

NETZEE INC
Form 10-Q
May 15, 2001

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

EXCHANGE
ACT OF 1934
FOR THE
QUARTERLY
PERIOD
ENDED
MARCH 31,
2001 Or
TRANSITION
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934
FOR THE
TRANSITION
PERIOD
FROM _____
to _____,
20____.

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

Commission file number: 0-27925

Netzee, Inc.

(Exact name of registrant as specified in its charter)

Georgia

58-2488883

*(State or other jurisdiction of incorporation or organization) (I.R.S.
Employer Identification No.)*

6190 Powers Ferry Road, Suite 400, Atlanta, Georgia 30339

(Address of principal executive offices)

(770) 850-4000

(Registrant's telephone number including area code)

N/A

*(Former name, former address and former fiscal year,
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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 5, 2001, there were 26,761,218 shares of the Registrant's Common Stock outstanding.

NETZEE, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**NETZEE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	<u>December 31, 2000</u>	<u>March 31, 2001</u>
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$960,231	\$413,525
Short-term investments	135,000	386,348
Accounts receivable, net of allowance for doubtful accounts of \$641,447 and \$559,257, at December 31, 2000 and March 31, 2001, respectively	5,836,904	4,192,832
Leases receivable, current	671,580	673,867
Prepaid and other current assets	1,130,294	793,245
	<hr/>	
Total current assets	8,734,009	6,459,817
Property and equipment, net of accumulated depreciation of \$3,552,971 and \$3,267,773, at December 31, 2000 and March 31, 2001, respectively	6,616,804	5,010,075
Intangible assets, net of accumulated amortization of \$47,824,555 and \$44,040,644, at December 31, 2000 and March 31, 2001, respectively	89,950,659	58,121,036
Leases receivable, net of current portion	1,202,606	1,083,722
Other non-current assets	210,942	208,951
	<hr/>	
Total assets	\$106,715,020	\$70,883,601
	<hr/>	
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$1,784,480	\$1,229,610
Accrued liabilities	4,372,821	4,649,889
Deferred revenue	7,263,099	3,752,704
Note payable, current portion	134,231	
Other current liabilities	668,151	649,995
	<hr/>	
Total current liabilities	14,222,782	10,282,198
Related-party borrowings	20,000,000	9,405,834
Note payable, net of current portion	1,465,590	
Deferred revenue, net of current		

portion 1,436,576 1,310,599

Total
 liabilities 37,124,948 20,998,631 **Commitments**
and contingencies Redeemable
 preferred stock, no par value;
 5,000,000 shares authorized; 8%
 convertible preferred stock, \$13
 stated value; 500,000 shares
 authorized, issued and outstanding
 at December 31, 2000 and
 March 31,
 2001 16,500,000 6,500,000 **Shareholders**
equity: Common stock, no par
 value; 70,000,000 shares authorized
 at December 31, 2000 and
 March 31, 2001, respectively;
 26,867,960 and 26,761,218 shares
 issued and outstanding at
 December 31, 2000 and March 31,
 2001,
 respectively 192,304,886 191,992,447 **Notes**
 receivable from
 shareholders (1,525,467) (1,241,571) **Deferred**
stock
 compensation (3,595,682) (2,871,824) **Accumulated**
deficit (124,093,665) (144,494,082)

Total shareholders
 equity 63,090,072 43,384,970

Total liabilities and shareholders
equity \$106,715,020 \$70,883,601

The accompanying notes are an integral part of these balance sheets.

NETZEE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	March 31, 2000	March 31, 2001
	(Unaudited)	(Unaudited)
Revenues:		

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Monthly maintenance and service \$2,757,236 \$6,921,051 License, hardware, implementation and other \$58,113 \$547,415

Total revenues \$2,815,349 \$7,468,466 **Operating expenses:** Cost of services, license, hardware, implementation and maintenance \$1,590,902 \$4,383,965 Selling and marketing \$2,242,075 \$1,301,594 General and administrative, excluding amortization of stock-based

compensation and restructuring costs \$1,828,822 \$3,503,132 Amortization of stock-based compensation \$792,759 \$480,133 Restructuring costs \$1,858,645 Loss on sale of assets \$5,762,208 Depreciation \$275,278 \$495,071 Amortization \$11,733 \$7,989 \$657,281

Total operating expenses \$18,463,634 \$27,442,029

Operating loss \$(15,648,285) \$(19,973,563) Interest expense, net \$(68,727) \$(296,854)

