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

FORM 10-Q

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

For the quarterly period ended September 30, 2000

OR

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

For the transition period from to

Commission File Number: 000-24931

S1 Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**58-2395199** (I.R.S. Employer Identification No.)
3390 Peachtree Road, NE, Suite 1700 **Atlanta, Georgia** (Address of principal executive offices)	**30326** (Zip Code)

Registrant's telephone number, including area code: (404) 812-6200

Not applicable
(Former name if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒. No ☐.

Shares of common stock outstanding as of November 13, 2000: 56,144,387

S1 CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
(Unaudited)

	September 30, 2000	December 31, 1999
	(In thousands, except share and per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 197,895	$ 67,850
Investment securities available for sale (cost of $1,343 at September 30, 2000 and $1,800 at December 31, 1999)	22,612	62,754
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of $8,512 at September 30, 2000 and $8,584 at December 31, 1999	95,739	70,136
Notes receivable	1,000	1,500
Prepaid expenses	7,240	6,625
Other current assets	2,973	678
Total current assets	327,459	209,543
Property and equipment, net	62,823	24,580
Intangible assets, net	88,797	106,508
Goodwill, net	925,207	788,293
Other assets	8,427	3,563
Total assets	$1,412,713	$1,132,487
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 6,655	$ 29,493
Accrued salaries and benefits	10,647	12,123
Accrued other expenses	42,199	44,122
Deferred revenues	24,105	20,469
Notes payable	4,118	6,351
Current portion of capital lease obligation	6,096	759
Total current liabilities	93,820	113,317
Deferred revenues	5,293	9,283
Capital lease obligation, excluding current portion	10,095	1,086
Deferred tax liability	15,386	15,386
Other liabilities	2,618	2,608
Total liabilities	127,212	141,680
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 25,000,000 shares. Issued and outstanding 1,186,564 and 1,393,014 shares at September 30, 2000 and December 31, 1999, respectively	252,781	23,089
Common stock, $0.01 par value. Authorized 350,000,000 shares. Issued and outstanding 55,868,136 and 48,831,243 shares at September 30, 2000 and December 31, 1999, respectively	558	488
Additional paid-in capital	1,595,555	1,126,607
Receivable from the sale of stock	(12,057)	(11,735)
Accumulated deficit	(572,231)	(207,927)
Accumulated other comprehensive income:		
Net unrealized gains on investment securities available for sale, net of taxes	20,483	60,143
Cumulative foreign currency translation adjustment, net of taxes	412	142
Total stockholders' equity	1,285,501	990,807
Total liabilities and stockholders' equity	$1,412,713	$1,132,487

See accompanying notes to unaudited consolidated financial statements.

S1 CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
	(In thousands, except share and per share data)			
Revenues:				
Software licenses	$ 14,586	$ 2,260	$ 40,635	$ 6,898
Professional services	42,206	14,769	113,818	33,402
Data center	5,789	2,072	14,613	5,663
Other	1,798	5,698	4,766	6,511
Total revenues	64,379	24,799	173,832	52,474
Operating expenses:				
Cost of software licenses	1,136	99	3,883	331
Cost of professional services, excluding stock compensation expense of $24 and $88 in 2000 and 1999, respectively	28,471	8,480	80,220	19,866
Cost of data center	4,915	2,163	13,073	5,879
Cost of other revenues	1,542	4,425	4,220	5,102
Selling and marketing, excluding stock compensation expense of $564 in 2000	13,666	1,153	38,468	3,406
Product development, excluding stock compensation expense of $1,274 and $204 in 2000 and 1999, respectively	16,924	5,221	47,746	13,981
General and administrative, excluding stock compensation expense of $2,195 and $29 in 2000 and 1999, respectively	10,350	3,291	31,152	6,985
Depreciation and amortization	6,536	1,465	16,069	3,926
Stock option compensation expense	1,333	107	4,057	321
Marketing cost from warrants issued	—	—	4,962	—
Merger related costs	5,055	1,851	18,213	2,101
Acquired in-process research and development	—	—	14,100	—
Amortization of acquisition intangibles	112,360	—	301,873	206
Total operating expenses	202,288	28,255	578,036	62,104
Operating loss	(137,909)	(3,456)	(404,204)	(9,630)
Interest and investment income	1,809	777	39,900	1,531
Net loss	$ (136,100)	$ (2,679)	$ (364,304)	$ (8,099)
Basic and diluted net loss per common share	$ (2.46)	$ (0.10)	$ (6.83)	$ (0.31)
Weighted average common shares outstanding	55,389,682	27,628,446	53,359,206	26,136,974

See accompanying notes to unaudited consolidated financial statements.

S1 CORPORATION AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity and Comprehensive Income (Loss)

For the nine months ended September 30, 2000
(Unaudited)
(In thousands, except share data)

	Convertible preferred stock								Common stock		Additional paid-in capital	Receivable from the sale of stock	Accumulated deficit	Accumulated other comprehensive income	Total stockholders' equity	Comprehensive income (loss)
	Series A		Series B		Series C		Series D									
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance December 31, 1999	428,950	$ 1,062	749,064	$10,000	215,000	$12,027	—	—	48,831,243	$488	$1,126,607	$(11,735)	$(207,927)	$ 60,285	$ 990,807	
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	(364,304)	—	(364,304)	$(364,304)
Change in net unrealized gains on investment securities available for sale, net of taxes	—	—	—	—	—	—	—	—	—	—	—	—	—	(16,154)	(16,154)	(16,154)
Change in cumulative foreign currency translation adjustment, net of taxes	—	—	—	—	—	—	—	—	—	—	—	—	—	270	270	270
Realized gain on sale of investment securities	—	—	—	—	—	—	—	—	—	—	—	—	—	(23,506)	(23,506)	—
Proceeds from issuance of preferred stock, net of expenses	—	—	—	—	—	—	244,000	$231,957	—	—	—	—	—	—	231,957	—
Conversion of preferred stock to common stock	(428,950)	(1,062)	—	—	(21,500)	(1,203)	—	—	900,900	9	2,256	—	—	—	—	—
Payment on receivable from the sale of stock	—	—	—	—	—	—	—	—	—	—	—	451	—	—	451	—
Interest earned on receivable from the sale of stock	—	—	—	—	—	—	—	—	—	—	773	(773)	—	—	—	—
Common stock sold under Employee Stock Purchase and Option Plans	—	—	—	—	—	—	—	—	3,432,498	34	16,672	—	—	—	16,706	—
Deferred stock option compensation expense	—	—	—	—	—	—	—	—	—	—	3,686	—	—	—	3,686	—
Warrants issued in connection with marketing agreements	—	—	—	—	—	—	—	—	—	—	4,962	—	—	—	4,962	—
Issuance of common stock in connection with acquisitions	—	—	—	—	—	—	—	—	2,703,495	27	440,599	—	—	—	440,626	—
Comprehensive loss																$(380,188)
Balance September 30, 2000	—	$ —	749,064	$10,000	193,500	$10,824	244,000	$231,957	55,868,136	$558	$1,595,555	$(12,057)	$(572,231)	$ 20,895	$1,285,501	

See accompanying notes to unaudited consolidated financial statements.

S1 CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30, 2000	Nine months ended September 30, 1999
	(In thousands)	
Cash flows from operating activities:		
Net loss	$(364,304)	$ (8,099)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization including acquisition charges	317,942	4,164
Acquired in-process research and development	14,100	—
Compensation and marketing expense for stock options and warrant	8,648	321
Provision for doubtful accounts receivable and billing adjustments	3,155	449
Gain on the sale of investment securities available for sale	(35,057)	—
Increase in accounts receivable	(26,694)	(5,070)
Increase in prepaid expenses and other assets	(1,196)	(5,192)
Decrease in accounts payable	(23,063)	(1,267)
(Decrease) increase in accrued expenses and other liabilities	(6,972)	4,244
Decrease in deferred revenue	(4,089)	(3,519)
Net cash used in operating activities	(117,530)	(13,969)
Cash flows from investing activities:		
Net cash acquired (advanced) in connection with acquisitions	6,040	(31,000)
Proceeds from sales of investment securities available for sale	36,546	—
Investments in and advances to unconsolidated companies	(6,883)	—
Proceeds from payment on notes receivable	500	—
Purchases of property and equipment and purchased technology	(32,084)	(9,555)
Net cash provided by (used in) investing activities	4,119	(40,555)
Cash flows from financing activities:		
Sale of preferred stock, net of expenses	231,957	—
Sale of common stock, net of expenses	—	63,959
Proceeds from payment on subscription receivables	451	962
Proceeds from sale of common stock under employee stock purchase and option plans	16,706	4,749
Payments on capital lease obligations	(3,344)	(825)
Payments on borrowings	(2,242)	—
Net cash provided by financing activities	243,528	68,845
Effect of exchange rate changes on cash	(72)	5
Net increase in cash	130,045	14,326
Cash and cash equivalents at beginning of period	67,850	14,504
Cash and cash equivalents at end of period	$ 197,895	$ 28,830
Noncash financing activities:		
Conversion of preferred stock to common stock	$ 2,265	$ 798
Issuance of Series C Preferred Stock in exchange for subscription receivable	—	12,027
Acquisition of businesses through issuance of common stock	440,626	—
Capital lease obligations	17,703	—

See accompanying notes to unaudited consolidated financial statements.

