

CORILLIAN CORP  
Form 10-Q  
November 09, 2006

**Table of Contents**

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

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

**For the quarterly period ended September 30, 2006**

**OR**

**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**

(Address of principal executive offices)

**97124**

(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  No

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  Accelerated filer  Non-accelerated filer

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

Yes  No

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 October 31, 2006 was 45,046,817 shares.

**CORILLIAN CORPORATION**  
**FORM 10-Q**  
**TABLE OF CONTENTS**

**Part I Financial Information**

Item 1. Financial Statements:

Condensed Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005 (unaudited)

Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2006 and 2005 (unaudited)

Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005 (unaudited)

Notes to Condensed Consolidated Financial Statements (unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

**Part II Other Information**

Item 1A. Risk Factors

Item 6. Exhibits

Signatures

EXHIBIT 31.1

EXHIBIT 31.2

EXHIBIT 32.1

EXHIBIT 99.1

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CORILLIAN CORPORATION**

Condensed Consolidated Balance Sheets  
(unaudited, in thousands)

	<b>September 30, 2006</b>	<b>December 31, 2005 (1)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,543	\$ 16,722
Short-term investments	8,100	8,800
Accounts receivable, net	7,641	12,063
Revenue in excess of billings	3,433	2,387
Other current assets	2,944	3,307
Total current assets	38,661	43,279
Property and equipment, net	4,339	3,548
Goodwill	26,899	26,899
Intangibles, net	2,631	3,856
Other assets	2,365	1,757
Total assets	\$ 74,895	\$ 79,339
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,392	\$ 6,261
Deferred revenue	12,342	15,522
Current portion of long-term debt and capital lease obligations		3
Other current liabilities	1,250	1,882
Total current liabilities	18,984	23,668
Other long-term liabilities	581	938
Total liabilities	19,565	24,606
Shareholders' equity:		
Common stock	151,910	149,447
Accumulated other comprehensive income	46	61
Accumulated deficit	(96,626)	(94,775)
Total shareholders' equity	55,330	54,733
Total liabilities and shareholders' equity	\$ 74,895	\$ 79,339

(1) Derived from  
Corillian's

audited  
Consolidated  
Financial  
Statements as of  
December 31,  
2005.

See accompanying Notes to Condensed Consolidated Financial Statements.

3

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**Table of Contents**

**CORILLIAN CORPORATION**  
Condensed Consolidated Statements of Operations  
(unaudited, in thousands, except per share data)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenues	\$ 15,567	\$ 11,937	\$ 44,464	\$ 35,459
Cost of revenues	7,321	5,311	22,912	13,820
Gross profit	8,246	6,626	21,552	21,639
Operating expenses:				
Sales and marketing	2,045	1,964	6,611	5,452
Research and development	3,417	2,627	10,202	7,856
General and administrative	2,474	2,343	7,392	6,199
Total operating expenses	7,936	6,934	24,205	19,507
Income (loss) from operations	310	(308)	(2,653)	2,132
Other income, net	290	248	844	623
Net income (loss) before income taxes	600	(60)	(1,809)	2,755
Income taxes	10		42	63
Net income (loss)	\$ 590	\$ (60)	\$ (1,851)	\$ 2,692
Basic net income (loss) per share	\$ 0.01	\$ (0.00)	\$ (0.04)	\$ 0.07
Diluted net income (loss) per share	\$ 0.01	\$ (0.00)	\$ (0.04)	\$ 0.07
Shares used in computing basic net income (loss) per share	44,997	41,756	44,897	39,808
Shares used in computing diluted net income (loss) per share	45,574	41,756	44,897	41,020