Net loss before preferred dividends and cumulative effect of change in accounting principle \$(15,717,012) \$(20,270,417) Preferred stock dividends \$(130,000) \$(130,000)

Net loss attributable to common shareholders before cumulative effect of change in accounting principle \$(15,847,012) \$(20,400,417) Cumulative effect of change in accounting principle \$(351,980)

Net loss attributable to common shareholders \$(16,198,992) \$(20,400,417)

Basic and diluted net loss per share before cumulative effect of change in accounting principle \$(0.76) \$(0.76) Loss per share from cumulative effect of change in accounting principle (0.02)

Basic and diluted net loss per share \$(0.78) \$(0.76)

Weighted average common shares outstanding 20,780,927 26,856,100

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

	Three Months Ended	
	March 31, 2000	March 31, 2001
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net loss attributable to common shareholders	\$(16,198,992)	\$(20,400,417)
Adjustments to reconcile net loss to net cash used in operating activities:		
Cumulative effect of change in accounting principle	351,980	
Restructuring costs	1,858,645	
Depreciation and amortization	12,009,076	10,152,352
Stock-based compensation expense	792,759	480,133
Loss on sale of assets	5,762,208	
Provision for bad debt	80,000	58,962
Interest income on shareholder notes	(56,058)	(16,104)
Changes in assets and liabilities, net of effect of acquisitions and dispositions:		
Accounts receivable	(2,140,615)	1,241,433
Leases receivable	(463,372)	116,597
Prepaid and other current assets	(378,265)	68,066
Accounts payable	(278,405)	(554,870)
Accrued liabilities	(1,025,712)	(1,131,835)
Deferred revenue	2,557,205	(911,834)
Other	76,457	128,650
	(4,673,942)	(3,148,014)
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(285,890)	
Purchase of short-term investments	(250,000)	
Proceeds from sale of assets	14,146,941	
Purchase of property, equipment and capitalized software	(931,092)	(567,422)
	(931,092)	13,043,629
Cash flows from financing activities:		
Related party borrowings	6,404,661	1,854,385
Payments on related party borrowings	(9,611,500)	(12,596,706)
Payments of notes payable	(2,641,674)	
Repayment of shareholder notes	300,000	
Payments of preferred stock dividends	24,200	
Proceeds from exercise of warrants	1,501,097	
Proceeds from exercise of options for common stock	2,500	
	(4,320,716)	(10,442,321)

Net decrease in cash and cash equivalents(9,925,750)(546,706)Cash and cash equivalents, beginning of period11,255,099960,231

Cash and equivalents, end of period\$1,329,349\$413,525

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:Cash paid for interest\$68,727\$719,029

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:Stock issued for acquisitions\$19,446,037\$

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

NETZEE, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF BUSINESS

Overview

We are a provider of integrated Internet banking products and services to financial institutions and their customers. We provide a retail suite of integrated Internet banking products and services and Internet commerce solutions to financial institutions. The retail suite provides cost-effective, outsourced, secure and scalable Internet banking and Internet commerce products that enable financial institutions to offer to their customers a wide array of financial products and services over the Internet. We also market and sell a wholesale suite of products and services that help fulfill certain operational needs of financial institutions. Our wholesale suite of products and services enables financial institutions to create internal efficiencies and provides their employees with information to better manage banking operations.

Formation and Acquisitions

Direct Access Interactive, Inc. (Direct Access or the Predecessor) was incorporated on October 10, 1996. On March 9, 1999, Direct Access was purchased by The InterCept Group, Inc. (InterCept). Direct Access was operated as a separate subsidiary of InterCept. On August 6, 1999, Direct Access purchased the remote banking operations of SBS

Corporation (SBS). SBS provided automated technology products and services to community financial institution nationwide. Direct Access was later merged with and into Netzee. On September 3, 1999, we purchased the Internet banking divisions of TIB The Independent BankersBank (TIB) and The Bankers Bank, and we acquired Dyad Corporation and subsidiaries (Dyad) and Call Me Bill, LLC (Call Me Bill). Call Me Bill provided 24-hour electronic bill payment services to financial institutions customers. On December 15, 1999, we purchased DPSC Software, Inc. (DPSC) which provided regulatory reporting and related software to community financial institutions.

On March 7, 2000, we purchased Digital Visions, Inc. (DVI) which provided Internet-based information and analytic tools to financial institutions. In July 2000, we acquired Card Plus, Inc., (Card Plus), which provided outsourced software and systems development as well as related consulting services. In November 2000, we acquired the Internet banking and bill payment business of John H. Harland Company (Harland). In March 2001, we acquired the Internet banking assets of HomeCom, Inc., (HomeCom). We collectively refer to Call Me Bill, DPSC, Dyad, the remote banking operations of SBS, the Internet banking divisions of the two bankers' banks, DVI, Card Plus, the Internet banking and bill payment assets of Harland and the Internet banking assets of Home Com as the Acquired Operations .