S1 CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

S1 is a leading global provider of innovative eFinance solutions and services that are centered on banking, brokerage and insurance. S1 is enabling financial service providers to create a complete Enterprise eFinance Experience™ by delivering the tools necessary to meet the evolving demands of their customers across various lines of businesses, market segments and delivery channels. Through its Open eFinance Architecture™, S1 offers a broad range of applications that empower financial institutions to increase revenue, strengthen customer relationships and gain competitive advantage. Additionally, through the Company's professional services organization, S1 applications can be implemented in-house or hosted in an S1 data center.

The consolidated financial statements include the accounts of S1 and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements for the three and nine month periods ended September 30, 2000 and 1999 are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows. The interim financial statements include all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to present fairly the Company's consolidated financial statements. The results of operations for the three and nine months ended September 30, 2000 are not necessarily indicative of the expected results for the year ending December 31, 2000.

2. Business Combinations

On April 7, 2000, the Company completed the acquisition of Q Up Systems, Inc. ("Q Up"), a leading provider of Internet banking and e-commerce portal solutions for financial institutions, primarily community banks. On April 12, 2000, the Company completed the acquisition of Davidge Data Systems Corp. ("Davidge"), a software company that specializes in middleware and order routing software and systems for the brokerage industry. Both acquisitions have been accounted for using the purchase method of accounting with the excess of the purchase price over the estimated fair value of the net assets recorded as goodwill. The consolidated financial statements include the results of operations of Q Up and Davidge from April 7, 2000 and April 1, 2000, respectively.

The Company issued 2,453,345 shares of common stock with a value of approximately $271.3 million for all of the outstanding shares of Q Up. Approximately, 237,000 of the total shares exchanged were issued to escrow in connection with a general indemnity provision. The Company also exchanged all outstanding options to purchase Q Up stock into 1,381,824 options to purchase S1 common stock with an estimated fair value of $143.0 million. Of the total purchase price of $414.9 million, which includes $0.7 million of costs incurred directly related to the acquisition, $3.4 million was allocated to net assets acquired, $12.6 million to identifiable intangible assets, $384.8 million to goodwill and $14.1 million to in-process research and development. The in-process research and development was expensed upon the closing of the acquisition. Amounts allocated to goodwill, developed technology, and customer lists are being amortized on a straight-line basis over three years. The intangible asset related to the assembled work force is being amortized on a straight-line basis over five years.

The Company issued 250,150 shares of common stock with a value of approximately $25.1 million for all of the outstanding shares of Davidge. The Company also exchanged all outstanding options to purchase Davidge stock into 17,615 options to purchase S1 common stock with an estimated fair value of $1.2 million. Of the total purchase price of $27.0 million, which includes $0.6 million of acquisition costs, $0.5 million was allocated to net assets acquired and $26.5 million to goodwill. The amount allocated to goodwill is being amortized on a straight-line basis over three years.

Unaudited pro forma results of operations of the Company for the nine months ended September 30, 2000 and 1999 would not be materially different as a result of the acquisitions of Q Up and Davidge and are, therefore, not presented.

3. Commitments and Contingencies

In the second quarter of 2000, the Company was named in a number of related shareholder lawsuits (see Part II, Item 1 of this Form 10-Q). The ultimate results and outcomes of these actions and claims cannot be determined at this time. An adverse verdict could have a material impact on the Company.

4. Stockholders' Equity

Basic net loss per share is calculated as loss available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated to reflect the potential dilution that would occur if stock options or other contracts to issue common stock were exercised and resulted in additional common stock that would share in the earnings of the Company. Because of the Company's net losses, the issuance of additional shares of common stock under stock options and warrants or upon the conversion of preferred stock would be antidilutive. The total number of common shares that would have been used in the Company's computation of diluted earnings per share for the three month period ended September 30, 2000 and 1999 was 68,036,634 and 37,725,143, respectively. The total number of common shares that would have been used in the Company's computation of diluted earnings per share for the nine month period ended September 30, 2000 and 1999 was 71,717,822 and 36,260,699, respectively.

On May 25, 2000, the Company issued a total of 244,000 shares of newly authorized convertible preferred stock ("Series D") to five purchasers for a total of approximately $244 million in cash. The preferred stock is convertible into common stock at a rate of 29.283 per share. The terms of the Series D Preferred Stock provide the holders with identical rights to common stockholders with respect to dividends and distributions in the event of liquidation, dissolution, or winding up of the Company. The holders of the Series D Preferred Stock are entitled to voting rights equal to those of the common stockholders.

5. Segment Reporting

In the third quarter of 2000, S1 began to operate and manage the Company in four business segments: Large Financial Institution, Community Bank, Call Center Technology and Internet Aggregation. The Large Financial Institution and Community Bank segments build, deliver and operate integrated, transactional and brandable Internet applications for financial institutions worldwide, available as an in-house solution or outsourced to an S1 data center. While the Large Financial Institution segment provides highly customized solutions to large global and national financial institutions, the Community Bank segment provides solutions that require little or no customization and are primarily sold to local and regional banks. Through the Call Center Technology, S1 offers interactive voice response and voice e-Commerce technology. The Internet Aggregation segment provides technology that enables consumers to aggregate personal account information from multiple sources. S1 manages the business based on these operating segments.

S1 evaluates the performance of its operating segments based on revenues, direct costs, gross margins and operating expenses, excluding depreciation and amortization, stock option compensation expense, marketing cost from warrants issued, merger related costs, acquired in-process research and development, interest and investment income and amortization of acquisition intangibles. In addition, the Company provides general and administrative services to the operating segments on a shared service basis and does not allocate these costs to the individual segments, therefore the general and administrative costs are included in the other category. The Company does not produce reports that measure the performance according to any asset-based metrics.

Statements of Operations by Segment
(Unaudited)

	Three Months Ended September 30, 2000						Three Months Ended September 30, 1999					
	Large FI	Community Bank	Internet Aggre- gation	Call Center Tech	Other	Total	Large FI	Community Bank	Internet Aggre- gation	Call Center Tech	Other	Total
	(Dollars in thousands)						(Dollars in thousands)					
Revenues:												
Software licenses	$ 5,048	$3,268	$ —	$ 6,270	$ —	$ 14,586	$ 2,260	$—	$—	$—	$ —	$ 2,260
Professional services	36,672	1,462	—	4,072	—	42,206	14,769	—	—	—	—	14,769
Data center	4,845	385	559	—	—	5,789	2,072	—	—	—	—	2,072
Other	1,798	—	—	—	—	1,798	5,698	—	—	—	—	5,698
Total revenues	48,363	5,115	559	10,342	—	64,379	24,799	—	—	—	—	24,799
Direct costs:												
Software licenses	3	556	—	577	—	1,136	99	—	—	—	—	99
Professional services	24,910	1,120	—	2,441	—	28,471	8,480	—	—	—	—	8,480
Data center	4,114	175	626	—	—	4,915	2,163	—	—	—	—	2,163
Other	1,542	—	—	—	—	1,542	4,425	—	—	—	—	4,425
Total direct costs	30,569	1,851	626	3,018	—	36,064	15,167	—	—	—	—	15,167
Gross margin	17,794	3,264	(67)	7,324	—	28,315	9,632	—	—	—	—	9,632
Operating expenses:												
Selling and marketing	6,184	1,829	1,474	4,179	—	13,666	1,153	—	—	—	—	1,153
Product development	11,192	282	3,047	2,403	—	16,924	5,221	—	—	—	—	5,221
General and administrative	—	—	—	—	10,350	10,350	—	—	—	—	3,291	3,291
Total operating expenses	17,376	2,111	4,521	6,582	10,350	40,940	6,374	—	—	—	3,291	9,665
Operating income (loss)*	$ 418	$1,153	$(4,588)	$ 742	$(10,350)	$(12,625)	$ 3,258	$—	$—	$—	$(3,291)	$ (33)

Statements of Operations by Segment
(Unaudited)