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

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

	<b>Nine Months Ended September</b>	
	<b>30,</b>	
	<b>2006</b>	<b>2005</b>
Cash flows from operating activities:		
Net (loss) income	\$ (1,851)	\$ 2,692
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation	1,403	1,115
Stock-based compensation expense	1,702	
Amortization of intangible assets	1,225	221
Equity in losses of joint venture		128
Recovery of bad debts		(41)
Loss (gain) on sale of assets	4	(8)
Income tax benefit from equity transactions		18
Excess tax benefits from stock-based compensation	(5)	
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable, net	4,422	2,252
Revenue in excess of billings	(1,046)	(899)
Other current and long-term assets	(216)	(1,107)
Accounts payable and accrued liabilities	(864)	(3,058)
Deferred revenue	(3,180)	(4,586)
Other current and long-term liabilities	(980)	(105)
Net cash provided by (used in) operating activities	614	(3,378)
Cash flows from investing activities:		
Purchase of property and equipment	(2,198)	(917)
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	3,200	2,050
Cash paid for acquisition of InteliData, net of cash acquired		(4,472)
Cash paid for acquisition of qbt, net of cash acquired		(3,138)
Net cash used in investing activities	(1,498)	(9,119)
Cash flows from financing activities:		
Proceeds from the issuance of common stock	718	1,070
Registration costs associated with shares issued in business combinations		(309)
Repayments of long-term borrowings		(911)
Principal payments on capital lease obligations	(3)	(9)
Excess tax benefits from stock-based compensation	5	
Net cash provided by (used in) financing activities	720	(159)

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Effect of exchange rate fluctuations on cash and cash equivalents	(15)	(1)
Decrease in cash and cash equivalents	(179)	(12,657)
Cash and cash equivalents at beginning of period	16,722	29,200
Cash and cash equivalents at end of period	\$ 16,543	\$ 16,543
Cash paid during the period for:		
Interest	\$ 17	\$ 21
Taxes	64	47
Supplemental disclosures of non-cash investing and financing activities:		
Common stock issued in InteliData acquisition	\$	\$ 16,618
Common stock issued in qbt Systems, Inc. acquisition	9	2,059
Deferred costs related to employee stock-based compensation	29	

See accompanying notes to Condensed Consolidated Financial Statements.



**Table of Contents**

**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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2006 was \$555,000 and \$1.7 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 nine months ended September 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 nine months ended September 30, 2005; however, pro forma

stock-based compensation expense for the three and nine months ended September 30, 2005 was \$695,000 and \$2.2 million, respectively, or \$0.02 and \$0.05, respectively, per diluted share. On December 22, 2005, Corillian's Board of Directors approved the acceleration of vesting of all employee stock

**Table of Contents**

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 nine months ended September 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 nine 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 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 September 30, 2006, one customer accounted for 13% of

**Table of Contents**

consolidated revenues. During the three months ended September 30, 2005, two customers individually accounted for more than 10% of Corillian's consolidated revenues and together represented 25% of total revenues. During the nine months ended September 30, 2006, one customer accounted for 13% of consolidated revenues. During the nine months ended September 30, 2005, one customer accounted for 12% of consolidated revenues.

Corillian is exposed to concentration of credit risk principally from accounts receivable and revenue in excess of billings. As of September 30, 2006, one customer accounted for 22% of consolidated accounts receivable. As of December 31, 2005, one customer accounted for 18% of consolidated accounts receivable.

As of September 30, 2006, one customer individually accounted for more than 13% of Corillian's consolidated revenue in excess of billings balance. As of December 31, 2005, three customers individually accounted for more than 10% of Corillian's consolidated revenue in excess of billings balance and together 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 Income (Loss) per Share**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net income (loss)	\$ 590	\$ (60)	\$ (1,851)	\$ 2,692
Weighted-average shares basic	44,997	41,756	44,897	39,808
Effect of dilutive potential common shares		577		1,212
Weighted-average shares diluted	45,574	41,756	44,897	41,020
Net income (loss) per share basic	\$ 0.01	\$ (0.00)	\$ (0.04)	\$ 0.07
Net income (loss) per share diluted	\$ 0.01	\$ (0.00)	\$ (0.04)	\$ 0.07

Net income (loss) for the three and nine months ended September 30, 2006 included stock-based compensation expense under FAS 123(R) of \$555,000 and \$1.7 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 nine months ended September 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 5.8 million and 6.6 million shares for the three and nine months ended September 30, 2006, respectively, and approximately 6.2 million and 2.2 million for the three and nine months ended September 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 nine months ended September 30, 2006, Corillian issued 122,000 and 234,000 shares under the ESPP. For the three and nine months ended September 30, 2005, Corillian issued 101,000 and 393,000 shares under the ESPP. As of September 30, 2006, 2.1 million shares were authorized for grant and 99,000 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

