OPEN SOLUTIONS INC
Form S-1
April 22, 2004

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As filed with the Securities and Exchange Commission on April 22, 2004

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

Open Solutions Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**7372**	**22-3173050**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

300 Winding Brook Drive

Glastonbury, Connecticut 06033
(860) 652-3155
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Louis Hernandez, Jr.
Chairman of the Board and Chief Executive Officer
Open Solutions Inc.
300 Winding Brook Drive
Glastonbury, Connecticut 06033
(860) 652-3155
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(2)
Common Stock, $.01 par value per share	4,990,291 shares	$22.04	$109,986,014	$13,936

(1) Includes 650,907 shares that the underwriters have the option to purchase from the Registrant to cover over-allotments, if any.
(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended. Based on the average of the high and low sale prices reported in the consolidated reporting system of the Nasdaq National Market on April 16, 2004.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(1)
Registration No. 333 - 108293

Subject to Completion, Dated April 22, 2004

Prospectus

4,339,384 shares

Common Stock

We are offering 1,000,000 shares of common stock. The selling stockholders identified in this prospectus are offering an additional 3,339,384 shares. We will not receive any of the proceeds from the sale of shares being sold by the selling stockholders.

Our common stock is quoted on the Nasdaq National Market under the symbol OPEN. The last reported sale price of our common stock on the Nasdaq National Market on April 21, 2004 was $23.15 per share.

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 7 of this prospectus.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds, before expenses, to Open Solutions	$	$
Proceeds, before expenses, to the selling stockholders	$	$

We have granted the underwriters a 30-day option to purchase up to 650,907 additional shares from us to cover any over-allotments.

Delivery of shares will be made on or about , 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Bear, Stearns & Co. Inc.

Friedman Billings Ramsey

Piper Jaffray

Wachovia Securities

The date of this Prospectus is , 2004.

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Our enterprise-wide suite of software and services performs a financial institution s data processing and information management functions. Our core software manages the account, transaction, lending, operations, back office, client information and reporting functions for a commercial bank, thrift or credit union on either an in-house or outsourced basis.

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ABOUT THIS PROSPECTUS

You should rely only on the information contained in this document or to which we have referred you. We and the selling stockholders have not, and the underwriters have not, authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. We and the selling stockholders are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus, but does not contain all the information that is important to you. You should read this entire prospectus carefully, including the section entitled Risk Factors, our consolidated financial statements and the related notes included elsewhere in this prospectus, before making an investment decision.

Our Business

Open Solutions Inc. is a provider of software and services that allow financial institutions to compete and service their customers more effectively. We develop, market, license and support an enterprise-wide suite of software and services that performs a financial institution s data processing and information management functions. In contrast to traditional legacy systems, our technologies are fully integrated, open, flexible, customer-centric and efficient, permitting financial institutions to draw on and deliver consistent information quickly. We offer core software and complementary products, which can be licensed to financial institutions separately or, when combined, form a fully-integrated suite. Our technology allows our clients to access information from disparate sources and then analyze and distribute that information for use at the point of customer contact. Our software can be operated either by the financial institution internally or on an outsourced basis in one of our outsourcing centers or through an outsourcing center hosted by one of our resellers. We believe that our products and services enable our clients to reduce their overall core processing and operational costs and allow them to meet their strategic needs more effectively.

Our Market Opportunity

According to Thomson Financial Inc., there are approximately 19,400 commercial banks, thrifts and credit unions in the United States which have an asset base of under $20 billion. We believe that these financial institutions, which have traditionally competed on the basis of personalized service, are facing increasing challenges to improve their operating efficiencies. These challenges include the entrance of non-traditional competitors, the compression of margins on traditional products, significant channel proliferation and the convergence of financial products into a single institution. These institutions have traditionally fulfilled their information technology needs through legacy computer systems, operated either by the institution itself or through an outsourcing center. Legacy systems, which operate in large mainframe or minicomputer environments, are generally highly proprietary, inflexible and costly to operate and maintain. In addition, the costs associated with modifying core software and obtaining proprietary complementary software are generally greater over time than the costs associated with newer technology.

We believe that financial institutions today are seeking more integrated, open, flexible, customer-centric and efficient information technology solutions that:

- combine high performance, scalability, reliability and security with the advantages associated with relational and highly normalized (which means data is easily accessible and not stored redundantly) technology based on industry standards,
- deliver new products and services to their customers quickly and efficiently without extensive custom development,
- integrate easily with other applications used in the enterprise without expensive middleware,
- provide quick and effective access to customer and account data in order to offer better, more customized services, monitor trends and performance and cross-sell services and products,
- allow real-time access to customer data while preserving the financial institution s ability to batch process large transactions, and
- accommodate, in a single application, multiple delivery channels, such as ATMs, telephone banking, Internet banking and wireless banking, as well as new delivery channels as they emerge.

We believe that information technology systems such as ours, which are based on open, industry-standard operating environments and relational databases, meet these requirements.

Our Solution

Our core software product is a fully-integrated, open, flexible, customer-centric solution that enables financial institutions to service their customers more efficiently and effectively. Its key attributes are its:

Full Integration at the Core Level. Our core software supports all of a financial institution s principal data processing requirements using a single relational database which allows our clients to replace their highly proprietary, inflexible and costly legacy systems with one integrated software application.

Open Architecture. Our clients can run our software on desktop and server hardware supplied by a wide array of vendors, while the flexibility and scalability of our core applications permit our clients to incorporate complementary software applications, whether designed by us or by third parties, in a cost-effective manner. In addition, our complementary products may be used with either our core software or third-party systems.

Flexibility. Our software allows our clients to offer new products and services to their customers and to grow without reconfiguring their information technology infrastructure. In addition, we provide our software by licensing it directly for use on-site, through our own outsourcing centers or through third-party outsourcing centers, allowing our clients the flexibility to meet their specific operational and competitive requirements in the manner most cost-effective for them.

Customer-centric Architecture. Our core software uses a relational database organized around individual customers, allowing a financial institution to update and view customer information on a real-time basis instead of relying on periodic batch processing. Our relationship management software, which acts as a natural extension of our core software, exploits the strength of our architecture and provides our clients the ability to collect and analyze data in order to generate timely and responsive initiatives and deliver those initiatives immediately to the customer.

Efficiency. We believe that our software reduces the overall cost of a financial institution s information technology and allows our clients to meet their strategic goals more efficiently. Our core software is fully integrated with our complementary products, can run on hardware provided by many vendors and supports third-party products, reducing an institution s development and implementation costs. Our open architecture and flexibility allow our clients to modify their information systems requirements quickly and easily, without incurring the significant costs associated with supporting several disparate software applications. Our single relational database allows our clients to organize their data around individual customers, use our business intelligence tools to analyze and manage that data in the most efficient manner and launch new products and services desired by their customers in a cost-effective manner.

Our proprietary software is designed to work in conjunction with certain third-party software products, including Microsoft and Oracle relational databases.

Our Strategy

Our objective is to be the leading supplier of software and services to financial institutions. Our strategy for achieving this objective includes:

expanding our share of our historical market, which includes financial institutions which have an asset base of under $20 billion,

expanding our sources of recurring revenue, which we generate through the provision of outsourcing and maintenance services, in order to improve the predictability of our revenue,

- expanding our client base by continuing to license our core software through third-party outsourcing centers,

- providing additional products and services to our installed client base, through both the internal development of new products and services and through acquisitions,

- maintaining our technological leadership in the industry,

- extending our target markets to include larger financial institutions, international financial institutions, and clients in the payroll services, insurance and brokerage industries, and

- pursuing strategic acquisitions that complement our existing products and services and expand our client base.

Recent Developments

On February 24, 2004, we acquired Maxxar Corporation for cash consideration of $6.5 million. This acquisition expanded our complementary product offerings to include a comprehensive suite of interactive voice information solutions and computer telephony integration products.

Open Solutions Inc. was organized as a Delaware corporation in May 1992. Our principal executive office is located at 300 Winding Brook Drive, Glastonbury, Connecticut 06033 and our telephone number is (860) 652-3155. Our corporate web site address is http://www.opensolutions.com. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We have posted on our website a copy of our code of business conduct and ethics. In addition, we intend to disclose on our website any amendments to, or waivers from, our code of business conduct and ethics that are required to be publicly disclosed pursuant to rules of the SEC and the Nasdaq National Market. Information contained on our web site is not intended to be part of this prospectus.

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THE OFFERING

Common stock offered by Open Solutions Inc.	1,000,000 shares
Common stock offered by the selling stockholders	3,339,384 shares
Common stock outstanding after the offering	18,084,103 shares
Dividend policy	We currently do not anticipate paying dividends on our capital stock.
Use of proceeds	We will receive net proceeds from the offering of approximately $21.5 million, assuming an offering price of $23.15, based on the last reported sale price of our common stock on the Nasdaq National Market on April 21, 2004. We intend to use the proceeds from the offering for working capital and general corporate purposes, including potential acquisitions. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholders.
Nasdaq National Market symbol	OPEN
Risk factors	See Risk Factors for a discussion of factors you should carefully consider before deciding to invest in our common stock.

The total number of outstanding shares of common stock is based on the number of shares outstanding as of March 31, 2004, and excludes:

3,248,078 shares of common stock issuable upon exercise of outstanding stock options as of March 31, 2004 at a weighted average exercise price of $8.74 per share, and

5,249,230 additional shares of common stock reserved for issuance under the 1994 Stock Incentive Plan, 2000 Stock Incentive Plan, 2003 Stock Incentive Plan and 2003 Employee Stock Purchase Plan.

Except as otherwise indicated, information in this prospectus assumes the underwriters have not exercised their option to purchase 650,907 shares from us to cover over-allotments.

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SUMMARY CONSOLIDATED FINANCIAL DATA

(in thousands, except per share data)

The following summary historical consolidated financial information and other data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. The summary financial data set forth below as of December 31, 2003, and for the three years ended December 31, 2003, are derived from audited financial statements, which appear elsewhere in this prospectus.

Since June 2000, we have acquired six businesses, as more fully described in Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto included elsewhere in this prospectus. These acquisitions have significantly affected our revenues, results of operations and financial condition. The operating results of each business acquired have been, or in the case of the acquisition of Maxxar Corporation, will be included in our financial statements from the respective dates of acquisition. The historical results presented below are not necessarily indicative of the results to be expected for any future period.

The unaudited as adjusted information gives effect to events that will occur upon the closing of this offering, described in footnote 2 below.

	Year Ended December 31,		
	2001	2002	2003
Statement of Operations Data:			
Revenues:			
Software license	$ 9,971	$ 13,449	$ 21,391
Service, maintenance and hardware	17,295	30,896	42,461
Total revenues	27,266	44,345	63,852
Cost of revenues:			
Software license	1,592	3,152	5,341
Service, maintenance and hardware	10,084	18,430	23,540
Total cost of revenues	11,676	21,582	28,881
Operating expenses (includes restricted stock expense and related taxes of $3,444 for the year ended December 31, 2003)	25,929	25,773	33,471
Income (loss) from operations	(10,339)	(3,010)	1,500
Net income (loss)	$ (9,661)	$ (2,897)	$ 1,309
Preferred stock accretion charge(1)			(31,500)
Net loss attributable to common stockholders	$ (9,661)	$ (2,897)	$ (30,191)
Net income (loss) per common share			
Basic	$ (4.71)	$ (1.18)	$ (7.74)
Diluted	(4.71)	(1.18)	(7.74)
Weighted average common shares outstanding used to compute net income (loss) per common share			
Basic	2,051	2,453	3,903
Diluted	2,051	2,453	3,903

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	December 31, 2003	
	Actual	As Adjusted(2)
Balance Sheet Data:		
Cash and cash equivalents	$ 84,953	$ 106,446
Working capital	73,084	94,577
Total assets	133,071	154,564
Stockholders equity	105,419	126,912

(1) The conversion formula for our Series F preferred stock provided for adjustment of the Series F preferred stock conversion price in the event that our initial public offering price was less than $27.03 per share. Holders of Series F preferred stock received shares of common stock from the initial public offering with an aggregate value of $62,600,000. The recorded value of Series F preferred stock was $31,100,000 and as a result, upon the closing of our initial public offering, we recorded an accretion charge of $31,500,000 in stockholders equity (deficit). This accretion charge resulted in a non-cash deduction from income attributable to holders of common stock and a deduction in related earnings per share.

(2) Reflects the sale by us of 1,000,000 shares of common stock offered hereby (at an assumed offering price of $23.15, based on the last reported sale price of our common stock on the Nasdaq National Market on April 21, 2004) and deduction of the estimated underwriting discounts and commissions and offering expenses payable by us.

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RISK FACTORS

You should carefully consider the risks described below, together with all of the other information in this prospectus, before deciding to invest in our common stock. The risks and uncertainties described below are those that we have identified as material. Risks and uncertainties not currently identifiable by us, or that we believe are immaterial, are not included below, but may also impair our business operations. If any of the events contemplated by the following discussion of risks should occur, our business, financial condition and results of operations may suffer. As a result, the trading price of our common stock could decline and you could lose part or all of your investment in our common stock.