	Nine Months Ended September 30, 2000						Nine Months Ended September 30, 1999					
	Large FI	Community Bank	Internet Aggre-gation	Call Center Tech	Other	Total	Large FI	Community Bank	Internet Aggre-gation	Call Center Tech	Other	Total
	(Dollars in thousands)						(Dollars in thousands)					
Revenues:												
Software licenses	$ 13,082	$6,552	$ —	$21,001	$ —	$ 40,635	$ 6,898	$—	$—	$—	$ —	$ 6,898
Professional services	99,759	2,568	—	11,491	—	113,818	33,402	—	—	—	—	33,402
Data center	12,506	650	1,457	—	—	14,613	5,663	—	—	—	—	5,663
Other	4,766	—	—	—	—	4,766	6,511	—	—	—	—	6,511
Total revenues	130,113	9,770	1,457	32,492	—	173,832	52,474	—	—	—	—	52,474
Direct costs:												
Software licenses	102	741	—	3,040	—	3,883	331	—	—	—	—	331
Professional services	70,524	1,851	—	7,845	—	80,220	19,866	—	—	—	—	19,866
Data center	11,485	297	1,291	—	—	13,073	5,879	—	—	—	—	5,879
Other	4,220	—	—	—	—	4,220	5,102	—	—	—	—	5,102
Total direct costs	86,331	2,889	1,291	10,885	—	101,396	31,178	—	—	—	—	31,178
Gross margin	43,782	6,881	166	21,607	—	72,436	21,296	—	—	—	—	21,296
Operating expenses:												
Selling and marketing	19,715	3,156	3,658	11,939	—	38,468	3,406	—	—	—	—	3,406
Product development	34,102	761	6,755	6,128	—	47,746	13,981	—	—	—	—	13,981
General and administrative	—	—	—		31,152	31,152	—	—	—	—	6,985	6,985
Total operating expenses	53,817	3,917	10,413	18,067	31,152	117,366	17,387	—	—	—	6,985	24,372
Operating income (loss)*	$(10,035)	$2,964	$(10,247)	$ 3,540	$(31,152)	$ (44,930)	$ 3,909	$—	$—	$—	$(6,985)	$(3,076)

* Excluding depreciation and amortization, stock option compensation expense, marketing cost from warrants issued, merger related costs, acquired in-process R&D, amortization of acquisition intangibles and interest & investment income.

For the three and nine months ended September 30, 2000, one major customer accounted for approximately 32% and 29% of total revenues, respectively. For the three months ended September 30, 1999, three major customers accounted for approximately 53%, 16% and 14% of total revenues, respectively. For the nine months ended September 30, 1999, three major customers accounted for approximately 49%, 16% and 14% of total revenues, respectively.

6. Subsequent Event

Early in the fourth quarter, management determined to discontinue development on the Edify retail banking platform and focus its sales efforts on the Consumer Suite and Community Banking Suite products. S1 intends to continue to offer support services to the approximately 140 financial institutions using the discontinued platform for up to 24 months and will offer the existing customers a migration path to either the Consumer Suite or Community Banking Suite products. As part of this decision, in November 2000, S1 announced a 7% reduction of its existing workforce, primarily in the discontinued product group. This restructuring effort is expected to result in up to a $5 million charge that will be recorded during the fourth quarter of 2000.

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

This quarterly report contains forward-looking statements and information relating to us and our subsidiaries. The words "believes," "expects," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends" or similar terminology identify forward-looking statements. These statements are based on the beliefs of management as well as assumptions made using information currently available to management. Because these statements reflect the current views of management concerning future events, they involve risks, uncertainties and assumptions. Therefore, actual results may differ significantly from the results discussed in the forward-looking statements. You are urged to read the risk factors described in our Form 10-K for the year ended December 31, 1999 filed with the Securities and Exchange Commission on March 30, 2000. Except as required by applicable law, we undertake no obligation to update publicly any forward-looking statement for any reason, even if new information becomes available.

The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes appearing elsewhere herein and the audited consolidated financial statements and notes thereto in our Form 10-K for the year ended December 31, 1999.

General

We are a leading global provider of innovative eFinance solutions and services that are centered on banking, brokerage and insurance. We are enabling financial service providers to create a complete Enterprise eFinance Experience™ by delivering the tools necessary to meet the evolving demands of their customers across various lines of businesses, market segments and delivery channels. Through our Open eFinance Architecture™, we offer a broad range of applications that empower financial institutions to increase revenue, strengthen customer relationships and gain competitive advantage. Additionally, through the our professional services organization, our applications can be implemented in-house or hosted in an S1 data center.

We provide a comprehensive set of Internet-based financial services solutions which touch every significant facet of the financial services industry. From banking, brokerage and insurance to personal financial management and tax preparation capabilities, our suites of consumer, retail, small business and corporate applications provide a comprehensive set of solutions for global, national, regional and local financial organizations. Our solutions, including our VerticalOne personal information aggregation service and our Edify interactive voice response technology, reach beyond traditional online financial services to help financial organizations deliver value to their customers, resulting in greater customer retention and increased revenue opportunities for our clients. In addition, we have implemented wireless solutions in the United States, Europe and Australia that allow our clients' customers to access account information and conduct transactions through cellular telephones and hand-held personal digital assistants.

On April 7, 2000, we completed the acquisition of Q Up. On April 12, 2000, we completed the acquisition of Davidge. On November 10, 1999, we completed the acquisitions of Edify and VerticalOne. On November 18, 1999, we completed the acquisition of FICS. All of these acquisitions have been accounted for as purchase business combinations. Accordingly, the results of operations for the three and nine months ended September 30, 1999 do not include the results of operations for these acquired companies.

Early in the fourth quarter, management determined to discontinue development on the Edify retail banking platform and focus its sales efforts on the Consumer Suite and Community Banking Suite products. S1 intends to continue to offer support services to the approximately 140 financial institutions using the discontinued platform for up to 24 months and will offer the existing customers a migration path to either the Consumer Suite or Community Banking Suite products. As part of this decision, in November 2000, S1 announced a 7% reduction of its existing workforce, primarily in the discontinued product group. Management estimates that the reduction in staff will reduce overall costs by approximately $13-15 million per year. However, S1 intends to invest in its remaining products and, accordingly, the reduction in costs noted above is estimated to return over the next several quarters as the remaining product groups grow. In addition, the restructuring effort is expected to result in up to a $5 million charge that will be recorded during the fourth quarter of 2000.

We continue our strategic review of all operations we have acquired in recent periods. This review process could result in partnerships, outside investors or other equity participation with regard to the acquired businesses and, as a result, could cause us to reassess the estimated useful life of the remaining goodwill and other acquisition intangibles.

Revenues

We derive our revenues primarily from three sources:

Software licenses. We receive license fees from direct licensees and third-party data processors. Direct licensees install and operate our products in their own environments. We generally receive an initial license fee plus ongoing fees which are based on either the number of end-users or a percentage of the initial license fee. We generally recognize revenues from software license sales upon shipment if no significant obligations remain. When services are considered essential to the functionality of the software, the software license and the related services are recognized over the implementation period using the percentage of completion method of accounting.

A portion of our software license revenue is being recognized on a straight-line basis over either the term of the agreement or, for contracts without a term, the estimated period during which post-contract support is expected to be provided. Under these arrangements, post-contract support and maintenance were bundled as part of the license agreements and sufficient vendor specific evidence did not exist to allocate the total fee to all elements of the arrangement.

Third-party data processors install our products in their own data processing centers and license the product to their client institutions, typically smaller financial services entities like community banks and thrifts. We receive monthly fees from third party data processors based on the total number of end-users served by the processors' client institutions. These fees are recognized as revenue in the period earned.

Professional Services. We provide professional services related to the installation and integration of our products. These services include:

- installing the product at direct licensees and third-party data processing centers;
- integrating the financial organization data processing systems with our data center for data center clients;
- providing product enhancements;
- consulting; and
- training.

Revenues derived from contracts to provide services on a time and materials basis are recognized as the related services are performed. Revenues from professional services provided on a fixed fee basis are recognized using the percentage of completion method, measured by the percentage of labor hours incurred to date to estimated total labor hours for each contract.

Data Center. Data Center revenue consists of revenue from our two data centers located in Atlanta, GA, and Singapore. We receive recurring monthly fees from financial institutions that have chosen to use our software and outsource the processing of their financial transactions to our data center. These fees are generally based on the number of end-users of the client institution. In addition, we receive monthly fees for technical support. We recognize these revenues as the services are performed.

Customer Concentrations. As a result of the size of many of S1's customers, the magnitude of the implementations for companies of this size and our limited amount of capacity to perform implementations, in any given period a significant portion of our revenues may be attributed to a limited number of clients. For the three and nine months ended September 30, 2000, one major customer accounted for approximately 32% and 29% of total revenues, respectively. For the three months ended September 30, 1999, three major customers accounted for approximately 53%, 16% and 14% of total revenues, respectively. For the nine months ended September 30, 1999, three major customers accounted for approximately 49%, 16% and 14% of total revenues, respectively.