8

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**Table of Contents**

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 September 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 September 30, 2006, approximately 278,000 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:

**Table of Contents**

	<b>Options Outstanding</b>	<b>Weighted- Average Exercise Price per Share</b>
	<b>Number Outstanding</b>	
Outstanding at December 31, 2005	6,375,329	\$3.94
Granted	536,500	3.32
Exercised	(114,433)	1.08
Canceled/forfeited/expired	(341,331)	4.74
Outstanding at September 30, 2006	6,456,065	\$3.93

The total pretax intrinsic value of options exercised during the three and nine months ended September 30, 2006 was approximately \$35,000 and \$247,000, 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 \$718,000 and \$1.1 million for the nine months ended September 30, 2006 and 2005, respectively.

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

Range of Exercise Prices	Number Outstanding	Options Outstanding			Options Exercisable		
		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-\$2.71	1,029,089	6.49	\$ 1.10	\$ 1,687,706	796,255	\$ 1.10	\$ 1,305,858
\$2.75-\$2.87	918,583	7.39	2.85		518,708	2.85	
\$2.90-\$2.99	491,500	9.08	2.91		24,375	2.90	
\$3.00-\$3.00	983,875	6.82	3.00		731,375	3.00	
\$3.01-\$3.42	933,261	8.70	3.23		223,952	3.20	
\$3.43-\$5.01	1,002,715	6.73	4.00		672,655	4.07	
\$5.31-\$19.50	1,097,042	5.54	9.31		1,097,040	9.31	
Total	6,456,065	7.06	\$ 3.93	\$ 1,687,706	4,064,360	\$ 4.50	\$ 1,305,858

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on Corillian's closing stock price of \$2.74 as of September 29, 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 September 30, 2006 was 796,000 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 nine months ended September 30, 2006 which was allocated as follows (in thousands):



**Table of Contents**

	<b>Three Months Ended September 30, 2006</b>	<b>Nine Months Ended September 30, 2006</b>
Cost of revenues	\$ 106	\$ 349
Stock-based compensation expense included in cost of revenues	106	349
Sales and marketing	111	335
Research and development	120	361
General and administrative	218	657
Stock-based compensation expense included in operating expenses	449	1,353
Total stock-based compensation expense	\$ 555	\$ 1,702

As of September 30, 2006, approximately \$29,000 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 nine months ended September 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 nine months ended September 30, 2006 (in thousands, except per-share amounts):

	<b>Three Months Ended September 30, 2006</b>		<b>Nine Months Ended September 30, 2006</b>	
	<b>As Reported Following FAS 123(R)</b>	<b>If Reported Following APB 25</b>	<b>As Reported Following FAS 123(R)</b>	<b>If Reported Following APB 25</b>
Income (loss) from operations	\$ 310	\$ 865	\$ (2,653)	\$ (951)
Net income (loss)	\$ 590	\$ 1,145	\$ (1,851)	\$ (149)
Basic and diluted net income (loss) per share	\$ 0.01	\$ 0.03	\$ (0.04)	\$ (0.00)

The following table illustrates the effect on net income if the fair-value-based method in accordance with FAS 123 had been applied to all outstanding and unvested awards in each period for the three and nine months ended September 30, 2005 (in thousands, except per-share amounts):

	<b>Three Months Ended September 30, 2005</b>	<b>Nine Months Ended September 30, 2005</b>
Net (loss) income, as reported	\$ (60)	\$ 2,692
Deduct: Stock-based compensation expense determined under fair value value based method for all awards	(695)	(2,156)

Pro forma net (loss) income	\$	(755)	\$	536
Basic and diluted- as reported	\$	(0.00)	\$	0.07
Basic and diluted- pro forma	\$	(0.02)	\$	0.01

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 September 30, 2006, total compensation cost related to non-vested stock options not yet recognized was \$3.7 million which is expected to be recognized over the next 15 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:

