DIGITAL INSIGHT CORP
Form 10-K
March 10, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

Commission File Number 0-27459

DIGITAL INSIGHT CORPORATION

(Exact name of registrant as specified in its charter)

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

26025 Mureau Road, Calabasas, California 91302

(Address of principal executive offices, including zip code)

(818) 871-0000

(Registrant s telephone number, including area code)

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

None

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

Common Stock, $0.001 par value per share

(Title of Class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES x NO ¨

Based on the closing sale price of $18.94 as reported by the Nasdaq National Market System on June 30, 2003, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the registrant s common stock held by non-affiliates was $328.6 million. The shares of common stock held by each officer and director and by each person known to the registrant who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of February 29, 2004, registrant had 35,039,376 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement for the 2004 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein. The proxy statement will be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

INFORMATION ABOUT DIGITAL INSIGHT

We file annual, quarterly and current reports, proxy statements, and other documents with the Securities and Exchange Commission, or the SEC, under the Securities Exchange Act of 1934, or the Exchange Act. You may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our reports, proxy statements, and other documents filed electronically with the SEC are available at the website maintained by the SEC at *http://www.sec.gov*.

We also make available free of charge on or through our Internet website at *http://www.digitalinsight.com* our annual, quarterly, and current reports, and, if applicable, amendments to those reports, filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the SEC.

PART I

ITEM 1. BUSINESS

Overview

We are a leading provider of outsourced online banking applications and services to banks, credit unions and savings and loan associations, serving more than 1,700 client financial institutions. We offer outsourced software products and related services, hosted in our data centers, primarily to financial institutions with under $20 billion in assets. Our products are highly configurable to provide a look and feel that preserves the financial institution s unique brand identity. Our contracts with financial institutions are long-term in nature, generally ranging from three to five years. Our clients pay monthly fees that are generally variable with growth in active end users and the number of transactions hosted in our data centers. More than 90% of our revenues were derived from recurring service fees during 2003.

Our outsourcing operations include three main product lines: online banking for consumers, which also includes bill payment and bill presentment; online cash management for businesses; and online lending for consumer loans. Through our recent acquisition of Magnet Communications, Inc., or Magnet, in November 2003, we also offer online cash management products to large financial institutions that are available as either a licensed software implementation or hosted in our data centers. Our expanded capabilities within online cash management allow us to serve financial institutions and their business customers of all sizes. Our clients benefit from an extensive portfolio of complementary products and services that add value to our core products and services, including online check imaging, online statements, web portal technology, web site development and maintenance, and professional services.

In contrast to in-house software deployments that require significant development resources, we provide comprehensive Internet applications that can be installed rapidly and cost-effectively. By using our applications, clients can keep pace with rapid advancements in Internet technology without placing demands on in-house technical resources. We also help our clients generate a higher return on investment with our cooperative marketing and support programs, which promote end user adoption. Our comprehensive suite of products enables our clients to generate higher revenues from increased loan and account balances, to increase customer retention, and to lower their costs to serve customers by promoting self-service functions available on the Internet.

Since our inception in 1996, we have established a growing range of strategic relationships with the industry s leading data processing vendors to ensure that financial institutions can leverage their investments in existing data processing systems by fully integrating them with our Internet applications. For example, during 2003, we entered into new relationships with core processors Aurum Technology, Bradford Scott and COCC, and extended existing agreements with BISYS, Computer Services Inc., Fiserv and John Harland. Our applications also offer high levels of security, up-time availability and system redundancy, and are designed to be readily expandable, or scalable, as the number of end users grows.

As of December 31, 2003, 4.4 million end users were actively using our Internet banking applications representing 12.8% penetration of the 34.4 million potential end users among our live Internet banking clients. Of the 4.4 million active Internet banking end users, 663,000 end users were signed up for our online bill payment service, representing 15.1% of active Internet banking users. As of December 31, 2003, 62,400 business end users were actively using our outsourced cash management solutions.

We were formed as a Minnesota limited liability Company in 1996 and converted to a Delaware Corporation in 1997.

Industry Background

Consumers, businesses and financial institutions increasingly recognize that the Internet is a powerful and efficient medium for the delivery of financial services, including Internet banking, bill payment and bill presentment, online lending, and a host of other services for retail and business customers of financial institutions. Consumers and businesses increasingly bank online because of the convenience of 24 hours a day, 7 days a week access, the rapid growth of broadband technologies that encourage higher Internet use, and a generally increasing comfort with conducting financial transactions online. Tower Group, a financial services research and advisory firm, estimates that 28.8 million U.S. households were banking online in 2003, and that the number of U.S. households banking online will increase to 40 million by 2007.

For financial institutions, the Internet offers a cost-effective service delivery channel from which to market a broad portfolio of products and services in an effort to strengthen and secure customer relationships and generate higher revenues. The Internet channel also enables financial institutions to expand their addressable markets and maintain service availability 24 hours a day, 7 days a week. In addition, a growing body of industry research, including recent reports from Forrester Research and Celent Communications, has demonstrated that Internet banking and online bill payment end users are more profitable to serve because online users:

- generate significantly higher revenues than offline customers, primarily because online customers use more banking products and services and maintain higher account balances than offline customers;

- cost less to serve because online users tend to utilize more self-service functions and therefore interact with the more costly retail branch and call center service channels less frequently than offline customers; and

- are retained by financial institutions at significantly higher rates than offline customers.

Research published by Bank of America demonstrated that end users of the bank s online bill payment service experienced attrition that was 80% lower than offline customers, and were 31% more profitable than offline customers within 31 months. Consequently, Bank of America and several other leading financial institutions have eliminated their monthly customer fees for online bill payment and launched aggressive marketing campaigns to promote adoption of the online channel. A growing segment of smaller financial institutions have responded with similar campaigns.

The largest U.S. financial institutions generally develop and maintain an internally hosted solution for the delivery of online financial services such as Internet banking. By contrast, we believe that the majority of the approximately 19,000 credit unions, banks, and savings and loans in the U.S. with assets of less than $20 billion prefer to outsource the development and maintenance of their online banking initiatives to a technology services provider. These community and regional financial institutions increasingly seek to provide Internet-based services, but frequently lack the capital, expertise, or information technology resources to offer such services in-house.

Our Business

We provide a comprehensive portfolio of outsourced online banking software products and related services, hosted in our data centers, primarily to financial institutions with assets of less than $20 billion. We generate recurring revenues that generally correlate to the growth in active Internet banking end users and user transaction volume. Our three core product offerings are: Internet banking, cash management and lending. Our Internet banking applications for consumers include: account management, account transfers and interfaces to personal financial management software, bill payment and bill presentment, check imaging, online statements, inter-institutional funds transfer, and other expanded services. Our cash management software products and related services serve business banking customers and include features similar to those of our consumer product, as well as payroll direct deposits, wire and inter-account fund transfers, account reconciliation and other services. Supporting products and services include web portal technology, wireless capability, target marketing, professional services, and web site development and maintenance. Our cash management software products can be deployed as a licensed implementation or hosted in our data centers. A licensed implementation allows financial institutions to enable their business customers to manage business banking operations using the financial institutions own equipment and facilities. We have a versatile cash management product line that allows financial institutions to cater to businesses of all sizes and in all stages of development.

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Our lending software products and related services provide a selection of automated lending products for non-mortgage consumer loans including an Internet-based, real-time loan decisioning product, multi-channel automated underwriting services, and a call center staffed with qualified loan officers, 24 hours a day, 7 days a week.

We offer the following benefits to financial institutions:

Comprehensive and Customizable Solutions. We offer turnkey, subscription-based products and services with all critical applications hosted in our data centers. Our online banking applications can be configured to offer financial institutions and end users a variety of standard and optional features. Our web site design and implementation services also enable financial institutions to establish Internet banking services with a look and feel that preserves their unique brand identity.

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

Reliable, Secure, and Scalable Service. Our service is highly reliable. Our systems incorporate sophisticated data encryption techniques, a series of firewalls between the Internet and financial institutions, and several layers of security technology in order to guard against unauthorized access to our network. In addition, our systems can scale rapidly to accommodate an increased number of end users.

Extensive Data Processing Vendor Relationships. We provide direct connections, or interfaces, to multiple vendors of core banking software and data processing services to financial institutions. As of December 31, 2003, we have developed interfaces to most of the major data processing vendors representing nearly 80% of the major core processing systems serving our addressable market of financial institutions. By working directly with these vendors, we can quickly and cost-effectively connect our systems allowing relatively more rapid implementation of new customers to the same core processing system. Our interfaces also allow for tight integration with other functions supported by the data processing vendor, such as loan origination, online statements and check imaging. We believe that the number of data processing vendor interfaces we have developed provides us with a unique and significant competitive advantage.

Uniquely Broad Set of Value-Added Products. We enable financial institutions to expand their Internet presence beyond their core banking functions by providing additional value-added products and services to their customers. We believe our product suite offers the broadest capabilities in the industry, including: online bill payment, bill presentment, online lending, online cash management, check imaging, account aggregation, inter-institutional payments, online statements, check reordering, target marketing software, professional services, and training seminars. We maintain an extensive network of vendors that have cooperatively developed many of our value-added products and services.

Cooperative Marketing Programs. Our cooperative marketing programs encourage higher end user adoption through a series of direct marketing and promotional tools including incentives for staff of financial institutions, promotions for end users, training programs, statement stuffers, and email campaigns.

Our Strategy

Our objective is to further enhance our position as a leading provider of online banking solutions to financial institutions for their retail and business customers. We intend to provide these institutions with a competitive platform that will permit them to achieve additional revenue-producing opportunities, enhance long-term cost-efficiencies, and improve customer service and client retention. To achieve this objective, we intend to:

Increase End User Penetration. As of December 31, 2003, our financial institutions with live Internet banking sites had 4.4 million active end users out of approximately 34.4 million potential end users, resulting in an overall penetration of 12.8%. We help clients expand the number of active end users of our

Internet banking applications through marketing assistance programs and by sharing best practices. These cooperative marketing programs enable clients to increase their returns from the online channel, through increased revenue opportunities, lower customer attrition, and reduced service costs.