S1 CORPORATION AND SUBSIDIARIES

Selected Financial Data (unaudited)
(Dollars in thousands)

	Three Months Ended					Nine Months Ended	
	9/30/99	12/31/99	3/31/00	6/30/00	9/30/00	9/30/99	9/30/00
Revenues:							
Software licenses	$ 2,260	$ 12,152	$ 10,719	$ 15,330	$ 14,586	$ 6,898	$ 40,635
Professional services	14,769	23,030	34,382	37,230	42,206	33,402	113,818
Data center	2,072	3,195	3,507	5,317	5,789	5,663	14,613
Other	5,698	2,039	1,761	1,207	1,798	6,511	4,766
Total revenues	24,799	40,416	50,369	59,084	64,379	52,474	173,832
Direct costs:							
Software licenses	99	311	1,521	1,226	1,136	331	3,883
Professional services	8,480	16,419	25,884	25,865	28,471	19,866	80,220
Data center	2,163	3,129	3,352	4,806	4,915	5,879	13,073
Other	4,425	2,010	1,594	1,084	1,542	5,102	4,220
Total direct costs	15,167	21,869	32,351	32,981	36,064	31,178	101,396
Gross margin	9,632	18,547	18,018	26,103	28,315	21,296	72,436
Operating expenses:							
Selling and marketing	1,153	8,763	11,406	13,396	13,666	3,406	38,468
Product development	5,221	10,097	14,992	15,830	16,924	13,981	47,746
General and administrative	3,291	6,928	9,351	11,451	10,350	6,985	31,152
	9,665	25,788	35,749	40,677	40,940	24,372	117,366
Operating loss*	(33)	(7,241)	(17,731)	(14,574)	(12,625)	(3,076)	(44,930)
Depreciation and amortization	1,465	2,998	3,404	6,129	6,536	3,926	16,069
Stock option compensation	107	797	1,125	1,599	1,333	321	4,057
Marketing cost from warrants	—	715	4,600	362	—	—	4,962
Merger related costs	1,851	6,643	6,814	6,344	5,055	2,101	18,213
Acquired in-process research and development	—	59,300	—	14,100	—	—	14,100
Amortization of intangibles	—	40,000	77,127	112,386	112,360	206	301,873
Interest & investment income	(777)	(706)	(35,593)	(2,498)	(1,809)	(1,531)	(39,900)
Net loss	$(2,679)	$(116,988)	$(75,208)	$(152,996)	$(136,100)	$(8,099)	$(364,304)
Net loss per common share	$ (0.10)	$ (3.05)	$ (1.49)	$ (2.82)	$ (2.46)	$ (0.31)	$ (6.83)
Gross margin %:							
Software licenses	96%	97%	86%	92%	92%	95%	90%
Professional services	43%	29%	25%	31%	33%	41%	30%
Data center	(4%)	2%	4%	10%	15%	(4%)	11%
Other	22%	1%	9%	10%	14%	22%	11%
	39%	46%	36%	44%	44%	41%	42%
% of total revenues:							
Operating expenses:							
Selling and marketing	5%	22%	22%	23%	21%	6%	22%
Product development	21%	25%	30%	27%	26%	27%	28%
General and administrative	13%	17%	19%	19%	16%	13%	18%
	39%	64%	71%	69%	63%	46%	68%

* Excluding depreciation and amortization, stock option compensation expense, marketing cost from warrants issued, merger related costs, acquired in-process R&D, amortization of acquisition intangibles and interest & investment income.

Comparison of the Three and Nine Months Ended September 30, 2000 and September 30, 1999

Total revenues increased by $39.6 million to $64.4 million for the three months ended September 30, 2000 from $24.8 million in the three months ended September 30, 1999, an increase of 160%. The primary components of revenue for the third quarter 2000 were $14.6 million in software license fees, $42.2 million in professional services fees, $5.8 million in Data Center revenue and $1.8 million in other revenue. Total revenues increased by $121.4 million to $173.8 million for the nine months ended September 30, 2000 from $52.4 million for the nine months ended September 30, 1999. Approximately $32.2 million and $86.5 million of the increases for the three and nine months ended September 30, 2000, respectively, relate to the companies acquired in the fourth quarter of 1999 and the second quarter of 2000. The remaining increase for the three and nine months ended September 30, 2000 primarily relates to increases in professional services and Data Center revenue. The increases in professional service revenues were driven by several large implementation projects and a large product enhancement project. The growth in financial institutions and end-users using S1's Internet Financial applications in our data centers resulted in the increase in Data Center revenue for the three and nine months ended September 30, 2000.

Direct costs increased by $20.9 million to $36.1 million for the three months ended September 30, 2000 from $15.2 million for the three months ended September 30, 1999, an increase of 138%. Direct costs increased by $70.2 million to $101.4 million in the nine months ended September 30, 2000 from $31.2 million for the nine months ended September 30, 1999. Gross margins were 44% and 42% of total revenues in the three and nine months ended September 30, 2000, respectively, compared to 39% and 41% of total revenue in the three and nine months ended September 30, 1999, respectively. Approximately $15.1 million and $44.9 million of the increases for the three and nine months ended September 30, 2000, respectively, relate to the companies acquired in the fourth quarter of 1999 and the second quarter of 2000. The remaining increase for the three and nine months ended September 30, 2000, primarily relates to increases in the cost of professional services and Data Center. The increase in professional services cost were driven by increased personnel and infrastructure costs to drive several large implementation projects and a large product enhancement project. The increase in Data Center costs for the three and nine months ended September 30, 2000 relate to additional personnel and infrastructure necessary to support new customers, the addition of a new applications by our existing customers and the operations of our new data center in Singapore.

General and Administrative. General and administrative expenses increased by $7.0 million to $10.3 million in the three months ended September 30, 2000 from $3.3 million in the three months ended September 30, 1999, an increase of 214%. General and administrative expenses increased by $24.2 million to $31.2 million in the nine months ended September 30, 2000 from $7.0 million in the nine months ended September 30, 1999, an increase of 346%. General and administrative expenses were 16% and 18% of total revenues in the three and nine months ended September 30, 2000, compared to 13% of total revenues in the three and nine months ended September 30, 1999, respectively. The increase relates to the acquisition of five companies during the last year and the expanded personnel infrastructure necessary to manage our growth and global operations.

Depreciation and Amortization. Depreciation and amortization expenses increased by $5.0 million to $6.5 million in the three months ended September 30, 2000 from $1.5 million in the three months ended September 30, 1999, an increase of 346%. Depreciation and amortization expenses increased by $12.1 million to $16.1 million in the nine months ended September 30, 2000 from $3.9 million in the nine months ended September 30, 1999, an increase of 309%. Depreciation and amortization expenses were 10% and 9% of total revenues for the three and nine months ended September 30, 2000, respectively, compared to 6% and 7% of total revenues in the three and nine months ended September 30, 1999. A substantial portion of the increase is the result of the acquisition of five companies and their existing infrastructures during the last year. The balance of the increase is primarily the result of the acquisition of additional equipment for data center customers and the build out of the new data centers in Singapore and United Kingdom. We anticipate that the depreciation and amortization will continue to increase as the new United Kingdom data center goes into full production during the fourth quarter and as new and existing customers expand their activities in the data centers.

Stock Option Compensation Expense. Stock option compensation expense increased by $1.2 million to $1.3 million for the three months ended September 30, 2000 compared to $107,000 for the three months ended September 30, 1999, an increase of 1091%. Stock option compensation expense increased by $3.7 million to $4.1 million for the nine months ended September 30, 2000 compared to $321,000 for the nine months ended September 30, 1999, an increase of 1152%. The increase is primarily the result of the acquisitions completed in the fourth quarter of 1999.

Marketing Cost for Warrants Issued. The Company recorded $5.0 million of marketing costs in the nine months ended September 30, 2000 which includes a charge for $362,000 related to the vesting of a warrant previously granted to Andersen Consulting and a charge for a warrant issued in connection with a pilot project and distribution agreement between the third-party and one of our subsidiaries. The fair values of the warrants were determined based on the Black-Scholes option-pricing model.

Merger Related Costs. Merger related costs for the three and nine months ended September 30, 2000 were $5.1 million and $18.2 million, respectively, related to the acquisitions in 1999 and 2000. Approximately $1.5 million and $5.9 million of merger related costs incurred in the three and nine months ended September 30, 2000, respectively, consist of the cost of product development personnel working on the integration of all the products and platforms of the acquired companies. Also included in merger related costs incurred in the nine months ended September 30, 2000 are approximately $1.8 million of personnel costs related to professional service employees who are being cross trained on the products and services of the acquired companies. After the integration efforts are complete, these costs will be captured in the product development and professional services expense categories in the statement of operations. The remaining merger related costs incurred in the three and nine months ended September 30, 2000 consist primarily of expenditures related to building and consolidating infrastructure and other operations of the companies we acquired in the fourth quarter of 1999 and the second quarter of 2000.