Dispositions

On February 2, 2001, we sold to InterCept the regulatory reporting business acquired from DPSC in 1999, and InterCept assumed certain of the related operating liabilities (see Note 2).

Subsequent to March 31, 2001, we sold to iPay, LLC (iPay) certain assets related to our Call Me Bill bill payment operations located in Elizabethtown, Kentucky, and iPay assumed certain of the related operating liabilities.

Basis of Presentation

The accompanying statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, which are of a normal recurring nature, to present fairly our financial position, results of operations and cash flows at the dates and for the periods presented. Interim results of operations are not necessarily indicative of results to be expected for a 12-month period. The interim financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2000.

The unaudited consolidated financial statements include the accounts of Netzee and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 established accounting and reporting standards for derivative instruments, including instruments embedded in other contracts. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities measured based on their fair values. SFAS becomes effective for our fiscal year ended December 31, 2001. We adopted SFAS No. 133 on January 1, 2001. Since we do not utilize these instruments or participate in these activities, SFAS No. 133 had no impact on our consolidated financial statements for the three months ended March 31, 2001.

In the fourth quarter of fiscal 2000, we adopted Staff Accounting Bulletin No. 101, Revenue Recognition (SAB 101), which establishes guidelines for revenue recognition and enhances revenue recognition disclosure requirements. Pursuant to this guideline, up-front fees associated with certain product implementations are now being recognized over the term of the underlying agreement, rather than upon the completion of product implementation. The cumulative impact of adopting SAB 101 was recorded as of January 1, 2000 and is reported as a cumulative effect of change in accounting principle in the quarter ended March 31, 2000.

2. DISPOSITION AND ACQUISITION

Disposition of DPSC Assets

On February 2, 2001, we sold to InterCept certain of the regulatory reporting assets acquired from DPSC in 1999 and InterCept assumed certain of the related operating liabilities, for total consideration of approximately \$16.5 million, including liabilities assumed of approximately \$2.4 million. We received cash proceeds of approximately \$14.1 million, of which \$250,000 was placed in escrow for indemnification and other purposes.

In connection with the sale of these assets, we recorded a non-cash loss of approximately \$5.7 million. This non-cash loss is included in the loss on sale of assets in our Consolidated Statement of Operations.

Acquisition of HomeCom

During March 2001, we purchased certain assets of HomeCom's Internet banking businesses and assumed certain of HomeCom's operating liabilities related to the businesses. The purchase price was approximately \$290,000 in cash. The transaction was accounted for as a purchase. The results of operations of HomeCom have been included in the consolidated financial statements from the effective date of the acquisition. The excess of the purchase price over the net tangible assets acquired was allocated to acquired technology and is being amortized over three years.

Subsequent to March 31, 2001, we made an additional purchase price payment to HomeCom of approximately \$135,000 related to the assignment of certain customer contracts.

Pro Forma Results of Operations

The following summary presents unaudited pro forma results of operations assuming that each of the acquisitions of the Acquired Operations as discussed in Note 1, and the disposition of the DPSC assets occurred on January 1, 2000. These pro forma results do not necessarily reflect the results which we would have actually achieved had these acquisitions and disposition occurred as of this date.

	For the Three Months Ended	
	March 31, 2000	March 31, 2001
Total revenue	\$ 5,960,386	\$ 7,005,653
Net loss attributable to common shareholders	(15,875,661)	(14,109,096)
Basic and diluted loss per share	\$ (0.76)	\$ (0.53)

3. RESTRUCTURING COSTS

In the fourth quarter of 2000, we initiated a restructuring of management with the termination of certain management employees. Consequently, a restructuring charge of approximately \$590,000 was recorded in accordance with Emerging Issues Task Force (EITF) 94-3, Liability Recognition for Cost to Exit an Activity (Including Certain Costs Incurred in a Restructuring). This amount was comprised of \$375,000 in non-cash stock-based compensation associated with the accelerated vesting of restricted stock, and approximately \$215,000 in severance and payroll-related items.

