

CORILLIAN CORP
Form DEFM14A
March 20, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

CORILLIAN CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, no par value, of Corillian Corporation (Company Common Stock)

(2) Aggregate number of securities to which transaction applies:

45,285,682 shares of Company Common Stock and 5,269,353 shares of Company Common Stock issuable upon the exercise of options with an exercise price of less than \$5.15 per share. (1)

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined based upon the sum of (A) 45,285,682 shares of Company Common Stock multiplied by \$5.15 per share and (B) options to purchase 5,269,353 shares of Company Common Stock with exercise prices less than \$5.15, multiplied by approximately \$2.30 per share (which is the difference between \$5.15 and the weighted average exercise price per share). In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying 0.0000307 by the sum of the preceding sentence.

(4) Proposed maximum aggregate value of transaction:

\$245,345,774

(5) Total fee paid:

\$7,532.12

- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

(1) Pursuant to the Agreement and Plan of Merger dated as of February 13, 2007, CF Oregon, Inc., a wholly owned subsidiary of CheckFree Corporation, will merge into the Registrant and each outstanding share of Corillian Common Stock will be converted into the right to receive \$5.15. Each holder of options to acquire Company Common Stock will be entitled to receive, in consideration of the cancellation of such stock options, an amount (net of applicable taxes) equal to the product of (i) the excess, if any, of \$5.15 per share of common stock over the exercise price per share of common stock subject to such stock option, multiplied by (ii) the total number of shares subject to such stock option. As of March 1, 2007, there were 45,285,682 shares of Corillian Common Stock issued and outstanding, and there were 5,269,353 shares of common stock of the Registrant subject to outstanding stock options with a weighted average exercise price of \$2.85 per share (excluding stock options with an exercise price equal to or in excess of \$5.15 per share). The filing fee was determined by adding (x) the product of (i) the number of shares of Corillian Common Stock that are proposed to be acquired in the merger and (ii) the transaction consideration of \$5.15 per share of Company Common Stock, plus (y) the product of (1) the total number of shares of Corillian Common Stock subject to outstanding stock options having an exercise price less than \$5.15 per share multiplied by (2) the excess of \$5.15 over the weighted average exercise price for such stock options ((x) and (y) together, the Merger Consideration). The filing fee was calculated in accordance with Regulation 240.0-11 under the Exchange Act, by multiplying the Merger Consideration by 0.0000307.

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March 19, 2007

Dear Shareholder:

Our board of directors has approved a merger that provides for our acquisition by CheckFree Corporation, a Delaware corporation. If the merger is completed, each share of our common stock issued and outstanding at the effective time of the merger will be converted into the right to receive \$5.15 in cash, without interest.

You will be asked, at a special meeting of our shareholders, to approve the merger agreement. **Our board of directors has unanimously found the merger agreement and the merger to be advisable and in the best interests of Corillian and our shareholders, and has unanimously approved the merger agreement, and recommends that you vote FOR the approval of the merger agreement.**

The special meeting of shareholders will be held on Monday, April 30, 2007, at 10:00 a.m., Pacific Time, at our headquarters, 3400 NW John Olsen Place, Hillsboro, Oregon 97124.

The proxy statement attached to this letter provides you with information about the proposed merger and the special meeting of shareholders. We encourage you to read the entire proxy statement carefully. You may also obtain more information about us from documents that we have filed with the Securities and Exchange Commission.

Your vote is important regardless of the number of shares of our common stock that you own. Because the approval of the merger agreement requires the affirmative vote of the holders of a majority of our outstanding shares of common stock entitled to vote thereon as of the record date for the special meeting, a failure to vote will have the same effect as a vote against the merger agreement. Accordingly, you are requested to submit your proxy by promptly completing, signing and dating the enclosed proxy card and returning it in the envelope provided or to submit your proxy by telephone or the internet prior to the special meeting, whether or not you plan to attend the special meeting.

Submitting your proxy will not prevent you from voting your shares in person if you choose to attend the special meeting and vote your shares in person.

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Thank you for your cooperation and continued support.

Sincerely,

Alex P. Hart
Chief Executive Officer and President

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

**THIS PROXY STATEMENT IS DATED MARCH 19, 2007
AND IS FIRST BEING MAILED TO SHAREHOLDERS ON OR ABOUT MARCH 28, 2007.**

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**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To Be Held April 30, 2007**

Dear Shareholder:

A special meeting of shareholders of Corillian Corporation, an Oregon corporation (Corillian or the Company), will be held on Monday, April 30, 2007, at 10:00 a.m., Pacific Time, at Corillian s headquarters, 3400 NW John Olsen Place, Hillsboro, Oregon 97124 for the following purposes:

1. To consider and vote on a proposal to approve the Agreement and Plan of Merger, dated as of February 13, 2007 (as it may be amended from time to time, the merger agreement), among Corillian, CheckFree Corporation (CheckFree) and a wholly owned subsidiary of CheckFree, pursuant to which, upon the merger becoming effective, each issued and outstanding share of Corillian common stock, no par value, will be converted into the right to receive \$5.15 in cash, without interest;
2. To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to approve the merger agreement or if the conditions to closing of the merger are unlikely to be completed within a reasonable time following the special meeting; and
3. To transact such other business as may properly come before the special meeting or any adjournment thereof.

Only shareholders of record on March 12, 2007, are entitled to notice of and to vote at the special meeting and at any adjournment of the special meeting. All shareholders of record are cordially invited to attend the special meeting in person.

The approval of the merger agreement requires the approval of the holders of a majority of the outstanding shares of common stock entitled to vote thereon as of the record date for the special meeting. **EVEN IF YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON, WE REQUEST THAT YOU COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED, OR SUBMIT YOUR PROXY BY TELEPHONE OR THE INTERNET PRIOR TO THE SPECIAL MEETING, AND THUS ENSURE THAT YOUR SHARES WILL BE REPRESENTED AT THE SPECIAL MEETING IF YOU ARE UNABLE TO ATTEND.** If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the approval of the merger agreement and in favor of the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies or to allow more time to complete the conditions to closing. If you fail to return your proxy card or fail to submit your proxy by telephone or the Internet and do not attend the special meeting in person, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and, if a quorum is present, will have the same effect as a vote against the approval of the merger agreement. If you are a shareholder of record and you attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

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The Corillian board of directors unanimously recommends that shareholders vote FOR the approval of the merger agreement at the special meeting, FOR the proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies or to allow more time to complete the conditions to closing and FOR the authorization of the proxies to vote on such other matters as may properly come before the special meeting or any adjournment thereof.