Pursue Cross-Selling Opportunities Within Our Existing Customer Base. We currently enable financial institutions to offer Internet banking applications and automated lending capabilities to their retail and business banking end users. We believe that we have a significant opportunity to sell our comprehensive suite of products and services to existing customers as their needs evolve and their customer base grows.

Increase the Number of Our Financial Institution Customers. We intend to further penetrate the substantial market for online banking applications. As of December 31, 2003, we had contracts with 1,710 financial institutions throughout the U.S. Our addressable market for new customers is comprised of two segments: financial institutions that have yet to offer online banking services but plan to do so, and those that offer online banking services and want to either change from an in-house system or change their outsource providers.

Retain Existing Customers. Approximately 20 to 25% of our client base is subject to contract renewals each year. We intend to maximize client retention through a dedicated client retention management team, aggressive utilization of sales resources, a strategic approach to account management of key accounts, and other initiatives.

Increase Our Relationships with Core Data Processing Vendors. We intend to increase the number of our relationships with core data processing vendors to allow our applications to interface with more financial institutions and to expand our sales and distribution channel relationships. We currently interface with most of the major vendors that provide data processing services to the major financial institutions in our addressable market. We intend to continually increase this coverage and to expand our existing relationships.

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

Pursue Strategic Merger and Acquisition Opportunities. We intend to continue to pursue opportunities to acquire businesses that will add financial institution customers, complementary technologies or services, or provide other benefits.

Products and Services

Internet Banking

We offer a broad range of outsourced Internet banking products and services for the retail customers of our financial institution clients that include the following features:

View online transaction history, account balances, check images, and statements.

Online bill payment capability to pay anyone through the financial institution s web site.

Online bill presentment capability to receive, view, pay and store electronic bills online.

Two-way data transfer with Microsoft Money® and Intuit Quicken® financial software.

Secure online applications to open new accounts, apply for credit cards, insurance, loans or other products.

Inter-institutional and person-to-person payments outside the financial institution.

Wireless banking and alerts through mobile devices.

Promotion and marketing tools to allow financial institutions to market to online users.

E-commerce web portal for marketing third-party financial products.

Web site development, maintenance, and implementation services.

Funds transfer between accounts, current or scheduled.

Cash Management

Our cash management products serve the business customers of our financial institution clients. We generally provide our cash management products on an outsourced basis; however, we also offer a licensed software delivery alternative for large financial institutions. Primary features include:

Online administration platform to control access among users.

View online transaction history and balance information.

Funds transfer between accounts, current or scheduled.

Stop payments for previously issued checks.

File export to business financial management software.

Bill payment and bill presentment.

Automated clearing house (ACH) services for payroll and other payments.

Wire transfers with other financial institutions or vendors.

Foreign exchange rates and trading.

Check reconciliation services.

Lending

Our lending products provide rules-based underwriting on behalf of our financial institution clients, applying client-specific and client-defined rules to reach a credit decision. We support a wide range of consumer loans including home equity, auto loans and personal loans, but we do not support mortgage lending. We do not bear any of the underwriting or financial risk of these loans. We charge our clients a fee per application regardless of whether the loan is approved or not. Lending products are offered through multiple service channels to match consumer preferences and include:

Real-time loan evaluation over the Internet for consumer loans, including the retrieval of an electronic credit report and a credit decision response to the applicant, generally in less than a minute.

Loan evaluation through our 24 hours a day, 7 days a week call center staffed with trained loan officers.

Loan evaluation by the financial institution client s loan officer, using our Internet-based product for desktop decisioning within the retail branch.

Our lending products feature interfaces to major loan origination systems, online credit bureau verification, and pre-qualification capabilities for home equity and consumer loans.

Data Centers

We currently provide our Internet banking services out of a data center located in Westlake Village, California. In addition, we operate a smaller data center in Sacramento in connection with our lending division and a data center in Atlanta for our large cash management clients. All of our data centers currently have disaster recovery capabilities. Our disaster recovery data center in Norcross, Georgia allows for emergency backup and disaster recovery functions in the event of system interruption or shutdown involving the Westlake Village data center.

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

Customers

As of December 31, 2003, we had contracts with 1,710 financial institutions, including 1,455 for Internet banking services, 556 for cash management services and 218 for lending services. We had approximately 4.4 million active Internet banking end users representing a 12.8% penetration of the 34.4 million potential end users among 1,350 live client sites at December 31, 2003.

For the year ended December 31, 2003, no individual financial institution accounted for over 10% of our total revenues.

Third-Party Relationships

We have relationships and have developed direct connections, or system interfaces, with most of the major vendors of core data processing software and outsourced data processing services to financial institutions. These system interfaces enable us to access a financial institution s host system to provide end users access to their account data. In addition to developing new interfaces, we continue to significantly enhance our numerous existing interfaces in order to deliver more robust connectivity and increase operating efficiencies. As of December 31, 2003, we have developed interfaces to many of the major systems that provide services to financial institutions, most of which are supported within joint marketing arrangements that we have in place with data processing vendors. More than 50% of our revenue is derived from these referral and reseller agreements with core processing partners, including Fiserv, BISYS, Fidelity Information Services, Inc., Aurum Technologies, Computer Services Inc., Data Center Inc., Financial Solutions, Inc., re:Member Data, John Harland, Bradford Scott, COCC, and BMA.

We recently renewed through 2006 a reseller agreement with BISYS, that began in April 1998. BISYS, which provides transaction processing and other administrative and computer processing services to financial institutions, offers our products to its customer base. BISYS is entitled to retain a portion of the fees collected on implementation and monthly service.

To deliver bill payment and bill presentment services, we have relationships with major providers such as Metavante Corporation and CheckFree Services Corporation. Our agreement with Metavante was renewed in July 2003 and may be renewed in February 2005 for successive one-year terms. Our agreement with CheckFree is renewable for additional one-year terms following the expiration of the initial term in March 2004, and we are currently discussing the terms of renewal with them. Our agreements require us to pay fixed, minimum and variable fees based on factors such as the number of customers, end users, and bill payment transactions. The agreements also require us to pay certain minimum payments on a monthly or annual basis.

Sales and Marketing

We sell to our customers and potential customers utilizing a direct sales model. As of December 31, 2003, our sales, marketing and client relations staff consisted of 105 people, who are responsible for prospecting and acquiring new accounts, managing existing client relationships and renewals, and cross-selling additional products to those accounts. Our sales team is generally organized by geographic regions. We also have a dedicated national account sales team that targets larger institutions throughout the U.S. to complement our sales force and an add-on sales team that pursues cross-selling opportunities with existing clients.

The market for outsourced online banking services is comprised of financial institutions that have yet to offer online banking services and may wish to do so and those that offer online banking services and wish to change their outsource provider or switch from an in-house system. We target both markets through our direct sales force.

Our typical sales cycle is approximately four to six months for new financial institution customers and approximately two months for add-on sales to existing financial institution customers. We also have a dedicated account management and sales staff to manage the client renewal process and a sales compensation plan that promotes client renewals. Our account managers identify customers whose contracts are subject to renewal with sufficient lead-time to allow the customer, our sales people, and executive sponsors to manage the renewal process and maximize client retention.

Our primary marketing efforts are focused on identifying potential customers and marketing our services to end users through our customers. Our marketing efforts include: press relations, advertising, direct mail, trade shows and meetings with Internet banking user groups, and client conferences hosted by us and our core processing partners. We also offer cooperative marketing programs for existing customers, under which financial institutions partner with us to promote higher adoption and retention of the online channel, and cross selling of additional products to online end users.

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

Product Development

As of December 31, 2003, our product development staff consisted of 163 software developers and engineers, as well as product and project managers. Their development efforts are focused on:

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

Introduction of New Product Lines. We are continuously seeking to expand our product offerings. For example, we recently introduced live chat and secure email support capabilities, to allow our customers to interact with their end-users over the Internet in a secure environment.

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

Our research and development expenses were $15.6 million in 2003, $16.2 million in 2002 and $20.7 million in 2001. These expenses relate to product development and are charged to operations as incurred.

Competition

The market for Internet banking services is highly fragmented with many providers. In the area of retail Internet banking, we primarily compete with other companies that provide outsourced online banking services to financial institutions, including Online Resources, S1 Corporation, FundsXpress and Certegy. Also, vendors such as Corillian and Financial Fusion (a subsidiary of Sybase) that primarily target the largest financial institutions occasionally compete with us in our market segment. In addition, several of the vendors offering data processing services to financial institutions offer their own online banking products, including Fiserv, Open Solutions, Jack Henry, and Metavante. Local competition for Internet banking services is provided by more than 20 smaller online service outsourcing companies located throughout the U.S.

Our primary competition in the business banking services segment are vendors of cash management systems for large corporations such as Politzer & Haney, Fundtech, and S1 Corporation. Our primary competition for providing lending products to financial institutions are APPRO, IA Systems, and Lending Solutions, Inc.

We also face potential indirect competition from Internet portals such as Quicken.com, MSN.com, and Yahoo! which might serve as an alternative to financial institutions web sites, particularly for bill payment, bill presentment and account aggregation services. In addition, we could experience competition from our financial institution customers and potential customers who develop their own online banking products and services.

Government Regulation

The financial services industry is subject to extensive and complex federal and state regulation. Our current and prospective customers, which consist of financial institutions such as commercial banks, savings and loans associations, credit unions and savings banks, operate in markets that are also subject to rigorous regulatory oversight and supervision. The compliance of our products and services with these requirements depends on a variety of factors including the particular functionality, the interactive design, and the charter or license of the financial institution. Our financial services customers must independently assess and determine what is required of them under these regulations and are responsible for ensuring that our system and the design of their web sites conform to their regulatory obligations.

We are not licensed by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the National Credit Union Administration or other federal or state agencies that regulate or supervise depository institutions or other providers of financial services. We are examined by the Federal Financial Institution Examination Council under the Information Technology examination guidelines. Although we believe we are not subject to direct supervision by federal and state banking agencies relating to other regulations, we have from time to time agreed to examinations of our business and operations by these agencies. We are also subject to encryption and security export laws and regulations, which depending on future developments, could render our business or operations more costly, less efficient or impossible.

