expected life of Corillian s employee stock options. The dividend yield assumption is based on Corillian s history and expectation of dividend payouts. The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding based on historical experience of exercises and cancellations. The historical experience of exercises and cancellations were weighted against the estimated life of outstanding options at June 30, 2006 using the simplified approach as allowed under SAB 107.

As stock-based compensation expense recognized in the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. FAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. In Corillian s pro forma information required under FAS 123 for the periods prior to 2006, Corillian accounted for forfeitures as they occurred.

If factors change and Corillian employs different assumptions in the application of FAS 123(R) in future periods, the compensation expense that is recorded under FAS 123(R) may differ significantly from what Corillian has recorded in the current period.

Results of Operations

Revenues

Revenues increased to $14.6 million for the three months ended June 30, 2006 from $12.3 million for the three months ended June 30, 2005. The increase of $2.3 million, or 19%, was primarily due to $2.7 million of revenues from customers of companies that Corillian acquired in the third quarter of 2005. In addition, during the second quarter of 2006, Corillian completed a significant license and implementation project that was being recognized under completed contract accounting. This project began in the fourth quarter of 2004 and resulted in over $1.0 million of revenues recognized during the three months ended June 30, 2006.

Revenues increased to $28.9 million for the six months ended June 30, 2006 from $23.5 million for the six months ended June 30, 2005. The increase of $5.4 million, or 23%, was primarily due to $6.3 million of revenues from customers of companies that Corillian acquired in the third quarter of 2005, which included a one-time license sale of $1.2 million in the first quarter of 2006. During the second quarter of 2006, Corillian completed a significant license and implementation project that was being recognized under completed contract accounting. This project began in the fourth quarter of 2004 and resulted in over $1.0 million of revenues recognized during the three months ended June 30, 2006.

During the three months ended June 30, 2006, one customer accounted for 12% of consolidated revenues. During the three months ended June 30, 2005, two customers individually accounted for more than 10% of Corillian s consolidated revenues and together represented 28% of total revenues. During the six months ended June 30, 2006, one customer accounted for 13% of consolidated revenues. During the six months ended June 30, 2005, one customer accounted for 17% of consolidated revenues.

Cost of Revenues

Cost of revenues consists primarily of salaries and related expenses for professional service personnel and outsourced professional service providers who are responsible for the implementation and customization of Corillian s software and for maintenance and support personnel who are responsible for post-contractual customer support, as well as amortization expense related to acquisition related intangibles and stock-based compensation.

Cost of revenues increased to $8.6 million for the three months ended June 30, 2006 from $4.2 million for the three months ended June 30, 2005. This increase of $4.4 million, or 105%, was primarily due to a combination of increased professional services headcount-related expenses, consulting expenses, amortization of acquisition related intangibles and stock-based compensation expense. Professional services headcount increased by 52 and headcount-related expenses increased by $1.4 million as a result. In addition to the increased headcount, consulting expenses increased by $1.1 million due to Corillian hiring more contractors to assist with an increase in the number of implementation projects. Amortization of acquisition related intangibles increased by $379,000 and stock-based compensation expense under FAS 123(R) increased $129,000. Additionally, Corillian completed a low margin license and implementation project during the second quarter of 2006 that was being recognized under completed contract accounting. This resulted in the recognition of deferred project costs during the second quarter of 2006, of which approximately $1.1 million had been capitalized in periods prior to the second quarter of 2006.

Cost of revenues increased to $15.6 million for the six months ended June 30, 2006 from $8.5 million for the six months ended June 30, 2005. This increase of $7.1 million, or 84%, was primarily due to a combination of increased professional services headcount-related expenses, consulting expenses, amortization of acquisition related intangibles and stock-based compensation expense. Professional services headcount increased by 52 and headcount-related expenses increased by $2.5 million as a result. In addition to the increased headcount, consulting expenses increased by $2.1 million due to Corillian hiring more contractors to assist with an increase in the number of implementation projects. Amortization of acquisition related intangibles increased by $759,000 and stock-based compensation expense under FAS 123(R) increased $243,000. Additionally, Corillian completed a low margin license and implementation project during the second quarter of 2006 that was being recognized under completed contract accounting. This resulted in the recognition of deferred project costs during the second quarter of 2006, of which approximately $770,000 had been related to periods prior to 2006.

Corillian anticipates headcount-related and consulting expenses to continue at their current rates, which will result in continued increases in cost of revenues as compared to prior year.