By Order of the Board of Directors
of Corillian Corporation
Erich J. Litch
Secretary

Portland, Oregon
March 19, 2007

IMPORTANT

A proxy card is enclosed herewith. All shareholders are urged to complete and mail the proxy card promptly. The enclosed envelope for return of the proxy card requires no postage. Any shareholder attending the Special Meeting may personally vote on all matters that are considered, in which event the signed proxy will be revoked.

IT IS IMPORTANT THAT YOUR STOCK BE VOTED

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SUMMARY

The following summary highlights selected information from this proxy statement and may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to in this proxy statement. Each item in this summary includes a page reference directing you to a more complete description of that item. All information contained in this proxy statement was prepared and supplied by Corillian Corporation, except for the descriptions of the businesses of CheckFree Corporation and CF Oregon, Inc. contained in this summary below under the heading "The Parties to the Merger" and elsewhere in this proxy statement under the headings "The Parties to the Merger - CheckFree Corporation" and "The Parties to the Merger - CF Oregon, Inc.," which descriptions were supplied by CheckFree. In this proxy statement, the terms "Corillian," "Company," "we," "our," "ours," and "us" refer to Corillian Corporation and its subsidiaries.

The Merger (Page 16)

The proposed transaction is the acquisition of Corillian by a subsidiary of CheckFree Corporation ("CheckFree") pursuant to an Agreement and Plan of Merger, dated as of February 13, 2007, among Corillian, CheckFree and CF Oregon, Inc., an Oregon Corporation and wholly owned subsidiary of CheckFree ("Merger Sub"). Once the merger agreement has been approved by our shareholders and the other closing conditions under the merger agreement have been satisfied or waived, Merger Sub will merge with and into Corillian. Corillian will be the surviving corporation in the merger (the "surviving corporation") and will become a wholly owned subsidiary of CheckFree. Upon completion of the merger, you will receive \$5.15 in cash, without interest, for each share of our common stock that you own.

The Parties to the Merger (Page 13)

Corillian Corporation
3400 NW John Olsen Place
Hillsboro, OR 97124
(503) 629-3300

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

CheckFree Corporation
4411 East Jones Bridge Road
Norcross, Georgia 30092
(678) 375-3000

Founded in 1981, CheckFree Corporation provides financial electronic commerce services and products to organizations around the world. CheckFree Electronic Commerce solutions enable thousands of financial services

providers and billers to offer the convenience of receiving and paying household bills online, via phone or in person through retail outlets. CheckFree Investment Services provides a broad range of investment management solutions and outsourced services to hundreds of financial services organizations, which manage about \$1.5 trillion in assets. CheckFree Software develops, markets and supports payment processing solutions that are used by financial institutions to process more than two-thirds of the 14 billion Automated Clearing House transactions in the United

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States, and supports reconciliation, exception management, risk management, transaction process management, corporate actions processing, and compliance within thousands of organizations worldwide.

CF Oregon, Inc.
c/o CheckFree Corporation
4411 East Jones Bridge Road
Norcross, Georgia 30092
(678) 375-3000

Merger Sub is an Oregon corporation and a wholly owned subsidiary of CheckFree. Merger Sub was formed solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the merger agreement.

The Special Meeting (Page 14)

Time, Place and Date (Page 14)

The special meeting will be held on Monday, April 30, 2007, starting at 10:00 a.m., Pacific Time, at Corillian's headquarters, 3400 NW John Olsen Place, Hillsboro, Oregon 97124.

Purpose (Page 14)

You will be asked to consider and vote upon approval of the merger agreement. The merger agreement provides that Merger Sub will be merged with and into Corillian, and each outstanding share of our common stock will be converted into the right to receive \$5.15 in cash, without interest.

The special meeting may be adjourned, if necessary or appropriate, for the purpose of soliciting additional proxies, if there are insufficient votes at the time of the meeting to approve the merger agreement or if the conditions to closing of the merger are unlikely to be completed within a reasonable time following the special meeting.

The persons named in the accompanying proxy card will also have discretionary authority to vote upon other business, if any, that properly comes before the special meeting and any adjournments of the special meeting.

Record Date and Quorum (Page 14)

You are entitled to vote at the special meeting if you owned shares of our common stock at the close of business on March 12, 2007, the record date for the special meeting. You will have one vote for each share of our common stock that you owned on the record date. As of the record date, there were 45,311,070 shares of our common stock outstanding and entitled to vote.

A quorum of the holders of the outstanding shares of our common stock must be present for the special meeting to be held. A quorum is present if the holders of a majority of the outstanding shares of our common stock entitled to vote are present at the meeting, either in person or represented by proxy. Abstentions and broker non-votes are counted as present for the purpose of determining whether a quorum is present. A broker non-vote occurs on an item when a broker is not permitted to vote on that item without instructions from the beneficial owner of the shares and no instructions are given.

Required Vote (Page 14)

For us to complete the merger, shareholders holding at least a majority of our common stock outstanding and entitled to vote at the close of business on the record date must vote FOR the approval of the merger agreement. All of our shareholders are entitled to one vote per share. A failure to vote your shares of Corillian common stock, an abstention or a broker non-vote will have the same effect as a vote against the merger.

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Share Ownership of Directors and Executive Officers (Page 43)

As of March 12, 2007, the current directors and executive officers of Corillian beneficially owned in the aggregate 919,133 shares (excluding options), representing approximately 2.03% of our outstanding common stock.

Voting and Proxies (Page 15)

Any Corillian registered shareholder (meaning a shareholder that holds stock in its own name) entitled to vote may submit a proxy by telephone or the Internet or by returning the enclosed proxy card by mail, or may vote in person by appearing at the special meeting. If your shares are held in street name by your broker, you should instruct your broker on how to vote your shares using the instructions provided by your broker. If you do not provide your broker with instructions, your shares will not be voted and that will have the same effect as a vote against the merger. If you hold your shares in street name and wish to vote in person by appearing at the special meeting, you must request a legal proxy from your broker.

Revocability of Proxy (Page 14)

Any Corillian registered shareholder who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before it is voted in any one of the following ways:

filing with or transmitting to our Corporate Secretary at our principal executive offices, at or before the special meeting, an instrument or transmission of revocation that is dated a later date than the proxy;

sending a later-dated proxy relating to the same shares to our Corporate Secretary, at or before the special meeting;

submitting a later-dated proxy by the Internet or by telephone, at or before the special meeting; or

attending the special meeting and voting in person by ballot.

Simply attending the special meeting will not constitute revocation of a proxy. If you have instructed your broker to vote your shares, the above-described options for revoking your proxy do not apply and instead you must follow the directions provided by your broker to change your instructions.

When the Merger Will be Completed (Page 32)

We are working to complete the merger as soon as possible. In the event of the approval of the merger agreement by Corillian's shareholders and the satisfaction or waiver of the other closing conditions provided for in the merger agreement and described under The Merger Agreement-Closing Conditions, we anticipate completing the merger shortly following the special meeting and, in any case, on or prior to June 1, 2007.