**Table of Contents**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Weighted average fair value of grants	\$ 1.70	\$ 1.95	\$ 2.10	\$ 1.91
Expected volatility	73%	79%	75%	79%
Risk-free interest rate	4.7%	4.0%	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 assumptions and fair values:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Weighted average fair value of grants	\$ 0.96	\$ 1.25	\$ 0.97	\$ 1.45
Expected volatility	35%-47%	46%-75%	35%-55%	44%-81%
Risk-free interest rate	5.0%-5.2%	3.5%-3.9%	4.7%-5.2%	1.9%-3.9%
Expected dividends	0%	0%	0%	0%
Expected life (in years)	0.5-2.0	0.5-2.0	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 September 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.

As stock-based compensation expense recognized in the Consolidated Statement of Operations for the three and nine months ended September 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.

**(7) Commitments and Contingencies**

**Table of Contents***(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 this renewed period was consistent with its previous rate of \$9,728 per month. In October 2006, Corillian extended this lease for a period of 36 months, commencing on November 1, 2006 and continuing through October 31, 2009. Monthly rent for the renewed period ranges from \$9,867 to \$10,278 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 with 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 September 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 September 30, 2006. However, Corillian may be in violation in future periods if net losses are incurred.

*(c) Environmental liability*

In connection with the acquisition of IntelliData Technologies Corporation ( IntelliData ) in August 2005, Corillian assumed an environmental clean-up liability associated with prior tenants' operations at IntelliData's former New Milford, Connecticut property. In January 2000, IntelliData sold the property and the building. In connection with the sale, IntelliData 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 IntelliData has not been named a potentially responsible party at the property. The remediation plan agreed to with the purchaser allowed IntelliData to use engineering and institutional controls (e.g., deed restrictions) to minimize the extent and costs of the remediation. Moreover, IntelliData 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 September 30, 2006, the \$600,000 deductible had been exhausted. As of September 30, 2006, Corillian had approximately \$250,000 recorded as estimated undiscounted future liabilities, of which approximately \$69,000 was recorded as a current liability, and recorded a receivable of \$575,000 due from its insurance provider, of which \$401,000 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*

**Table of Contents**

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.

**(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 nine months ended September 30, 2006 and 2005.

Geographic revenue information for the three and nine months ended September 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).

	<b>Three Months Ended September 30, 2006</b>		<b>Nine Months Ended September 30, 2006</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenues from:				
United States	\$ 14,809	\$ 11,607	\$ 42,215	\$ 34,249
All foreign countries	758	330	2,249	1,210
	\$ 15,567	\$ 11,937	\$ 44,464	\$ 35,459

*(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):

	<b>Three Months Ended September 30, 2006</b>		<b>Nine Months Ended September 30, 2006</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
License and professional services	\$ 10,164	\$ 7,536	\$ 28,588	\$ 22,856
Post-contractual support	4,399	3,566	13,260	9,860
Hosting	1,004	835	2,616	2,743
	\$ 15,567	\$ 11,937	\$ 44,464	\$ 35,459

**(9) Recent Accounting Pronouncements**



**Table of Contents**

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.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ( FAS 157 ). FAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and expands on required disclosures about fair value measurement. FAS 157 is effective for Corillian on January 1, 2008 and will be applied prospectively. Corillian is currently evaluating what impact, if any, this statement will have on its financial statements.

In September 2006, the SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ). SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for Corillian in the fourth quarter of 2006 and is not expected to have a material impact on Corillian's consolidated 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, anticipate, believe, estimate, predict, potential, future, or continue, the negative of these terms or other comparable terms. 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.

**Table of Contents**

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.

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.

**Table of Contents**

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 nine months ended September 30, 2006 reflected an increase in revenues to \$15.6 million for the three months ended September 30, 2006 from \$11.9 million for the three months ended September 30, 2005 and to \$44.5 million for the nine months ended September 30, 2006 from \$35.5 million for the nine months ended September 30, 2005. Corillian had net income of \$590,000 for the three months ended September 30, 2006 and had a net loss of \$1.9 million for the nine months ended September 30, 2006. Included in the net income (loss) for the three and nine months ended September 30, 2006 was \$555,000 and \$1.7 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 \$380,000 and \$1.2 million of amortization of intangibles, respectively, related to companies acquired in the third quarter of 2005.