Risks Relating to our Business

We are dependent on the banking and credit union industry, and changes within that industry could reduce demand for our products and services.

The large majority of our revenues are derived from financial institutions in the banking and credit union industry, primarily small to mid-size banks and thrifts and credit unions of all sizes, and we expect to continue to derive substantially all of our revenues from these institutions for the foreseeable future. Unfavorable economic conditions adversely impacting the banking and credit union industry could have a material adverse effect on our business, financial condition and results of operations. For example, financial institutions in the banking and credit union industry have experienced, and may continue to experience, cyclical fluctuations in profitability as well as increasing challenges to improve their operating efficiencies. Due to the entrance of non-traditional competitors and the current environment of low interest rates, the profit margins of commercial banks, thrifts and credit unions have narrowed. As a result, some banks have slowed, and may continue to slow, their capital spending, including spending on computer software and hardware, which can negatively impact license sales of our core and complementary products to new and existing clients. Decreases in or reallocation of capital expenditures by our current and potential clients, unfavorable economic conditions and new or persisting competitive pressures could adversely affect our business, financial condition and results of operations.

Consolidation in the banking and financial services industry could adversely impact our business by eliminating a number of our existing and potential clients.

There has been and continues to be merger, acquisition and consolidation activity in the banking and financial services industry. Mergers or consolidations of banks and financial institutions in the future could reduce the number of our clients and potential clients. A smaller market for our services could have a material adverse impact on our business and results of operations. In addition, it is possible that the larger banks or financial institutions which result from mergers or consolidations could decide to perform themselves some or all of the services which we currently provide or could provide. If that were to occur, it could have a material adverse impact on our business and results of operations.

Our success depends on decisions by potential clients to replace their legacy computer systems, and their failure to do so would adversely affect demand for our products and services.

We primarily derive our revenues from two sources: license fees for software products and fees for a full range of services complementing our products, including outsourcing, installation, training, maintenance and support services. A large portion of these fees are either directly attributable to licenses of our core software system or are generated over time by clients using our core software. Banks and credit unions historically have been slow to adapt to and accept new technologies. Many of these financial institutions have traditionally met their information technology needs through legacy computer systems, in which they have often invested significant resources. As a result, these financial institutions may be inclined to resist replacing their legacy systems with our core software system. Our future financial performance will depend in part on the successful development, introduction and client acceptance of new and enhanced versions of our core software system and our other complementary products. A decline in demand for, or failure to achieve broad market acceptance of, our core software system or any enhanced version as a result of competition,

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technological change or otherwise, will have a material adverse effect on our business, financial condition and results of operations.

If we fail to expand our outsourcing business and other sources of recurring revenue, we may be unable to successfully implement our business strategy.

We can host a financial institution s data processing functions at our outsourcing centers. Our outsourcing centers currently serve clients using our core software and our Internet banking, ATM, cView, cash management, collections, automated clearing house, or ACH, processing, and check and item processing products. In the future, we plan to offer all of our products in our outsourcing centers and continue to market our outsourcing services aggressively.

Our outsourcing services provide a source of recurring revenue which can grow as the number of accounts processed for a client increases. We also seek to generate recurring revenue through our licensing model, which generates additional fees for us as a client s business grows or it adds more software applications, as well as through the provision of maintenance, support and other professional services. Our maintenance revenues are the largest of these revenue components, and we expect that these revenues will continue to be a significant portion of our total revenues as our client base grows due to their recurring nature. We anticipate that the revenue from outsourcing centers hosted by resellers will comprise a greater proportion of total revenues in future periods due to the amendment and restatement of our agreement with BISYS, Inc., which became effective as of September 1, 2003. To the extent we fail to persuade new or existing clients to purchase our outsourcing services or we are unable to offer some or all of our products to clients on an outsourced basis, we will be unable to implement our strategy and our revenue may be less predictable.

We have had few profitable quarters, and may never achieve sustained profitability.

We were incorporated in May 1992 and did not release our first product until 1995. Accordingly, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies with limited operating histories. Although we have been profitable in some recent quarters, we may not be profitable in future periods, either on a short or long-term basis. We incurred operating losses of approximately $15.3 million, $10.3 million and $3.0 million for the years ended December 31, 2000, 2001 and 2002, respectively. As of December 31, 2003, we had an accumulated deficit of approximately $47.0 million. There can be no assurance that operating losses will not recur in the future, that we will ever sustain profitability on a quarterly or annual basis or that our actual results will meet our projections, expectations or announced guidance. To the extent that revenues do not grow at anticipated rates, increases in operating expenses precede or are not subsequently followed by commensurate increases in revenues or we are unable to adjust operating expense levels accordingly, our business, financial condition and results of operations will be materially adversely affected.

If we fail to adapt our products and services to changes in technology or in the marketplace, we could lose existing clients and be unable to attract new business.

The markets for our software products and services are characterized by technological change, frequent new product introductions and evolving industry standards. The introduction of products embodying new technologies and the emergence of new industry standards can render our existing products obsolete and unmarketable in short periods of time. We expect new products and services, and enhancements to existing products and services, to continue to be developed and introduced by others, which will compete with, and reduce the demand for, our products and services. Our products life cycles are difficult to estimate. Our future success will depend, in part, on our ability to enhance our current products and to develop and introduce new products that keep pace with technological developments and emerging industry standards and to address the increasingly sophisticated needs of our clients. There can be no assurance that we will be successful in developing, marketing, licensing and selling new products or product enhancements that meet these changing demands, that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products or that our new products and product enhancements will adequately meet the demands of the marketplace and achieve market acceptance.

We encounter a long sales and implementation cycle requiring significant capital commitments by our clients which they may be unwilling or unable to make.

The implementation of our core software system involves significant capital commitments by our clients. Potential clients generally commit significant resources to an evaluation of available software and require us to expend substantial time, effort and money educating them as to the value of our software. Sales of our core processing software products require an extensive education and marketing effort throughout a client s organization because decisions relating to licensing our core processing software generally involve the evaluation of the software by senior management and a significant number of client personnel in various functional areas, each having specific and often conflicting requirements.

We may expend significant funds and management resources during the sales cycle and ultimately fail to close the sale. Our core software product sales cycle generally ranges between six to nine months, and our implementation cycle for our core software generally ranges between six to nine months. Our sales cycle for all of our products and services is subject to significant risks and delays over which we have little or no control, including:

our clients budgetary constraints,

the timing of our clients budget cycles and approval processes,

our clients willingness to replace their core software solution vendor,

the success and continued support of our strategic marketing partners sales efforts, and

the timing and expiration of our clients current license agreements or outsourcing agreements for similar services.

If we are unsuccessful in closing sales after expending significant funds and management resources or if we experience delays as discussed above, it could have a material adverse effect on our business, financial condition and results of operations.

We utilize certain key technologies from third parties, and may be unable to replace those technologies if they become obsolete or incompatible with our products.

Our proprietary software is designed to work in conjunction with certain third-party software products, including Microsoft and Oracle relational databases. Although we believe that there are alternatives to these products generally available to us, any significant interruption in the supply of such third-party software could have a material adverse effect on our sales unless and until we can replace the functionality provided by these products. In addition, we are dependent upon these third parties abilities to enhance their current products, to develop new products on a timely and cost-effective basis and to respond to emerging industry standards and other technological changes. There can be no assurance that we would be able to replace the functionality provided by the third-party software currently offered in conjunction with our products in the event that such software becomes obsolete or incompatible with future versions of our products or is otherwise not adequately maintained or updated. The absence of, or any significant delay in, the replacement of that functionality could have a material adverse effect on our business, financial condition and results of operations. Furthermore, delays in the release of new and upgraded versions of third-party software products, particularly the Oracle relational database management system, could have a material adverse effect on our revenues and results of operations. Because of the complexities inherent in developing sophisticated software products and the lengthy testing periods associated with these products, no assurance can be given that our future product introductions will not be delayed.

We operate in a competitive business environment, and if we are unable to compete effectively, we may face price reductions and decreased demand for our products.

The market for our products and services is intensely competitive and subject to technological change. Competitors vary in size and in the scope and breadth of the products and services they offer. We encounter competition from a number of sources, all of which offer core software systems to the banking and credit union industry. We expect additional competition from other established and emerging companies as the market for core processing software solutions and complementary products continues to develop and expand.

We also expect that competition will increase as a result of software industry consolidation, including particularly the acquisition of any of our competitors or any of the retail banking system providers by one of the larger service providers to the banking industry. We encounter competition in the United States from a number of sources, including Fiserv, Inc., Jack Henry & Associates, Inc., Fidelity National Financial Corporation and John H. Harland Company, all of which offer core processing systems or outsourcing alternatives to banks, thrifts and credit unions. Some of our current, and many of our potential, competitors have longer operating histories, greater name recognition, larger client bases and significantly greater financial, engineering, technical, marketing and other resources than we do. As a result, these companies may be able to respond more quickly to new or emerging technologies and changes in client demands or to devote greater resources to the development, promotion and sale of their products than we can.

In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective clients. Accordingly, it is possible that new competitors or alliances among competitors may emerge and acquire significant market share. We expect that the banking and credit union software market will continue to attract new competitors and new technologies, possibly involving alternative technologies that are more sophisticated and cost-effective than our technology. There can be no assurance that we will be able to compete successfully against current or future competitors or that competitive pressures faced by us will not materially adversely affect our business, financial condition and results of operations.

Our quarterly revenues, operating results and profitability will vary from quarter to quarter, which may result in volatility in our stock price.

Our quarterly revenues, operating results and profitability have varied in the past and are likely to continue to vary significantly from quarter to quarter. This may lead to volatility in our stock price. These fluctuations are due to several factors relating to the license and sale of our products, including:

- the timing, size and nature of our licensing transactions,
- lengthy and unpredictable sales cycles,
- the timing of introduction and market acceptance of new products or product enhancements by us or our competitors,
- the timing of acquisitions by us of businesses and products,
- product and price competition,
- the relative proportions of revenues derived from license fees and services,
- changes in our operating expenses,
- software bugs or other product quality problems, and
- personnel changes and fluctuations in economic and financial market conditions.

We believe that period-to-period comparisons of our results of operations are not necessarily meaningful. There can be no assurance that future revenues and results of operations will not vary substantially. It is also possible that in future quarters, our results of operations will be below the expectations of public market analysts or investors or our announced guidance. In either case, the price of our common stock could be materially adversely affected.

We face a lengthy sales cycle for our core software, which may cause fluctuations in our revenues from quarter to quarter.

We may not be able to increase revenue or decrease expenses to meet expectations for a given quarter. We recognize software license revenues upon delivery and, if required by the underlying agreement, upon client acceptance, if such criteria is other than perfunctory, which does not always occur in the same quarter in which the software license agreement for the system is signed. As a result, we are constrained in our ability to increase our software license revenue in any quarter if there are unexpected delays in delivery or required acceptance of systems for which software licenses were signed in previous quarters. Implementation of our core software system typically occurs over six to nine months. Delays in the delivery, implementation or any

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required acceptance of our products could materially adversely affect our quarterly results of operations. Revenues from software license sales accounted for 33.5% of revenues for the year ended December 31, 2003, 30.3% of revenues for the year ended December 31, 2002 and 36.6% of revenues for the year ended December 31, 2001. We expect that revenues from software license sales will continue to provide a significant percentage of our revenues in future periods, and our ability to close license sales, as well as the timing of those sales, may have a material impact on our quarterly results. In addition, increased sales and marketing expenses for any given quarter may negatively impact operating results of that quarter due to lack of recognition of associated revenues until the delivery of the product in a subsequent quarter.

Our level of fixed expenses may cause us to incur operating losses if we are unsuccessful in maintaining our current revenue levels.

Our expense levels are based, in significant part, on our expectations as to future revenues and are largely fixed in the short term. As a result, we may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenues. Accordingly, any significant shortfall of revenues in relation to our expectations would have an immediate and materially adverse effect on our business, financial condition and results of operations. In addition, as we expand we would anticipate increasing our operating expenses to expand our installation, product development, sales and marketing and administrative organizations. The time of such expansion and the rate at which new personnel become productive could cause material losses to the extent we do not generate additional revenue.

We rely on our direct sales force to generate revenue, and may be unable to hire additional sales personnel in a timely manner.

We rely primarily on our direct sales force to sell licenses of our core software system. We may need to hire additional sales, client care and implementation personnel in the near-term and beyond if we are to achieve revenue growth in the future. Competition for such personnel is intense, and there can be no assurance that we will be able to retain our existing sales, customer service and implementation personnel or will be able to attract, assimilate or retain additional highly qualified personnel in the future. If we are unable to hire or retain qualified sales personnel on a timely basis, our business, financial condition and results of operations could be materially adversely affected.