Gross profit as a percentage of revenues decreased to 41% from 66% for the three months ended June 30, 2006 and 2005, respectively. Gross profit as a percentage of revenues decreased to 46% from 64% for the six months ended June 30, 2006 and 2005, respectively. The decrease in gross margins are primarily attributable to lower margin projects as a result of more implementation projects for small and mid-size financial institutions as Corillian increased its efforts towards expanding its penetration of these markets. In addition, increased amortization of acquisition related intangibles and stock-based compensation contributed to the decrease in gross margins.

Corillian anticipates gross margin to improve during the third quarter of 2006 to levels similar to the first quarter of 2006 due to sales mix and increased efficiency with project implementations.

Operating Expenses

Sales and Marketing Expenses

Sales and marketing expenses consist of salaries, commissions and related expenses for personnel involved in marketing, sales and support functions, stock-based compensation, as well as costs associated with trade shows and other promotional activities.

Sales and marketing expenses increased to $2.3 million for the three months ended June 30, 2006 from $1.7 million for the three months ended June 30, 2005. This increase of $600,000, or 35%, was primarily due to higher headcount-related expenses as a result of acquiring companies in the third quarter of 2005. Sales headcount increased by 9 from prior year and headcount-related expenses increased by $291,000 as a result. Included in additional sales and marketing headcount were 5 employees from acquired companies. Sales and marketing expense also increased due to $113,000 of stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123(R), and a $44,000 increase related to acquisition related intangibles.

Sales and marketing expenses increased to $4.6 million for the six months ended June 30, 2006 from $3.5 million for the six months ended June 30, 2005. This increase of $1.1 million, or 31%, was primarily due to higher headcount-related expenses as a result of acquiring companies in the third quarter of 2005. Sales and marketing headcount increased by 9 from prior year and headcount-related expenses increased by $622,000 as a result. Included in additional sales and marketing headcount were 5 employees from acquired companies. Sales and marketing expense also increased due to $224,000 of stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123(R), and an $87,000 increase related to acquisition related intangibles.

Research and Development Expenses

Research and development expenses consist primarily of salaries and related expenses for engineering personnel, stock-based compensation and costs of materials and equipment associated with the design, development and testing of Corillian s products.

Research and development expenses increased to $3.2 million for the three months ended June 30, 2006 from $2.6 million for the three months ended June 30, 2005. This increase of $600,000, or 23%, was primarily due to higher headcount-related expenses as a result of acquiring companies in the third quarter of 2005 and Corillian s continued investment in research and development. Research and development headcount increased by 19 from prior year and headcount-related expenses increased by $643,000. Included in the additional headcount were 9 employees from acquired companies. Research and development expense also increased due to $121,000 of stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123(R).

Research and development expenses increased to $6.8 million for the six months ended June 30, 2006 from $5.2 million for the six months ended June 30, 2005. This increase of $1.6 million, or 31%, was primarily due to higher headcount-related expenses as a result of acquiring companies in the third quarter of 2005 and Corillian s continued investment in research and development. Research and development headcount increased by 19 from prior year and headcount-related expenses increased by $1.3 million. Included in the additional research and development headcount were 9 employees from acquired companies. Research and development expense also increased due to $241,000 of stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123(R).

General and Administrative Expenses

General and administrative expenses consist of salaries and related expenses for executive, finance, human resources, legal, information systems management and administration personnel, stock-based compensation, as well as professional fees, bad debt expenses and other general corporate expenses.

General and administrative expenses increased to $2.3 million for the three months ended June 30, 2006 from $1.9 million for the three months ended June 30, 2005. The increase of $400,000, or 21%, was primarily due to $146,000 of various expenses due to companies acquired in the third quarter of 2005, as well as $221,000 of stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123(R).

General and administrative expenses increased to $4.9 million for the six months ended June 30, 2006 from $3.9 million for the six months ended June 30, 2005. The increase of $1.0 million, or 26%, was primarily due to $334,000 of various expenses due to companies acquired in the third quarter of 2005, as well as $439,000 of stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123(R). The remaining increase was due to various items that were individually insignificant.

Other Income, Net

Other income, net, consists primarily of interest income, interest expense and Corillian s share of losses in equity investments, and other miscellaneous items.

Other income, net, remained relatively consistent at $286,000 for the three months ended June 30, 2006 as compared to $280,000 for the three months ended June 30, 2005. Other income for the three months ended June 30, 2006 and 2005 primarily consisted of interest income from short-term investments. Corillian s short-term investment balance decreased to $8.2 million at June 30, 2006 from $10.8 million at June 30, 2005. However, the decrease in short-term investments balance was offset by higher short-term interest rates in 2006.