Corillian's backlog was \$46.0 million at September 30, 2006 compared to \$43.0 million at December 31, 2005. Included in its September 30, 2006 backlog amount is \$346,000 related to estimated usage-based revenues from contracts acquired in the acquisition of IntelliData Technologies Corporation in August 2005, 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*

**Table of Contents**

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 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

**Table of Contents**

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. Revenues 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 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, future projections and limitations on the use of net operating loss carryforwards. As of September 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 nine months ended September 30, 2006 was \$555,000 and \$1.7 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 nine months ended September 30, 2005. See Note 5 to the Condensed Consolidated Financial Statements for additional information.





**Table of Contents**

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:

	<b>Three Months Ended September 30, 2006</b>	<b>Nine Months Ended September 30, 2006</b>
Weighted average fair value of grants	\$ 1.70	\$ 2.10
Expected volatility	73%	75%
Risk-free interest rate	4.7%	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 September 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 nine months ended September 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.

*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.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ( FAS 157 ). FAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and expands on required disclosures about fair value measurement. FAS 157 is effective for Corillian on January 1, 2008 and will be applied prospectively. Corillian is currently evaluating what impact, if any, this statement will have on its financial statements.

In September 2006, the SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ). SAB 108 requires that registrants

quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for Corillian in the fourth quarter of 2006 and is not expected to have a material impact on Corillian's consolidated financial statements.

**Results of Operations**

**Table of Contents*****Revenues***

Revenues increased to \$15.6 million for the three months ended September 30, 2006 from \$11.9 million for the three months ended September 30, 2005. The increase of \$3.7 million, or 31%, was primarily due to \$1.7 million of revenues from customers of companies that Corillian acquired in August of 2005. The remaining increase was primarily due to additional license and professional services revenue as a result of an increase in the number of implementation projects for new customers.

Revenues increased to \$44.5 million for the nine months ended September 30, 2006 from \$35.5 million for the nine months ended September 30, 2005. The increase of \$9.0 million, or 25%, was primarily due to \$8.0 million of revenues from customers of companies that Corillian acquired in August 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 September 30, 2006, one customer accounted for 13% of consolidated revenues. During the three months ended September 30, 2005, two customers individually accounted for more than 10% of Corillian's consolidated revenues and together represented 25% of total revenues. During the nine months ended September 30, 2006, one customer accounted for 13% of consolidated revenues. During the nine months ended September 30, 2005, one customer accounted for 12% 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 \$7.3 million for the three months ended September 30, 2006 from \$5.3 million for the three months ended September 30, 2005. This increase of \$2.0 million, or 38%, was primarily due to a combination of increased professional services payroll and payroll-related expenses, consulting expenses, amortization of acquisition related intangibles and stock-based compensation expense. Payroll and payroll-related expenses increased by \$770,000 due to the average headcount for professional services increasing by 34. In addition to the increased headcount, consulting expenses increased by \$741,000 due to Corillian hiring more contractors to assist with an increase in the number of implementation projects. Additionally, amortization of acquisition related intangibles increased by \$136,000 and stock-based compensation expense under FAS 123(R) increased \$106,000. The remaining difference primarily consists of additional miscellaneous costs associated with increased headcount and additional locations from acquired companies.

Cost of revenues increased to \$22.9 million for the nine months ended September 30, 2006 from \$13.8 million for the nine months ended September 30, 2005. This increase of \$9.1 million, or 66%, was primarily due to a combination of increased professional services payroll and payroll-related expenses, consulting expenses, amortization of acquisition related intangibles and stock-based compensation expense. Payroll and payroll-related expenses increased by \$2.9 million due to the average headcount for professional services increasing by 28. In addition to the increased headcount, consulting expenses increased by \$2.8 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 \$894,000 and stock-based compensation expense under FAS 123(R) increased by \$349,000. 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. The remaining difference primarily consists of additional miscellaneous costs associated with increased headcount and additional locations from acquired companies.