We receive a portion of our revenues from relationships with strategic marketing partners, and if we lose one or more of these marketing partners or fail to add new ones it could have a negative impact on our business.

We expect that revenues generated from the sale of our products and services by our strategic marketing partners will account for a meaningful portion of our revenues for the foreseeable future. In particular, we expect that BISYS, Inc., a major national outsourcing center, and Connecticut On-Line Computer Center, Inc., or COCC, a major regional outsourcing center, will account for a meaningful portion of our revenues over time. During the fiscal year ended December 31, 2003, BISYS represented approximately $5.8 million, or 9.1%, of our total revenues, and COCC represented approximately $1.5 million, or 2.4%, of our total revenues. On September 30, 2003, we amended and restated our software license agreement with BISYS, Inc., effective as of September 1, 2003. We expect that, as a result of this amendment and restatement, in the future BISYS will account for a greater portion of our revenues than it has historically.

Our strategic marketing partners pay us license fees based on the volume of products and services that they sell. If we lose one or more of our major strategic marketing partners, we may be unable in a timely manner, or at all, to replace them with another entity with comparable client bases and user demographics, which would adversely affect our business, financial condition and results of operations. In addition, we plan to supplement our existing distribution partners with other national and regional outsourcing centers. If we are unable to identify appropriate resellers and enter into arrangements with them for the outsourcing of our products and services to financial institutions, we may not be able to sustain or grow our business.

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If we do not retain our senior management and other key employees, we may not be able to successfully implement our business strategy.

We have grown significantly in recent years, and our management remains concentrated in a small number of key employees. Our future success depends to a significant extent on our executive officers and key employees, including our sales force and software professionals, particularly project managers, software engineers and other senior technical personnel. The loss of the services of any of these individuals or group of individuals could have a material adverse effect on our business, financial condition and results of operations. Competition for qualified personnel in the software industry is intense and we compete for these personnel with other software companies that have greater financial and other resources than we do. Our future success will depend in large part on our ability to attract, retain and motivate highly qualified personnel, and there can be no assurance that we will be able to do so. Any difficulty in hiring needed personnel could have a material adverse effect on our business, financial condition and results of operations.

We rely on internally developed software and systems as well as third-party products, any of which may contain errors and bugs.

Our software may contain undetected errors, defects or bugs. Although we have not suffered significant harm from any errors or defects to date, we may discover significant errors or defects in the future that we may or may not be able to correct. Our products involve integration with products and systems developed by third parties. Complex software programs of third parties may contain undetected errors or bugs when they are first introduced or as new versions are released. There can be no assurance that errors will not be found in our existing or future products or third-party products upon which our products are dependent, with the possible result of delays in or loss of market acceptance of our products, diversion of our resources, injury to our reputation and increased service and warranty expenses and/or payment of damages.

We could be sued for contract or product liability claims and lawsuits may disrupt our business, divert management s attention or have an adverse effect on our financial results.

Failures in a client s system could result in an increase in service and warranty costs or a claim for substantial damages against us. There can be no assurance that the limitations of liability set forth in our contracts would be enforceable or would otherwise protect us from liability for damages. We maintain general liability insurance coverage, including coverage for errors and omissions in excess of the applicable deductible amount. There can be no assurance that this coverage will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceeds available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and results of operations. Furthermore, litigation, regardless of its outcome, could result in substantial cost to us and divert management s attention from our operations. Any contract liability claim or litigation against us could, therefore, have a material adverse effect on our business, financial condition and results of operations. In addition, because many of our projects are business-critical projects for financial institutions, a failure or inability to meet a client s expectations could seriously damage our reputation and affect our ability to attract new business.

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

The financial services industry is subject to extensive and complex federal and state regulation. Financial institutions, including banks, thrifts and credit unions, operate under high levels of governmental supervision. Our clients must ensure that our products and services work within the extensive and evolving regulatory requirements applicable to them, including those under federal and state truth-in-lending and truth-in-deposit rules, usury laws, the Equal Credit Opportunity Act, the Fair Housing Act, the Electronic Fund Transfer Act, the Fair Credit Reporting Act, the Bank Secrecy Act, the Community Reinvestment Act, the Gramm-Leach-Bliley Act of 1999, the USA Patriot Act and other state and local laws and regulations. The compliance of our products and services with these requirements may depend on a variety of factors, including the product at issue and whether the client is a bank, thrift, credit union or other type of financial institution.

Neither federal depository institution regulators nor other federal or state regulators of financial services require us to obtain any licenses. We are subject to examination by federal depository institution regulators under the Bank Service Company Act and the Examination Parity and Year 2000 Readiness for Financial Institutions Act. 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 clients 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. Adoption of these laws, rules or regulations could render our business or operations more costly and burdensome or less efficient and could require us to modify our current or future products or services.

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

We rely on a combination of copyright, trademark and trade secret laws, as well as licensing agreements, third-party nondisclosure agreements and other contractual provisions and technical measures to protect our intellectual property rights. There can be no assurance that these protections will be adequate to prevent our competitors from copying or reverse-engineering our products, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. To protect our trade secrets and other proprietary information, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure you that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. We do not include in our products any mechanism to prevent unauthorized copying and any such unauthorized copying could have a material adverse effect on our business, financial condition and results of operations. We have no patents, and existing copyright laws afford only limited protection for our intellectual property rights and may not protect such rights in the event competitors independently develop products similar to ours. In addition, the laws of certain countries in which our products are or may be licensed do not protect our products and intellectual property rights to the same extent as the laws of the United States.

If we are found to infringe the proprietary rights of others, we could be required to redesign our products, pay royalties or enter into license agreements with third parties.

Although we have never been the subject of a material intellectual property dispute, there can be no assurance that a third party will not assert that our technology violates its intellectual property rights in the future. As the number of software products in our target market increases and the functionality of these products further overlap, we believe that software developers may become increasingly subject to infringement claims. Any claims, whether with or without merit, could:

- be expensive and time consuming to defend,
- cause us to cease making, licensing or using products that incorporate the challenged intellectual property,
- require us to redesign our products, if feasible,
- divert management s attention and resources, and
- require us to enter into royalty or licensing agreements in order to obtain the right to use necessary technologies.

There can be no assurance that third parties will not assert infringement claims against us in the future with respect to our current or future products or that any such assertion will not require us to enter into royalty arrangements (if available) or litigation that could be costly to us.

We have entered into and may continue to enter into or seek to enter into business combinations and acquisitions which may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

Since 2000, we have acquired several businesses. As part of our business strategy, we may enter into additional business combinations and acquisitions in the future. We have limited experience in making acquisitions. In addition, acquisitions are typically accompanied by a number of risks, including:

- the difficulty of integrating the operations and personnel of the acquired companies,
- the maintenance of acceptable standards, controls, procedures and policies,
- the potential disruption of our ongoing business and distraction of management,
- the impairment of relationships with employees and clients as a result of any integration of new management and other personnel,
- the inability to maintain relationships with clients of the acquired business,
- the difficulty of incorporating acquired technology and rights into our products and services,
- the failure to achieve the expected benefits of the combination or acquisition,
- expenses related to the acquisition,
- potential unknown liabilities associated with acquired businesses, and
- unanticipated expenses related to acquired technology and its integration into existing technology.

If we are not successful in completing acquisitions that we may pursue in the future, we would be required to reevaluate our growth strategy and we may have incurred substantial expenses and devoted significant management time and resources in seeking to complete the acquisitions. In addition, with future acquisitions, we could use substantial portions of our available cash as all or a portion of the purchase price. We could also issue additional securities as consideration for these acquisitions, which could cause our stockholders to suffer significant dilution. Any future acquisitions may not generate additional revenue for us.

If we fail to effectively manage our growth, our financial results could be adversely affected.

We have expanded our operations rapidly in recent years. For example, our aggregate revenues increased from approximately $27.3 million in 2001 to approximately $44.3 million in 2002 and approximately $63.9 million in 2003. As of March 31, 2004, we had 413 employees, up from 278 as of December 31, 2002. In addition, we continue to explore ways to extend our target markets, including to larger financial institutions, international clients, and clients in the payroll services, insurance and brokerage industries. Our growth may place a strain on our management systems, information systems and resources. Our ability to successfully offer products and services and implement our business plan requires adequate information systems and resources and oversight from our senior management. We will need to continue to improve our financial and managerial controls, reporting systems and procedures as we continue to grow and expand our business. As we grow, we must also continue to hire, train, supervise and manage new employees. We may not be able to hire, train, supervise and manage sufficient personnel or develop management and operating systems to manage our expansion effectively. If we are unable to manage our growth, our operations and financial results could be adversely affected.

The requirements of being a public company may strain our resources and distract management.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934 and the Sarbanes-Oxley Act of 2002. These requirements may place a strain on our systems and resources. The Securities Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls for financial

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reporting. We currently do not have an internal audit group. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight will be required. As a result, management s attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and we cannot assure you that we will be able to do so in a timely fashion.

The design of other core vendors software or their use of financial incentives may make it more difficult for clients to use our complementary products.

Currently, some core software vendors design their software so that it is difficult or infeasible to use third-party complementary products, including ours. Some core software vendors use financial incentives to encourage their core software clients to purchase their proprietary complementary products. For example, in the past a core software vendor has charged disproportionately high fees to integrate third-party complementary products such as ours, thereby providing a financial incentive for clients of that vendor s core software to use its complementary products. We have responded to this practice by emphasizing to prospective clients the features and functionality of our products, lowering our price or offering to perform the relevant integration services ourselves. We cannot assure you that these competitors, or other vendors of core software, will not begin or continue to construct technical, or implement financial, obstacles to the purchase of our products. These obstacles could make it more difficult for us to sell our complementary products and could have a material adverse effect on our business and results of operations.

Operational failures in our outsourcing centers could cause us to lose clients.

Damage or destruction that interrupts our provision of outsourcing services could damage our relationship with our clients and may cause us to incur substantial additional expense to repair or replace damaged equipment. Although we have installed back-up systems and procedures to prevent or reduce disruption, we cannot assure you that we will not suffer a prolonged interruption of our data processing services. In the event that an interruption of our network extends for more than several hours, we may experience data loss or a reduction in revenues by reason of such interruption. In addition, a significant interruption of service could have a negative impact on our reputation and could lead our present and potential clients to choose service providers other than us.

Unauthorized disclosure of data, whether through breach of our computer systems or otherwise, could expose us to protracted and costly litigation or cause us to lose clients.

In our outsourcing centers, we collect and store sensitive data, including names, addresses, social security numbers, checking and savings account numbers and payment history records, such as account closures and returned checks. If a person penetrates our network security or otherwise misappropriates sensitive data, we could be subject to liability or our business could be interrupted. Penetration of the network security of our outsourcing centers could have a negative impact on our reputation and could lead our present and potential clients to choose service providers other than us.

We may need additional capital in the future, which may not be available to us, and if we raise additional capital, it may dilute your ownership in us.

We may need to raise additional funds through public or private debt or equity financings in order to meet various objectives, such as:

- taking advantage of growth opportunities, including more rapid expansion,
- acquiring businesses and products,
- making capital improvements to increase our servicing capacity,
- developing new services or products, and
- responding to competitive pressures.

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In addition, we may need additional financing if we decide to undertake new sales and/or marketing initiatives, if we are required to defend or enforce our intellectual property rights, or if sales of our products do not meet our expectations.

Any debt incurred by us could impair our ability to obtain additional financing for working capital, capital expenditures or further acquisitions. Covenants governing any indebtedness we incur would likely restrict our ability to take specific actions, including our ability to pay dividends or distributions on, or redeem or repurchase, our capital stock, enter into transactions with affiliates, merge, consolidate or sell our assets or make capital expenditure investments. In addition, the use of a substantial portion of the cash generated by our operations to cover debt service obligations and any security interests we grant on our assets could limit our financial and business flexibility.

Any additional capital raised through the sale of equity or convertible debt securities may dilute your ownership percentage in us. Furthermore, any additional debt or equity financing we may need may not be available on terms favorable to us, or at all. If future financing is not available or is not available on acceptable terms, we may not be able to raise additional capital, which could significantly limit our ability to implement our business plan. In addition, we may have to issue securities, including debt securities, that may have rights, preferences and privileges senior to our common stock.

Risks Relating to this Offering

The price of our common stock may be volatile.

In the past three years, technology stocks listed on the Nasdaq National Market have experienced high levels of volatility and significant declines in value from their historic highs. The trading price of our common stock following this offering may fluctuate substantially. The price of the common stock that will prevail in the market after this offering may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be related to our operating performance. The fluctuations could cause you to lose part or all of your investment in our shares of common stock. The factors that could cause fluctuations in the trading price of our common stock include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time,
- significant volatility in the market price and trading volume of financial services companies,
- actual or anticipated changes in our earnings or fluctuations in our operating results or in the expectations of securities analysts,
- general economic conditions and trends,
- major catastrophic events,
- loss of a significant client or clients,
- sales of large blocks of our stock, or
- departures of key personnel.