Effects of the Merger (Page 32)

If the merger agreement is approved by our shareholders and the other conditions to closing are satisfied, Merger Sub will be merged with and into Corillian, with Corillian being the surviving corporation. Upon completion of the merger, each share of Corillian common stock will be converted into the right to receive \$5.15 per share, without interest. Following completion of the merger, our common stock will no longer be quoted on Nasdaq, will be deregistered under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act), and will no longer

be publicly traded. Corillian will be a wholly owned subsidiary of CheckFree and our current shareholders will cease to have any ownership interest in Corillian or rights as Corillian shareholders. Therefore, you will not participate in any future earnings or growth of Corillian and will not benefit from any appreciation in value of Corillian.

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Board Recommendation (Page 20)

After careful consideration, our board of directors has unanimously:

determined that the merger agreement and the merger are advisable and in the best interests of the Company and its shareholders;

approved the merger;

approved and adopted the merger agreement; and

recommended that Corillian's shareholders vote FOR the approval of the merger agreement.

In reaching its decision, our board of directors weighed a number of factors. For a list of the material factors considered by our board of directors in reaching its decision to approve and adopt the merger agreement, see "The Merger - Reasons for the Merger."

Opinion of our Financial Advisor (Page 20 and Annex B)

FTP Securities LLC ("FT Partners") has delivered its opinion to our board of directors that, as of February 13, 2007, and subject to the assumptions, qualifications and limitations set forth therein, the merger consideration of \$5.15 per share is fair, from a financial point of view, to the common shareholders of Corillian other than CheckFree, Merger Sub, any affiliate of CheckFree or Merger Sub, or holders of dissenting shares, if applicable.

The opinion of FT Partners was addressed to our board of directors for its benefit and use, is directed only to the consideration to be paid in the merger and does not constitute a recommendation to the board of directors or any of our shareholders as to how to vote with respect to the merger agreement. The opinion of FT Partners does not address any other aspect of the transaction. The full text of the written opinion of FT Partners, dated February 13, 2007, which sets forth the procedures followed, limitations on the review undertaken, matters considered and assumptions made in connection with such opinion, is attached as Annex B to this proxy statement. We recommend that you read the opinion carefully in its entirety.

Treatment of Stock Options (Page 32)

All outstanding Corillian stock options will become fully vested and exercisable at the effective time of the merger and, as of the effective time of the merger, will then terminate and thereafter represent the right to receive an amount in cash, without interest and less applicable tax withholding, equal to the product of:

the number of shares of our common stock subject to each option as of the effective time of the merger, multiplied by

the excess, if any, of \$5.15 over the exercise price per share of common stock subject to such option.

No holder of an outstanding stock option that has an exercise price per share that is equal to or greater than \$5.15 shall be entitled to any payment with respect to the terminated stock option before or after the effective time of the merger. The aggregate amount that will be paid out with respect to stock options is estimated to be approximately \$12.1 million (exclusive of any applicable tax withholding).

Interests of the Company's Directors and Executive Officers in the Merger (Page 27)

Our directors and executive officers may have interests in the merger that are different from, or in addition to, yours, including the following:

our directors and executive officers will have their stock options fully cashed out in connection with the merger, as all stock options will fully vest at the effective time of the merger, and the holders of stock options will receive cash payments for each share of common stock subject to such options equal to the excess, if any, of \$5.15 per share over the exercise price per share of their options, without interest and less applicable tax withholding;

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each of our current executive officers has a change of control agreement that provides for certain severance payments and benefits in the event of his or her termination of employment under certain circumstances, including termination following a change of control of the Company, which will occur as a result of the completion of the merger; and

the merger agreement provides for indemnification for our current and former directors and officers for six years following the effective time of the merger, as well as continuation of the Company's current officer and director insurance coverage covering his or her service to the Company as a director or officer for six years following the effective time of the merger.

Material United States Federal Income Tax Consequences (Page 29)

If you are a U.S. holder of our common stock, the merger will be a taxable transaction to you. For U.S. federal income tax purposes, your receipt of cash in exchange for your shares of our common stock generally will cause you to recognize a gain or loss measured by the difference, if any, between the cash you receive in the merger and your adjusted tax basis in your shares. If you are a non-U.S. holder of our common stock, the merger generally will not be a taxable transaction to you under U.S. federal income tax laws unless you have certain connections to the United States. You should consult your own tax advisor for a full understanding of the specific tax consequences of the merger to you in light of your particular circumstances.

Regulatory Approvals (Page 31)

Except for the filing of articles of merger in Oregon at or before the effective date of the merger and for the required filing and termination or expiration of the waiting period applicable to the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"), we are unaware of any material federal, state or foreign regulatory requirements or approvals required for the execution of the merger agreement or completion of the merger. The filings required under the HSR Act have been made, but applicable antitrust clearances, consents or approvals necessary for the completion of the merger have not yet been obtained. The Antitrust Division of the Department of Justice (the "Antitrust Division") notified Corillian and CheckFree on March 15, 2007 that it was conducting a preliminary investigation. Corillian and CheckFree have scheduled meetings with the Antitrust Division and are providing it with additional information.

Procedure for Receiving Merger Consideration (Page 33)

As soon as practicable after the effective time of the merger, a paying agent will mail a letter of transmittal and instructions to each registered Corillian shareholder (each shareholder that holds stock in its own name as of the effective time of the merger). The letter of transmittal and instructions will tell such shareholders how to surrender their stock certificates or book-entry shares in exchange for the merger consideration. Such shareholders should not return their stock certificates with the enclosed proxy card, and should not forward their stock certificates to the paying agent without a letter of transmittal. If your shares are held in "street name" by your broker, you will not receive a letter of transmittal and will automatically receive the merger consideration in exchange for your shares of stock through your broker.

No Solicitation of Transactions (Page 37)

The merger agreement restricts our ability to solicit or engage in discussions or negotiations with third parties regarding specified transactions involving the Company. Notwithstanding these restrictions, under certain limited circumstances required for our board of directors to comply with its fiduciary duties, our board of directors may

respond to an unsolicited written bona fide proposal for an alternative acquisition, change its recommendation of the merger and terminate the merger agreement and enter into an agreement with respect to a superior proposal after paying the termination fee specified in the merger agreement.

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Conditions to Closing (Page 39)

Before we can complete the merger, a number of conditions must be satisfied. These conditions include:

approval of the merger by our shareholders;

the absence of governmental orders, not subsequently vacated, that have the effect of making the merger illegal or that otherwise restrict, prevent or prohibit the closing;

the expiration or termination of any waiting period applicable to the merger under the HSR Act;

the accuracy of the parties' representations and warranties in the merger agreement except as would not have a material adverse effect with respect to such party and except for our representation and warranty regarding our capitalization, which must be accurate except for inaccuracies that are *de minimus* in the aggregate;

the performance by each of the parties of its covenants under the merger agreement in all material respects;

the delivery by us of our audited financial statements as of and for the year ended December 31, 2006;

the absence of a material adverse effect with respect to us; and

the delivery by CheckFree and us of certain certificates executed by officers of such party.