We anticipate that an additional $2 million to $3 million of merger related costs will be incurred in the fourth quarter of 2000 and then such charges will end.

Amortization of Goodwill and Acquisition Charges. Amortization of goodwill and acquisition charges increased $112.4 million to $112.4 million in the three months ended September 30, 2000 from $0 in the three months ended September 30, 1999. Amortization of goodwill and acquisition charges increased $301.7 million to $301.9 million in the nine months ended September 30, 2000 from $206,000 in the nine months ended September 30, 1999. The increase related to the amortization of goodwill and other identifiable intangible assets resulting from the acquisitions in the fourth quarter of 1999 and second quarter of 2000.

Segment Analysis

In the third quarter of 2000, S1 began to operate and manage the Company in four business segments: Large Financial Institution, Community Bank, Call Center Technology and Internet Aggregation. The Large Financial Institution and Community Bank segments build, deliver and operate integrated, transactional and brandable Internet applications for financial institutions worldwide, available as an in-house solution or outsourced to an S1 data center. While the Large Financial Institution segment provides highly customized solutions to large global and national financial institutions, the Community Bank segment provides solutions that require little or no customization and are primarily sold to local and regional banks. Through the Call Center Technology, S1 offers interactive voice response and voice e-Commerce technology. The Internet Aggregation segment provides technology that enables consumers to aggregate personal account information from multiple sources. S1 manages the business based on these operating segments.

S1 evaluates the performance of its operating segments based on revenues, direct costs, gross margins and operating expenses, excluding depreciation and amortization, stock option compensation expense, marketing cost from warrants issued, merger related costs, acquired in-process research and development, interest and investment income and amortization of acquisition intangibles. In addition, the Company provides general and administrative services to the operating segments on a shared service basis and does not allocate these costs to the individual segments, therefore the general and administrative costs are excluded in the segment presentations. The Company does not produce reports that measure the performance according to any asset-based metrics.

Large Financial Institution Segment (unaudited)
(Dollars in thousands)

	Large Financial Institution Segment Three Months Ended					Nine Months Ended	
	9/30/99	**12/31/99**	**3/31/00**	**6/30/00**	**9/30/00**	**9/30/99**	**9/30/00**
Revenues:							
Software licenses	$ 2,260	$ 6,524	$ 3,666	$ 4,368	$ 5,048	$ 6,898	$ 13,082
Professional services	14,769	20,708	30,969	32,118	36,672	33,402	99,759
Data center	2,072	3,190	3,193	4,468	4,845	5,663	12,506
Other	5,698	2,039	1,761	1,207	1,798	6,511	4,766
Total revenues	24,799	32,461	39,589	42,161	48,363	52,474	130,113
Direct costs:							
Software licenses	99	25	24	75	3	331	102
Professional services	8,480	15,327	23,351	22,263	24,910	19,866	70,524
Data center	2,163	3,027	3,154	4,217	4,114	5,879	11,485
Other	4,425	2,010	1,594	1,084	1,542	5,102	4,220
Total direct costs	15,167	20,389	28,123	27,639	30,569	31,178	86,331
Gross margin	9,632	12,072	11,466	14,522	17,794	21,296	43,782
Operating expenses:							
Selling and marketing	1,153	4,891	6,632	6,899	6,184	3,406	19,715
Product development	5,221	7,137	11,066	11,844	11,192	13,981	34,102
	6,374	12,028	17,698	18,743	17,376	17,387	53,817
Segment operating income (loss)*	$ 3,258	$ 44	$(6,232)	$ (4,221)	$ 418	$ 3,909	$(10,035)
Gross margin %:							
Software licenses	96%	100%	99%	98%	100%	95%	99%
Professional services	43%	26%	25%	31%	32%	41%	29%
Data center	(4%)	5%	1%	6%	15%	(4%)	8%
Other	22%	1%	9%	10%	14%	22%	11%
	39%	37%	29%	34%	37%	41%	34%
% of segment revenues:							
Operating expenses:							
Selling and marketing	5%	15%	17%	16%	13%	6%	15%
Product development	21%	22%	28%	28%	23%	27%	26%
	26%	37%	45%	44%	36%	33%	41%

* Excluding depreciation and amortization, stock option compensation expense, marketing cost from warrants issued, merger related costs, acquired in-process R&D, amortization of acquisition intangibles and interest & investment income.

Revenues, Direct Costs and Gross Margins

Total revenues increased by $23.6 million to $48.4 million for the three months ended September 30, 2000 from $24.8 million in the three months ended September 30, 1999, an increase of 95%. The primary components of third quarter 2000 revenue were $5.1 million in software license fees, $36.7 million in professional service fees, $4.8 million in Data Center revenue and $1.8 million of other revenue primarily related to third party hardware and software sales. Total revenues increased by $77.6 million to $130.1 million for the nine months ended September 30, 2000 from $52.5 million in the nine months ended September 30, 1999, an increase of 148%.

Direct costs increased by $15.4 million to $30.6 million in the three months ended September 30, 2000 from $15.2 million in the three months ended September 30, 1999, an increase of 102%. Direct costs increased by $55.1 million to $86.3 million in the nine months ended September 30, 2000 from $31.2 million in the nine months ended September 30, 1999, an increase of 177%. Gross margin was 37% in the quarter ended September 30, 2000 compared to 39% of total revenues in the quarter ended September 30, 1999. Gross margin was 34% for the nine months ended September 30, 2000 compared to 41% for the nine months ended September 30, 1999.

In November 2000, S1 announced a 7% reduction of its existing workforce. The reduction in the workforce is primarily the result of management's decision to discontinue development of the Edify retail banking platform. S1 intends to continue to offer support services to the approximately 140 financial institutions using this platform for up to 24 months. During this period, S1 will offer the existing customers a migration path to either the Consumer Suite or Community Bank Suite products. The revenues and costs associated with the discontinued platform are primarily reflected in the Large Financial Institution segment. As a result of discontinuing the product, certain customers may elect to move to other products resulting in a potential reduction in revenue.

Software license. Software license fees increased by $2.8 million to $5.1 million in the three months ended September 30, 2000 from $2.3 million in the three months ended September 30, 1999, an increase of 122%. Software license fees increased by $6.2 million to $13.1 million in the nine months ended September 30, 2000 from $6.9 million in the nine months ended September 30, 1999, an increase of 90%. Software license fees represented 10% of total revenues in the three months ended September 30, 2000 compared to 9% of total revenues in the three months ended September 30, 1999. Software license fees represented 10% of total revenues in the nine months ended September 30, 2000 compared to 13% of total revenues in the nine months ended September 30, 1999. The majority of the increase for the three and nine months ended September 30, 2000 relates to the acquisitions of Edify and FICS, which occurred in the fourth quarter of 1999.

Direct software license costs consist primarily of the cost of third-party software used in the S1 Consumer Suite. Direct costs associated with software licenses decreased by $96,000 to $3,000 in the three months ended September 30, 2000 from $99,000 in the three months ended September 30, 1999, a decrease of 97%. Direct costs associated with software licenses decreased by $229,000 to $102,000 in the nine months ended September 30, 2000 from $331,000 in the nine months ended September 30, 1999, an decrease of 69%. Gross margins of software licenses were 100% and 99% for the three and nine months ended September 30, 2000 compared to gross margins of 96% and 95% for the three and nine months ended September 30, 1999, respectively. We anticipate that direct costs associated with software licenses as a percentage of revenue could increase in future periods as additional products are sold that include third-party software.

During the three and nine months ended September 30, 2000, S1 recognized approximately $126,000 and $1.8 million, respectively, in license fees from the sale of the discontinued Edify retail banking platform. Due to the discontinuance of the platform, we anticipate that further license sales will be minimal.

Professional services. Professional services revenues increased by $21.9 million to $36.7 million in the three months ended September 30, 2000 from $14.8 million in the three months ended September 30, 1999, an increase of 148%. Professional services revenues increased by $66.4 million to $99.8 million in the nine months ended September 30, 2000 from $33.4 million in the nine months ended September 30, 1999, an increase of 199%. Professional services revenues represented 76% of total revenues in the three months ended September 30, 2000 compared to 60% of total revenues in the three months ended September 30, 1999. Of the $21.9 million increase in the three months ended September 30, 2000, $13.4 million is related to the acquisitions in the second quarter of 2000 and fourth quarter of 1999. Professional services revenues represented 77% of total revenues in the nine months ended September 30, 2000 compared to 64% of total revenues in the nine months ended September 30, 1999. Approximately, $37.6 million of the $66.4 increase for the nine months ended September 30, 2000 relates to the acquisitions in the second quarter 2000 and fourth quarter of 1999. The remaining increases for the three and nine months ended September 30, 2000 were driven by several large implementation projects and a large product enhancement project.