Other income, net, increased to $554,000 for the six months ended June 30, 2006 from $375,000 for the six months ended June 30, 2005. Other income increased primarily due to a decrease of $128,000 in equity investment losses in Synoran, a limited liability company in which Corillian holds a minority investment interest. As of March 31, 2005, Corillian s investment was reduced to zero and accordingly, Corillian did not incur further equity investment losses beyond such date.

Income Taxes

Corillian expects to incur an alternative minimum tax liability for 2006. As a result, Corillian recorded income tax charges of $13,000 and $33,000 for the three and six months ended June 30, 2006, respectively, related to estimated alternative minimum taxes for these periods. Corillian recorded an income tax charge of $50,000 and $63,000 for the three and six months ended June 30, 2005, respectively. Alternative minimum taxes paid are available to be carried forward to reduce the excess of regular taxes over alternative minimum taxes in future years. Such alternative minimum tax credit carryforwards are includable in deferred tax assets. Corillian has recorded a full valuation allowance against such credit carryforwards in addition to all other net deferred tax assets, as it believes it is more likely than not that these deferred tax assets will not be realized. Corillian considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event Corillian was to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to decrease the valuation allowance would increase income in the period such determination was made.

Stock-Based Compensation Expense

On January 1, 2006, Corillian adopted FAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases under the ESPP based on estimated fair values. The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123(R) for the three and six months ended June 30, 2006 which was allocated as follows (in thousands):

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Cost of revenues	$ 129	$ 243
Stock-based compensation expense included in cost of revenues	129	243
Sales and marketing	113	224
Research and development	121	241
General and administrative	221	439
Stock-based compensation expense included in operating expenses	455	904
Total stock-based compensation expense	$ 584	$ 1,147

There was no stock-based compensation expense recognized for the three and six months ended June 30, 2005.

Liquidity and Capital Resources

As of June 30, 2006, Corillian had $25.0 million in cash, cash equivalents and short-term investments, as compared to $25.5 million as of December 31, 2005. Working capital decreased to $18.9 million as of June 30, 2006 from $19.6 million as of December 31, 2005.

For the six months ended June 30, 2006, cash provided by operating activities was $462,000. Cash flow from operations was negatively impacted by $1.1 million due to payments of accounts payable and accrued liabilities. The timing of cash receipts from accounts receivable resulted in a $4.9 million increase in cash flow from operations, and changes in deferred revenue and revenue in excess of billings decreased cash flow from operations by $3.2 million due to the timing of billings and revenue recognized. These amounts were offset by $427,000 of net income adjusted for certain non-cash items, including $1.1 million of stock-based compensation expense under FAS 123(R), $846,000 of amortization of intangibles and $879,000 of depreciation expense. Cash used in investing activities was $758,000 for the six months ended June 30, 2006, which was due to $1.4 million of cash used to purchase property and equipment, which was offset with $650,000 of net proceeds from the sale of available-for-sale investments. Cash provided by financing activities was $411,000 for the six months ended June 30, 2006, which was due to proceeds from the issuance of common stock related to employee stock option exercises and employee stock purchases under the ESPP.

For the six months ended June 30, 2005, cash provided by operating activities was $119,000. The timing of cash receipts from accounts receivable resulted in a $329,000 increase in cash flow from operations. Net income adjusted for certain non-cash items resulted in an increase of $3.6 million in cash flow from operating activities. These amounts were offset by a decrease in deferred revenue of $4.1 million that decreased cash flow from operations due to the timing of billings and revenue recognized. Cash used in investing activities was $1.0 million for the six months ended June 30, 2005, which was primarily due to $600,000 in net purchases of available-for-sale investments and $446,000 of cash used to purchase property and equipment. Cash used in financing activities was $180,000 for the six months ended June 30, 2005, which was primarily due to $911,000 of repayments of long-term borrowings, offset by $737,000 in proceeds from the issuance of common stock related to employee stock option exercises and employee stock purchases under the ESPP.

In March 2006, Corillian amended and renewed the lease at its Omaha, Nebraska location. The terms of the new lease reduce the rentable square feet from 9,220 rentable square feet to 4,273 rentable square feet. The amended lease commenced on April 1, 2006 and extends through March 31, 2011. Monthly rent for the renewed period ranges from $6,142 to $6,410 per month, as compared to its previous rate of $13,446 per month.