The completion of the merger is not subject to CheckFree securing financing to fund the payment of cash to our shareholders. Other than the conditions pertaining to our shareholder approval, the expiration or termination of the waiting period under the HSR Act and the absence of governmental orders, either we, on the one hand, or CheckFree and Merger Sub, on the other hand, may elect to waive conditions to their respective performance and complete the merger. None of Corillian, CheckFree or Merger Sub, however, has expressed to the other parties any intention to waive any condition as of the date of this proxy statement.

Termination of the Merger Agreement (Page 39)

Corillian, CheckFree and Merger Sub may agree in writing to terminate the merger agreement at any time without completing the merger, even after the shareholders of Corillian have approved the merger agreement. The merger agreement may also be terminated at any time prior to the effective time of the merger in certain other circumstances, including:

by either us or CheckFree if:

the merger has not been consummated by June 15, 2007; provided that this right to terminate is not available to any party whose failure to fulfill any obligation under the merger agreement has been the cause of the failure of the merger to occur on or before such date; and provided further that we may extend this date to October 15, 2007 if all conditions to closing have been met or waived other than the expiration or termination of the waiting period under the HSR Act and the absence of governmental orders;

any governmental entity has taken action permanently restraining, enjoining or otherwise prohibiting the merger, which has become final and non-appealable;

the required vote of our shareholders to adopt the merger agreement is not obtained at the meeting of our shareholders where such vote was taken; or

if our board of directors effects, under certain limited circumstances related to a superior proposal, a change in its recommendation to our shareholders to vote in favor of the merger agreement.

by CheckFree if:

we breach or fail to perform, in any material respect, any representation, warranty, covenant or agreement that would result in the failure of a condition to the obligations of CheckFree or Merger Sub to effect the merger being satisfied (unless such breach or failure can be cured and we exercise commercially reasonable efforts to cure such breach or failure); or

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our board of directors approves or recommends to our shareholders a competing transaction or withdraws or modifies in a manner adverse to CheckFree or Merger Sub its recommendation to our shareholders to vote in favor of the merger agreement, other than, in certain limited circumstances, a change of recommendation related to a superior proposal.

by us:

if either CheckFree or Merger Sub breaches or fails to perform, in any material respect, any representation, warranty, covenant or agreement that would result in the failure of a condition to our obligation to effect the merger being satisfied (unless such breach or failure can be cured and CheckFree or Merger Sub, as the case may be, exercises commercially reasonable efforts to cure such breach or failure); or

in order to accept a superior proposal, provided that we concurrently pay the termination fee as specified in the merger agreement.

Termination Fees and Expenses (Page 40)

We have agreed to pay CheckFree a fee of \$5.5 million in cash if:

the merger agreement is terminated by CheckFree because our board of directors approves or recommends a competing transaction or withdraws or modifies in a manner adverse to CheckFree or Merger Sub its recommendation to our shareholders to vote in favor of the merger agreement, other than, in certain limited circumstances, a change of recommendation related to a superior proposal;

the merger agreement is terminated by us in order to accept a superior proposal;

the merger agreement is terminated by either CheckFree or us if our board of directors effects, under certain limited circumstances related to a superior proposal, a change in its recommendation to our shareholders to vote in favor of the merger agreement; or

the merger agreement is terminated by us after June 15, 2007 without a vote of our shareholders being taken or by either CheckFree or us if the meeting has occurred and our shareholders did not approve the merger agreement, and in either case a competing proposal has been publicly disclosed and, within one year, we enter into an agreement related to such acquisition proposal for the acquisition of Corillian.

Market Price of Corillian Stock (Page 41)

Our common stock is quoted on The Nasdaq Global Market (Nasdaq) under the symbol CORI. On February 13, 2007, which was the last trading day before we announced the merger, the Company's common stock closed at \$3.45 per share, compared to which the merger consideration represents a premium of 49%.

On March 16, 2007, which was the last trading day before the date of this proxy statement, the Company's common stock closed at \$5.02 per share.

Dissenters' Rights (Page 45)

Oregon law does not provide you with dissenters' rights in connection with this transaction. Because Corillian common stock is traded on Nasdaq and our articles of incorporation do not provide for dissenters' rights, holders of Corillian common stock will not have the right to dissent with regard to the merger under Oregon law. Certain provisions of Oregon's dissenters' rights laws are attached as Annex C.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers address briefly some questions you may have regarding the special meeting and the proposed merger. These questions and answers may not address all questions that may be important to you as a shareholder of Corillian Corporation. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to in this proxy statement.

Q: What is the proposed transaction for which I am being asked to vote?

You are being asked to vote to approve a merger agreement among Corillian Corporation, CheckFree Corporation and a wholly owned subsidiary of CheckFree. The merger agreement provides for the merger of CF Oregon, Inc., a newly formed, wholly owned subsidiary of CheckFree (Merger Sub), with and into Corillian, with Corillian surviving the merger as a wholly owned subsidiary of CheckFree. When this merger occurs, Corillian shareholders and certain holders of stock options will be entitled to receive the merger consideration.

Q: If this merger is completed, what will I be entitled to receive for my shares of Corillian common stock?

Upon completion of the merger, if you are a shareholder at the effective time of the merger you will receive \$5.15 in cash, without interest, for each share of our common stock that you own. For example, if you own 1,000 shares of our common stock, you will receive \$5,150 in cash in exchange for your shares of common stock, without interest. You will not own shares in the surviving corporation.

Q: If the merger is completed and I hold options to purchase Corillian common stock, what will I be entitled to receive and when will I receive it?

Each holder of stock options outstanding immediately prior to the effective time of the merger, whether or not such options are vested and exercisable, will be entitled to receive a per share cash amount equal to the excess, if any, of \$5.15 over the exercise price for each share subject to such stock option, without interest, less any applicable withholding taxes. Each outstanding option will be cancelled and terminated as of the effective time of the merger, and, other than the cash payment described above, no Corillian option holder will have any additional rights thereafter with respect to any Corillian options.

Q: In anticipation of the merger, what will happen to the employee stock purchase plan?

Corillian has suspended its 2000 Employee Stock Purchase Plan. The offering period that was in effect as of the effective date of such suspension was shortened so that the last day of such offering period was February 14, 2007. Outstanding rights to purchase Corillian common stock have been exercised in accordance with the employee stock purchase plan. Each share of Corillian common stock purchased under the employee stock purchase plan will, by virtue of the merger, be automatically converted into the right to receive \$5.15 in cash, without interest.