Direct professional services costs consist primarily of personnel and related infrastructure costs. Direct costs associated with professional services increased by $16.4 million to $24.9 million in the three months ended September 30, 2000 from $8.5 million in the three months ended September 30, 1999, an increase of 193%. Direct costs associated with professional services increased by $50.6 million to $70.5 million in the nine months ended September 30, 2000 from $19.9 million in the nine months ended September 30, 1999, an increase of 254%. Approximately $10.6 million and $30.1 million of the increase in professional services costs for the three and nine months ended September 30, 2000, respectively, is attributable to the acquisitions in 1999 and 2000. The remaining increase for the three and nine months ended September 30, 2000 relates to additional resources needed to perform work on the large implementations and product enhancement projects. Gross margin on professional services for the three months ended September 30, 2000 was 32%, compared to 43% for the three months ended September 30, 1999. Gross margin on professional services was 29% for the nine months ended September 30, 2000, compared to 41% for the nine months ended September 30, 1999. This decrease is primarily due to lower margin contracts inherited as part of the acquisitions made in 1999. We anticipate that professional services margins could remain at these levels for the next several quarters as the acquired companies historically experienced lower professional services margins than we experienced on a stand-alone basis.

During the three and nine months ended September 30, 2000, S1 recognized approximately $2.8 million and $9.8 million, respectively, in professional services and maintenance fees from the implementation and maintenance of the discontinued Edify retail banking platform. At the time of announcement, several customers were in the process of implementing the discontinued product. These implementations should be completed during the next two quarters. Subsequent to the completion of these projects, we anticipate that further implementation fees from the discontinued product will be minimal.

Data Center. Data Center revenues increased by $2.7 million to $4.8 million in the three months ended September 30, 2000 from $2.1 million in the three months ended September 30, 1999, an increase of 129%. Data Center revenues increased by $6.8 million to $12.5 million in the nine months ended September 30, 2000 from $5.7 million in the nine months ended September 30, 1999, an increase of 119%. Data Center revenues represented 10% of total revenues in the three months ended September 30, 2000 compared to 8% of total revenues in the three months ended September 30, 1999. Data Center revenues represented 10% of total revenues in the nine months ended September 30, 2000 compared to 11% of total revenues in the nine months ended September 30, 1999.

The increase in revenues for the three and nine months ended September 30, 2000 is attributable to growth in financial institutions and end-users using S1's Internet financial applications. Revenues associated with our data centers are directly influenced by the number of financial institutions that are using the Company's products through our data centers and the number of end-users of these financial services entities. As of the end of September 2000, the data centers processed in excess of 864,000 Internet accounts, representing approximately 722,000 end-users. This represents an increase of 240% in the number of accounts processed from approximately 254,000 and an increase of 343% in the number of end-users from approximately 163,000 for the month of September 1999. The average quarterly revenue per billable end-user decreased to $9.09 in the third quarter of 2000 from $14.52 in the third quarter of 1999. As expected, the average quarterly revenue per billable end-user has decreased as financial services entities have increased the number of their customers using the products. S1 anticipates that this trend will continue.

S1 anticipates that Data Center revenue will continue to grow both domestically and as a result of its new data center in the UK, which is expected to open with its first customers on-line in a testing environment during the fourth quarter of 2000. However, the rate of Data Center revenue growth could be impacted by the termination of one U.S. hosted financial institution during the fourth quarter, which contributed approximately $287,000 in revenue during the third quarter of 2000.

Direct Data Center costs consist of personnel and infrastructure to support customer installations. Direct costs associated with Data Center services increased by $2.0 million to $4.1 million in the three months ended September 30, 2000 from $2.1 million in the three months ended September 30, 1999, an increase of 95%. Direct costs associated with Data Center services increased by $5.6 million to $11.5 million in the nine months ended September 30, 2000 from $5.9 million in the nine months ended September 30, 1999, an increase of 95%. The increase in cost is primarily attributed to additional personnel and infrastructure necessary to support new customers, the addition of new applications by our existing customers and the operations of our new data center in Singapore. The gross margin on the Data Center revenue was 15% for the three months ended September 30, 2000, compared to a negative margin of 4% for the three months ended September 30, 1999. Gross margin was 8% for the nine months ended September 30, 2000, compared to a negative margin of 4% for the nine months ended September 30, 1999.

In the fourth quarter management anticipates that the UK data center will open with its first customer on-line in a testing environment. Historically, a new data center operates at a negative gross margin for a period of time. As a result, the Data Center gross margin could remain stable with the third quarter or grow at a reduced rate.

Other. Other revenues, primarily related to the sale of third party hardware and software that are used in connection with our products, decreased by $3.9 million to $1.8 million in the three months ended September 30, 2000 from $5.7 million in the three months ended September 30, 1999, a decrease of 68%. Other revenues decreased by $1.7 million to $4.8 million in the nine months ended September 30, 2000 from $6.5 million in the nine months ended September 30, 1999, a decrease of 26%. Other revenues represented 4% of total revenues in the three months ended September 30, 2000 compared to 23% of total revenues in the three months ended September 30, 1999. Other revenues represented 4% and 12% of total revenues in the nine months ended September 30, 2000 and September 30, 1999, respectively. The decrease in other revenue for the three and nine months ended September 30, 2000 is due to a large sale of third party hardware and software made in the third quarter of 1999.

Other direct costs consist primarily of the cost of third party software and hardware sold for use with our products. Other direct costs decreased by $2.9 million to $1.5 million in the three months ended September 30, 2000 from $4.4 million in the three months ended September 30, 1999, a decrease of 66%. Other direct costs decreased by $882,000 to $4.2 million in the nine months ended September 30, 2000 from $5.1 million in the nine months ended September 30, 1999, a decrease of 17%. Gross margin on other revenue was 14% for the three months ended September 30, 2000, compared to 22% for the three months ended September 30, 1999. Gross margin on other revenue was 11% for the nine months ended September 30, 2000, compared to 22% for the nine months ended September 30, 1999.

Operating Expenses

Operating expenses, which includes sales and marketing and product development expenses, increased by $11.0 million to $17.4 million in the three months ended September 30, 2000 from $6.4 million in the three months ended September 30, 1999. Operating expenses increased by $36.4 million to $53.8 million in the nine months ended September 30, 2000 from $17.4 million in the nine months ended September 30, 1999.

Selling and Marketing. Selling and marketing expenses increased by $5.0 million to $6.2 million in the three months ended September 30, 2000 from $1.2 million in the three months ended September 30, 1999, an increase of 417%. Selling and marketing expenses increased by $16.3 million to $19.7 million in nine months ended September 30, 2000 from $3.4 million in the nine months ended September 30, 1999, an increase of 479%. The increase in selling and marketing expense for both the three and nine months ended September 30, 2000 was primarily due to the acquisitions completed in the fourth quarter of 1999. Selling and marketing expenses were 13% and 15% of total revenues in the three and nine months ended September 30, 2000, respectively, compared to 5% and 6% of total revenues in the three and nine months ended September 30, 1999.

Product Development. Product development expenses increased by $6.0 million to $11.2 million in the three months ended September 30, 2000 from $5.2 million in the three months ended September 30, 1999, an increase of 115%. Product development expenses increased by $20.1 million to $34.1 million in the nine months ended September 30, 2000 from $14.0 million in the nine months ended September 30, 1999, an increase of 144%. Product development expenses were 23% and 26% of total revenues in the three and nine months ended September 30, 2000, respectively, compared to 21% and 27% of total revenues in the three and nine months ended September 30, 1999. The increase in product development expense for both the three and nine months ended September 30, 2000 was primarily due to the acquisitions completed in the fourth quarter of 1999 and second quarter of 2000. In addition, S1 is committed to enhancing products by migrating the existing products to a more efficient software architecture and to developing new applications.

In November 2000, S1 discontinued development on the Edify retail banking platform. The expenses associated with developing this platform have been reflected in the Large Financial Institution segment. As a result of the decision to discontinue this platform, S1 anticipates that product development expenses should decline in the fourth quarter of 2000.