Gross profit as a percentage of revenues decreased slightly to 53% from 56% for the three months ended September 30, 2006 and 2005, respectively. Gross profit as a percentage of revenues decreased to 48% from 61% for the nine months ended September 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.

**Table of Contents****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 remained consistent at \$2.0 million for the three months ended September 30, 2006 and 2005, respectively. Sales and marketing expense remained consistent primarily due to an insignificant change in payroll and payroll-related expenses as average headcount increased by only 2 to 34 for the three months ended September 30, 2006 from 32 for the three months ended September 30, 2005. Included in sales and marketing expense was \$111,000 of stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123(R), and \$22,000 related to acquisition related intangibles.

Sales and marketing expenses increased to \$6.6 million for the nine months ended September 30, 2006 from \$5.5 million for the nine months ended September 30, 2005. This increase of \$1.1 million, or 20%, was primarily due to increased payroll and payroll-related expenses, amortization of acquisition related intangibles and stock-based compensation expense. Payroll and payroll-related expense increased by \$560,000 due to average headcount for sales and marketing increasing by 3 and due to higher commission expense from increased revenues. Sales and marketing expense also increased due to \$335,000 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 \$110,000 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 \$3.4 million for the three months ended September 30, 2006 from \$2.6 million for the three months ended September 30, 2005. This increase of \$800,000, or 31%, was primarily due to higher payroll and payroll-related expenses as a result of acquiring companies in August 2005 and Corillian's continued investment in research and development. Research and development average headcount increased by 15 from prior year and headcount-related expenses increased by \$462,000. Research and development expense also increased due to \$120,000 of stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS 123(R) and \$73,000 in consulting expenses.

Research and development expenses increased to \$10.2 million for the nine months ended September 30, 2006 from \$7.9 million for the nine months ended September 30, 2005. This increase of \$2.3 million, or 29%, was primarily due to higher payroll and payroll-related expenses as a result of acquiring companies in August 2005 and Corillian's continued investment in research and development. Research and development average headcount increased by 19 from prior year and payroll and payroll-related expenses increased by \$1.9 million. Research and development expense also increased due to \$361,000 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 \$2.5 million for the three months ended September 30, 2006 from \$2.3 million for the three months ended September 30, 2005. The increase of \$200,000, or 9%, was primarily due to \$218,000 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 \$7.4 million for the nine months ended September 30, 2006 from \$6.2 million for the nine months ended September 30, 2005. The increase of \$1.2 million, or 19%, was primarily due to \$657,000 of stock-based compensation expense related to employee stock options and employee stock purchases under the ESPP in accordance with FAS



**Table of Contents**

123(R). The remaining difference primarily consists of additional miscellaneous costs associated with additional locations from acquired companies.

**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 \$290,000 for the three months ended September 30, 2006, as compared to \$248,000 for the three months ended September 30, 2005. Other income for the three months ended September 30, 2006 and 2005 primarily consisted of interest income from cash, cash equivalents and short-term investments. Corillian's cash, cash equivalents and short-term investment balance decreased to \$24.6 million at September 30, 2006 from \$27.3 million at September 30, 2005. However, the decrease in cash, cash equivalents and short-term investments was offset by higher short-term interest rates in 2006.

Other income, net, increased to \$844,000 for the nine months ended September 30, 2006 from \$623,000 for the nine months ended September 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. The remaining increase was due to increased interest income due to higher short-term interest rates in 2006.

**Income Taxes**

Corillian expects to incur an alternative minimum tax liability for 2006. As a result, Corillian recorded income tax charges of \$10,000 and \$42,000 for the three and nine months ended September 30, 2006, respectively, related to estimated alternative minimum taxes for these periods. Corillian recorded an income tax charge of \$63,000 for the nine months ended September 30, 2005 and did not have an income tax charge for the three months ended September 30, 2005. 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 nine months ended September 30, 2006 which was allocated as follows (in thousands):

	<b>Three Months Ended September 30, 2006</b>	<b>Nine Months Ended September 30, 2006</b>
Cost of revenues	\$ 106	\$ 349
Stock-based compensation expense included in cost of revenues	106	349
Sales and marketing	111	335
Research and development	120	361



General and administrative	218	657
Stock-based compensation expense included in operating expenses	449	1,353
Total stock-based compensation expense	\$ 555	\$ 1,702

**Table of Contents**

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

**Liquidity and Capital Resources**

As of September 30, 2006, Corillian had \$24.6 million in cash, cash equivalents and short-term investments, as compared to \$25.5 million as of December 31, 2005. Working capital remained consistent at \$19.7 million as of September 30, 2006 from \$19.6 million as of December 31, 2005.