Proprietary Rights

Our proprietary rights are important to our products and services, and we continually seek to expand the technology that we use in our business through internal development, licensing and acquisitions. We generally rely on copyright, trademark and trade secret laws, and contractual rights to establish and maintain our proprietary rights in our technology and products. In 2002, the Digital Insight mark was approved as a registered trademark by the U.S. Patent and Trademark Office. Due to the nature of the technology associated with our products and services, we believe that our ability to compete does not depend to any significant extent on whether or not our technology is patented, and none of our technology is currently patented. In order to protect our proprietary information we limit access to and distribution of our source code and other intellectual property and we also enter into confidentiality agreements with our employees, consultants, resellers and customers.

Employees

As of December 31, 2003, we had a total of 741 employees, including 21 part-time employees. None of our work force is unionized. We have not experienced any work stoppages and consider our relations with our employees to be good.

Risk Factors

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

Fluctuations of our operating results could cause our stock price to fluctuate.

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

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

- the overall level of demand for Internet banking services by consumers and businesses and the demand for our products, product enhancements and services in particular;
- loss of significant customers due to non-renewals of the service contracts, acquisition of the customers by non-customer financial institutions, customer insolvencies and other reasons;
- actions taken by our competitors, including the introduction of new products or changes in their pricing models;
- spending patterns and budgetary resources of financial institutions and their end user customers;
- the timing of upgrades to our computer hardware infrastructure;
- the timing of customer product implementations or our failure to timely complete scheduled product implementations;

a negative outcome in any significant legal proceeding or prolonged litigation;

governmental actions affecting Internet operations or content; and

general economic trends and the impact of external factor or events, such as war or acts of terrorism.

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

The growth in our operations presents many challenges. For example, the number of our customers increased from approximately 467 as of December 31, 1999 to 1,710 as of December 31, 2003 and the number of our employees increased from 161 to 741 over the same time period. Moreover, we plan to continue to hire more employees this year. This resulting growth has placed, and is expected to continue to place, significant demands on our personnel, management and other resources. We must continue to improve our operational, financial and management information systems to keep pace with the growth of our business. If we are unable to do so effectively, our business and results of operations could be harmed.

Any failure in our disaster recovery or emergency fail-over procedures could cause interruption in our system and loss of customers.

Most of our communications and network equipment related to our Internet banking operation is currently located in our main data center in Westlake Village, California out of which we provide our Internet banking services. We also maintain a back-up data center in Norcross, Georgia for the Westlake Village data center. We maintain these two data centers in a manner that will continue to provide system redundancy, fail-over from the Westlake facility to the Norcross facility and emergency backup capabilities. While the architecture of the two systems was largely integrated by early 2001, the process of failing over to a recovery site currently involves some manual intervention, and there is some attendant delay and loss of use of non-key features and functionality. In addition, we maintain similar back capabilities for our data centers in Sacramento and Atlanta. We cannot assure you that these data centers will continue to provide full system redundancy, fail-over and disaster recovery capabilities as expected. In addition, we may experience problems during the recovery or fail-over process that could cause system failures and decreased levels of service. Although we perform testing on a periodic basis to ensure that recovery mechanisms perform as planned, unexpected failure of any of these mechanisms may prevent a successful recovery.

A natural disaster, such as a fire, an earthquake or a flood, at either of our facilities could result in failures or interruptions in providing our Internet banking products and services to our customers. Although we maintain and regularly test an uninterruptible power supply system for our critical systems in all of our data centers there is no assurance that this system, consisting of a back-up battery and a diesel generator, will function properly, or at all, in case of a power loss. In addition to a potential loss of power, our systems are vulnerable to operational failures, telecommunications failures and similar events. We have contracted to provide a certain level of service to our customers and, consequently, a failure or interruption of our system has in the past caused, and in the future could cause, us to refund fees to some of our customers to compensate for decreased levels of service. Even with our disaster recovery plan and the integration of our two main facilities, we could experience a failure or interruption in our systems that could lead to loss of data or the inability to provide services to our customers.

If we do not retain our customers or they do not successfully market our products, we will not be able to increase our revenues.

We also depend on our financial institution customers to market and promote our products to their end user customers. Neither we nor our financial institution customers may be successful in marketing our current or future Internet banking products and services.

Moreover, financial institutions generally agree to use our products and services pursuant to contracts with durations that range from one to five years. Upon expiration, these contracts may be discontinued and we may lose customers as a result. We lose customers every quarter for a variety of reasons, and continually seek to replace these and add new customers. Unless our Internet banking products and services are successfully deployed and marketed by a significant number of financial institutions and achieve widespread market acceptance by their end user customers for a significant period of time, we will not be able to achieve our business objectives and increase our revenues.

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

We depend on the efficient operation of network connections from our customer financial institutions, their data processing vendors and other third-party vendors such as bill payment providers. Further, portions of our revenue are dependent on continued usage by end users of Internet banking services and their connections to the

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

Our past and potential future acquisitions involve risks to our business and financial results.

We may acquire complementary technologies or businesses in the future. Due to consolidation trends within the Internet banking services industry, our failure to successfully implement a long-term acquisition strategy could damage our competitive position. We closed our acquisitions of *n*Front Inc. on February 10, 2000; 1View Network Corporation on June 21, 2000; AnyTime Access, Inc. on July 31, 2000; Virtual Financial Services, Inc. on January 28, 2002; and Magnet on November 25, 2003. We recognized an impairment charge of $29.0 million in 2002 for ATA goodwill. Future acquisitions may involve large one-time write-offs, including goodwill impairment charges, and amortization expenses related to intangible assets. In this regard, any of these factors could adversely affect our operating results or stock price. Acquisitions involve numerous risks, including, but not limited to:

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

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

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

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

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

The market for Internet banking services is highly competitive and fragmented with many providers. We face competition from three main areas: other companies with outsourced Internet banking offerings, vendors of data processing services to financial institutions, and smaller, local online service outsourcing companies. Also, vendors who primarily target the largest financial institutions occasionally compete in our target market. Many of our current and potential competitors have longer operating histories and may be in a better position to produce and market their services due to their greater financial, technical, marketing and other resources, as well as their significantly greater name recognition and larger installed bases of customers. In addition, many of our competitors have well-established relationships with our current and potential financial institution customers and data processing vendors and have extensive knowledge of our industry.

We may not be able to compete successfully against our current or future competitors and, accordingly, we cannot be certain that we will be able to expand the number of our customers and end users, retain our current customers or third-party service providers, or maintain our current pricing levels for our products and services. In particular, as we negotiate the renewal of long-term service contracts with current customers, we may be subject to competitive pressures and other factors that may require concessions on pricing and other material contract terms to induce the customer to remain with us.

Security breaches could damage our reputation and business.

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

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

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

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

Our stock price is volatile, which could cause you to lose some or all of your investment.

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

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

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

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

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

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

The financial services industry is subject to extensive and complex federal and state regulation. Financial institutions such as commercial banks, savings and loans associations, savings banks, and credit unions operate under high levels of governmental supervision. Our customers must ensure that our services and related products work within the extensive and evolving regulatory requirements applicable to them.

Neither federal depository institution regulators nor other federal regulators of financial services require us to obtain any licenses. We are examined by the Federal Financial Institution Examination Council under the Information Technology guidelines. Although we believe we are not subject to direct supervision by federal and state banking agencies relating to other regulations, we have from time to time agreed to examinations of our business and operations by these agencies. These regulators have broad supervisory authority to remedy any shortcomings identified in any such examination.

Federal, state or foreign authorities could also adopt laws, rules or regulations relating to the financial services industry that affect our business, such as requiring us or our customers to comply with data, record keeping and processing, and other requirements. It is possible that laws and regulations may be enacted or modified with respect to the Internet, covering issues such as end user privacy, pricing, content, characteristics, taxation and quality of services and products. If enacted or deemed applicable to us, these laws, rules or regulations could be imposed on our activities or our business, thereby rendering our business or operations more costly, burdensome, less efficient or impossible, and requiring us to modify our current or future products or services.

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

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

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

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

War, terrorism and the possibility of further acts of violence may have a material adverse effect on our financial results.

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

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

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

division of the board of directors into three separate classes;

elimination of cumulative voting in the election of directors;

prohibitions on our stockholders from acting by written consent and calling special meetings;

procedures for advance notification of stockholder nominations and proposals; and

the ability of the board of directors to alter key provisions of our bylaws without stockholder approval.

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

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

ITEM 2. PROPERTIES

Our principal offices currently occupy approximately 46,000 square feet in Calabasas, California, pursuant to a lease that expires May 31, 2011. We also occupy an aggregate of approximately 178,000 square feet of office space in Westlake Village and Sacramento, California, and Athens, Atlanta and Norcross, Georgia. We believe that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

ITEM 3. LEGAL PROCEEDINGS

In Re Digital Insight Corporation Initial Public Offering Securities Litigation

On December 6, 2001, Digital Insight and three of its current and former officers and directors were named as defendants in a class-action lawsuit filed in the United States District Court for the Southern District of New York. The lawsuit is captioned In Re Digital Insight Corp. Initial Public Offering Securities Litigation, No. 01 CV 11231. The claims, which were also asserted against the managing underwriters in our previous public offerings, are based on allegations that the underwriter defendants solicited and received from certain investors, in exchange for allocating Digital Insight shares to the investors in connection with the previous public offerings, additional, excessive and undisclosed commissions and undisclosed commitments to purchase additional Digital Insight shares in the aftermarket. Other actions have been filed in New York making similar allegations regarding the IPOs of more than 300 other companies. Along with these companies and the individual defendants, but not the underwriter defendants, we have agreed in principle with the plaintiffs to settle the claims. As part of the settlement, once the settlement documents have been fully negotiated and executed, the plaintiffs will dismiss with prejudice the settling companies and individual defendants. In the opinion of management, after consultation with legal counsel and based on currently available information, the ultimate disposition of these matters is not expected to have a material adverse effect on our business, financial condition or results of operations, and hence no amounts have been accrued for this lawsuit.

In addition to this lawsuit, we may be involved from time to time in litigation arising in the normal course of our business. Although we are currently not a party to such litigation that we believe would have a material adverse effect, individually or in the aggregate, on our business or financial condition, it is possible that in the future we could become a party to such proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

Our common stock is traded on the Nasdaq National Market under the symbol DGIN. Our common stock began trading on the Nasdaq National Market on October 1, 1999. The following table sets forth the range of high and low closing sale prices reported on the Nasdaq National Market for our common stock for the periods indicated.