In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may therefore be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management s attention and resources from our business.

If a substantial number of shares of our common stock become available for sale and are sold in a short period of time, the market price of our common stock could decline significantly.

If our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could decrease significantly. The perception in the public market that our stockholders might sell shares of common stock could also depress the market price of our common stock. On May 24, 2004, 2,683,111 shares of our common stock will become eligible for sale in the public market upon expiration of lock-up agreements entered into in connection with our initial public offering. Some of our stockholders (including some of those who entered into agreements in connection with our initial public

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offering) will enter into lock-up agreements in connection with this offering. After all of the agreements entered into in connection with this offering expire (which will occur 90 days after the date of the final prospectus for this offering), an additional 1,417,331 shares of our common stock will be eligible for sale in the public market. In addition, as of March 31, 2004, we had options to purchase a total of 3,248,078 shares of our common stock outstanding under our 1994 Stock Incentive Plan, 2000 Stock Incentive Plan and 2003 Stock Incentive Plan, of which 1,562,370 were vested. We have filed Form S-8 registration statements to register all of the shares of our common stock issuable under these plans. The market price of shares of our common stock may drop significantly when the restrictions on resale by our existing stockholders lapse and our stockholders are able to sell shares of our common stock into the market. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities, and may cause you to lose part or all of your investment in our shares of common stock.

If you purchase shares of common stock sold in this offering, you will experience immediate dilution.

If you purchase shares of common stock in this offering, you will experience immediate dilution of $17.17 per share, because the price that you pay will be substantially greater than the net tangible book value per share of common stock that you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the price of the shares being sold in this offering when they purchased their shares of our capital stock. You will experience additional dilution upon the exercise of stock options to purchase common stock and the issuance of restricted stock to our employees under our equity incentive plans.

We have broad discretion in the use of the proceeds of this offering.

The net proceeds from this offering will be used, as determined by management in its sole discretion, for working capital and general corporate purposes, as well as for the possible acquisition of additional businesses and technologies that are complementary to our current or future business. However, we have not determined the specific allocation of the net proceeds among the various uses described in this prospectus. Our management will have broad discretion over the use and investment of the net proceeds of this offering, and, accordingly, investors in this offering will need to rely upon the judgment of our management with respect to the use of proceeds, with only limited information concerning management s specific intentions.

Insiders will continue to have substantial control over us after this offering and could limit your ability to influence the outcome of key transactions, including a change of control.

Our principal stockholders, directors and executive officers, and entities affiliated with them, beneficially own approximately 41.7% of the outstanding shares of our common stock as of March 15, 2004, and will beneficially own approximately 24.8% of the outstanding shares of our common stock after this offering. Accordingly, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

Some provisions in our certificate of incorporation and by-laws may deter third parties from acquiring us.

Our restated certificate of incorporation and our amended and restated by-laws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors, including the following:

our board of directors is classified into three classes, each of which serves for a staggered three year term,

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- only our board of directors, the chairman of our board of directors or our president may call special meetings of our stockholders,

- our stockholders may take action only at a meeting of our stockholders and not by written consent,

- we have authorized undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval,

- our stockholders have only limited rights to amend our by-laws, and

- we require advance notice requirements for stockholder proposals.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions you desire.

Section 203 of the Delaware General Corporation Law may delay, defer or prevent a change in control that our stockholders might consider to be in their best interest.

We are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits business combinations between a publicly-held Delaware corporation and an interested stockholder, which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation s voting stock for a three-year period following the date that such stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control of our company that our stockholders might consider to be in their best interests.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business contains forward-looking statements. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forwards-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, should, expects, plans, intends, predicts, anticipates, believes, estimates, potential, continue or the negative of such terms or other compa terminology. These statements are only predictions. You should not place undue reliance on these forward-looking statements. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various important factors, including the risks outlined under Risk Factors. These factors may cause our actual results to differ materially from any forward-looking statement.

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. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the 1,000,000 shares of common stock that we are offering hereby will be approximately $21.5 million after deducting underwriting discounts and commissions and estimated offering expenses, assuming an offering price of $23.15, based on the last reported sale price of our common stock on the Nasdaq National Market on April 21, 2004. We will not receive any of the proceeds of the sale of shares of common stock by the selling stockholders.

We currently intend to use the estimated net proceeds from this offering for working capital and general corporate purposes, including marketing of our outsourcing services, selling our products and services to larger financial institutions and potential acquisitions of businesses, products or technologies that are complementary to our own. Currently, we have no specific plans or commitments with respect to any acquisition. We cannot assure you that we will complete any acquisitions or that, if completed, any acquisition will be successful.

We have not yet identified the amounts we plan to spend on each of these areas or the timing of expenditures. We will retain broad discretion in the allocation and use of the net proceeds of this offering. Pending application of the net proceeds, as described above, we will invest any remaining proceeds in short-term, investment-grade, interest-bearing securities.

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PRICE RANGE OF COMMON STOCK

Since November 26, 2003, our common stock has traded on the Nasdaq National Market under the symbol OPEN. The following table sets forth the high and low sales prices of our common stock, as reported on the Nasdaq National Market, for each of the periods listed.

	High	Low
Fiscal 2003		
Fourth Quarter (commencing November 26, 2003)	$19.78	$15.65
Fiscal 2004		
First Quarter	26.07	17.40
Second Quarter (through April 21, 2004)	24.78	21.75

The last reported sale price of our common stock on the Nasdaq National Market on April 21, 2004 was $23.15 per share. As of March 31, 2004, we had approximately 93 holders of record of our common stock.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock and we do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to fund the expansion and growth of our business. Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion.

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CAPITALIZATION

The following table sets forth the capitalization as of December 31, 2003 on:

- an actual basis, and
- an as adjusted basis to give effect to the sale of 1,000,000 shares of our common stock in this offering and the deduction of the estimated underwriting discounts and commissions and our offering expenses, assuming an offering price of $23.15, based on the last reported sale price of our common stock on the Nasdaq National Market on April 21, 2004.

The table does not reflect:

- the exercise by the underwriters of their over-allotment option granted by us to purchase additional shares of our common stock in this offering,
- 3,248,078 shares of common stock issuable upon exercise of outstanding stock options as of March 31, 2004 at a weighted average exercise price of $8.74 per share, of which options to purchase 1,562,370 shares are exercisable, and
- 5,249,230 additional shares of common stock reserved for issuance under our 1994 Stock Incentive Plan, 2000 Stock Incentive Plan, 2003 Stock Incentive Plan and 2003 Employee Stock Purchase Plan.

You should read the following table together with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes, which are included elsewhere in this prospectus.

	December 31, 2003	
	Actual	As Adjusted
	(in thousands)	
Stockholders equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, no shares issued and outstanding on an actual and as adjusted basis		
Common stock, $0.01 par value; 95,000,000 shares authorized, 16,786,329 shares issued and outstanding on an actual basis, 17,786,329 shares issued and outstanding on an as adjusted basis	168	178
Additional paid-in capital	152,274	173,757
Accumulated other comprehensive loss	(28)	(28)
Accumulated deficit	(46,995)	(46,995)
Total stockholders equity	105,419	126,912
Total capitalization	105,419	126,912

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DILUTION

As of December 31, 2003, our net tangible book value was $84,887,000, or $5.06 per share of common stock. After giving effect to the sale of our common stock in this offering, and after deducting the estimated underwriting discounts and commissions and offering expenses, our as adjusted net tangible book value as of December 31, 2003, would have been $106,379,500, or $5.98 per share of common stock. This represents an immediate increase in such net tangible book value of $0.92 per share to existing stockholders and an immediate dilution of $17.17 per share to new investors participating in this offering. The following table illustrates the per share dilution:

Assumed public offering price per share (based on the last reported sale price of our common stock on the Nasdaq National Market on April 21, 2004)		$23.15
Historical net tangible book value per share as of December 31, 2003	$5.06	
Increase per share attributable to new investors	0.92	
As adjusted net tangible book value per share after this offering		$ 5.98
Dilution per share to new investors participating in this offering		$17.17

The following table summarizes, on an as adjusted basis as of December 31, 2003, the differences between the total cash consideration paid and the average price per share paid by existing stockholders and new investors with respect to the number of shares of our common stock purchased from us.

	Shares purchased		Total consideration		Average price per share
	Number	Percent	Amount	Percent	
Existing stockholders	16,786,329	94.4%	$155,823,436	87.1%	$ 9.28
New investors	1,000,000	5.6	23,150,000	12.9	23.15
Total	17,786,329	100%	178,973,436	100%	10.06

The foregoing discussion and tables assume no exercise of any stock options and no issuance of shares reserved for future issuance under our stock incentive plans. As of December 31, 2003, there were 16,786,329 shares of common stock outstanding, which excludes:

- 2,910,292 shares of common stock issuable upon exercise of outstanding stock options as of December 31, 2003 at a weighted average exercise price of $5.32 per share, and

- 5,894,927 additional shares of common stock reserved for issuance under our 1994 Stock Incentive Plan, 2000 Stock Incentive Plan, 2003 Stock Incentive Plan and 2003 Employee Stock Purchase Plan.

To the extent stock options are exercised and the underlying shares of common stock are issued, there will be further dilution to new investors. In addition, we may grant additional stock options or issue other equity securities in the future that may be dilutive to investors in this offering.

Assuming the exercise in full of the underwriters option to purchase 650,907 shares of common stock to cover over-allotments, our as adjusted net tangible book value as of December 31, 2003 would have been $121,447,997, or $6.59 per share. This represents an immediate increase in the net tangible book value of $1.53 per share to existing stockholders and immediate dilution of $16.56 per share to new investors participating in this offering.

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SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except per share data)

The selected financial data set forth below as of December 31, 2002 and 2003 and for the three years ended December 31, 2003 are derived from our financial statements, which appear elsewhere in this prospectus and which have been audited by PricewaterhouseCoopers LLP, independent accountants. The selected financial data set forth below as of December 31, 1999, 2000 and 2001 and for the two years ended December 31, 2000 are derived from our audited financial statements which are not included in this prospectus. Since June 2000, we have acquired six businesses, as more fully described in Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto included elsewhere in this prospectus. These acquisitions have significantly affected our revenues, results of operations and financial condition. The operating results of each business acquired have been, or in the case of the acquisition of Maxxar Corporation, will be included in our financial statements from the respective dates of acquisition.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements, including the notes thereto, included elsewhere in this prospectus.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
Statement of Operations Data:					
Revenues:					
Software license	$ 5,347	$ 8,595	$ 9,971	$13,449	$ 21,391
Service, maintenance and hardware	8,705	11,625	17,295	30,896	42,461
Total revenues	14,052	20,220	27,266	44,345	63,852
Cost of revenues:					
Software license	1,566	2,165	1,592	3,152	5,341
Service, maintenance and hardware	6,261	7,229	10,084	18,430	23,540
Total cost of revenues	7,827	9,394	11,676	21,582	28,881
Operating expenses (includes restricted stock expense and related taxes of $3,444 for the year ended December 31, 2003)	11,260	26,152	25,929	25,773	33,471
Income (loss) from operations	(5,035)	(15,326)	(10,339)	(3,010)	1,500
Interest and other income, net	320	661	428	145	43
Income (loss) before income taxes	(4,715)	(14,665)	(9,911)	(2,865)	1,543
Income tax benefit (provision)			250	(32)	(234)
Net income (loss)	$ (4,715)	$(14,665)	$ (9,661)	$ (2,897)	1,309
Preferred stock accretion charge(1)					(31,500)
Net loss attributable to common stockholders	$ (4,715)	$(14,665)	$ (9,661)	$ (2,897)	$(30,191)
Net income (loss) per common share					
Basic	$ (2.92)	$ (7.42)	$ (4.71)	$ (1.18)	$ (7.74)
Diluted	(2.92)	(7.42)	(4.71)	(1.18)	$ (7.74)

Weighted average common shares used to compute net income (loss) per common share					
Basic	1,616	1,977	2,051	2,453	3,903
Diluted	1,616	1,977	2,051	2,453	3,903

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	December 31,				
	1999	2000	2001	2002	2003
Balance Sheet Data:					
Cash and cash equivalents	$ 5,225	$ 8,522	$ 11,552	$ 11,414	$ 84,953
Working capital	3,008	5,051	3,261	1,486	73,084
Total assets	10,027	20,905	33,745	35,839	133,071
Long-term debt, current portion			748	750	
Long-term debt, less current portion				700	
Mandatorily Redeemable Convertible Preferred Stock		20,084	31,100	31,100	
Redeemable Convertible Preferred Stock	24,740	24,744	26,480	26,480	
Stockholders equity (deficit)	(19,204)	(33,751)	(40,699)	(43,261)	105,419

(1) The conversion formula for our Series F preferred stock provided for adjustment of the Series F preferred stock conversion price in the event that our initial public offering price was less than $27.03 per share. Holders of Series F preferred stock received shares of common stock from the initial public offering with an aggregate value of $62,600,000. The recorded value of Series F preferred stock was $31,100,000 and as a result, upon the closing of our initial public offering, we recorded an accretion charge of $31,500,000 in stockholders equity (deficit). This accretion charge resulted in a non-cash deduction from income attributable to holders of common stock and a deduction in related earnings per share.