Q: Where and when is the special meeting?

d year 182 903 In the third to fifth year, inclusive 75 106 ----- 1,899 2,328 Less: future finance charges on finance leases (41) (73)
 ----- Present value of finance lease liabilities 1,858 2,255 ===== The present value of finance lease
 liabilities is as follows: Within one year 1,607 1,267 In the second year 178 885 In the third to fifth year, inclusive 73 103 ----- 1,858 2,255
 ===== 37 19 Bank and other loans (continued) (c) The fair value of the Group's non-current portion of long term bank and other
 loans at 30 June 2006 and 31 December 2005 were as follows: As at As at 30 June 31 December ----- 2006 2005 RMB RMB million million
 Unaudited Audited Long term bank loans 15,598 15,571 Finance lease obligations 244 958 ----- 15,842 16,529 =====
 ===== The fair value are based on cash flows discounted using rates based on the borrowing rates of ranging from 2.25% to 7.39% (31 December
 2005: 2.54% to 6.12%). 38 20 Deferred revenues As at As at 30 June 31 December 2006 2005 ----- RMB RMB million million Unaudited

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Audited Balance at beginning of period/year: - upfront connection fees 5,505 8,910 - upfront installation fees 6,769 7,638 - advances from network capacity sales 2,354 2,173 - prepaid telephony services 4,272 4,143 ----- 18,900 22,864 ----- Additions for the period/year: - upfront connection fees --- - upfront installation fees 194 573 - advances from network capacity sales 185 461 - prepaid telephony services 13,549 24,435 ----- 13,928 25,469 ----- Reductions for the period/year: - upfront connection fees (1,330) (3,405) - upfront installation fees (688) (1,442) - advances from network capacity sales (70) (280) - prepaid telephony services (13,245) (24,306) ----- (15,333) (29,433) ----- Classified as held for sale - advances from network capacity sales (2,450) -- prepaid telephony services (170) -- ----- (2,620) -- ----- Balance at end of period/year: - upfront connection fees 4,175 5,505 - upfront installation fees 6,275 6,769 - advances from network capacity sales 19 2,354 - prepaid telephony services 4,406 4,272 ----- 14,875 18,900 ----- Representing: - Current portion 7,234 7,975 - Non-current portion 7,641 10,925 ----- 14,875 18,900 ----- 39 21 Share capital Authorized ----- Convertible preference shares of Ordinary shares of US\$0.04 each US\$0.04 each Total ----- RMB No. RMB RMB No. of shares US\$ million of shares US\$ million US\$ million ----- As at 1 January 2005 and 2006 and as at 30 June 2006 25,000,000,000 1,000,000,000 8,277 7,741,782 309,671 3 1,000,309,671 8,280 ----- Issued ----- Convertible preference shares of Ordinary shares of US\$0.04 each US\$0.04 each Total ----- RMB No. RMB RMB No. of shares US\$ million of shares US\$ million US\$ million ----- As at 1 January 2005 and 2006 6,593,529,000 263,741,160 2,181 -- -- 263,741,160 2,181 ----- Issue of shares upon exercise of share options (Note) 18,042,300 721,692 6 -- -- 721,692 6 ----- As at 30 June 2006 6,611,571,300 264,462,852 2,187 -- -- 264,462,852 2,187 ----- Note: As at 30 June 2006, 40% of the 156,703,000 First Grant options (note22) outstanding at 1 January 2006 were exercisable, of which 18,042,300 options (2005: nil) were exercised during the period with an exercise price of HK\$8.40. The proportion of the total considerations received amounting to RMB 156 million, exceeds the nominal value of the shares issued was recorded as share premium of the Company. 22 Share option scheme A share option scheme was approved pursuant to a directors' resolution on 30 September 2004 ("Share Option Scheme"). Share options are granted to directors of the Company and to certain employees of the Group at the directors' discretion. Share options can be exercised at least 18 months from the later of the date of grant or the date of the listing of the shares of the Company on the Hong Kong Stock Exchange and are subject to certain vesting restrictions on timing. On 22 October 2004, 158,640,000 share options with an exercise price of HK\$ 8.40 each were granted to the directors of the Company and certain employees of the Group (the "First Grant"). These options were granted immediately prior to the closing of the Company's initial global offering, to subscribe for its ordinary shares at the initial public offering price under the Hong Kong public offering, excluding brokerage and trading fees, and transaction and investor compensation levies. The First Grant has an exercise period of six years from the date of grant. 40 22 Share option scheme (continued) On 6 December 2005, the board of directors approved the granting of 79,320,000 shares of share options to certain management personnel and other professional personnel designated by the Compensation Committee of the newly acquired four northern provinces/autonomous region (the "Second Grant"). The fair value at the grant date of the share options granted in the First Grant is determined using the Black-scholes valuation model based on the following assumptions: expected dividend pay-off ratio of 35%, expected vesting period of 5 years, expected fluctuation rate of 23.6% and risk-free interest rate of 4.3%. The weighted average fair value of each share option on grant date was determined as HK\$ 1.22 per share (RMB 1.28 per share); the fair value at the grant date of the share options granted in the Second Grant is determined using the Black-scholes valuation model based on the following assumptions: expected dividend pay-off ratio of 35%, expected vesting period of 4 years, expected fluctuation rate of 21.46% and risk-free interest rate of 4.3%. The weighted average fair value of each share option on grant date was determined as HK\$ 1.28 per share (RMB 1.34 per share). Since there is subjectivity exercised in the valuation model adopted and the underlying assumptions on which the fair value of the share options are determined, and any change in these subjective assumptions may have a significant impact to the fair value of the share options, the Black-Scholes Model adopted may not be a reliable determinant of the fair value of the share options. A modification to certain clauses of the share option schemes already granted was approved on 16 May 2006, pursuant to a directors' resolution. The modifications are related to certain aspects including eligible participants, exercise of options and vesting schedules, rights upon cessation of employment, right upon death, rights upon loss of capacity, performance targets, cancellation of options. The modification did not have any impact to the interim financial statement. Please refer to the related announcement on the modifications of share option scheme. The movement of the share options already granted during the period/year is summarized as follows: No. of share options ----- As at 1 As at 31 Exercise January December price 2005 Granted Exercised Lapsed Cancelled 2005 (HK\$) ----- First Grant 157,720,000 -- -- 1,017,000 156,703,000 8.40 Second Grant -- 79,320,000 -- -- 79,320,000 12.45 No. of share options ----- As at 1 As at 30 Exercise January June price 2006 Granted Exercised Lapsed Cancelled 2006 (HK\$) ----- First Grant 156,703,000 -- 18,042,300 -- 1,975,500 136,685,200 8.40 Second Grant 79,320,000 -- -- 125,500 79,194,500 12.45 41 23 Commitments (a) Capital commitments As at As at 30 June 31 December 2006 2005 ----- RMB RMB million million Unaudited Audited Contracted but not provided for Leasehold land and buildings - Continuing operations 201 215 - Discontinued operations -- 12 Telecommunications networks and equipment - Continuing operations 1,819 1,357 - Discontinued operations 70 19 Others - Continuing operations 11 112 ----- Total - Continuing operations 2,031 1,684 - Discontinued operations 70 31 ----- Authorized but not contracted for Leasehold land and buildings - Continuing operations 11 1 - Discontinued operations -- 26 Telecommunications networks and equipment - Continuing operations 260 112 - Discontinued operations 11 -- Others - Continuing operations 13 -- ----- Total - Continuing operations 284 113 - Discontinued operations 11 26 ----- 42 23 Commitments (continued) (b) Operating lease commitments The Group has future minimum lease payments under non-cancelable operating leases in respect of premises and equipment as follows: As at As at 30 June 31 December 2006 2005 ----- RMB RMB million million Unaudited Audited Not later than one year - Continuing operations 764 583 - Discontinued operations 244 411 Later than one year and not later than five years - Continuing operations 429 527 - Discontinued operations 954 846 Later than five years - Continuing operations 188 186 - Discontinued operations 1,564 1,513 ----- Total - Continuing operations 1,381 1,296 - Discontinued operations 2,762 2,770 ----- 24 Related party transactions All state-controlled enterprises, their subsidiaries, their key management and their close family, and their employees represent related parties of the Group as defined by HKAS 24. China Netcom Group, the Group's parent company, is a state-controlled enterprise directly controlled by the PRC government which controls different state-owned enterprises drives the economy of the PRC. The Group is the dominant fixed line telecommunications service provider in northern China by virtue of its historical monopoly over these services. As a result, the Group has extensive transactions including sales to, purchases of services, goods and fixed assets from, leasing of assets from and banking transactions with other state-owned parties in its ordinary course of business. These transactions are carried out at terms similar to those obtained by other state-owned parties and have been reflected in the financial statements. The Group's operations are subject to the supervision of and regulation by the PRC Government. The Ministry of Information Industry (MII), pursuant to the authority delegated by the PRC's State Council, is responsible for formulating the policies and regulations for the telecommunications industry in China, including granting license, allocating frequency spectrum, formulating interconnection and settlement arrangement between telecommunications operator, enforcing industry regulation and reviewing tariffs for domestic services. Other PRC governmental authorities also regulate tariff polices, capital investment and foreign investment in the telecommunications industry. 43 24 Related party transactions (continued) As a state-owned telecommunication operator, the Group has extensive transactions with other state-owned telecommunication operators in its ordinary course of business. These transactions are carried out in accordance with the rules and regulations stipulated by the MII of the PRC Government and disclosed below. The