Community Bank Segment (unaudited)
(Dollars in thousands)

	Community Bank Segment Three Months Ended					Nine Months Ended	
	9/30/99	12/31/99	3/31/00	6/30/00	9/30/00	9/30/99	9/30/00
Revenues:							
Software licenses	$ —	$ —	$ —	$3,284	$3,268	$ —	$6,552
Professional services	—	—	—	1,106	1,462	—	2,568
Data center	—	—	—	265	385	—	650
Total revenues	—	—	—	4,655	5,115	—	9,770
Direct costs:							
Software licenses	—	—	—	185	556	—	741
Professional services	—	—	—	731	1,120	—	1,851
Data center	—	—	—	122	175	—	297
Total direct costs	—	—	—	1,038	1,851	—	2,889
Gross margin	—	—	—	3,617	3,264	—	6,881
Operating expenses:							
Selling and marketing	—	—	—	1,327	1,829	—	3,156
Product development	—	—	—	479	282	—	761
	—	—	—	1,806	2,111	—	3,917
Segment operating income*	$ —	$ —	$ —	$1,811	$1,153	$ —	$2,964
Gross margin %:							
Software licenses	—	—	—	94%	83%	—	89%
Professional services	—	—	—	34%	23%	—	28%
Data center	—	—	—	54%	55%	—	54%
	—	—	—	78%	64%	—	70%
% of segment revenues:							
Operating expenses:							
Selling and marketing	—	—	—	29%	36%	—	32%
Product development	—	—	—	10%	6%	—	8%
	—	—	—	39%	41%	—	40%

* Excluding depreciation and amortization, stock option compensation expense, marketing cost from warrants issued, merger related costs, acquired in-process R&D, amortization of acquisition intangibles and interest & investment income.

Revenues, Direct Costs and Gross Margins

The Community Bank Segment was established following the acquisition of Q UP in the second quarter 2000, therefore the entire increase as compared to 1999 relates to the acquisition. Total revenues were $5.1 million in the three months ended September 30, 2000 and $9.8 million in the nine months ended September 30, 2000. License revenue was $3.3 million and $6.6 million in the three and nine months ended September 30, 2000, respectively. Professional services revenue were $1.5 million and $2.6 million in the three and nine months ended September 30, 2000, respectively. Data Center revenues were $385,000 and $650,000 in the three and nine months ended September 30, 2000, respectively.

Total direct costs were $1.9 million in the three months ended September 30, 2000 and $2.9 million for the nine months ended September 30, 2000. The gross margin was 64% and 70% for the three and nine months ended September 30, 2000, respectively. Direct costs of license revenue were $556,000 and $741,000 in the three and nine months ended September 30, 2000, respectively. Gross margin on license revenue was 83% and 89% for the three and nine months ended September 30, 2000, respectively. Direct costs of license revenue primarily represents the cost of third party software used in Community Bank products. Direct cost associated with license revenue will vary from quarter to quarter based on the percentage of sales, which include third party software. Direct costs of professional service revenues were $1.1 million and $1.9 million in the three and nine months ended September 30, 2000, respectively. Gross margin on professional services revenue was 23% and 28% for the three and nine months ended September 30, 2000, respectively. Direct costs of Data Center revenues were $175,000 and $297,000 in the three and nine months ended September 30, 2000, respectively. Gross margin on Data Center revenue was 55% and 54% for the three and nine months ended September 30, 2000, respectively.

Operating Expenses

Selling and marketing expenses were $1.8 million and $3.2 million in the three and nine months ended September 30, 2000, respectively. Selling and marketing expenses as a percentage of revenues were 36% and 32% in the three and nine months ended September 30, 2000, respectively. Selling and marketing expenses grew during the third quarter of 2000, as compared to the second quarter of 2000, due to the expansion of the sales force necessary to focus on the larger number of prospective customers.

Product development expenses were $282,000 and $761,000 in the three and nine months ended September 30, 2000, respectively. Product development expenses were 6% and 8% of total revenues in the three and nine months ended September 30, 2000, respectively. S1 anticipates that product development costs will increase in future periods as the product offerings will be enhanced to address a broader market of financial institutions.

Internet Aggregation Segment (unaudited)
(Dollars in thousands)

	Internet Aggregation Segment Three Months Ended					Nine Months Ended	
	9/30/99	12/31/99	3/31/00	6/30/00	9/30/00	9/30/99	9/30/00
Revenues:							
Data center	$ —	$ 5	$ 314	$ 584	$ 559	$ —	$ 1,457
Direct costs:							
Data center		102	198	467	626		1,291
Gross margin	—	(97)	116	117	(67)	—	166
Operating expenses:							
Selling and marketing	—	764	997	1,187	1,474	—	3,658
Product development	—	1,029	2,159	1,549	3,047	—	6,755
	—	1,793	3,156	2,736	4,521	—	10,413
Segment operating loss*	$ —	$(1,890)	$(3,040)	$(2,619)	$(4,588)	$ —	$(10,247)
Gross margin %:							
Data center	—	(1940%)	37%	20%	(12%)	—	11%
	—	(1940%)	37%	20%	(12%)	—	11%

	Internet Aggregation Segment Three Months Ended					Nine Months Ended	
	9/30/99	12/31/99	3/31/00	6/30/00	9/30/00	9/30/99	9/30/00
% of segment revenues:							
Operating expenses:							
Selling and marketing	—	15280%	318%	203%	264%	—	251%
Product development	—	20580%	688%	265%	545%	—	464%
	—	35860%	1005%	468%	809%	—	715%

* Excluding depreciation and amortization, stock option compensation expense, marketing cost from warrants issued, merger related costs, acquired in-process R&D, amortization of acquisition intangibles and interest & investment income.

Revenues, Direct Costs and Gross Margins

The Internet Aggregation Segment was established following the acquisition of VerticalOne in the fourth quarter 1999, therefore the entire increase as compared to 1999 relates to the timing of the acquisition.

Total revenues for the Internet Aggregation Segment were $559,000 in the three months ended September 30, 2000 and $1.5 million in the nine months ended September 30, 2000. Total direct costs were $626,000 in the three months ended September 30, 2000 and $1.3 million for the nine months ended September 30, 2000. Gross margin was negative 12% and 11% for the three and nine months ended September 30, 2000, respectively. The negative gross margin in the third quarter was the result of costs incurred related to two new customers that did not result in a significant increase in revenue during the third quarter 2000.

We have experienced domestic competitive pricing pressures during the most recent quarters, which we expect to have a continuing impact on revenues and gross margins in the future.

Operating Expenses

Selling and marketing expenses were $1.5 million and $3.7 million in the three and nine months ended September 30, 2000, respectively. Selling and marketing expenses were 264% and 251% of total revenues in the three and nine months ended September 30, 2000, respectively. We will continue to make investments in our selling and marketing activities to establish market share and promote our aggregation services both domestically and internationally. Product development expenses were $3.0 million and $6.8 million in the three and nine months ended September 30, 2000, respectively. Product development expenses were 545% and 464% of total revenues in the three and nine months ended September 30, 2000, respectively. The increase in product development expenses as a percentage of total revenue during the third quarter was the result of expanded efforts to enhance the international functionality of the Aggregation product.

S1 recognizes that the aggregation business is still in its very early stages and is likely to require continued significant investment in sales and marketing and product development. While S1 is committed to maintaining the aggregation feature as part of its products and services, we continue to analyze our alternatives for utilizing this operating segment.

Call Center Technology Segment (unaudited)
(Dollars in thousands)

	Call Center Technology Segment Three Months Ended					Nine Months Ended	
	9/30/99	**12/31/99**	**3/31/00**	**6/30/00**	**9/30/00**	**9/30/99**	**9/30/00**
Revenues:							
Software licenses	$ —	$5,628	$ 7,053	$ 7,678	$ 6,270	$ —	$21,001
Professional services	—	2,322	3,413	4,006	4,072	—	11,491
Total revenues	—	7,950	10,466	11,684	10,342	—	32,492
Direct costs:							
Software licenses	—	286	1,497	966	577	—	3,040
Professional services	—	1,134	2,533	2,871	2,441	—	7,845
Total direct costs	—	1,420	4,030	3,837	3,018	—	10,885
Gross margin	—	6,530	6,436	7,847	7,324	—	21,607
Operating expenses:							
Selling and marketing	—	3,108	3,777	3,983	4,179	—	11,939
Product development	—	1,889	1,767	1,958	2,403	—	6,128
	—	4,997	5,544	5,941	6,582	—	18,067
Segment operating income*	$ —	$1,533	$ 892	$ 1,906	$ 742	$ —	$ 3,540
Gross margin %:							
Software licenses	—	95%	79%	87%	91%	—	86%
Professional services	—	51%	26%	28%	40%	—	32%
	—	82%	61%	67%	71%	—	66%
As a percent of revenue:							
Operating expenses:							
Selling and marketing	—	39%	36%	34%	40%	—	37%
Product development	—	24%	17%	17%	23%	—	19%
	—	63%	53%	51%	64%	—	56%

* Excluding depreciation and amortization, stock option compensation expense, marketing cost from warrants issued, merger related costs, acquired in-process R&D, amortization of acquisition intangibles and interest & investment income.