	Common Stock Price	
	High	Low
2002		
First Quarter	$ 28.30	$ 18.35
Second Quarter	27.90	11.67
Third Quarter	19.45	11.97
Fourth Quarter	16.15	7.60
2003		
First Quarter	$ 15.55	$ 8.35
Second Quarter	18.94	12.28
Third Quarter	24.05	18.80
Fourth Quarter	25.50	17.75

(b) Holders

As of December 31, 2003, there were 252 holders of record of our common stock.

(c) Dividends

We have never paid cash dividends on our common stock, and we anticipate that in the foreseeable future we will continue to retain any earnings for use in the operations of our business.

(d) Securities authorized for issuance under equity compensation plans

Item 12 of Part III contains information concerning securities authorized for issuance under equity compensation plans.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected consolidated statement of operations data and selected consolidated balance sheet data. We derived this data from our consolidated financial statements for the years presented, which have been audited. To reflect the continuing evolution of our business operations, certain expense items were reclassified in 2003. Results for prior years have been revised as necessary to conform to the 2003 presentation.

You should read this data together with our audited consolidated financial statements and related notes included elsewhere in this annual report.

	Year Ended December 31,				
	2003(1)	2002(1)(2)	2001(2)(3)	2000(1)(2)(3)	1999(3)
	(in thousands, except per share data)				
Consolidated Statement of Operations Data					
Revenues	$ 154,362	$ 130,387	$ 94,635	$ 54,428	$ 26,245
Cost of revenues	72,569	67,453	53,124	33,281	15,682
Gross profit	81,793	62,934	41,511	21,147	10,563
Operating expenses	64,183	72,429	95,458	82,376	30,022
Income (loss) from operations	17,610	(9,495)	(53,947)	(61,229)	(19,459)
Interest and other income, net	556	600	1,999	3,740	1,441
Accretion of redeemable convertible preferred stock					(136)
Net income (loss) attributable to common stockholders before cumulative effect of change in accounting method and income tax benefit	18,166	(8,895)	(51,948)	(57,489)	(18,154)
Income tax benefit, net	28,428				
Net income (loss) before cumulative effect of change in accounting method	46,594	(8,895)	(51,948)	(57,489)	(18,154)
Cumulative effect of change in accounting method		(29,036)		(2,515)	
Net income (loss) attributable to common stockholders	$ 46,594	$ (37,931)	$ (51,948)	$ (60,004)	$ (18,154)
Basic net income (loss) per share before cumulative effect of change in accounting method	$ 1.41	$ (0.28)	$ (1.77)	$ (2.25)	$ (1.26)
Per share cumulative effect of change in accounting method		(0.91)		(0.10)	
Basic net income (loss) per share	$ 1.41	$ (1.19)	$ (1.77)	$ (2.35)	$ (1.26)
Diluted net income (loss) per share before cumulative effect of change in accounting method	$ 1.38	$ (0.28)	$ (1.77)	$ (2.25)	$ (1.26)
Per share adjustment for cumulative effect of change in account method		(0.91)		(0.10)	
Diluted net income (loss) per share	$ 1.38	$ (1.19)	$ (1.77)	$ (2.35)	$ (1.26)
Shares used to compute basic net income (loss) per share	32,991	31,984	29,301	25,534	14,389

Shares used to compute diluted net income (loss) per share	33,700	31,984	29,301	25,534	14,389

	As of December 31,				
	2003	2002	2001	2000	1999
	(in thousands)				
Consolidated Balance Sheet Data					
Cash, cash equivalents and short-term investments	$ 69,335	$ 74,379	$ 53,634	$ 81,710	$ 79,031
Long-term investments	1,007		13,334		
Working capital	78,253	59,048	54,396	73,569	73,921
Total assets	348,812	259,063	236,628	282,226	103,488
Long-term portion of capital lease obligations and long-term debt			6,293	3,928	393
Total liabilities	42,341	49,400	39,737	42,391	17,304
Total stockholders equity	306,471	209,663	196,891	239,835	86,184

(1) The selected consolidated financial data includes the results of the purchase method acquisitions of 1View, ATA, ViFi and Magnet for periods subsequent to their acquisition dates of June 2000, July 2000, January 2002 and November 2003, respectively.

(2) In 2002, we adopted SFAS No. 142 which established an impairment approach to accounting for goodwill and discontinued amortization of goodwill prospectively for all acquisitions. We recorded an impairment charge of $29.0 million in the first quarter of 2002 from the adoption of SFAS No. 142. Amortization of goodwill included in operating expenses was $25.5 million and $13.4 million in 2001 and 2000, respectively. The pro forma net loss and net loss per share excluding goodwill amortization in prior years is as follows:

	2001	2000
	(in thousands, except per share data)	
Pro forma net loss	$ (26,440)	$ (46,602)
Pro forma net loss per share	$ (0.90)	$ (1.83)

(3) In 2000, we adopted SAB 101, which changed the way we recognize upfront implementation fees and related direct incremental implementation costs. Previously, we recognized implementation fee revenue and related costs upon the completion of the implementation process. Under SAB 101, we now defer recognition of certain implementation fee revenue and related direct incremental costs and recognize them ratably over the greater of the initial life of the customer contract or the estimated life of the customer service relationship, generally four years. The adoption of SAB 101 resulted in a negative cumulative effect adjustment of $2.5 million at January 1, 2000 to reflect the increase in deferred implementation revenue, which was partially offset by the increase in deferred direct implementation costs. The pro forma net loss and net loss per share assuming this change of accounting principle for SAB 101 for the period prior to the adoption is as follows:

	1999
	(in thousands, except per share data)
Pro forma net loss	$ (19,791)
Pro forma net loss per share	$ (1.38)

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

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

The forward-looking statements included in this section involve risks and uncertainties, including anticipated financial performance, business prospects, anticipated capital expenditures and other similar matters, which reflect management s best judgment based on factors currently known. Actual results and experience could differ materially from the anticipated results or other expectations expressed in our forward-looking statements as a result of a number of factors, including but not limited to those discussed under the caption Risk Factors in Item 1 of Part I.

The following discussion should be read together with our financial statements and related notes.

Overview

We manage our business through two reportable segments: the Internet banking division and the lending division. On November 25, 2003 we completed our acquisition of Magnet Communications, Inc. (Magnet), a privately held company based in Atlanta Georgia, for $33.5 million in cash and 1.45 million shares of our common stock with a fair value of $28.5 million. With the acquisition of Magnet, we also offer online cash management products to large financial institutions that are available as either a licensed software implementation or hosted in our data centers. No customer accounts for more than 10% of our revenues and we have no significant foreign operations. Summarized results of operations for our reportable segments were as follows for the three years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,					
	2003		2002		2001	
	(in thousands)					
	Dollars	%	Dollars	%	Dollars	%
Revenues:						
Internet banking	$ 136,386	88	$ 114,541	88	$ 79,045	84
Lending	16,720	11	15,846	12	15,590	16
Unallocated and Magnet (1)(2)	1,256	1				
Total	$ 154,362	100	$ 130,387	100	$ 94,635	100
	Dollars	Margin	Dollars (4)	Margin	Dollars (5)	Margin
Gross profit:						
Internet banking	$ 74,179	54	$ 57,353	50	$ 37,024	47
Lending	6,929	41	6,017	38	5,247	34
Unallocated and Magnet (1)(2)	685		(436)		(760)	
Total	$ 81,793	53	$ 62,934	48	$ 41,511	44
	Dollars (3)	%	Dollars (4)	%	Dollars (5)	%

Operating expenses:						
Internet banking	$ 52,040	81	$ 48,103	66	$ 46,615	49
Lending	5,469	9	5,280	7	5,781	6
Unallocated and Magnet [(1)(2)]	6,674	10	19,046	26	43,062	45
Total	$ 64,183	100	$ 72,429	100	$ 95,458	100

	Dollars	Margin	Dollars	Margin	Dollars	Margin
Net income (loss) from operations:						
Internet banking	$ 22,139	16	$ 9,250	8	$ (9,591)	(12)
Lending	1,460	9	737	5	(534)	(3)
Unallocated and Magnet (1)(2)	(5,989)		(19,482)		(43,822)	
Total	$ 17,610	11	$ (9,495)	(7)	$ (53,947)	(57)

Prior year results have been reclassified to conform to the 2003 presentation.

(1) Unallocated amounts include charges that are not allocated to segment management to manage their businesses as noted below.

(2) The operations of Magnet were not integrated into an operating segment in 2003. The operating results of Magnet from the acquisition date of November 25, 2003 were as follows: Revenue, $1,256; Gross profit, $685; Operating expenses, $806 and Loss from operations, $121.

(3) Unallocated operating expenses include $5,868 of intangible asset amortization.

(4) Gross profit includes $436 of deferred stock-based compensation included in cost of revenues. Unallocated operating expenses include $973 of deferred stock-based compensation, $5,793 of intangible asset amortization, and $12,280 of restructuring, asset impairment and other charges.

(5) Gross profit includes $760 of deferred stock-based compensation included in cost of revenues. Unallocated operating expenses include $4,057 of deferred stock-based compensation, $35,729 of goodwill and intangible asset amortization, and $3,276 of restructuring charges.

A large portion of our Internet banking revenue results from the number of active Internet banking end users at our financial institution clients. Summarized end users, in thousands, at December 31 of each of the last three years were as follows:

	2003		2002		2001	
	End Users	Penetration (1)	End Users	Penetration (1)	End Users	Penetration (1)
Potential end users at all sites	35,886	n/a	33,393	n/a	28,100	n/a
Potential end users at live sites	34,370	n/a	31,883	n/a	25,400	n/a
Active Internet banking end users (2)	4,404	12.8%	3,555	11.2%	2,420	9.5%
Bill payment end users	663	15.1%	461	13.0%	241	10.0%

(1) Penetration for active end users is calculated as a percentage of potential end users at live sites. Penetration for bill payment end users is calculated as a percentage of active Internet banking end users.

(2) Active Internet banking end users are consumers who have accessed basic account information online within the period specified by our contract with the financial institution.