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Group has extensive transactions with other members of the China Netcom Group. It is possible that the terms of the transactions between the Group and other members of the China Netcom Group are not the same as those that would result from transactions with other related parties or wholly unrelated parties. Management believes that meaningful information relative to related party disclosures has been adequately disclosed. Six months ended 30 June

	Note 2006	2005		RMB	RMB		million	million		Unaudited	Unaudited		Restated		Emoluments to key management		
(i) 3 6			Interconnection fees - from fellow subsidiaries (iv)(b)	145	149	-	from other state-owned telecommunications operators (iv)(b)										
3,352	3,059		Subtotal	3,497	3,208		Interconnection charges - to fellow subsidiaries (iv)(b)	394	307	-	to other state-owned telecommunications operators (iv)(b)	830	671				
			Subtotal	1,224	978		Rental income from properties leased to fellow subsidiaries (iv)(a),(iv)(c) 1										
			Subtotal	738	690		Purchase of materials - from fellow subsidiaries (iv)(a),(iv)(c)	668	581	-	from other related companies (iv)(a),(iv)(c)	70	109				
			Subtotal	974	801		Ancillary telecommunications support services - from fellow subsidiaries (v)	155	106	-	from other related companies (v)	18	11				
			Subtotal	173	117		Payment of operating lease rentals of premises - to fellow subsidiaries (iv)(a),(iv)(c)	333	294		Property sub-lease rentals to fellow subsidiaries (iv)(a),(iv)(c)	6					
			Subtotal	413	519		Common corporate services income from ultimate holding company (vi)	51	28		Common corporate services expenditure paid to ultimate holding company (vi)	162	117				
			Subtotal	190	292		45 24 Related party transactions (continued) Six months ended 30 June										
			Subtotal	413	519		MB RMB million million Unaudited Unaudited Restated (Note 2) Support services received - from ultimate holding company (vii) -- 2 - from fellow subsidiaries (vii)	373	324	-	from other related companies (vii)	40	193				
			Subtotal	190	292		Telecommunications rental income from other state-owned telecommunications operators (iv)(b)	135	613		Payment for lease of telecommunications facility - to ultimate holding company (viii)	37	--	-	to fellow subsidiaries (viii)	153	292
			Subtotal	190	292		Payment for purchase of long-term telecommunications capacity to fellow subsidiaries (ix)	36	91		Payment for lease of long-term telecommunications capacity to fellow subsidiaries (x)	65	52				