During the first quarter of fiscal 2001, we finalized and announced restructuring plans to reduce expenses through the consolidation of our Internet and bill payment operations. This restructuring will result in the closure of our offices in Kentucky, Texas and Tennessee, and the downsizing of offices in Alabama and Connecticut. Total staff reductions will approximate 100 employees. Consequently, a restructuring charge of approximately \$1,860,000 was recorded for the three months ended March 31, 2001 in accordance with EITF 94-3. This amount was comprised of approximately \$740,000 in severance and payroll-related items and approximately \$1,120,000 in lease and other contract termination costs.

In connection with this restructuring, we have accrued approximately \$900,000 as additional purchase price for the acquisition of assets from Harland as a result of the termination of employees and the closing of offices obtained in that acquisition in accordance with EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. This amount is comprised of approximately \$825,000 for severance and payroll-related items and approximately \$275,000 for office lease and other contract termination costs.

As of March 31, 2001 we had expended approximately \$1,025,000 consisting of approximately \$970,000 in severance and payroll related costs and approximately \$55,000 in contract and lease termination costs. During the first quarter of 2001, we terminated approximately 50 employees. As of March 31, 2001, we had approximately \$2.3 million in restructuring costs remaining as a liability, consisting of approximately \$1.2 million in severance and payroll-related costs and \$1.1 million in contract and lease termination costs.

4. BASIC AND DILUTED NET LOSS PER SHARE

Basic and diluted net loss per share has been computed in accordance with SFAS No. 128, Earnings per Share, using net loss divided by the weighted average number of shares of common stock outstanding for the period presented. Potentially dilutive options to purchase 3,936,436 shares of common stock with a weighted average exercise price of \$7.17 per share and 3,077,723 shares of common stock with a weighted average exercise price of \$8.16 per share were outstanding at March 31, 2001 and March 31, 2000, respectively. Additionally, approximately 411,067 common shares issuable upon conversion of the preferred stock for the periods ended March 31, 2000 and March 31, 2001, and 856,842 shares of common stock issuable upon the achievement of certain performance targets associated with the DVI and Card Plus acquisitions have been excluded from the presentation of diluted net loss per share as they are antidilutive due to the net loss.

5. RELATED-PARTY BORROWINGS

In conjunction with the acquisition of DPSC, we received a commitment for a \$15 million line of credit from InterCept. On March 24, 2000, pending the finalization of the line of credit, we issued a promissory note to InterCept in the principal amount of approximately \$7.8 million, which reflected the amount borrowed under terms consistent with the commitment as of that date. This note bore interest at a rate of prime plus 2% and was secured by substantially all of our assets. Accrued interest under this note was payable monthly beginning May 1, 2000. The

borrowings were used to fund working capital requirements.

In May 2000, the \$15 million line of credit agreement with InterCept was finalized. At that time the outstanding principal balance due on the promissory note issued to InterCept was transferred to the line of credit. The line of credit bore interest at a rate of prime plus 2% and was secured by substantially all of our assets. Accrued interest under the line of credit was payable quarterly beginning July 1, 2000. The principal balance was payable at maturity on May 31, 2003.

On September 29, 2000, we entered into an acquisition agreement with Harland to acquire Harland's Internet banking and bill payment businesses. Simultaneously with the signing of the acquisition agreement, we borrowed \$5.0 million from Harland pursuant to a promissory note. The note bore interest at a rate of prime plus 2% and was secured by substantially all of our assets. Accrued interest under the note was payable quarterly beginning January 1, 2001. The principal balance was payable at maturity on September 29, 2005. Subsequent to September 29, 2002, Harland had the right to demand full payment of the note and all accrued interest with 30 days' notice.

In conjunction with the sale of the former DPSC assets to InterCept on February 2, 2001, we converted our \$15 million line of credit with InterCept and our \$5 million promissory note with Harland into a \$20 million joint credit facility (\$15 million funded by InterCept and \$5 million funded by Harland). The terms of the credit facility remain consistent with the terms of the former InterCept line of credit and Harland promissory note, except that both InterCept and Harland now have the right (instead of just InterCept) to enforce the covenants contained in the line of credit agreement. Proceeds from the disposition of the DPSC assets were utilized to pay down this facility. As of March 31, 2001 the outstanding balance on the line of credit was \$9.4 million.

6. DISPOSITION OF EQUIPMENT

On October 18, 1999, we entered into a \$1,300,000 non-recourse term loan with a bank to secure the purchase of equipment that we used in connection with our operations. The loan was secured by such equipment, and two of our directors personally guaranteed our obligations under the loan. This loan bore interest at LIBOR plus 2% per year and was payable in 60 monthly installments beginning on November 1, 1999. On August 22, 2000, the loan was refinanced due to upgrades to the equipment. As a result, the loan amount was increased to \$1,650,000, resulting in net proceeds to us of approximately \$400,000.