Revenues: We derive revenues primarily from long-term service contracts with our financial institution customers, which pay recurring service fees based primarily on the number of active end users or end user transactions or fixed monthly amounts, primarily for hosting and maintaining web sites, as well as upfront implementation fees and other revenues. Revenue from recurring service fees are recognized as services are provided. Implementation fees are recognized ratably over the greater of the initial life of the customer contract or the estimated life of the customer service relationship, generally four years. Recurring service fees were 91.3% of total revenues in 2003, 89.9% in 2002 and 86.0% in 2001.

Other revenues are derived from web site design services, optional consulting and training services and other optional products or services purchased separately by customers that represent the culmination of a separate earnings process, and termination fees. With the acquisition of Magnet in 2003, we also earn revenues from the sale of software licenses and maintenance fees to non-hosted customers. These other revenues are recognized upon the completion or delivery of the product or service if we have no remaining obligations, the amounts due are fixed and determinable, and collection of the related receivable is probable.

Gross Profit: Revenues are reduced by costs of revenues that are comprised primarily of salaries and related personnel expenses, network costs, depreciation and amortization of equipment and software used in providing our service, expenses related to the operation of our data centers and fees paid to third parties, including bill payment vendors, online statement and check imaging vendors and communication services providers. Cost of revenues also includes the recognition of deferred implementation costs which are recognized ratably over the term of the customer relationship.

Operating Expenses: We include sales, general and administrative expenses, research and development expenses, amortization of intangibles resulting from acquisitions and restructuring, asset impairment and other charges in operating expenses.

Sales, general and administrative expenses consist primarily of salaries and related expenses for executive, sales, marketing, finance, human resources and administrative personnel; sales commissions; and other general corporate expenses. In addition, these expenses include marketing expenses such as trade shows, promotional costs and end user marketing campaigns and the payments to core data processing vendors under marketing alliance agreements.

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

Amortization of intangibles consists of the amortization of identifiable intangible assets created as a result of our acquisitions of ATA, ViFi and Magnet.

We recorded restructuring charges of $2.1 million in 2002 and $3.3 million in 2001. As a result of these restructuring activities we closed one facility, reduced space utilized at three facilities, eliminated 115 employee positions and relocated or reassigned 18 employees. In 2002, we also recorded an asset impairment charge of $2.9 million related to computer software and equipment abandoned or removed from service and other charges of $7.3 million including $6.9 million from the settlement of the FundsXpress litigation.

Income Tax Benefit: In the fourth quarter of 2003, we determined that our deferred tax asset valuation allowance was no longer required. This determination was based on an evaluation of positive and negative factors including: our history of achieving operating objectives; the achievement of, and improvement, in sustained operating profitability beginning in the third quarter of 2002; the long-term nature of our contracts and our established customer relationships; future projections of pre-tax income; and the lack of significant limitations on the use of acquired net operating losses. We believe these factors will allow for the full realization of our net operating loss and research and development carryforwards as an offset to future taxable income. We recognized an income tax benefit of $28.4 million in 2003 including $31.3 million related to reversal of the deferred tax asset valuation allowance at December 31, 2002 partially offset by a net provision for current and deferred Federal and state income taxes of $2.9 million.

Results of Operations

Certain amounts for the years ended December 31, 2002 and 2001 have been reclassified to conform to the 2003 presentation.

Comparison of Year Ended December 31, 2003 to Year Ended December 31, 2002

Revenues: Revenues for the year ended December 31, 2003 were $154.4 million, an increase of 18% from $130.4 million for the prior year. Revenues for 2003 include $1.3 million from the acquisition of Magnet.

The Internet banking division generated revenues of $136.4 million representing 88% of total revenues for the year ended December 31, 2003 compared to $114.5 million and 88% for the prior year. This increase of $21.9 million, or 19%, was primarily due to an increased number of active end users driven by an increased penetration rate within our existing customer base. During 2003, active Internet banking end users increased 24% to approximately 4.4 million at December 31, 2003 from approximately 3.6 million at December 31, 2002.

Revenues for the lending division were $16.7 million in 2003 compared to $15.8 million for the prior year. This increase of $874,000, or 6%, is the result of a 33% increase in applications processed from 451,000 in 2002 to 600,000 in 2003, partially offset by a shift from higher priced historical call center applications to Internet applications. Internet applications produce lower revenue per transaction; however, the costs associated with Internet applications are lower than those associated with our call center applications which results in a higher gross margin percentage per transaction.

Cost of Revenues: Cost of revenues for the year ended December 31, 2003 were $72.6 million, an increase of 8%, from $67.5 million in the prior year. Cost of revenues includes $436,000 of deferred stock-based compensation expense in 2002 and $571,000 of Magnet expenses in 2003 that have not been allocated to an operating segment.

Cost of revenues for the year ended December 31, 2003 includes $62.2 million related to the Internet banking division compared to $57.2 million for the prior year. This increase of $5.0 million, or 9%, was primarily due to the cost to service additional end user transactions. The percentage increase for Internet banking cost of sales was smaller than the increase in the corresponding revenues due to our high concentration of fixed costs as discussed in the Gross Profit section below.

Cost of revenues for the lending division for the years ended December 31, 2003 and 2002 remained constant at $9.8 million reflecting the shift from higher cost call center applications to lower cost Internet applications as the volume of transactions increased.

Gross Profit: Gross profit increased to $81.8 million for the year ended December 31, 2003 from $62.9 million for the prior year. Gross margin for the Internet banking division increased to 54% for the year ended December 31, 2003 from 50% for the prior year. The increase in gross profit margin for the Internet banking division is primarily attributable to the leverage in our business model that leads to a higher gross profit margin as revenues increase above our relatively fixed cost base. Gross margin for the lending division increased to 41% for the year ended December 31, 2003 from 38% for the prior year. The increase in gross margin for the lending division reflects the increase in revenues while costs remained flat due to the larger proportion of Internet applications discussed above.

Sales, General and Administrative: Sales, general and administrative expenses for the year ended December 31, 2003 were $42.7 million, an increase of $4.5 million, or 12%, compared to $38.2 million for the prior year. The increase is due primarily to an increase in payments to core data processing vendors under marketing alliance agreements, additional sales and client support costs, and increased spending for professional services, including amounts spent to recruit and retain our CEO, that were partially offset by decreases in the provision for doubtful accounts and amortization of stock-based compensation.

Research and Development: Research and development expenses for the year ended December 31, 2003 were $15.6 million, a decrease of $538,000, compared to $16.2 million for the prior year. The decrease was primarily due to the successful completion of the migration of the ViFi customer base to our platform in 2002 and the geographic consolidation of certain business functions as part of our 2002 restructuring program.

Amortization of Intangible Assets: Amortization of goodwill and intangible assets increased to $5.9 million for the year ended December 31, 2003 from $5.8 million for the year ended December 31, 2002. This increase is primarily due to one month s amortization of intangible assets created as a result of the acquisition of Magnet.

Interest and Other Income, Net: Interest and other income, net, was $556,000 for the year ended December 31, 2003, a decrease of $44,000, or 7%, compared to $600,000 for the prior year. This decrease is due primarily to a decrease in amounts invested in 2003.

Cumulative Effect of Change in Accounting Method: Due to the adoption of SFAS No. 142 on January 1, 2002, we recorded a cumulative effect of change in accounting method of $29.0 million in 2002 to write down the carrying value of goodwill related to the ATA acquisition to its estimated fair value.

Income Tax Benefit, Net: As discussed above, we recorded an income tax benefit for 2003 of $28.4 million comprised of $31.3 million related to the release of our deferred tax asset valuation allowance partially offset by a net provision for current and deferred Federal and state income taxes of $2.9 million. We expect to incur income tax expense at an effective tax rate of approximately 38% in 2004. However, as discussed in Liquidity and Capital Resources, we do not expect to make significant cash tax payments until 2006 at the earliest due to utilization of our net operating loss and research and development carryforwards to offset our current income tax liabilities.

Comparison of Year Ended December 31, 2002 to Year Ended December 31, 2001

Revenues: Revenues for the year ended December 31, 2002 were $130.4 million, an increase of 38%, from $94.6 million for the prior year.

Revenues for the year ended December 31, 2002 included $114.5 million related to the Internet banking division compared to $79.0 million for the prior year. This increase of $35.5 million, or 45%, resulted from an increased number of financial institutions and end users combined with sales of additional services to our existing customer base. During 2002, active Internet banking end users increased 47% from approximately 2.4 million at December 31, 2001 to approximately 3.6 million at December 31, 2002. The increase in active end users includes approximately 460,000 active end users that were added as a result of the ViFi acquisition in the first quarter of 2002.

Revenues for the year ended December 31, 2002 included $15.8 million relating to the lending division compared to $15.6 million for the prior year. This increase of $256,000, or 2%, resulted from a 36% increase in applications processed from 331,000 in 2001 to 451,000 in 2002 largely offset by the effect of a shift away from call center applications to Internet applications. Internet applications produce lower revenue per transaction, however, the costs associated with Internet applications are relatively lower than those associated with our call center applications which results in a higher gross margin percentage per transaction.

Cost of Revenues: Cost of revenues for the year ended December 31, 2002 were $67.5 million, an increase of 27%, from $53.1 million for the prior year. Cost of revenues for the years ended December 31, 2002 and 2001 includes $436,000 and $760,000, respectively, of deferred stock-based compensation which has not been allocated to the Internet banking and lending divisions.

Cost of revenues for the year ended December 31, 2002 included $57.2 million related to the Internet banking division compared to $42.0 million for the prior year. This increase of $15.2 million, or 36%, was primarily due to the cost to implement and service additional financial institutions.

Cost of revenues for the year ended December 31, 2002 included $9.8 million related to the lending division compared to $10.3 million for the prior year. This decrease of $514,000, or 5%, reflects the shift to the lower cost Internet applications from call center applications discussed above.