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with, and are derived from, our consolidated financial statements and related notes appearing elsewhere in this prospectus. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management s expectations. Important factors that could cause these differences include those described in Risk Factors and elsewhere in this prospectus.

We use the terms Open Solutions, we, us and our to refer to the business of Open Solutions Inc. and our subsidiaries. All references to years, unless otherwise noted, refer to our fiscal years, which end on December 31.

Overview

We are a provider of software and services that allow financial institutions to compete and service their customers more effectively. We develop, market, license and support an enterprise-wide suite of software and services that perform a financial institution s data processing and information management functions, including account, transaction, lending, operations, back office, client information and reporting. Our complementary products and services supplement our core software to provide our clients with fully-integrated business intelligence, customer relationship management, or CRM, check imaging, Internet banking and cash management, general ledger and profitability, loan origination, interactive voice solutions and check and item processing functions. Our software can be operated either by the financial institution itself, on an outsourced basis in one of our outsourcing centers or through an outsourcing center hosted by one of our resellers. Substantially all of our historical revenue has been generated through the licensing of our core software and our complementary products and the provision of related services and maintenance to small and mid-size commercial banks and thrifts and credit unions of all sizes.

We derive revenues from two primary sources:

- sales of licenses for our core software and complementary products, and
- fees from installation, training, maintenance and support services, as well as fees generated from our outsourcing centers and the outsourcing centers hosted by our resellers.

Our revenues have grown from approximately $14.1 million in 1999 to approximately $63.9 million in 2003. This growth has resulted primarily from internal expansion supplemented by strategic acquisitions, through which we have developed and acquired new products and services and have expanded the number of clients using one or more of our products to approximately 1,300 financial institutions as of December 31, 2003.

Software license revenue includes fees received from the licensing of application software. We license our proprietary software products under standard agreements which typically provide our clients with a perpetual non-exclusive, non-transferable right to use the software for a single financial institution upon payment of a license fee.

We generate service and maintenance fees by converting clients to our core software suite, installing our software, assisting our clients in operating the applications, modifying and updating the software and providing outsourcing services. Our software license agreements typically provide for five years of support and maintenance. We perform outsourcing services through our two outsourcing centers and our check and item processing centers. Revenues from outsourcing center services and the check and item processing centers are derived from monthly usage fees, typically under three to five-year service contracts with our clients.

We derive other revenues from hardware sales and client reimbursement of out-of-pocket costs. We have entered into agreements with several hardware manufacturers under which we sell computer hardware and related services, primarily to our check imaging clients. Client reimbursements represent direct costs paid to third parties primarily for data communication, postage and travel.

We expect that our revenues from installation, training, maintenance, support services, our outsourcing centers and the outsourcing centers hosted by our resellers will continue to expand as our base of clients expands. Our maintenance revenues are the largest of these revenue components, and we expect that these revenues, due to their recurring nature, will continue to be a significant portion of our total revenue as our client base grows.

We anticipate that the revenue from outsourcing centers hosted by our resellers will comprise a greater proportion of total revenues in future periods due to the expansion of our relationship with BISYS, Inc. Pursuant to our agreement with BISYS signed on September 30, 2003, BISYS has agreed to pay us aggregate minimum license fees of approximately $27.7 million through June 2006, including $7.2 million in fiscal year 2004. BISYS is obligated to pay us these license fees in quarterly installments.

In November 2000, Enserv, Inc., a small consulting firm, filed a complaint against us, alleging that we breached the terms of a value-added reseller agreement. As of December 31, 2002, we had accrued $50,000 related to this complaint. On October 31, 2003, we and Enserv settled this litigation. Pursuant to the settlement, which includes mutual releases of the parties: (1) we made a payment to Enserv in the amount of $233,333; and (2) we and Enserv entered into a consulting agreement whereby Enserv is obligated to provide technical consulting services to us for two years for which Enserv will be paid $133,333 per year. Based on the terms of this agreement, we have recorded a settlement expense of $183,333 in the third quarter of 2003, and we are expensing the remaining $266,666 consulting fees ratably during the twenty-four month contract term. We have the right to cancel the consulting agreement if Enserv does not perform under the terms of the agreement.

In May 2003, we issued an aggregate of 680,530 shares of common stock to 19 of our employees under our 2000 Stock Incentive Plan. The shares of common stock issued to each of these individuals vested at the end of seven years or vest immediately upon a change in control or initial public offerings. Prior to the closing of our initial public offering, we were recording a charge each quarter of approximately $117,000 based on amortization over seven years. This charge was accelerated on the completion of our initial public offering, resulting in a non-cash charge to our statement of operations in the fourth quarter of 2003 of approximately $3.0 million for the unamortized balance of deferred compensation. We also recorded employer tax expense of approximately $168,000 related to the restricted stock in the fourth quarter of 2003.

In the second, third and fourth quarters of 2003, certain grants of stock options were made at exercise prices less than the fair market value of our common stock and, as a result, we recorded approximately $49,000, $98,000 and $99,000 of stock compensation expense, respectively. We will continue recording a charge each quarter of $101,000 based on amortization over the four-year vesting period of these stock options.

The conversion formula for our Series F preferred stock provided for adjustment of the Series F preferred stock conversion price in the event that our initial public offering price was less than $27.03 per share. Upon the closing of our initial public offering in December 2003, the holders of Series F preferred stock received shares of common stock with an aggregate value of approximately $62,600,000. The recorded value of the Series F preferred stock was $31,100,000 and as a result, on the closing of our initial public offering, we recorded an accretion charge of $31,500,000 in stockholders equity (deficit). This accretion charge resulted in a non-cash deduction from income attributable to holders of our common stock and a deduction in related earnings per share.

Application of Critical Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require that management make numerous estimates and assumptions. Actual results could differ from those estimates and assumptions, impacting our reported results of operations and financial position. Our significant accounting policies are more fully described in Note 2 to our consolidated financial statements included elsewhere in this prospectus. The critical accounting policies described below are those that are most important to the depiction of our financial condition and

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results of operations and their application requires management s most subjective judgment in making estimates about the effect of matters that are inherently uncertain.

Revenue Recognition

We generate revenues from licensing the rights to use our software products and certain third-party software products to clients. We also generate revenues from installation, training, maintenance and support services provided to clients, and from outsourcing center services and hardware sales related to our check imaging business.

We recognize revenue in accordance with AICPA Statement of Position 97-2, Software Revenue Recognition. Under SOP 97-2, we recognize software license revenue when a noncancelable license agreement has been executed, fees are fixed and determinable, the software has been delivered, accepted by the client if acceptance is required by the contract and other than perfunctory, and collection is considered probable. The software licenses are sold in conjunction with professional services for installation, training, maintenance and support. For these arrangements, a portion of the total contract value is attributed first to the maintenance arrangement based on its fair value, which is derived from renewal rates. Another portion of the contract value is then attributed to installation and training services based on estimated fair value, which is derived from rates charged for similar services provided on a stand-alone basis multiplied by estimated hours to complete. Our software license agreements generally do not require significant modification or customization of the underlying software, and accordingly, installation and training services are not considered essential to functionality. The remainder of the total contract value is then attributed to the software licenses based on the residual method described in SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions. The estimated hours and hourly rate for installation and training services affect the timing and amount of revenue recognized from license fees and installation and training services. Due to the uncertainties inherent in the estimation process, actual hours to complete installation and training services or the estimated hourly rate of these services may differ from estimates. If customization of our software is required, we recognize revenue using the percentage-of-completion method. The complexity of some software license agreements requires us to routinely apply judgments regarding the application of software recognition accounting principles to specific agreements and transactions.

Revenues from software maintenance are typically generated under five-year agreements and are recognized ratably over the life of the agreements. Revenues from installation and training services are recognized as services are performed. We calculate revenue recognition for installation and training services based on the ratio of hours incurred to estimated total hours for the project. Accordingly, we must estimate the hours to complete the installation and training, and it is possible that estimates may be revised. These revisions are recognized in the period in which the revisions are determined, and changes in these estimates could have a material effect on our financial statements.

Deferred revenue is comprised of payments received related to product delivery, maintenance and other services, which have been paid by customers prior to the recognition of revenue. Deferred revenue relates primarily to cash received for maintenance contracts in advance of services performed, which is recognized as revenue ratably as services are performed. Deferred costs are comprised of costs incurred prior to the recognition of related revenue.

Data center revenues associated with allowing customers to utilize our software products on an outsourced basis are recognized in accordance with Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. Revenues associated with installation of data center arrangements are recognized as services are performed, and revenues from data center services are recognized over the term of the arrangement, typically three to five years. The total contract value is allocated based on the relative fair value of the installation and data center services.

We are receiving payments under certain license and marketing agreements with resellers. We have provided a master license to our two primary resellers BISYS, Inc. and Connecticut On-Line Computer Center, Inc., or COCC, and do not have any other continuing obligation to provide additional products or services, other than the provision of client support and maintenance. We recognize revenue when the revenue recognition criteria under SOP No. 97-2 are met, including when evidence of an arrangement exists, fees are fixed and determinable, collectibility is reasonably assured, and delivery has occurred.

We recognize hardware revenue related to our check imaging products on a percentage-of-completion basis because installation services related to these arrangements and the software related to these arrangements are considered essential to the functionality of certain of the hardware.

Percentage-of-completion for services related to our check imaging product arrangements is measured by the total hours incurred to date for each contract compared to the estimated total hours to complete that contract. We record provisions for estimated losses on contracts in the period in which such losses become known. Changes in estimates of sales, costs, and profits are recognized in the period which they are determined using the cumulative catch-up method of accounting. If the software is not essential to the functionality of the hardware, we recognize hardware revenue upon delivery.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. The amount of our reserve is based on historical experience and our analysis of the accounts receivable balance outstanding. If the financial condition of our clients were to deteriorate, resulting in their inability to make payments, additional allowances may be required which would result in an additional expense in the period that this determination was made. While credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Stock Compensation

We apply the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations and comply with the disclosure provisions of statement of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure. Under APB 25, compensation expense is recognized over the vesting period to the extent that the fair market value of the underlying stock on the date of grant exceeds the exercise price of the employee stock option. The calculation of the intrinsic value of a stock award is based on management s estimate of the fair value of our common stock. Changes in this estimate could have a material impact on stock compensation expense in our financial statements.

Software Development Costs

Software development costs for new software products and additional modules for existing software are expensed as incurred until technological feasibility is established, in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed. Technological feasibility is established when a working model of the product has been completed and completeness of the working model and its consistency with the product design has been confirmed by testing. Internal software development costs qualifying for capitalization under SFAS No. 86 have not been significant.

Accounting for Purchase Business Combinations

All of our acquisitions were accounted for as purchase transactions, and the purchase price was allocated to the assets acquired and liabilities assumed based on the fair value of the acquired company s then-current assets, purchased technology, property and equipment and liabilities. The excess of the purchase price over the fair value of net assets acquired or net liabilities assumed has been allocated to goodwill. The fair value of amortizable intangibles, primarily consisting of purchased technology, was determined using an estimate of discounted future cash flows related to the technology. Actual future cash flows from purchased technology could differ from estimated future cash flows. The allocation between amortizable intangibles and goodwill impacts future amortization expense in the financial statements.

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We amortize intangibles over their estimated economic lives. While we believe it is unlikely that any significant changes to the useful lives of our tangible and intangible assets will occur in the near term, rapid changes in technology or changes in market conditions could result in revisions to such estimates that could materially affect the carrying value of these assets and our future operating results.

Long-Lived Assets, Intangible Assets and Goodwill

We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results,

- significant changes in the manner of our use of the acquired assets or the strategy for our overall business, and

- significant negative industry or economic trends.

We also perform an annual impairment test of goodwill in accordance with SFAS No. 142, Goodwill and Intangible Assets. We assess potential impairment based on a number of factors including past operating results, budgets, economic projections, market trends, product development cycles, and estimated future cash flows. Changes in these assumptions and estimates could cause a material impact on our financial statements.

Acquisitions

Since June 2000, we have expanded our product offerings and client base through the acquisition of six businesses. The operating results of each business acquired have been, or in the case of the acquisition of Maxxar Corporation, will be included in our financial statements from the respective dates of acquisition.

On June 16, 2000, we purchased certain assets and liabilities of Global Payment Systems LLC for a purchase price of $836,000, consisting of $635,000 in cash and 21,460 shares of our Series F preferred stock. This acquisition was recorded under the purchase method with the total consideration allocated to the fair value of the assets acquired, including purchased technology of $1.0 million. This acquisition provided us with a web-based cash management system and other products and clients.