Revenues, Direct Costs and Gross Margins

The Call Center Technology segment was established following the acquisition of Edify in the fourth quarter 1999, therefore the entire increase as compared to 1999 relates to the timing of the acquisition.

Total revenues were $10.3 million in the three months ended September 30, 2000 and $32.5 million in the nine months ended September 30, 2000. License revenue was $6.3 million and $21.0 million in the three and nine months ended September 30, 2000, respectively. Professional services revenue was $4.1 million and $11.5 million in the three and nine months ended September 30, 2000, respectively.

Total direct costs were $3.0 million in the three months ended September 30, 2000 and $10.9 million for the nine months ended September 30, 2000. Gross margin was 71% and 66% for the three and nine months ended September 30, 2000, respectively. Direct costs of license revenue were $577,000 and $3.0 million in the three and nine months ended September 30, 2000. Gross margin of license revenues for the three and nine months ended September 30, 2000 was 91% and 86%, respectively. Direct costs of license revenue primarily represents the cost of third party software used in our call center technology products. Direct cost associated with license revenue will vary from quarter to quarter based on the percentage of sales, which include third party software. Direct costs of professional services revenues were $2.4 million and $7.8 million in the three and nine months ended September 30, 2000. Gross margin of professional services revenues was 40% and 32% for the three and nine months ended September 30, 2000, respectively.

Operating Expenses

Selling and marketing expenses were $4.2 million and $11.9 million in the three and nine months ended September 30, 2000, respectively. Selling and marketing expenses as a percentage of revenues were 40% and 37% in the three and nine months ended September 30, 2000, respectively. Selling and marketing expenses as a percentage of revenues in the Call Center Technology Division are greater than the other divisions within the company as a result of having a larger sales force to focus on the larger number of prospective customers.

Product development expenses were $2.4 million and $6.1 million in the three and nine months ended September 30, 2000, respectively. Product development expenses were 23% and 19% of total revenues in the three and nine months ended September 30, 2000. We anticipate that product development costs will continue to increase as we continue to invest in research and development to address multi-channel and natural language processing technologies.

Liquidity and Capital Resources

Total stockholders' equity increased to $1,285.5 million at September 30, 2000 from $990.8 million at December 31, 1999. The increase in stockholders' equity is attributable to $440.6 million of common stock and stock options issued in connection with the acquisitions completed during the second quarter of 2000, $232.0 million of net proceeds from the issuance of Series D Preferred Stock, $16.7 million of proceeds from the sale of common stock under the Employee Stock Purchase and Options Plans, offset by the net loss of $364.3 million for the nine months ended September 30, 2000, the realized gain on the sale of investment securities available for sale and a decrease in the net unrealized gain on investment securities.

As of September 30, 2000, we had cash and cash equivalents of $197.9 million compared to $67.9 million at December 31, 1999 and investment securities available for sale, which consisted entirely of equity securities, of $22.6 million at September 30, 2000 compared to $62.8 million at December 31, 1999.

During the nine months ended September 30, 2000, cash used in operations was $117.5 million compared to cash used in operations of $14.0 million in the nine months ended September 30, 1999. The increase in cash used in operations during 2000 is primarily the result of the net loss for the period offset by non-cash charges, the reduction of accounts payable and accrued expenses of $30.0 million and an increase in accounts receivable of $26.7 million.

Cash provided by investing activities was $4.1 million for the nine months ended September 30, 2000 compared to net cash used in investing activities of $40.6 million in the comparable period of 1999. The increase in cash provided by investing activities for the nine months ended September 30, 2000 is the result of the proceeds from the sale of investment securities available for sale of $36.5 million and $6.0 million of cash acquired through acquisitions, which was offset by purchases of property and equipment of $32.1 million. Capital expenditures in 2000 relate to the expansion of our facilities infrastructure to accommodate our growth and the establishment of our new data center facilities in Asia and Europe. During the nine months ended September 30, 2000, investments were made in companies that are considered to have technology or products that compliment our product and services offerings.

Cash provided by financing activities was $243.5 million for the nine months ended September 30, 2000 compared to $68.8 million in the comparable period of 1999. The increase relates to proceeds of $232.0 million, net of issuance costs, from the sale of preferred stock and $16.7 million in proceeds from common stock sold under the Employee Stock Purchase and Option Plans in the nine months ended September 30, 2000. During the nine months ended September 30, 1999, the Company received proceeds of $64.0 million, net of expenses, for the sale of common stock.

Basic loss per share is calculated as income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated to reflect the potential dilution that would occur if stock options or other contracts to issue common stock were exercised and resulted in additional common stock that would share in the earnings of the Company. Because of the Company's net losses, the issuance of additional shares of common stock under stock options and warrants or upon the conversion of preferred stock would be antidilutive. The total number of common shares that would have been used in the Company's computation of diluted earnings per share for the three month period ended September 30, 2000 and 1999 was 68,036,634 and 37,725,143, respectively. The total number of common shares that would have been used in the Company's computation of diluted earnings per share for the nine month period ended September 30, 2000 and 1999 was 71,717,822 and 36,260,699, respectively.

Recent Accounting Pronouncements

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB101"). In June 2000, the SEC released SAB101B, which defers reporting on the effects of the adoption of SAB 101 until December 31, 2000. The Company is evaluating the implications of SAB101 and to date nothing has been identified that would significantly change the Company's historical practices with respect to the events that trigger revenue recognition and the measurement of revenue.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44, Accounting of Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25. The Interpretation poses and answers 20 questions dealing with APB 25 implementation practice issues. The Interpretation will be applied prospectively to new awards, modification to outstanding awards and changes in employee status on or after July 1, 2000. In certain circumstances, the Interpretation must be applied commencing December 15, 1998 and January 12, 2000. The Company adopted Interpretation No. 44 upon the July 1, 2000 effective date and the adoption did not have a material effect on the consolidated financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement is effective for financial statements for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company intends to adopt this statement when required and does not expect the adoption of SFAS 133 to have a material impact on the consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risk were included in Item 7A of the Company's 1999 Annual Report on Form 10-K. There have been no significant changes in the Company's market risk from December 31, 1999.

PART II — OTHER INFORMATION

Item 1. Legal proceedings.

Commencing May 8, 2000, several substantially similar complaints were filed in the United States District Court in Atlanta, Georgia against S1, Michel Akkermans, James Mahan and Robert Stockwell alleging violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and Section 20 of the Securities Exchange Act of 1934. The named plaintiffs seek to represent a class of all persons who purchased S1 shares between November 2, 1999 and May 2, 2000. Their complaints assert generally that S1 and the individuals defendants made or authorized the issuance of false and misleading statements concerning the anticipated performance of S1, which they claim led to artificial inflation of the price at which S1's shares were traded. S1 expects that several cases will be consolidated into one proceeding. S1 believes that the allegations in these complaints are wholly devoid of merit, and it and the individual defendants intend to defend themselves vigorously against these claims.

Item 2. Changes in Securities and Use of Proceeds.

(a) Not applicable.

(b) Not applicable.

(c) On July 17, 2000, S1 issued 43,000 shares of common stock to Royal Bank of Canada upon the conversion of 21,500 shares of S1's Series C Redeemable Convertible Preferred Stock. The issuance of the stock to Royal Bank of Canada satisfied the requirements of Section 4(2) of the Securities Act (transactions by an issuer not involving any public offering).

(d) Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

No.	Description
10.1	Amendment to Security First Network Bank Amended and Restated Directors' Stock Option Plan.*
10.2	Amendment to Security First Technologies Corporation 1998 Directors' Stock Option Plan.*
10.3	Alliance Center Office Lease Agreement, entered into as of February 25, 2000, by and between Solano Associates, as Landlord, and Security First Technologies, Inc., as Tenant
10.4	Employment Agreement, entered into as of August 14, 2000, by and between S1 Corporation and Daniel H. Drechsel.*
27	Financial Data Schedule

* Management contract or compensatory plan

(b) Reports on Form 8-K.

S1 filed the following Current Reports on Form 8-K with the Securities and Exchange Commission (the "SEC") during the quarter ended September 30, 2000:

Current Report on Form 8-K filed with the SEC on August 9, 2000 (date of report August 1, 2000) (regarding a press release and an analysts conference call related to second quarter 2000 results and S1 and its operations).

Current Report on Form 8-K filed with the SEC on September 8, 2000 (date of report September 8, 2000) (announcing an analysts conference).

Current Report on Form 8-K filed with the SEC on September 12, 2000 (date of report September 8, 2000) (regarding an analysts conference).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, as of November 14, 2000.

S1 CORPORATION

By: ____

Robert F. Stockwell
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

EXHIBIT INDEX

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