Gross Profit: Gross profit increased to $62.9 million for the year ended December 31, 2002 from $41.5 million for the prior year. Excluding the impact of deferred stock-based compensation, gross margin for the Internet banking division increased to 50% for the year ended December 31, 2002 from 47% for the prior year. The increase in gross profit margin for the Internet banking division is primarily attributable to the leverage in our business model that leads to a higher gross profit margin as our revenues increase above our relatively fixed cost base. Gross margin for the lending division increased to 38% for the year ended December 31, 2002 from 34% for the prior year. The increase in gross margin for the lending division is due to the larger proportion of Internet-based applications discussed above.

Sales, General and Administrative: Sales, general and administrative expenses for the year ended December 31, 2002 were $38.2 million, an increase of $2.5 million, compared to $35.7 million for the prior year. As a percentage of revenue, sales, general and administrative expenses were 29% for the year ended December 31, 2002 compared to 38% for the prior year. This decrease in the percentage of expense relative to revenue is primarily attributable to the leverage inherent in our business model which is described in the Gross Profit section above.

Research and Development: Research and development expenses for the year ended December 31, 2002 were $16.2 million, a decrease of $4.5 million, compared to $20.7 million for the prior year. This decrease was primarily due to a $2.8 million reduction in deferred stock-based compensation included in research and development expense as well as a decrease in the use of consultants and contract labor in 2002.

Amortization of Goodwill and Intangible Assets: Amortization of goodwill and intangible assets decreased to $5.8 million for the year ended December 31, 2002 from $35.7 million for the year ended December 31, 2001. This decrease is primarily due to the implementation of SFAS No. 142 as of January 1, 2002, resulting in no goodwill amortization expense in 2002 compared to $25.5 million in the prior year.

Restructuring, Asset Impairment and Other Charges: Total restructuring, asset impairment and other charges were $12.3 million in 2002. During the year ended December 31, 2002, we initiated a restructuring program to optimize our cost structure. As a result, we recorded a charge of $850,000 for severance payments and $1.2 million for a decrease in space utilized at three facilities. Additionally in 2002, we recorded an asset impairment charge of $2.9 million to reduce the carrying value of long-lived assets that were abandoned or removed from operations in 2002 and other charges of $7.3 million primarily due to settlement of a lawsuit filed by a competitor at a cost of $6.9 million, net of probable insurance recoveries.

In 2001, we strategically restructured our business primarily to reduce operating expenses from redundant functions and facilities from the three acquisitions completed in 2000. As a result we recorded a $3.3 million restructuring charge in 2001.

Interest and Other Income, Net. Interest and other income, net was $600,000 for the year ended December 31, 2002, a decrease of $1.4 million, compared to $2.0 million for the prior year. This decrease was primarily due to a decrease in interest income as result of lower rates of return on our cash and investment balances.

Cumulative Effect of Change in Accounting Method: As discussed above, due to the adoption of SFAS No. 142 on January 1, 2002, we recorded a cumulative effective of change in accounting method of $29.0 million resulting from the write-down of the goodwill related to the ATA acquisition.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition Policy. We recognize revenue in accordance with Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue

Recognition, or SAB 104, and Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Under SAB 104, we recognize revenues when fees are fixed and determinable, no obligations remain related to the earned fees, and collection of the related receivable is reasonably assured. Under EITF 00-21, we allocate revenues for deliverables that qualify as separate units of accounting to each unit of accounting based on either the relative fair value or the fair value of the undelivered elements. Fair value is determined by the prices charged when each element is sold separately or other specific objective evidence of fair value. .

Recurring service fees are recognized as services are provided and these criteria have been meet. We defer recognition of certain implementation fee revenue, which includes set-up fees for each service element purchased by customers and mandatory training, that are not the culmination of a separate earnings process and recognize them ratably over the greater of the initial life of the customer contract or the estimated life of the customer service relationship, generally four years. We also defer recognition of the related direct implementation costs and recognize them ratably over the same period.

Other revenues are derived from web site design, optional consulting and training services and other optional products or services purchased separately by customers, which represent the culmination of a separate earnings process, and termination fees. These revenues are recognized upon the completion or delivery of the product or service assuming the criteria for revenue recognition above have been met.

With the acquisition of Magnet in November 2003, the Company also earns revenue from the sale of software licenses to non-hosted customers. Revenue from the sale of software licenses is recognized in accordance with Statement of Position No. 97-2 (SOP 97-2), Software Revenue Recognition. For software license sales for which any services rendered are not considered essential to the functionality of the software, revenue is recognized upon delivery if the following criteria have been met: there is evidence of an arrangement, collection of the fee is probable and the fee is fixed or determinable.

When professional services or other products are included with the sale of the license, revenue is allocated to each of the elements of the arrangement based on either the relative fair values or the fair value of undelivered elements based on prices charged when the elements are sold separately.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses associated with the potential inability of our customers to make required payments or for resolution of potential billing disputes. We also perform ongoing credit evaluations of our customers financial condition and limit the amount of credit extended when necessary. The estimate of the amount of receivables we will not be able to collect requires judgment and is based on factors including our historical loss experience, current market conditions, the nature of any current billing disputes and the financial health of specific customers. If the financial condition of our customers were to deteriorate resulting in an impairment of their ability to make payments, or our current loss profile was to change additional allowances may be required.

Income Taxes. We use the asset and liability method to account for income taxes. Under this method, deferred income taxes are determined based on differences between the financial statement and tax basis of assets and liabilities, and are measured at the enacted tax rates that will be in effect when those differences are expected to reverse. A valuation allowance is established when it is more likely than not that some or all of the deferred tax assets will not be realized. Prior to 2003, we had determined it was more likely than not that our deferred tax assets were not realizable. Accordingly, we fully reserved our deferred tax assets to reflect our history of operating losses and the inherent uncertainties surrounding future profitability. In the fourth quarter of 2003, based on our history of achieving operating objectives, the achievement of operating profitability beginning in the third quarter of 2002, our projections of future taxable income and tax planning strategies, the long-term nature of our contracts and our established customer relationships, and the lack of significant limitations on the use of acquired net operating losses, we have determined that it is more likely than not that we will be able to realize our deferred tax assets. At December 31, 2003, we have deferred tax assets of $56.7 million. Should we determine that we will not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would reduce income in the period such determination was made. In addition deferred tax assets include $15.9 million resulting from the acquired tax attributes of Magnet based on a preliminary allocation of the purchase price. This allocation may be adjusted upon completion of the final Magnet income tax returns through the acquisition date.

Impairment of Goodwill, Intangible Assets and Long-Lived Assets. We evaluate the recoverability of our identifiable intangible assets, goodwill and other long-lived assets in accordance with SFAS No. 142 and SFAS No. 144, both adopted on January 1, 2002, which generally require us to assess these assets for recoverability at least annually or when events or circumstances indicate a potential impairment. We use the fair value method to assess our goodwill and have two reporting units, Internet Banking and Lending. We use the undiscounted cash flows method to assess qualifying identifiable intangible assets and other long-lived assets. We recorded a goodwill impairment charge of $29.0 million upon adoption of SFAS No. 142 in the first quarter of 2002. Future impairment assessments could result in additional impairment charges that would further reduce the carrying values of these assets.

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

Liquidity and Capital Resources

At December 31, 2003, we had cash and cash equivalents of $40.2 million, short-term investments of $29.1 million and $1.0 million of long-term investments. Our investments are comprised of readily marketable commercial paper and U.S. government agency bonds. Our intent is to hold these investments to maturity. For financial statement presentation, we classify our investments as short-term and long-term based upon their maturity dates.

The market value of our investments is sensitive to changes in the level of U.S. interest rates and the market ratings of the underlying companies. Therefore, if investments we hold are sold prior to their maturity date, a gain or loss may result. We invest our cash in debt instruments of the U.S. government and its agencies, and in high-quality, investment grade corporate issuers. By policy, we limit the amount of credit exposure to any one issuer.

As of December 31, 2003, we had net operating loss carry-forwards for Federal and state tax purposes of $152.4 million and $101.9 million, respectively. The net operating loss carryforwards will begin to expire in 2009 for Federal tax purposes and 2004 for state tax purposes. Under the provisions of the Internal Revenue Code of 1986, as amended, certain substantial changes in ownership may limit the amount of net operating loss carry-forwards that could be utilized annually in the future to offset taxable income. We also had research credit carry-forwards for Federal and state tax purposes of $4.0 million and $2.4 million, respectively. The research credit carry-forwards will begin to expire in 2011 for Federal income tax purposes and in 2019 for state income tax purposes. Although we will provide for income taxes at an effective tax rate of 38% in 2004 we do not expect to make significant cash tax payments until 2006 at the earliest as we utilize these carry-forwards to offset our current income tax liabilities.

In October 2003, we renewed and amended our agreement with a bank for a $20 million revolving credit commitment for a one year term. The interest rate on this facility is equal to either (1) the bank s prime rate; or (2) LIBOR plus 1.75%. We may draw down against this facility by electing either the bank s prime rate or LIBOR for specified 1-month, 2-month, 3-month, or 6-month LIBOR terms. As of December 31, 2002, $6.8 million was outstanding under our bank facility that was repaid on January 31, 2003. There were no amounts outstanding under our bank facility as of December 31, 2003.

Cash provided by operating activities for the year ended December 31, 2003 was $34.0 million, an increase of $15.1 million compared to $18.9 million for the year ended December 31, 2002. The increase in cash from operations was primarily the result of our operating income of $17.6 million during the year ended December 31, 2003 as compared to our loss from operations of $9.5 million including restructuring, asset impairment, and other charges of $12.3 million for the year ended December 31, 2002. Cash used in operating activities for the year ended December 31, 2001 was $8.9 million. The improvement in 2002 as compared to 2001 of $27.8 million was a result of reduced operating losses after adding back non-cash charges and improved collections of accounts receivable.

Cash used by investing activities for the year ended December 31, 2003 was $43.2 million, compared to cash provided by investing activities of $13.1 million for the year ended December 31, 2002. The decrease in net cash flows from investing activities in 2003 was due to an increase in cash used for acquisitions of $27.1 million, due primarily to the cash portion of the purchase price paid for Magnet of $33.5 million, and a decrease in cash proceeds from maturing investments $29.3 million. We also issued 1.45 million shares of our common stock in the acquisition of Magnet with a fair value of $28.5 million. Cash used in investing activities for the year ended December 31, 2001 was $54.1 million due primarily to the purchase of short term investments of $41.4 million and property and equipment of $12.7 million.