In March 2006, Corillian extended the lease at its Toledo, Ohio location for a period of six months, commencing on May 1, 2006 and continuing through October 31, 2006. Monthly rent for the renewed period will remain at its previous rate of $9,728 per month.

In March 2006, Corillian extended the terms of its existing line of credit to extend through June 1, 2006. In May 2006, Corillian extended the terms of its existing line of credit to extend through June 1, 2007 and amended its quick ratio and net income requirement covenants. Under the amendment, the quick ratio covenant was amended to 1.35 to 1.0 from 1.40 to 1.0. The net income covenant was amended to require Corillian to have positive net income on a semi-annual basis beginning for the semi-annual period ending December 31, 2006, as well as have positive net income on a quarterly basis beginning for the quarter ended December 31, 2006. Under the original line of credit agreement, the net income covenant required Corillian to have positive net income on an annual basis and three out of four quarters each year. As of June 30, 2006, Corillian did not have an outstanding balance on this line of credit.

As of December 31, 2005, Corillian was in violation of the net income requirements under its line of credit agreement. Corillian obtained a waiver from its lender, dated February 8, 2006, that waived the default rights with respect to the breach for the period ending December 31, 2005. Due to amending its debt covenants, Corillian was not in violation of its covenant requirements as of June 30, 2006. However, if its results of operations don t improve during the second half of 2006, Corillian may be in violation in future periods.

Corillian believes its current cash, cash equivalents and short-term investments will be sufficient to meet its working capital requirements for at least the next 12 months.

Contractual Obligations

In March 2006, Corillian amended and renewed the lease at its Omaha, Nebraska location. The terms of the new lease reduce the rentable square feet from 9,220 rentable square feet to 4,273 rentable square feet. The amended lease commenced on April 1, 2006 and extends through March 31, 2011. Monthly rent for the renewed period ranges from $6,142 to $6,410 per month, as compared to its previous rate of $13,446 per month.

In March 2006, Corillian extended the lease at its Toledo, Ohio location for a period of six months, commencing on May 1, 2006 and continuing through October 31, 2006. Monthly rent for the renewed period will remain at its previous rate of $9,728 per month.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Rate Sensitivity

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Corillian develops products in the United States and markets its products and services in the United States, and to a lesser extent in Canada, Europe, Asia and Australia. As a result, its financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Because nearly all of Corillian s revenues are currently denominated in United States dollars, a strengthening of the United States dollar could make Corillian s products less competitive in foreign markets.

Corillian does not use derivative financial instruments for speculative purposes. Corillian does not engage in exchange rate hedging or hold or issue foreign exchange contracts for trading purposes. Corillian does have foreign-based operations where transactions are denominated in foreign currencies and are subject to market risk with respect to fluctuations in the relative value of currencies. Corillian has limited operations in Europe, Asia and Australia and conducts transactions in various local currencies in these locales. To date, the impact of fluctuations in the relative fair value of other currencies has not been material.

Interest Rate Sensitivity

As of June 30, 2006, Corillian had $25.0 million in cash, cash equivalents and short-term investments compared to $25.5 million at December 31, 2005. Cash equivalents consist mainly of demand deposit accounts, money market mutual funds and commercial paper with original maturities less than 90 days. Short-term investments consist of taxable government agency bonds with original maturities ranging between 90 and 180 days and taxable municipal bonds, auction rate securities, with original maturities ranging from greater than one year. Government agency bonds are classified as held-to-maturity. All auction rate securities are classified as available-for-sale and reported on the balance sheet at par value, which equals market value, as these securities are bought and sold every 28 to 35 days. Corillian is not subject to significant interest rate risks on its available-for-sale investments as these investments are bought and sold at par value. Corillian s short-term held-to-maturity investments are subject to interest rate risk and will decrease in value if market interest rates increase. Corillian manages this risk by maintaining an investment portfolio with high credit quality. Changes in the overall level of interest rates affect Corillian s interest income that is generated from its short-term investments. If interest rates increase or decrease equally over the next 12 months, by a total of one percent, Corillian s interest income would increase or decrease by approximately $156,000, respectively. Corillian may invest in short-term investments with original maturities greater than 180 days. These investments would be subject to higher levels of interest rate risks.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

The term disclosure controls and procedures (defined in SEC Rule 13a-15(e)) refers to the controls and other procedures of a company that are designed to ensure that the information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Corillian s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operations of the Company s disclosure controls and procedures as of the end of the period covered by this quarterly report (the Evaluation Date). In designing and evaluating Corillian s disclosure controls and procedures, management recognized that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Corillian s disclosure controls and procedures are designed to provide reasonable assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on that evaluation, Corillian s management, with the participation of the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were effective to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to Corillian s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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(b) Changes in internal controls over financial reporting.