On August 3, 2001, we acquired Sound Software Development, Inc. for a purchase price of $3.0 million, consisting of $1.7 million in cash, 80,472 shares of our Series G preferred stock and 55,496 shares of our common stock. In conjunction with this acquisition, we incurred $113,000 of acquisition related costs. This acquisition was recorded under the purchase method with the total consideration allocated to the fair value of the assets acquired, including purchased technology of $832,000, goodwill of $1.6 million and other intangibles of $196,000. Additionally, we recorded a charge of $447,000 related to in-process research and development. This acquisition expanded our complementary product offering to include loan origination software and expanded our client base.

On December 14, 2001, we acquired Imagic Corporation for a purchase price of $4.2 million, consisting of $1.8 million in cash and 314,486 shares of our common stock. Our assumed liabilities included a note payable of $748,000 that was subsequently paid in full in January 2002. In conjunction with this acquisition, we incurred $120,000 of acquisition related costs. This acquisition was recorded under the purchase method with the total consideration allocated to the fair value of the assets acquired, including purchased technology of $1.9 million, goodwill of $4.0 million and other intangibles of $80,000. This acquisition expanded our complementary product offering to include check imaging software and services and expanded our client base.

During 2002, we acquired business operations from HNC Financial Solutions, Inc. On March 29, 2002, we acquired certain intellectual property rights of HNC Financial Solutions, Inc. and assumed the related future software maintenance and support obligations in exchange for a $500,000 promissory note. This note was paid in full in December 2003 with the proceeds from our initial public offering. We concurrently

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entered into a license and service agreement with the seller for the HNC Profit Manager software in exchange for $564,000 in cash. In conjunction with this acquisition, we incurred $39,000 of acquisition related costs. This acquisition expanded our complementary product offering to include financial accounting, asset/ liability management and financial planning products, and expanded our client base and product offerings.

On October 31, 2002, we purchased the intellectual property rights that had been licensed in the March 2002 HNC Financial Solutions transaction, plus accounts receivable and related future software maintenance and support obligations for a $950,000 promissory note. This note was paid in December 2003 with the proceeds from our initial public offering. The combined transaction was recorded under the purchase method with the purchase price allocated to the fair value of the assets acquired, including purchased technology of $1.2 million and goodwill of $772,000. This acquisition expanded our financial product offering to include profitability analysis.

On July 1, 2003, we acquired substantially all of the assets of Liberty FiTech Systems, Inc. and assumed certain liabilities and the related future software maintenance and support obligations for consideration of $11.7 million, consisting of $8.0 million in cash, a $1.9 million promissory note and 133,195 shares of our common stock. The 133,195 shares of common stock issued to Liberty FiTech Systems, Inc. were subject to a put and call agreement, in which Liberty FiTech Systems, Inc. had the right to require us to purchase the shares at a price of $13.51 per share, and we had the right to require Liberty FiTech Systems, Inc. to sell these shares to us at a price of $13.51 per share. On September 3, 2003, FS Acquisition, Inc., the successor-in-interest to Liberty FiTech Systems, Inc., exercised its put right pursuant to this put and call agreement with respect to these shares. On December 2, 2003, we purchased these 133,195 shares at a price of $13.51 per share, or an aggregate of approximately $1.8 million. The note was paid in full in December 2003 with the proceeds from our initial public offering. The acquisition was recorded under the purchase method with the total consideration allocated to the fair value of assets acquired, including purchased technology of $530,000, goodwill of $4.8 million and other intangible assets of $6.7 million. We view this acquisition as an opportunity to increase our core data processing client base among credit unions and to increase the recurring revenue component of our revenues.

On February 24, 2004, we acquired Maxxar Corporation for a cash price of $6.5 million. In connection with the acquisition, we incurred approximately $175,000 of acquisition related costs. This acquisition is being recorded under the purchase method with the total consideration allocated to the fair value of assets acquired and goodwill. This acquisition expanded our complementary product offerings to include a comprehensive suite of interactive voice information solutions and computer telephony integration products.

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Results of Operations

	Year Ended December 31,		
	2001	2002	2003
		(in thousands)	
Statement of Operations Data:			
Revenues:			
Software license	$ 9,971	$ 13,449	$ 21,391
Service, maintenance and hardware	17,295	30,896	42,461
Total revenues	27,266	44,345	63,852
Cost of revenues:			
Software license	1,592	3,152	5,341
Service, maintenance and hardware	10,084	18,430	23,540
Total cost of revenues	11,676	21,582	28,881
Operating expenses:			
Sales and marketing	8,771	9,533	10,729
Product development	7,643	6,223	6,854
General and administrative (includes restricted stock expense and related taxes of $3,444 for the year ended December 31, 2003)	9,068	10,017	15,888
In-process research and development	447		
Total operating expenses	25,929	25,773	33,471
Income (loss) from operations	(10,339)	(3,010)	1,500
Interest income and other, net	428	145	43
Net income (loss) before income taxes	(9,911)	(2,865)	1,543
Income tax benefit (provision)	250	(32)	(234)
Net income (loss)	$ (9,661)	$ (2,897)	$ 1,309

	Year Ended December 31,		
	2001	2002	2003
As a Percentage of Revenues:			
Revenues:			
Software license	36.6%	30.3%	33.5%
Service, maintenance and hardware	63.4	69.7	66.5
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Software license	5.8	7.1	8.4
Service, maintenance and hardware	37.0	41.6	36.9
Total cost of revenues	42.8	48.7	45.3
Operating expenses:			
Sales and marketing	32.2	21.5	16.8
Product development	28.0	14.0	10.7

General and administrative	33.3	22.6	24.9
In-process research and development	1.6		
Total operating expenses	95.1	58.1	52.4
Income (loss) from operations	(37.9)	(6.8)	2.3
Interest income and other, net	1.6	0.3	0.1
Net income (loss) before income taxes	(36.3)	(6.5)	2.4
Income tax benefit (provision)	0.9	(0.1)	(0.4)
Net income (loss)	(35.4)	(6.6)	2.0

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. We generate revenues from licensing the rights to use our software products and certain third-party software products to clients. We also generate revenues from installation, training, maintenance and support services provided to clients, from outsourcing center services and from hardware sales related to our check imaging business. Revenues increased 44.0% from $44.3 million for the year ended December 31, 2002 to $63.9 million for the year ended December 31, 2003. This increase was attributable primarily to a $6.9 million increase in licensing revenue from our core and complementary products attributable to sales to new clients, cross sales to existing clients and an increase in license fees from BISYS. There was an increase of $6.9 million in our maintenance revenue, $1.7 million of which is from the Liberty FiTech Systems, Inc. business and $4.4 million in our outsourcing revenues, $2.5 million of which is from the Liberty FiTech Systems, Inc. business. The acquisition of Liberty FiTech Systems, Inc. on July 1, 2003 contributed an additional $2.7 million to revenues consisting primarily of license, service and hardware revenues for the year ended December 31, 2003. We expect that, due to the amendment of our agreement with BISYS, the proportion of revenues generated from our resellers will increase in the future.

Cost of Revenues. Cost of revenues includes third party license fees and the direct expenses associated with providing our services such as systems operations, customer support, installations, professional services and other related expenses. Cost of revenues increased 33.8% from $21.6 million for the year ended December 31, 2002 to $28.9 million for the year ended December 31, 2003. The increase was due primarily to a $2.1 million increase in costs associated with maintenance, $1.1 million of which is from the Liberty FiTech Systems, Inc. business, and a $1.5 million increase in costs associated with the growth of our outsourcing business, $1.2 million of which is from the Liberty FiTech Systems, Inc. business. The Liberty FiTech Systems, Inc. business contributed an additional $2.0 million of license, service and hardware costs. Cost of revenues represented 48.7% of revenues for the year ended December 31, 2002 as opposed to 45.3% of revenues for the year ended December 31, 2003. Cost of revenues as a percentage of revenues decreased primarily because our revenues grew at a faster rate than our costs. In addition, we experienced a decrease in sales of low-margin hardware during the period. We expect that, due to the amendment of our agreement with BISYS, our cost of revenues as a percentage of revenues will continue to decrease, as margins generated by revenues from our resellers have historically been higher than those generated by other sources of revenue.

Operating Expenses

Sales and Marketing. Sales and marketing expenses include salaries and commissions paid to sales and marketing personnel and other costs incurred in marketing our products and services. Sales and marketing expenses increased 12.5% from $9.5 million for the year ended December 31, 2002 to $10.7 million for the year ended December 31, 2003. This increase was due primarily to a incremental $1.0 million increase in sales and marketing expenses from owning the HNC business for a full year and owning Liberty FiTech Systems Inc. for six months in 2003. Sales and marketing expenses represented 21.5% of revenues for the year ended December 31, 2002 as opposed to 16.8% of revenues for the year ended December 31, 2003. Sales and marketing expenses as a percentage of revenues decreased primarily because we did not increase our sales or marketing expenses significantly, but revenues continued to grow. In the event that we acquire product lines or businesses in the future, we would anticipate that, based on the nature and magnitude of those acquisitions, our sales and marketing expenses would increase more significantly as a result of those acquisitions.

Product Development. Product development expenses include salaries of personnel in our product development department, consulting fees and other related expenses. Product development expenses increased 10.1% from $6.2 million for the year ended December 31, 2002 to $6.9 million for the year ended December 31, 2003. This increase was due primarily to a $0.5 million increase in product development expenses from the Liberty FiTech Systems, Inc. business. Product development expenses represented 14.0% of revenues for the year ended December 31, 2002 as opposed to 10.7% of revenues for the year ended December 31, 2003. Product development expenses as a percentage of revenues decreased primarily because our major product lines are largely developed and therefore did not require incremental investment.

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General and Administrative. General and administrative expenses consist of salaries for executive, administrative and financial personnel, consulting expenses and facilities costs such as office leases, insurance and depreciation. General and administrative expenses increased 58.6% from $10.0 million for the year ended December 31, 2002 to $15.9 million for the year ended December 31, 2003. The increase was due primarily to a $3.4 million expense related to the shares of restricted stock issued to certain employees as a result of the initial public offering and $1.2 million of expense from the acquisition of the Liberty FiTech Systems, Inc. business. In addition, there was a $0.5 million increase in accounting and legal fees, due primarily to non-recurring expenses associated with preparing for our initial public offering and settling an outstanding litigation matter. General and administrative expenses represented 22.6% of revenues for the year ended December 31, 2002 as opposed to 24.9% of revenues for the year ended December 31, 2003. General and administrative expenses as a percentage of revenues increased primarily because of the restricted stock expense mentioned above. In the event that we acquire product lines or businesses in the future, we would anticipate that, based on the nature and magnitude of those acquisitions, our general and administrative expenses would increase more significantly as a result of those acquisitions.

Interest Income and Other, net. Interest income and other, net, decreased from $145,000 for the year ended December 31, 2002 to $43,000 for the year ended December 31, 2003. This decrease was due primarily to increased interest payments because of the debt incurred as a result of the acquisitions of Liberty FiTech Systems, Inc. and HNC Financial Solutions, as well as the draw down on our credit facility offset by interest earned on the investment of the proceeds of the initial public offering.

Income Tax Benefit (Provision). Income tax provision increased 631.3% from $32,000 for the year ended December 31, 2002 to $234,000 for the year ended December 31, 2003. The increase was primarily because of increased profitability resulting in higher state tax expense and deferred federal tax expense related to the tax amortization of goodwill from the Liberty FiTech Systems Inc. acquisition.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. Revenues increased 62.6% from $27.3 million for 2001 to $44.3 million for 2002. The increase in revenues was partly a result of a $4.8 million increase in maintenance revenues due to an increase in the size of our client base, as well as a $2.8 million increase in revenues from our outsourcing center. In addition, we acquired two businesses in 2001, which contributed revenue for the partial year in 2001 and the full year in 2002, and one business in 2002, which contributed revenue for the partial year in 2002. Our acquired businesses accounted for $11.7 million of revenues in 2002 as opposed to $1.9 million of revenues in 2001. This $9.8 million increase represented 57.4% of our total growth in revenues between 2001 and 2002.

Cost of Revenues. Cost of revenues increased 84.8% from $11.7 million for 2001 to $21.6 million for 2002. The increase was due primarily to a $5.8 million increase in cost of revenues from the companies we acquired in 2002 and 2001. We also incurred an additional $1.5 million in costs in 2002 at our outsourcing center, which did not open until May 2001 and had more clients in 2002 than 2001. Cost of revenues represented 42.8% of revenues for 2001 as opposed to 48.7% of revenues for 2002. Cost of revenues as a percentage of revenues increased primarily due to the acquisition of the Imagic business in December 2001, which is hardware-intensive and has lower gross margins than our other products.