Cash provided by financing activities was $1.2 million for the year ended December 31, 2003, compared to $757,000 for the year ended December 31, 2002. The increase in cash provided by financing activities in 2003 was primarily due to increased proceeds from the issuance of common stock partially offset by higher repayments of debt. Cash provided by financing activities for the year ended December 31, 2001 was $6.8 million. The decrease of $6.0 million in 2002 was primarily the result of net payments on debt compared to borrowings in 2001 partially offset by an increase in proceeds from the issuance of common stock in 2002.

We have no off-balance sheet arrangements. As of December 31, 2003, we had no material commitments other than our operating leases and minimum vendor commitments. Our commitments under these obligations are as follows:

	Payment Schedule						
	Total	**2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**
				(in thousands)			
Operating leases	$ 16,589	$ 4,737	$ 3,247	$ 1,949	$ 1,758	$ 1,475	$ 3,423
Minimum vendor commitments	9,833	6,937	1,896	1,000			
Total obligations	$ 26,422	$ 11,674	$ 5,143	$ 2,949	$ 1,758	$ 1,475	$ 3,423

Future capital requirements will depend upon many factors, including the timing of research and product development efforts, any expansion of our marketing efforts, and any acquisitions. We expect to continue to expend significant amounts on ongoing research and development, computer and related data center equipment, and personnel. We believe that our cash, cash equivalents, short-term investments and our funds from operations will be sufficient to satisfy our cash requirements for the foreseeable future.

New Accounting Standards

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 supersedes the existing guidance related to the accounting for and reporting of costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition For Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). Under SFAS No. 146, a liability for a cost associated with an exit or a disposal activity will be recognized and measured initially at its fair value in the period in which the liability is incurred. The provisions of SFAS No. 146 were effective for exit or disposal activities initiated after December 31, 2002. We adopted this standard effective January 1, 2003 and the adoption of SFAS No. 146 did not have an impact on previously initiated restructuring activities.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No.123. This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148 were effective for financial statements for fiscal years ending after December 15, 2002, and disclosure requirements were effective for interim periods beginning after December 15, 2002. We intend to continue to account for stock-based compensation to our employees and directors using the intrinsic value method prescribed by APB Opinion No. 25, and related interpretations. We have made certain disclosures required by SFAS No. 148 in the consolidated financial statements for the year ended December 31, 2003 and have made the additional interim disclosures required by SFAS No. 148.

In January 2003, the EITF issued EITF Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. This consensus addresses certain aspects of accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities, specifically, how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003, or entities may elect to report the change in accounting as a cumulative-effect adjustment. The adoption of EITF 00-21 in the September 2003 quarter had no material impact on our financial position, results of operations, or cash flows.

In January 2003, the FASB issued Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities. Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN No. 46 requires a variable interest entity, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns. FIN No. 46 is effective for reporting periods ending after December 15, 2003. We do not have currently any investments in variable interest entities and accordingly the adoption of FIN No. 46 in the December 2003 quarter had no impact on our financial position, results of operations, or cash flows.

In March 2003, the EITF issued EITF Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor. EITF 02-16 addresses how a reseller of a vendor s products should account for cash consideration received from a vendor. The provisions of EITF 02-16 were effective for new arrangements entered into after December 31, 2002. The adoption of this guidance had no material impact on our financial position, results of operations, or cash flows.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 changes the accounting guidance for certain financial instruments that, under previous guidance, could be classified as equity or mezzanine equity by now requiring those instruments to be classified as liabilities (or assets in some circumstances) on the balance sheet. Further, SFAS No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. SFAS No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 in the September 2003 quarter had no material impact on our financial position, results of operations, or cash flows.

In December 2003, the SEC issued SAB No. 104, Revenue Recognition. SAB No. 104 revises or rescinds portions of the interpretive guidance included in Topic 13 of the codification of Staff Accounting Bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. It also rescinds the Revenue Recognition in Financial Statements Frequently Asked Questions and Answers document issued in conjunction with Topic 13. Selected portions of that document have been incorporated into Topic 13. The adoption of SAB No. 104 in the December 2003 quarter had no material impact on our financial position, results of operations, or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to the impact of interest rate changes and changes in the market values of our investments. In this regard, changes in U.S. interest rates affect the interest earned on our cash equivalents and our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We invest our excess cash in debt instruments of the U.S. government and its agencies, and in high-quality corporate issuers and, by policy, limit the amount of credit exposure to any one issuer.

An increase or decrease in market interest rates by 10% as of December 31, 2003 would not cause a significant change in the fair value of our investments. Although the fair value of short-term investments may change due to interest rate fluctuations, we have the ability to hold the investments to maturity, which reduces the overall risk.

We are also exposed to the impact of interest rate changes as they affect our revolving credit commitment. The interest rate charged on our bank facility varies with the bank s prime rate or LIBOR and, consequently, our interest expense would fluctuate with changes in the general level of these interest rates if we were to borrow any amounts under the facility. As of December 31, 2003, we had no amounts outstanding under our bank facility.

We are not exposed to foreign currency risk since all revenues and expenses are in U.S. dollars.

There were no significant changes to our market risk in 2003.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

No changes in or disagreements with accountants on accounting and financial disclosure have occurred during the two most recent fiscal years.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to the sections and subsections entitled (1) Proposal One: Election of Directors, (2) Information Regarding Directors and Executive Officers and (3) Section 16(a) Beneficial Ownership Reporting Compliance contained in our Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

We have adopted a code of ethics and business conduct that applies to our employees, including our principal executive officers, chief financial officer, general counsel and controller, and our directors. Among other matters, the code establishes standards designed to deter wrongdoing and promote honest and ethical conduct. We have also amended our Audit Committee and Compensation Committee charters and have formally adopted a charter for our Nominating and Corporate Governance Committee taking into account the new rules and standards. Our committee charters and our code of business conduct and ethics may be accessed without charge through our website at http://www.digitalinsight.com or by writing to us at:

Digital Insight Corporation

26025 Mureau Road

Calabasas, California 91302

Attn: Investor Relations

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the sections entitled (1) Executive Compensation, (2) Meetings and Compensation of Directors, (3) Committees of the Board of Directors, and (4) Compensation Committee Report contained in our Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information related to security ownership of certain beneficial owners and management required by this item is incorporated by reference to the section entitled Security Ownership of Certain Beneficial Owners contained in our Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information about our equity compensation plans as of December 31, 2003.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the second column of this table)
Equity compensation plans approved by security holders	4,495,054	$ 20.13	2,444,147(1)(2)(3)
Equity compensation plans not approved by security holders	858,142(4)	$ 21.04	514,206(5)
Total	5,353,196	$ 20.28	2,958,353

(1) Includes 587,184 shares of our common stock reserved under the Digital Insight 1997 Stock Plan and 1,138,486 shares reserved under the Digital Insight 1999 Stock Plan. Shares authorized for issuance in connection with the 1999 Digital Insight Stock Plan are subject to an annual increase of the lesser of (a) 750,000 shares, (b) five percent (5%) of the outstanding shares on such date or (c) a lesser amount determined by our board of directors.

(2) Includes 659,920 shares of our common stock reserved under the Digital Insight 1999 Employee Stock Purchase Plan (the 423(b) Plan). Shares authorized for issuance in connection with the 423(b) Plan are subject to an annual increase of the lesser of (a) 300,000 shares, (b) two percent (2%) of the outstanding shares or (c) a lesser amount determined by our board of directors.

(3) Includes 58,557 shares of our common stock reserved under the 2001 Non-Employee Director Stock Option Plan. Shares authorized for issuance in connection with the 2001 Non-Employee Director Stock Option Plan are subject to an annual increase of the lesser of (a) 50,000 shares, (b) one-tenth of one percent (1/10%) of the outstanding shares on such date or (c) a lesser amount determined by our board of directors.

(4) Includes 675,000 shares of our common stock reserved for issuance upon exercise of an option granted to Jeffrey E. Stiefler upon his appointment as our new Chairman, President and CEO in August 2003.

(5) Includes 193,497 shares of our common stock reserved under the 1View Stock Option Plan we assumed upon the acquisition of 1View on June 21, 2000; 192,429 shares reserved under the AnyTime Access Stock Option Plan we assumed upon the acquisition of ATA on July 31, 2000; and 128,280 shares reserved under the Virtual Financial Stock Option Plan we assumed upon the acquisition of ViFi on January 28, 2002. We do not intend to grant any additional options under these acquired plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the section entitled Certain Relationships and Related Transactions contained in our Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

ITEM 14. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: As of December 31, 2003, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of such date our disclosure controls and procedures are effective in alerting them, in a timely manner, to material information to be included in our periodic SEC filings.

Changes in Our Controls: There has been no significant change in our internal controls over financial reporting during the quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting. Our internal controls over financial reporting are designed with the objective of providing reasonable assurance regarding the reliability of our financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

It should be noted that the design of any system of controls is based in part 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, regardless of how remote such conditions may be.

ITEM 15. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the Audit Committee Report contained in our Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

PART IV

ITEM 16. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) *Financial Statements and Schedules*

The financial statements are submitted as a separate section of this Annual Report beginning on page F-1.

The financial statement schedules are submitted as part of the financial information included within the financial statements or notes thereto.

(b) *Reports on Form 8-K filed during the last quarter:*

On October 23, 2003, we furnished to the Securities and Exchange Commission, or SEC, a Current Report on Form 8-K which contains information required under Item 12. Results of Operations and Financial Condition. The Current Report on Form 8-K includes a copy of our press release dated October 23, 2003 reporting our financial condition and results of operations as of and for the quarter and nine months ended September 30, 2003.

On October 24, 2003, we filed with the SEC a Current Report on Form 8-K which contains information required under Item 5. Other Events. The Current Report on Form 8-K includes a copy of our press release dated October 23, 2003 announcing the execution of a merger agreement providing for the merger of Magnet with and into a wholly-owned subsidiary of Digital Insight and a copy of the Agreement and Plan of Merger, dated October 23, 2003, among Digital Insight, Mureau Acquisitions LLC and Magnet.