Management fee received from fellow subsidiaries (xi) 23 55

46 24 Related party transactions (continued) Notes: (i) Represents the emoluments paid to all of the directors and the top management of the Group, who are considered to be the related parties of the Group. (ii) The Group entered into finance lease arrangements with a related party, which was included in Note 19 b(ii). (iii) Related party represents the non-listed investees of the fellow subsidiaries. (iv) Priced based on one of the following three criteria: (a) market price; (b) prices based on government guidance; or (c) cost plus basis. (v) Represents provision of ancillary telecommunications support services to the Group by the fellow subsidiaries and the related companies. These services include certain telecommunications pre-sale, on-sale and after-sale services, certain sales agency services, the printing and delivery of invoice services, the maintenance of certain air-conditioning, fire alarm equipment and telephone booths and other customer services. (vi) The Group entered into a Master Service Sharing agreement with China Netcom Group pursuant to which expenses associated with common corporate services is allocated between the Group and China Netcom Group based on total asset as appropriate. (vii) Represents the support services provided to the Group by the fellow subsidiaries and the related companies. These support services include equipment leasing services, motor vehicles services, safety and security services, conference services, basic construction agency services, equipment maintenance services, employee training services, advertising services, printing services and other support services. (viii) The Group entered into a Telecommunications Facilities Leasing Agreement with China Netcom Group pursuant to which the Group leases the international telecommunications facilities and inter-provincial transmission optic fibers from China Netcom Group. The lease payment is based on the depreciation charge of the assets. (ix) The Group entered into a Capacity Purchase Agreement with East Asia Netcom Limited ("EANL"), a wholly owned subsidiary of China Netcom Group, pursuant to which the Group receives certain amounts of long-term telecommunications capacity from China Netcom Group at market prices as set out in the Capacity Purchase Agreement. (x) The Group entered into a Capacity Lease Agreement with EANL, pursuant to which the Group leases certain amount of capacity of China Netcom Group's telecommunications network at market rates as set out in the Capacity Lease Agreement. (xi) The Group entered into a Management Services Agreement with EANL, pursuant to which the Group provides certain management services to China Netcom Group either on a cost reimbursement basis or on the basis of cost plus reasonable profits not exceeding the market price as set out in the Management Service Agreement. (xii) In addition, pursuant to the Listing Reorganization and the Acquisition, China Netcom Group have agreed to hold and maintain, for the Group's benefit, all licenses received from the MII in connection with the Restructured Businesses transferred to the Group. The licenses maintained by China Netcom Group were granted by the MII at nil or nominal costs. To the extent that China Netcom Group incurs a cost to maintain or obtain licenses in the future, the Company has agreed reimburse China Netcom Group for any such expense. 47 24 Related party transactions (continued) (xiii) China Netcom Group has also agreed to indemnify the Group in connection with any tax and deferred tax liabilities not recognized in the financial statements of the Group arising from transactions prior to the date of Listing Reorganization and the Acquisition in relation to the business of the Group prior to the Acquisition and the business of the newly required four provinces/autonomous region respectively. (xiv) As at 30 June 2006, China Netcom Group had granted corporate guarantees to the Group as set out in Note 19 (b). (xv) China Netcom Group, the Group's ultimate holding company, entered into an agreement (the "Sponsorship Agreement") with Beijing Organization Committee ("BOCOG") which designated China Netcom Group as the exclusive fixed-line telecommunications services partner in the People's Republic of China ("PRC") to sponsor the 2008 Beijing Olympic Games. China Netcom Group allocated the sponsorship fee to its members based on the estimated future benefits derived from the Sponsorship Agreement to respective members and the Group has contributed a portion of the required support under the Sponsorship Agreement through providing cash to BOCOG amounting to RMB 540 million. Accordingly, an intangible asset and a payable to the ultimate holding company of the said amount have been recognized on the Group's balance sheet. Up to 30 June 2006, the settlement to China Netcom Group totaled 195 million and the balance of China Netcom Group amounted to RMB 345million as at 30 June 2006 (31 December 2005: RMB540 million). (xvi) As at 30 June 2006, the Group has balances with other state-owned telecommunication service providers and loans granted from state-owned banks as set out in Notes 11, 18 and 19 respectively. (xvii) For the six months period to 30 June 2006, the deferred consideration in respect of the Acquisition paid to China Netcom Group amounted to RMB 980 million (for the six months period ended 30 June 2005: nil), and the balance of deferred consideration as of 30 June 2006 amounted to RMB 8,820 million (31 December 2005: RMB 9,800 million) as set out in Note 12(b). The related interest charged for six months period ended 30 June 2006 amounted to RMB 251 million (for the six months period ended 30 June 2005: nil) as set out in Note 6. 25 Significant subsequent events (i) The Group completed the disposal of the ANC Group to third party buyers on 22 August 2006. The Group expects to record a net gain ranging from approximately RMB1.7 billion to RMB1.9 billion and the gain will be reported as part of discontinued operations for the year ending 31 December 2006. On the same date, the Group committed to purchase network capacities from the third party buyers in the amount of no less than US\$60,000,000 in the next three years in accordance with a capacity purchase agreement. (ii) On 20 July 2006, China Netcom (Group) Limited, the wholly owned subsidiary of the Group, issued RMB 10 billion one-year Commercial Paper in the PRC capital market with RMB 9,676 million net cash inflow from this offering. The interest rate charged on this Commercial Paper is 3.35%. 26 Ultimate holding party The ultimate holding company is China Netcom Group which is owned and controlled by the PRC Government. 27 Approval of financial statements The financial statements were approved by the Board of Directors on 23 August 2006 48 Supplementary Information for American Depository Shares Holders The consolidated financial statements of the Group have been prepared in accordance with Hong Kong GAAP, which differs in certain material respects from U.S. GAAP. Differences between Hong Kong GAAP and U.S. GAAP, which may have a significant impact on the consolidated net income and the consolidated shareholders' equity are described below. The effect on net income of significant differences between Hong Kong GAAP and U.S.GAAP for the six months ended 30 June 2006 and 2005 is as follows: Six months ended 30 June 2005 2006 2006