Operating Expenses

Sales and Marketing. Sales and marketing expenses increased 8.7% from $8.8 million for 2001 to $9.5 million for 2002. The increase was due primarily to an increase of $1.5 million in sales and marketing costs from the companies we acquired in 2002 and 2001, a $0.4 million increase in account management team expenses in 2002 partially offset by a $0.6 million reduction in personnel and related costs in our sales and pre-sales department and a $0.5 million reduction in marketing costs. Sales and marketing expenses represented 32.2% of revenues for 2001 as opposed to 21.5% of revenues for 2002. Sales and marketing expenses as a percentage of revenues decreased primarily due to the fact that we did not increase our sales and marketing expenses significantly as revenues continued to grow.

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Product Development. Product development expenses decreased 18.6% from $7.6 million for 2001 to $6.2 million for 2002. The decrease was due primarily to the fact that the $1.0 million annual amortization of our development cost of one of our e-commerce products ended in December 2001. Product development expenses represented 28.0% of revenues for 2001 as opposed to 14.0% of revenues for 2002. Product development expenses as a percentage of revenues decreased primarily because the amortization expense described above ended in 2001 and the development effort for our major products did not require as much investment in 2002 as it did in 2001.

General and Administrative. General and administrative expenses increased 10.5% from $9.1 million for 2001 to $10.0 million for 2002. This increase was due primarily to a $1.1 million increase in general and administrative expenses associated with the companies we acquired in 2002 and 2001 offset by a $0.6 million decrease in compensation expense related to the elimination of an executive position. General and administrative expenses represented 33.3% of revenues for 2001 as opposed to 22.6% of revenues for 2002. General and administrative expenses as a percentage of revenues decreased primarily because our corporate overhead was sufficient to accommodate the needs of the organization as revenues increased.

In 2001, we recorded a one-time charge of $447,000 related to in-process research and development acquired as part of the August 3, 2001 acquisition of Sound Software Development Inc. that had not yet reached technological feasibility and had no alternative use. There was no charge for acquired in-process research and development in 2002.

Interest Income and Other, net. Interest and other income decreased 66.1% from $428,000 in 2001 to $145,000 in 2002. This decrease was due to lower average cash balances and lower interest rates.

Income Tax Benefit (Provision). Income tax benefit was $250,000 in 2001 due to our research and development tax benefit from the State of Connecticut. Income tax provision was $32,000 in 2002. In 2002, our tax benefits were not sufficient to offset all of our state tax obligations.

Liquidity and Capital Resources

At December 31, 2001, 2002 and 2003, we had cash and cash equivalents totaling $11.6 million, $11.4 million and $85.0 million, respectively.

The following table sets forth the elements of our cash flow statement for the following periods:

	Year Ended December 31,		
	2001	**2002**	**2003**
		(in thousands)	
Net cash provided by (used in) operating activities	$ (3,332)	$ 2,702	$ 10,069
Net cash used in investing activities	(5,606)	(2,280)	(17,582)
Net cash provided by (used in) financing activities	11,968	(560)	81,052

Cash from Operating Activities

Cash used in operations for the year ended December 31, 2001 was attributable to a net loss of $9.7 million, depreciation and amortization and other non-cash items of $3.6 million and a decrease in working capital of $2.8 million primarily due to an increase in payments received from clients in advance of product and service delivery and an improvement in collections of account receivables. Cash provided by operations for the year ended December 31, 2002 was attributable to a net loss of $2.9 million, depreciation and amortization and other non-cash items of $3.2 million and a decrease in working capital of $2.4 million primarily due to an increase in payments received from clients in advance of product and service delivery. Cash provided by operations in the year ended December 31, 2003 was attributable to net income of $1.3 million, depreciation and amortization and other non-cash items, including restricted stock expense of $7.5 million and an increase in working capital of $1.2 million.

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Cash from Investing Activities

Cash from investing activities consists primarily of purchases of fixed assets, investments in marketable securities and business acquisitions. Total capital expenditures for the years ended December 31, 2001, 2002 and 2003 were $2.2 million, $1.7 million and $1.5 million, respectively, and were primarily related to the purchase of computer equipment, computer software, software development services, furniture and fixtures and leasehold improvements. We currently have no significant capital spending or purchase commitments, but expect to continue to engage in capital spending in the ordinary course of business. We estimate that our capital expenditures in the year ending December 31, 2004 will be approximately $3.0 million.

In the year ended December 31, 2003, we purchased $8.1 million in marketable securities.

Additionally, net cash used in investing activities for the year ended December 31, 2003 included the $8.0 million used for the acquisition of substantially all the assets of Liberty FiTech Systems, Inc. Net cash used in investing activities for acquisitions was $3.4 million for the year ended December 31, 2001 and $564,000 for the year ended December 31, 2002.

Cash from Financing Activities

On December 2, 2003, we completed our initial public offering raising proceeds, net of expenses, of $86.4 million. For the year ended December 31, 2001, we obtained $12.0 million in funding, primarily through the issuance of shares of our preferred stock.

In April 2003, we obtained a credit facility upon which we could draw an aggregate amount of $4.0 million. We had borrowed $1.7 million against the equipment portion of the facility, which was paid in full in December 2003 from the proceeds of the initial public offering. In February 2004, we terminated our credit facility. As of March 31, 2004, we have no outstanding long term debt. For the years ended December 2003, 2002 and 2001 we made total payments of principal of $5.0 million, $748,000 and $91,000 respectively, to repay outstanding long term debt.

We currently anticipate that our current cash balance and cash flow from operations will be sufficient to meet our presently anticipated capital needs for the next twelve months, but may be insufficient to provide funds necessary for any future acquisitions we may make during that time. To the extent we require additional funds, whether for acquisitions or otherwise, we may seek additional equity or debt financing. Such financing may not be available to us on terms that are acceptable to us, if at all, and any equity financing may be dilutive to our stockholders. To the extent we obtain additional debt financing, our debt service obligations will increase and the relevant debt instruments may, among other things, impose additional restrictions on our operations, require us to comply with additional financial covenants or require us to pledge assets to secure our borrowings.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations as of December 31, 2003

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-Term Debt	$	$	$	$	$
Capital Lease Obligations	546,000	468,000	78,000		
Operating Leases	2,284,000	1,365,000	919,000		
Total Contractual Obligations	$2,830,000	$1,833,000	$997,000	$	$

Income Taxes

At December 31, 2003, we had $43.2 million of federal net operating loss carryforwards that begin expiring in 2007 and had $35.8 million of state net operating loss carryforwards that begin to expire in 2004. At December 31, 2003, we had $513,000 of federal research and development credit carryforwards that begin to expire in 2007; $355,000 of state research and development carryforwards with an unlimited carryforward period; and $405,000 of state non-research and development carryforwards that begin expiring in 2004.

We have determined that it is more likely than not that our deferred tax assets will not be utilized and, accordingly, we have recorded a full valuation allowance against our deferred tax assets. Currently, we charge against income for certain state taxes and federal alternative minimum taxes. If we determine that the deferred tax assets will be utilized and the valuation allowance is reversed, we will report a significant income tax benefit in that period and, for subsequent periods, will record a tax provision against income at the effective statutory rate. However, we do not expect to incur significant tax payments until all anticipated net operating loss carry forwards and research and development tax credits are utilized. The reversal could occur in the next year should we continue to be profitable and sufficient positive evidence exists to support its reversal.

For the year ended December 31, 2001, we recorded a Connecticut tax benefit of $250,000. The benefit is the result of Connecticut legislation which allowed us to obtain cash refunds from the State of Connecticut for a portion of research and development tax credits in exchange for foregoing the carryforward of these credits into future years.

As defined in Section 382 of the Internal Revenue Code, certain ownership changes limit the annual utilization of federal net operating losses and tax credit carry forwards. We experienced such an ownership change in 1995. This offering will likely result in a second ownership change.

This limitation of the utilization of federal net operating losses imposed by Section 382 is applied annually and is equal to a published long term exempt rate multiplied by the aggregate fair value of the company immediately prior to the ownership change. This resulting limitation may also be increased by imputed tax deductions of certain intangibles resulting from built-in gains, as defined. We do not believe that the Section 382 limitation with respect to the 1995 ownership change nor the change that might result from this offering will result in the loss of any net operating losses or tax credit carry forwards prior to their expiration. As a result of future issuance of, sales of, and other transactions involving our common stock, we may experience an ownership change in the future, which could cause such federal net operating losses and tax credit carryforwards to be subject to limitation under Section 382.

Recently Issued Accounting Pronouncements

In November 2002, the Emerging Issues Task Force (EITF) issued EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. This issue addresses revenue recognition for arrangements with multiple deliverables which should be considered as separate units of accounting if the deliverables meet certain criteria as described in EITF 00-21. This issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Early adoption is permitted. The adoption of this standard on July 1, 2003, did not have a material impact on our financial statements.

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In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation addresses the consolidation of business enterprises (variable interest entities) to which the usual condition of consolidation does not apply. This interpretation focuses on financial interests that indicate control. Variable interests may arise from financial instruments, service contracts, nonvoting ownership interests and other arrangements. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary would be required to include assets, liabilities and the results of operations of the variable interest entity in its financial statements. In December 2003, the FASB issued a revision to FIN 46 (FIN 46R). FIN 46R defers the effective date of FIN 46 until the scope of the American Institution of Certified Public Accountants (AICPA) accounting and auditing guide is clarified. We have no interest in an entity which would qualify as a variable interest entity. As a result, the adoption of this standard will not have a material impact on the accompanying financial statements.

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, could be classified as equity or mezzanine equity, including mandatorily redeemable instruments, by now requiring those instruments to be classified as liabilities in the statement of financial position. Further, SFAS No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. SFAS No. 150 is effective for all interim periods beginning after June 15, 2003. The adoption of this standard did not have a material impact on our other financial instruments.

In May 2003, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 03-5, Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software. This issue addresses revenue recognition for arrangements that include non-software deliverables, such as hardware, that are more than incidental to the products or services as a whole. The consensus indicates that, if the software is not essential to the functionality of the non-software deliverable, the non-software deliverable is excluded from the scope of SOP 97-2. We expect that the impact of applying EITF 03-5 on our gross margin will depend on the timing and magnitude of our hardware sales. Under EITF 03-5, hardware revenue, previously bundled with software and recognized on a percentage of completion basis, may be recognized upon delivery of the hardware. In certain cases, this may result in earlier recognition of revenue than when the revenue was recognized under the previous methodology. However, the completion of the check imaging arrangements are normally not of long duration, so this impact was not material.

In December 2003, the SEC issued SAB No. 104, Revenue Recognition. SAB 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 fourth quarter of 2003 had no material impact on our financial position, results of operations or cash flows.

Quantitative and Qualitative Disclosures About Market Risk

We transact business with clients almost exclusively in the United States and receive payment for our services and pay our expenses almost exclusively in United States dollars. As a result, our financial results are unlikely to be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets.

Our interest expense is generally not sensitive to changes in the general level of interest rates in the United States, particularly because a substantial majority of our indebtedness is at fixed rates. A 10% increase or decrease in interest rates would not have a material adverse effect on our financial condition.

We do not hold derivative financial or commodity instruments, nor engage in any foreign currency transactions, and all of our cash and cash equivalents are held on deposit with banks and in highly liquid marketable securities with maturities of three months or less.

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BUSINESS

Overview

Open Solutions Inc. is a provider of software and services that allow financial institutions to compete and service their customers more effectively. We develop, market, license and support an enterprise-wide suite of software and services that performs a financial institution s data processing and information management functions, including account, transaction, lending, operations, back office, client information and reporting. Our core software and our complementary products access and update real-time data stored in a single relational database, which is designed to deliver strategic benefits to financial institutions. Our software can be operated either by the financial institution internally or on an outsourced basis in one of our outsourcing centers or through an outsourcing center hosted by one of our resellers. We have historically targeted commercial banks and thrifts with assets under $20 billion and all credit unions. Our aggregate revenues increased from approximately $27.3 million in 2001 to approximately $44.3 million in 2002, and were approximately $63.9 million for the year ended December 31, 2003.

Our complementary products can be licensed to financial institutions separately or as part of our fully-integrated suite. When combined with our core software, these complementary products provide financial institutions with a suite of applications that operate efficiently and take advantage of the architecture of our core solution, limiting the need for software customization or middleware, which is software that allows two applications to interface. Our complementary products, which are fully integrated with our core, include business intelligence, customer relationship management, or CRM, check imaging, interactive voice response, Internet banking and cash management, general ledger and profitability, loan origination and check and item processing functions. We use an open and flexible software architecture to maximize a client s flexibility with respect to different hardware configurations and third-party software applications that are commonly used by financial institutions, allowing our clients to select our complete suite or third-party products without incurring substantial additional implementation costs. Based on a design that is customer-centric, our software leverages an institution s customer information through data mining (sorting through data to identify patterns and establish relationships) and collaborative filtering (the creation of recommendations for a customer based on data gathered on similar customers actions and preferences) and allows an institution to provide its customers with better service, improve customer retention and identify and pursue potential cross-selling opportunities.