On November 26, 2003, we filed with the SEC a Current Report on Form 8-K which contains information required under Item 2. Acquisition or Disposition of Assets. The Current Report on Form 8-K includes a copy of our press release dated November 25, 2003 announcing the completion of the Magnet acquisition. The historical and pro forma financial statements required by Item 7. Financial Statements and Exhibits were not included in this report but were filed by amendment on January 29, 2004.

(c) *Exhibits*

The following exhibits are filed as part of, or are incorporated by reference into, this Annual Report on Form 10-K:

Exhibit Number	Description

3.1	Third Amended and Restated Certificate of Incorporation of the Registrant, as currently in effect.(1)
3.2	Restated Bylaws of the Registrant and Amendments One through Seven thereto, as currently in effect.(12)(13)
3.3	Amendment Eight to the Restated Bylaws of the Registrant. Filed herewith.
4.1	Specimen Common Stock Certificate. Filed herewith.
4.2	Comdisco, Inc. Warrants(15)
4.3	Silicon Valley Bank Warrant(15)
4.4	Heidrick & Struggles, Inc. Warrant(13)
10.1*	Form of Indemnification Agreement entered into by the Registrant with each of its directors and executive officers.(1)
10.2*	1997 Stock Plan.(1)
10.3*	1999 Stock Plan and related agreements.(1)
10.4*	First, Second and Third Amendments to 1999 Stock Plan.(7)

Exhibit Number	Description
10.5*	1999 Stock Plan, as amended, of 1View Network Corporation.(3)
10.6*	1997 Stock Plan, as amended, of AnyTime Access, Inc.(4)
10.7*	2001 Non-Employee Directors Stock Option Plan, as amended, First and Second Amendments.(7), (8), (9)
10.8*	Virtual Financial Services, Inc. 2000 Stock Option and Incentive Plan.(10)
10.10*	1999 Employee Stock Purchase Plan and related agreements.(1)
10.11	Standard Office Lease dated August 4, 1997, by and between Arden Realty Limited Partnership and the Registrant.(1)
10.12	Third Amendment dated May 23, 2003 to the Standard Office lease between Arden Realty Limited Partnership, L.P. and the Registrant. Filed herewith.
10.13	Standard Office Lease, dated as of March 6, 2000, by and between Arden Realty Finance Partnership, L.P. and the Registrant.(5)
10.14	Second Amendment dated May 23, 2003 to the Standard Office lease between Arden Realty Limited Partnership, L.P. and the Registrant. Filed herewith.
10.15	Sublease Agreement, dated November 23, 1999, as amended, between Antec Corporation and nFront, Inc.(6)
10.16	Lease, dated as of July 9, 1998, between Schneider Atlanta, L.P. and nFront, Inc.(5)
10.17	Credit Agreement dated October 25, 2002 between City National Bank and the Registrant.(12)
10.18	First Amendment dated October 31, 2003, to Credit Agreement between City National Bank and the Registrant. Filed herewith.
10.19	Shareholder Agreement, dated as of May 13, 1998, as amended.(2)
10.20	Stockholder Agreement dated January 3, 2002.(11)
10.21	Registration Rights Agreement dated November 25, 2003 between the Registrant and the parties named therein. Filed herewith.
10.22	Employment Agreement between the Registrant and Jeffrey Stiefler.(13)
10.23	Employment Agreement between the Registrant and John Dorman. Filed herewith.
10.24	Employment Offer Letter Agreement between the Registrant and Scott Pranger. Filed herewith.
14.1	Code of Ethics.(14)
21.1	Subsidiaries of the Registrant. Filed herewith.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Auditors. Filed herewith.
31.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
31.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

* Management contract or compensatory plan or arrangement.

1 Incorporated by reference to the exhibits filed with the Registrant s Registration Statement on Form S-1 (File No. 333-81547), which was declared effective on September 30, 1999.

2 Incorporated by reference to the exhibits filed with the Registrant s Annual Report on Form 10-K for the year ended December 31, 1999.

3 Incorporated by reference to the exhibits filed with the Registrant s Registration Statement on Form S-8 (File No. 333-41044), which was filed with the SEC on July 10, 2000.

4 Incorporated by reference to the exhibits filed with the Registrant s Registration Statement on Form S-8 (File No. 333-43636), which was filed with the SEC on August 11, 2000.

5 Incorporated by reference to the exhibits filed with the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2000.

6 Incorporated by reference to the exhibits filed with the Registrant s Registration Statement on Form S-1A (File No. 333-41196), which was declared effective on August 1, 2000.

7 Incorporated by reference to the exhibits filed with the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

8 Incorporated by reference to the exhibits filed with the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

9 Incorporated by reference to Appendix A of the Registrant s Definitive Proxy Statement filed with the SEC on March 23, 2001.

10 Incorporated by reference to the exhibits filed with the Registrant s Registration Statement on Form S-8 (File 333-82066), which was filed with the SEC on February 4, 2002.

11 Incorporated by reference to the exhibits filed with the Registrant s Current Report on Form 8-K dated February 5, 2002.

12 Incorporated by reference to the exhibits filed with the Registrant s annual report on Form 10-K for the year ended December 31, 2002.

13 Incorporated by reference to the exhibits filed with the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

14 See Part III, Item 10.

15 Incorporated by reference to the exhibits filed with the Registrant s Quarterly report on Form 10-Q for the quarter ended September 30, 2000.

SIGNATURES

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

Dated: March 10, 2004

DIGITAL INSIGHT CORPORATION

By: /s/ JEFFREY E. STIEFLER

Jeffrey E. Stiefler

Chairman of the Board, President and

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, the report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ JEFFREY E. STIEFLER Jeffrey E. Stiefler	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 10, 2004
/s/ ELIZABETH S.C.S. MURRAY Elizabeth S.C.S Murray	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 10, 2004
/s/ KYLE MCINTOSH Kyle McIntosh	Controller (Principal Accounting Officer)	March 10, 2004
/s/ HENRY DENERO Henry DeNero	Director	March 10, 2004
/s/ JOHN DORMAN John Dorman	Director	March 10, 2004
/s/ MICHAEL HALLMAN Michael Hallman	Director	March 10, 2004
/s/ JAMES MCGUIRE James McGuire	Director	March 10, 2004
/s/ ROBERT NORTH	Director	March 10, 2004

Robert North		
/s/ Greg Santora	Director	March 10, 2004
Greg Santora		

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of

Digital Insight Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders equity (deficit) and cash flows present fairly, in all material respects, the financial position of Digital Insight Corporation and subsidiaries (the Company) at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed on the index and appearing on page F-31 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

February 19, 2004

DIGITAL INSIGHT CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31,	
	2003	**2002**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,226	$ 48,130
Short-term investments	29,109	26,249
Accounts receivable, net of allowance for doubtful accounts of $1,162 and $745	22,333	17,899
Accumulated implementation costs	3,689	4,478
Deferred tax asset, net	15,377	
Prepaid and other current assets	2,644	5,655
Total current assets	113,378	102,411
Property and equipment, net of accumulated depreciation and amortization of $48,589 and $35,712	27,586	30,621
Goodwill	136,088	101,690
Intangible assets, net of accumulated amortization of $22,713 and $16,845	25,457	19,225
Accumulated implementation costs	3,684	4,841
Long-term investments	1,007	
Deferred tax asset, net	41,324	
Other assets	288	275
Total assets	$ 348,812	$ 259,063
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,427	$ 6,059
Accrued compensation and related benefits	5,428	3,526
Customer deposits and deferred revenue	12,758	7,738
Other accrued liabilities	10,512	17,853
Line of credit		6,765
Current portion of capital lease obligations and long-term debt		1,422
Total current liabilities	35,125	43,363
Customer deposits and deferred revenue	5,446	6,037
Other liabilities	1,770	
Total liabilities	42,341	49,400
Commitments and contingencies (Note 8)		
Stockholders equity:		
Common stock; $.001 par value, 100,000,000 shares authorized; 34,913,321 and 32,435,156 shares issued and outstanding	35	32

Additional paid in-capital	437,086	386,629
Deferred stock-based compensation	(246)	
Accumulated deficit	(130,404)	(176,998)
Total stockholders equity	306,471	209,663
Total liabilities and stockholders equity	$ 348,812	$ 259,063

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

DIGITAL INSIGHT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	For the year ended December 31,		
	2003	**2002**	**2001**
Revenues	$ 154,362	$ 130,387	$ 94,635
Cost of revenues (including amortization of stock-based compensation of $436 and $760 for 2002 and 2001)	72,569	67,453	53,124
Gross profit	81,793	62,934	41,511
Operating expenses:			
Sales, general and administrative (including amortization of stock-based compensation of $62, $841 and $1,134)	42,684	38,187	35,748
Research and development (including amortization of stock-based compensation of $132 and $2,923 for 2002 and 2001)	15,631	16,169	20,705
Amortization of intangible assets and goodwill	5,868	5,793	35,729
Restructuring, asset impairment, and other charges (including amortization of stock-based compensation of $940 for 2001)		12,280	3,276
Total operating expenses	64,183	72,429	95,458
Income (loss) from operations	17,610	(9,495)	(53,947)
Interest and other income, net	556	600	1,999
Net income (loss) before cumulative effect of change in accounting method and income tax benefit	18,166	(8,895)	(51,948)
Income tax benefit, net	28,428		
Net income (loss) before cumulative effect of change in accounting method	46,594	(8,895)	(51,948)
Cumulative effect of change in accounting method		(29,036)	
Net income (loss)	$ 46,594	$ (37,931)	$ (51,948)
Basic net income (loss) per share before cumulative effect of change in accounting method	$ 1.41	$ (0.28)	$ (1.77)
Per share cumulative effect of change in accounting method		(0.91)	
Basic net income (loss) per share	$ 1.41	$ (1.19)	$ (1.77)
Diluted net income (loss) per share before cumulative effective of change in accounting method	$ 1.38	$ (0.28)	$ (1.77)
Per share cumulative effect of change in accounting method		(0.91)	
Diluted net income (loss) per share	$ 1.38	$ (1.19)	$ (1.77)
Shares used to compute basic net income (loss) per share	32,991	31,984	29,301
Shares used to compute diluted net income (loss) per share	33,700	31,984	29,301

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

DIGITAL INSIGHT CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

(in thousands, except share data)

Common Stock	Additional Paid-In Capital