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Unaudited Unaudited Unaudited US\$ million RMB million except per per share data share data Restated Note 2 Consolidated profit/(loss) for the period under Hong Kong GAAP -- continuing operations 7,740 7,145 894 -- discontinued operations (52) (51) (6) 7,688 7,094 888 U.S. GAAP adjustments which are only related to continuing operations Depreciation of revalued fixed assets (2,401) (2,436) (305) Tax effect on the above adjustments 792 804 101 (1,609) (1,632) (204) Consolidated profit/(loss) for the period under U.S. GAAP -- continuing operations 6,131 5,513 690 -- discontinued operations (52) (51) (6) 6,079 5,462 684 Shares used in computing basic earnings per share (million) 6,594 6,596 6,596 Shares used in computing diluted earnings per share (million) 6,628 6,647 6,647 Earnings per share for profit from continuing operations attributable to shareholders of the Company for the period under U.S. GAAP - Basic earnings per share RMB0.93 RMB0.84 US\$0.10 - Diluted earnings per share RMB0.93 RMB0.83 US\$0.10 49 Loss per share for loss from discontinued operations attributable to shareholders of the Company for the period under U.S. GAAP - Basic loss per share RMB(0.01) RMB(0.01) -- Diluted loss per share RMB(0.01) RMB(0.01) -- 50 The effect on shareholders' equity of significant differences between Hong Kong GAAP and U.S. GAAP as at 30 June 2006 and 31 December 2005 is as follows: 31 December 2005 30 June 2006 30 June 2006 Unaudited Unaudited Unaudited RMB RMB US\$ million million million Consolidated shareholders' equity under Hong Kong GAAP 63,010 67,054 8,386 U.S.GAAP adjustments: Revaluation of fixed assets 30,251 30,251 3,783 Depreciation of revalued fixed assets (8,639) (11,075) (1,385) Tax effect on the above adjustments (7,132) (6,328) (791) Consolidated shareholders' equity under U.S. GAAP 77,490 79,902 9,993 Other Information Directors' and chief executive's interests in shares and short positions Some of our directors personally hold options to subscribe for ordinary shares of the Company, as disclosed under the paragraph "Directors', chief executive's and employees' rights to acquire shares" below. These share options were granted pursuant to the terms of the share option scheme adopted by the Company on 30 September 2004 and subsequently amended on 16 May 2006 (the "Share Option Scheme"). Apart from those disclosed herein, as at 30 June 2006, none of the directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) that is required to be recorded and kept in the register in accordance with section 352 of the SFO, any interests required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). Directors', chief executive's and employees' rights to acquire shares Share Option Scheme of the Company During the six months ended 30 June 2006, no share option has been granted under the Share Option Scheme. As at 30 June 2006, the directors and chief executive of the Company, employees of the Group and other persons had the following personal interests in options to subscribe for shares of the Company granted under the Share Option Scheme of the Company. No. of shares No. of shares No. of shares Price per share involved in the involved in the No. of shares acquired on be paid on options outstanding options Date on which involved in the exercise of exercise of at the beginning outstanding in options were options cancelled 51 options during options of the period period end granted during the period the period HK\$ Directors Zhang Chunjiang 920,000 920,000 22 October 2004 -- -- 8.40 Tian Suning 920,000 920,000 22 October 2004 -- -- 8.40 Zuo Xunsheng 800,000 800,000 22 October 2004 -- -- 8.40 (also the chief executive officer) Zhang Xiaotie 800,000 630,000 22 October 2004 -- 170,000 8.40 Miao Jianhua 700,000 700,000 22 October 2004 -- -- 8.40 Li Liming 700,000 620,000 22 October 2004 -- 80,000 8.40 Yan Yixun 590,000 590,000 22 October 2004 -- -- 8.40 Employees 150,683,000* 131,505,200 22 October 2004 1,739,500 17,438,300 8.40 79,320,000 79,194,500 6 December 2005 125,500 -- 12.45 Other Persons 590,000 -- 22 October 2004 236,000 354,000 8.40 Total 215,879,700(a) 18,042,300 52 * The number of shares involved in the options outstanding at the beginning of the period included share options granted to Mr. Jiang Weiping involving a total of 700,000 shares. Mr. Jiang Weiping resigned as executive director of the Company in May 2006, and he continues to serve as the general manager of the human resource department of the Company. Notes: (a) The total number of shares involved in the options outstanding at period end represents 3.27 per cent. of the issued share capital of the Company as at the date of this report. (b) Grantees of the share options granted on 22 October 2004 are entitled to exercise the options in the following periods: (i) in respect of 40 per cent. of the options granted, from 17 May 2006 to 16 November 2010; (ii) in respect of a further 20 per cent. of the options granted, from 17 May 2007 to 16 November 2010; (iii) in respect of a further 20 per cent. of the options granted, from 17 May 2008 to 16 November 2010; and (iv) in respect of the remaining 20 per cent. of the options granted, from 17 May 2009 to 16 November 2010. (c) Grantees of the share options granted on 6 December 2005 are entitled to exercise the options in the following periods: (i) in respect of 40 per cent. of the options granted, from 6 December 2007 to 5 December 2011; (ii) in respect of a further 20 per cent. of the options granted, from 6 December 2008 to 5 December 2011; (iii) in respect of a further 20 per cent. of the options granted, from 6 December 2009 to 5 December 2011; and (iv) in respect of the remaining 20 per cent. of the options granted, from 6 December 2010 to 5 December 2011. Details of share options exercised during the period: Weighted average closing price per share immediately Period during Exercise before dates of Proceeds Number of shares which options price exercise of options received involved in the were exercised (HK\$) (HK\$) (HK\$) options From 17 May 2006 to 8.40 12.79 151,555,320 18,042,300 30 June 2006 53 Substantial interests in the share capital of the Company The Company has been notified of the following interests in the Company's issued shares at 30 June 2006 amounting to 5 per cent. or more of the ordinary shares in issue: Percentage Ordinary shares held of total directly indirectly issued shares (i) China Network Communications Group Corporation -- 4,945,148,000(1)(2) 74.80% (ii) China Netcom Group Corporation (BVI) Limited 4,647,449,014(1) 297,698,986(1)(2) 74.80% Notes: (1) China Network Communications Group Corporation ("China Netcom Group") beneficially owns 4,647,449,014 shares held by its wholly-owned subsidiary, China Netcom Group Corporation (BVI) Limited ("CNC BVI") and 1 share held by CNC Cayman, Limited ("CNC Cayman"), a wholly-owned subsidiary of CNC BVI. The percentage of total issued share capital of the Company beneficially held by China Netcom Group is 70.29 per cent. (2) China Netcom Group is deemed under the SFO to be interested in 297,698,985 shares held by CNC BVI as trustee on behalf of certain shareholders, representing 4.50 per cent. of the issued share capital of the Company. Apart from the foregoing, as at 30 June 2006, no person or corporation had any interest in the share capital of the Company as recorded in the registers required to be kept under section 336 of the SFO as having an interest in 5 per cent. or more of or any short position in the issued share capital of the Company. Discussion and analysis of the Company's performance In compliance with paragraph 40(2) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company confirms that, save for the completion of the disposal by the Company of 100% equity interest in Asia Netcom Corporation Limited on 22 August 2006 pursuant to an agreement dated 2 June 2006 (details of which are set out in the Company's announcements dated 2 June 2006 and 23 August 2006) and the adjustment to tariffs for inter-district voice calls by the Company's subsidiaries in certain provinces with effect from 1 March 2006 as required by the relevant regulatory authorities of the government, the current information in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules as applicable to the Company has not changed materially from the information disclosed in the Company's 2005 Annual Report. Interim dividend The board of directors of the Company has resolved that no interim dividend be paid for the six months ended 30 June 2006. 54 Audit Committee The Audit Committee reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial report matters including review of the unaudited interim financial statements for the six months ended 30 June 2006. Compliance with the code provisions set out in the Code on Corporate Governance Practices The Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2006. Under the amended Section 303A of New York Stock Exchange Listed Company Manual, foreign issuers (including China Netcom Group Corporation (Hong Kong) Limited) listed on the NYSE are required to disclose a summary of the significant differences between their domestic corporate governance rules and NYSE corporate governance rules that would apply to a U.S. domestic issuer. A summary of such differences appears on our website at http://www.china-netcom.com/english/inv/Corporate_Governance_Differences.htm. Compliance with the Model Code The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. All directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the period from 1 January 2006 to 30 June 2006. Purchase, sale or redemption of the Company's listed securities During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities. Forward-looking statements This interim report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements of historical facts, including in this interim report that address activities, events or

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developments which we expect or anticipate will or may occur in the future are hereby identified as forward looking statements for the purpose of the safe harbor provided by Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. The words such as believe, intend, expect, anticipate, project, estimate, predict, plan and similar expression are also intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's other filings with the SEC. 55