In contrast to legacy systems, our technologies are fully integrated, open, flexible, customer-centric and efficient, permitting financial institutions to draw on and deliver consistent information quickly. Our technology allows our clients to access information from disparate sources and then analyze and distribute that information for use at the point of customer contact. We believe that our products and services enable our clients to reduce their overall core processing and operational costs and meet their strategic needs more effectively.

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Industry Background

Financial institutions have historically invested a significant amount of money in information technology systems. Technology research firm IDC estimates that banks, thrifts and credit unions in the United States spent approximately $42 billion on information technology during 2003 and expects spending to grow to over $52 billion by 2007. According to Thomson Financial Inc., a leading provider of industry information, there are approximately 19,460 commercial banks, thrifts and credit unions in the United States, approximately 19,400 of which have an asset base of under $20 billion.

We believe that these financial institutions, which have traditionally competed on the basis of personalized service, are facing increasing challenges to improve their operating efficiencies. These challenges include the entrance of non-traditional competitors, the compression of margins on traditional products, significant channel proliferation and the convergence of financial products into a single institution. Recent legislation has allowed non-traditional competitors, such as insurance companies and brokerage houses, to enter the market for traditional banking products. Because these competitors are able to subsidize traditional banking products with the revenues of other, higher-profit products, financial institutions have experienced lower margins, increasing the pressure to reduce costs while continuing to offer an increasing array of consumer products and services. At the same time, the cost and complexity of delivering these products and services has increased as the widespread introduction of new technology has forced financial institutions to expand their distribution channels to include ATMs, telephone banking, Internet banking and wireless devices. Legislative changes have also accelerated the ability of financial institutions to offer wider ranges of products and services to their customers. To distinguish themselves from competitors in this more competitive environment, banks and credit unions must accurately define and understand their specific markets, and be able to launch relevant products and services to those markets over tailored delivery channels. These challenges are forcing financial institutions to examine how to conduct their business and service their customers most efficiently.

Financial institutions have traditionally fulfilled their information technology needs through legacy computer systems, operated either by the institution itself or through an outsourcing center. Legacy systems, which operate in large mainframe or minicomputer environments, are generally highly proprietary, inflexible and costly to operate and maintain. Legacy systems often require financial institutions to purchase a specific vendor s hardware and software, requiring them to conform evolving business processes and reporting needs to the architecture of the legacy systems, and preventing them from adopting new technologies or launching new products on a cost-effective and timely basis. Most legacy systems employed by commercial banks are designed primarily to batch process a large number of transactions and create centralized financial records, limiting the ability of these banks to offer their customers real-time transaction processing. On the other hand, most legacy systems employed by credit unions are designed for real-time transaction processing, but they limit the ability to conduct high-volume processing or more traditional commercial banking functions. In addition, legacy systems typically store data in non-relational, or sequentially indexed, files. Because the data is not organized by customer, financial institutions often face challenges extracting information from their legacy systems, which are unable to easily provide real-time, actionable customer data to the individuals within the financial institution servicing customers without additional software.

We believe that financial institutions today are seeking more integrated, open, flexible, customer-centric and efficient information technology solutions that:

- combine high performance, scalability, reliability and security with the advantages associated with relational and highly normalized (which means data is easily accessible and not stored redundantly) technology based on industry standards,

- deliver new products and services to their customers quickly and efficiently without extensive custom development,

- integrate easily with other applications used in the enterprise (whether on an in-house or an outsourced basis) without expensive middleware,

- provide quick and effective access to customer and account data in order to offer better, more customized services, monitor trends and performance and cross-sell services and products,

- allow real-time access to customer data while preserving the financial institution s ability to batch process large transactions, and

- accommodate, in a single application, multiple delivery channels, such as ATMs, telephone banking, Internet banking and wireless banking, as well as new delivery channels as they emerge.

We believe that a technology solution must meet all of these requirements to enable financial institutions to achieve a competitive advantage in their markets through improved customer service, competitive product offerings and lower costs. In addition, financial institutions are required by federal law to evaluate the effectiveness of their information technology systems periodically. This obligation, together with significant upgrades and phase-outs of certain hardware by hardware providers, creates an ongoing need for institutions to evaluate replacement of their information technology systems.

These requirements can be met by information technology systems based on open, industry-standard operating environments and relational databases. Relational and real-time technology can improve information sharing by providing access at each desktop to critical customer and transaction data and business applications, which is restricted or difficult to access in legacy environments. This technology also enables organizations to streamline business practices and reporting to make faster, more informed decisions. Because this technology is based on an open architecture, it is easily scalable by upgrading the server or linking multiple servers. In addition, this open model offers flexibility in that additional functionality can easily be provided through third-party applications. Furthermore, the costs of maintaining a legacy system, which include the costs of upgrading both legacy system software and hardware, are generally greater over time than the costs associated with newer technology.

Our Solution

Our core software product is a fully-integrated, open, flexible, customer-centric solution that enables financial institutions to service their customers more efficiently and effectively. Our core software operates in Microsoft, UNIX and Linux environments using an Oracle relational database, supplemented by a suite of complementary software applications, which are fully integrated with our core technology and can also be used with other vendors core software. We also offer our clients a comprehensive set of support services.

The key attributes of our solution are its:

Full Integration at the Core Level

Fully-Integrated Information Technology. Our core software supports all of a financial institution s principal data processing requirements using a single relational database designed as an integral component of the system architecture. Our fully-integrated software suite allows our clients to replace their highly proprietary, inflexible and costly legacy systems, which generally contain many disparate software applications, multiple databases and cumbersome and expensive middleware, with one integrated software application based on a single database architecture.

Open Architecture

Compatibility With Varied Non-Proprietary Hardware. Because our core system was designed with an open architecture, our clients can run our software on desktop and server hardware supplied by a wide array of vendors, including Hewlett-Packard Company, IBM Corp., Dell Computer Corporation, Sun Microsystems, Inc. and Unisys Corporation. In contrast, legacy systems often require the financial institution to purchase vendor-specific hardware, a vendor s core software product and vendor-specific complementary products, each of which must be customized to interface with a decades-old legacy system, imposing significant cost burdens, both in cash outlay and manpower.

Software Compatibility. The flexibility and scalability of our core applications permit our clients to incorporate complementary software applications, whether designed by us or by a third party, in a cost-effective manner. Our complementary products, which may be used with either our core software or a third-party system, include profitability, web-based imaging, loan origination, cash management, collections, interactive voice solutions and check and item processing modules that may be purchased as part of a fully-integrated software suite or individually. In addition, our open architecture allows a client to activate a particular software module as its functionality is desired, which provides our clients with the ability to react to their customers needs efficiently.

Scalability. Although most of our current clients have an asset base under $20 billion, our open architecture is designed to accommodate the needs of larger financial institutions, and to provide our clients the ability to continue to use our solution as they grow. In May and June 2002 we performed a three-week performance test and benchmark of our core software, the results of which demonstrated that our solution can meet the processing requirements of an institution with $40 billion in assets and four million accounts. The scalability of our architecture enables us to manage unexpected increases in clients processing volumes as well as support the growth of our clients businesses.

Flexibility

Client Delivery of New Products and Services. Our software allows our clients to offer new products and services to their customers without reconfiguring their information technology infrastructure. In contrast, modifications required by legacy systems in order to accommodate new financial products can be costly and time-consuming and may require the purchase and maintenance of additional middleware. In addition, our clients can change the way in which they serve their customers such as converting from a thrift to a commercial bank without replacing or making major modifications to our software.

Direct License or Outsourced Distribution. We can provide our core software to our clients by licensing it directly for use on-site, through our own outsourcing centers or through third-party outsourcing centers. We also provide certain complementary applications at our outsourcing centers, including our business intelligence, cash management, ATM, Internet banking, web-based imaging, collections, interactive voice solutions and check and item processing tools. Our flexibility in distribution method allows our clients to use our core software and other complementary applications in the most cost-effective method to meet their specific operational and competitive requirements.

Customer-Centric Architecture

Real-time Customer Information in a Single View. Our core software uses a relational database organized around individual customers, which allows a financial institution to update and view customer information on a real-time basis instead of relying on periodic batch processing. Our clients can provide their customers with real-time information concerning their accounts, as well as create accurate and current management reports. Our software is designed to eliminate potential errors arising from the maintenance of multiple databases and to accommodate high volumes of customer data.

Better Relationship Management. Our relationship management software provides a set of business intelligence tools that is fully integrated with and acts as a natural extension of our core software. This allows our clients to eliminate the multiple databases required when layering traditional business intelligence tools onto a legacy core system. Because our suite exploits the strength of our core system that is based on a single, relational database designed around individual customers, a financial institution may easily collect and analyze that data to generate timely and responsive initiatives (such as promotional offers) and deliver those initiatives immediately to the customer as the customer interacts with the financial institution.

Efficiency

Cost Savings. We believe that our software reduces the overall cost of a financial institution s information technology and allows our clients to meet their strategic goals more efficiently. The hardware required by a legacy system is expensive to obtain and costly to keep to current specifications while the pool of expertise with older systems is constantly shrinking. In contrast, our core system can run on hardware provided by many different vendors. Because our core software is fully integrated with our complementary products and supports third-party products, development and implementation costs for an institution s information systems based on our software are lower than those for an institution which must modify its core software and obtain costly proprietary products for each new function. Our open architecture and flexibility allow our clients to modify their information systems requirements quickly and easily, without incurring the significant costs associated with supporting several disparate software applications. Our single relational database allows our clients to organize their data around individual customers, use our business intelligence tools to analyze and manage that data in the most efficient manner and launch new products and services desired by their customers in a cost-effective manner. In addition, because our software is based on widely adopted technologies, a financial institution using it requires less specialized expertise, which allows the institution to achieve greater operational efficiencies.

Our Strategy

Our objective is to be the leading supplier of software and services to our targeted market. Our strategy for achieving this objective is to:

Expand Share of Our Historical Market. We believe that our software is particularly well suited for financial institutions which have an asset base of under $20 billion. These financial institutions, which have historically constituted our target market, typically can neither afford, nor do they require, extensive customization in connection with the implementation of a core system. As a result, we believe that these financial institutions are willing to evaluate, and are well positioned to benefit from, our flexible, cost-effective technology. We intend to continue to pursue this market by marketing and selling our core software to new clients seeking to convert from a legacy system.

Expand Our Sources of Recurring Revenue. We generate recurring revenue through outsourcing and maintenance services. We currently host applications for approximately 160 financial institutions in our outsourcing centers and intend to continue to enhance this service, which we believe is an attractive solution for many of our targeted clients. Our outsourcing centers serve clients using our core software and clients using one or more of our Internet banking, ATM, cView, check imaging, cash management, collections, automated clearing house, or ACH, processing and check and item processing products. In the future, we plan to offer all of our products in our outsourcing centers and continue to market our outsourcing services aggressively. Our outsourcing services provide a source of recurring revenue which can grow as the number of accounts processed for a client increases. We continue to seek to expand our client base through licensing arrangements, which we expect to increase the recurring revenues, such as maintenance, that correspond to those licenses.

Expand Our Client Base by Licensing Our Core Software through Third-Party Outsourcing Centers. Approximately 172 financial institutions use our core software application at two third-party outsourcing centers, one operated by BISYS, Inc., a major national outsourcing center, and the other operated by Connecticut On-Line Computer Center, Inc., or COCC, a major regional outsourcing center. A number of financial institutions outsource their core processing systems to third-party outsourcing centers such as these, which typically choose one or more significant core software products to provide their services. We plan to work with our existing resellers to add new clients, and have recently expanded our relationship with BISYS for this purpose. We also plan to supplement these resellers with other national and regional outsourcing centers.

Provide Additional Products and Services to Our Installed Client Base. We intend to continue to leverage our installed client base by expanding the range of complementary products and services available to our current clients, through both the internal development of new products and services and through acquisitions. In addition, each client has an account manager who recommends complementary products suitable for the client s business and works with our sales group to generate sales. We also intend to continue selling our complementary products to financial institutions that use core systems sold by third parties.

Maintain Technological Leadership. We believe that the uniqueness of the open, flexible architecture of our system provides us with competitive advantages over companies offering other core processing systems. For example, our core software suite can satisfy the technological requirements of a commercial bank, thrift or credit union without modification or customization. We recently announced the commercial release of our web-based business intelligence suite, which allows a financial institution to transmit action messages and collect response information instantaneously while a customer conducts a transaction. Our open architecture enables us to utilize leading, non-proprietary software and hardware to provide comprehensive functionality. We intend to extend our technological leadership by continuing to add new applications, integrate new technologies and expand the functionality of our system.

Extend Target Markets. Our primary market currently consists of small to mid-size commercial banks and thrifts and all credit unions, located in the United States. We believe that our core software has benefits beyond this market, and can scale to meet the operating requirements of any financial institution. We continue to explore additional ways to extend our target markets, including by selling our products and services to larger financial institutions and international financial institutions. We also plan to market and sell our products and services to clients in the payroll services, insurance and brokerage industries.

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