There were no changes in Corillian s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation required by Rule 13a-15(d) that occurred during the period covered by this quarterly report on Form 10-Q and that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Corillian intends to regularly review and evaluate the design and effectiveness of its disclosure controls and procedures and internal controls over financial reporting on an ongoing basis and to improve these controls and procedures over time and to correct any significant deficiencies that it may discover in the future. While Corillian believes the present design of its disclosure controls and procedures and internal controls over financial reporting are effective, future events affecting its business may cause it to modify these controls and procedures in the future.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

See Exhibit 99.1 to this quarterly report on Form 10-Q.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

On May 15, 2006, Corillian held its annual meeting of shareholders in Portland, Oregon. Holders of 36,577,199 shares were represented at the meeting, either in person or by proxy. At this meeting, Jay Whipple III and Eric Dunn were elected as Class 3 Directors. The votes cast in favor of and withheld from the director nominees were as follows: Jay Whipple III, 36,162,172 for and 414,668 withheld; and Eric Dunn, 36,161,992 for and 414,852 withheld. Also, at this meeting, KPMG LLP was ratified as Corillian s independent auditors for the twelve-month period ending December 31, 2006. The votes cast in favor of and against this ratification were as follows: 36,508,962 for; 62,108 against; 6,129 abstained; and 8,296,228 broker non-votes.

ITEM 5. OTHER INFORMATION

Executive Compensation

On May 4, 2006, the Compensation Committee of Corillian Corporation s Board of Directors approved mid-year and annual bonus target amounts for 2006 for Corillian s named executive officers under Corillian s discretionary cash bonus program. The Committee also established financial and operational performance goals for 2006 for the named executive officers mid-year and annual bonuses under Corillian s discretionary cash bonus program. These financial and operational performance goals, called corporate performance goals, relate to Corillian s revenue, operating income and value of new contracts. For each named executive officer, a portion of the mid-year and annual bonus will be payable based on the achievement of these corporate goals and a portion will be payable based on the achievement of individual and group goals established for each named executive officer, as described below. Payouts of mid-year and annual bonuses will be dependent on the level of achievement of performance goals as described below, and no named executive officer will receive a payout for the corporate portion of the bonus if the applicable minimum corporate performance goals are not met. Each named executive officer will have the opportunity to earn up to his full mid-year and annual bonus targets based on the level of achievement of the performance goals applicable to such individual and may earn a bonus above the target if the performance goals are exceeded. Any mid-year bonuses earned for 2006 performance are expected to be paid in the third quarter. Any annual bonuses earned for 2006 performance will be paid during the first quarter of 2007.

Name and Principal Positions	2006 Mid-Year Bonus Target (Percentage of Base Salary)	2006 Annual Bonus Target (Percentage of Base Salary)	Corporate Performance Goals	Individual/Group Performance Goals
Alex P. Hart, *Chief Executive Officer and President*	15%	45%	50%	50%
Paul K. Wilde, *Chief Financial Officer*	6%	19%	50%	50%
Brian Kissel, *Senior Vice President of Corporate Strategy and Product Management*	6%	19%	25%	75%
Christopher L. Brooks, *Chief Technology Officer*	6%	19%	25%	75%
Andre Bouchard, *Senior Vice President of Professional Services*	9%	26%	25%	75%

Erich J. Litch, Executive Vice President of Sales and Marketing and Corporate Secretary, is eligible to earn semi-annual annual cash bonuses of up to $100,000 (for a total of up to $200,000 for 2006) based on the achievement of a performance goal established by the Committee based on the value of new contracts.

On August 3, 2006, the Committee increased the mid-year and annual bonus target percentages for Mr. Wilde, Mr. Kissel and Mr. Brooks to 9% for the mid-year bonus and 26% for the annual bonus.

ITEM 6. EXHIBITS

(a) Exhibits

See attached exhibit index.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 9, 2006.

CORILLIAN CORPORATION

By: /s/ Paul K. Wilde

Paul K. Wilde
Chief Financial Officer
(Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Risk Factors