For the nine months ended September 30, 2006, cash provided by operating activities was \$614,000. Cash received from accounts receivable increased cash flow from operations by \$4.4 million due to the timing of cash receipts and larger amounts billed near year-end for annual maintenance billings. Net loss adjusted for certain non-cash items increased cash flow from operations by \$2.5 million. Net loss adjusted for certain non-cash items included a net loss of \$1.9 million, which was offset by non-cash items including \$1.7 million of stock-based compensation expense under FAS 123(R), \$1.2 million of amortization of intangibles and \$1.4 million of depreciation expense. These amounts were offset by a decrease in cash of \$4.2 million from revenue in excess of billings and deferred revenue due to the timing of billings and revenue recognized. The deferred revenue balance was larger at year-end primarily due to outstanding annual maintenance billings that are billed near year-end and where related revenue is recognized ratably throughout the year. Cash used in investing activities was \$1.5 million for the nine months ended September 30, 2006, which was due to \$2.2 million of cash used to purchase property and equipment, which was offset by \$700,000 of net proceeds from the sale of available-for-sale investments. Cash provided by financing activities was \$720,000 for the nine months ended September 30, 2006, which was primarily due to proceeds from the issuance of common stock related to employee stock option exercises and employee stock purchases under the ESPP.

For the nine months ended September 30, 2005, cash used in operating activities was \$3.4 million. Deferred revenue resulted in a decrease in cash of \$4.6 million, which was primarily due to a large project in deferred revenue at December 31, 2004, combined with declining sales volumes. Other current and long-term assets and accounts payable and accrued liabilities decreased cash flow from operations by \$4.2 million, primarily due to liabilities from acquired companies. These amounts were partially offset by net income adjusted for certain non-cash items that increased cash flow from operations by \$4.1 million. Net income adjusted for certain non-cash items included \$1.1 million of depreciation expense, \$221,000 of amortization of intangibles and \$128,000 in equity losses from Corillian's Synoran joint venture. In addition, cash received from accounts receivable increased cash flow from operations by \$2.3 million, primarily due to lower sales volumes combined with larger amounts billed near year-end for annual maintenance billings. Cash used in investing activities was \$9.1 million for the nine months ended September 30, 2005, which was due to \$7.6 million of cash paid for acquisitions, \$909,000 of net cash paid to purchase property and equipment and \$600,000 in net purchases of available-for-sale investments. Cash used in financing activities was \$159,000 for the nine months ended September 30, 2005, which was primarily due to \$911,000 of repayments of long-term borrowings, \$309,000 of cash used for registration costs associated with shares issued in business combinations, offset by \$1.1 million 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 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 September 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 September 30, 2006. However, Corillian may be in violation in future periods if net losses are incurred.

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**

**Table of Contents**

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 this renewed period was consistent with its previous rate of \$9,728 per month. In October 2006, Corillian extended this lease for a period of 36 months, commencing on November 1, 2006 and continuing through October 31, 2009. Monthly rent for the renewed period ranges from \$9,867 to \$10,278 per month.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Foreign Exchange Rate Sensitivity**

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 September 30, 2006, Corillian had \$24.6 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 \$154,000, 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

**Table of Contents**

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.

(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.

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

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

**ITEM 6. EXHIBITS**

(a) Exhibits

See attached exhibit index.

27

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**Table of Contents**

**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 November 9, 2006.

CORILLIAN CORPORATION

By: /s/ Paul K. Wilde

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

28

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**Table of Contents**

**INDEX TO EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
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