In December 2000, we determined that this equipment was no longer required and decided to prepare it for sale. Subsequently, we determined that the fair market value of the equipment was less than the outstanding balance of the loan securing the equipment. Therefore, on March 1, 2001, the loan was assumed by W-II Investments, Inc. ("W-II"), a corporation controlled by the two directors who personally guaranteed the loan. In exchange, the equipment was transferred to W-II. As a result of the assumption of the loan, we are no longer responsible for the payments under the loan.

7. SUBSEQUENT EVENTS

On May 8, 2001, we sold certain assets related to a portion of our Call Me Bill bill payment operations to iPay and iPay also assumed certain of the related operating liabilities. Net proceeds from the sale were approximately \$1.3 million in cash. The majority of these proceeds were used to pay down our joint credit facility. As a result of the sale, Harland's portion of the joint credit facility was permanently reduced by \$225,000. The total credit facility is now \$19,775,000 and amounts borrowed thereunder are funded approximately 76% by InterCept and approximately 24% by Harland.

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

The following discussion contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

These statements include all statements that are not statements of historical fact regarding the intent, belief or expectations of Netzee and its management with respect to, among other things: (1) whether we can successfully combine the operations we have acquired, and operations we may acquire, to create or continue improvements in our financial condition; (2) our ability to implement our restructuring and cost savings plans; (3) trends affecting our operations, financial condition and business; (4) our growth and operating strategies; (5) our ability to achieve our sales, cash flow and cost-saving objectives; (6) our ability to remain listed on the Nasdaq National Market, and (7) the continued and future acceptance of and demand for our products and services by our customers. The words may, will, anticipate, believe, intend, plan, allow, strategy and similar expressions are intended to identify forward-looking statements. Such forward-looking statements are not guarantees of future performance and actual results may differ materially from those projected in the forward-looking statements as a result of risks related to the integration of acquired assets and businesses; the assets and businesses we have sold or may plan to sell; our ability to maintain our listing on the Nasdaq National Market; our ability to achieve, manage or maintain positive cash flow or growth and execute our business strategy, including our restructuring and cost savings plans; our ability to develop, test and implement enhanced and new products and services; our ability to sell our products and services to financial institution customers and their customers; our ability to respond to competition; the volatility associated with Internet-related companies; our ability to obtain adequate funding and various other factors discussed in detail in the section entitled Factors that May Affect Our Future Results of Operations or Financial Condition in our Form 10-K for the fiscal year ended December 31, 2000, as filed with the Securities and Exchange Commission on April 2, 2001, and in our subsequent quarterly and current reports that we have filed with the SEC. We are not obligated to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results.

Overview

For our outsourced retail suite of products and services, we charge a fixed monthly fee based on the number and type of products and services purchased by the financial institution. We also charge variable fees that are based on the number of end users and the number of transactions for certain retail products and services. We generally provide products and services under contracts with terms ranging from three to five years. Revenues from these types of arrangements are recognized over the term over which the related services are provided.

We charge fees for our in-house Internet banking product under either a perpetual license agreement which includes an up-front software fee, implementation fees and recurring monthly fees based on the number of active users and user generated transactions, or under a three- to five-year subscription that includes annual subscription and maintenance fees. Revenues from the software and implementation component of those types of arrangements are recognized in accordance with Statement of Position No. 97-2 Software Revenue Recognition. Recurring fees represent post-contract customer support and are recognized over the period in which the support service is provided.

For our wholesale support applications, we charge annual, quarterly or monthly subscription fees, monthly maintenance fees, and per-transaction fees based on transactions initiated by the financial institution. These revenues are recognized over the period in which the related services are provided.

Our costs of services, license, hardware, implementation and maintenance are comprised of the initial equipment and personnel costs required to implement Internet and telephone banking products and services for our financial institution customers, ongoing personnel and system maintenance costs associated with our data and call centers, royalties paid to information providers, and personnel, production and shipping costs associated with our regulatory

reporting software and fulfillment businesses.

Selling and marketing expenses include marketing expenses, sales commissions and related costs as well as sales employee compensation and benefits. Commissions are paid to sales personnel based on products and services sold.

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General and administrative expenses include employee compensation and benefits and general office expenses incurred in the ordinary course of business, but exclude non-cash stock based compensation and restructuring costs.

Restructuring costs include charges related to severance and other payroll-related items as well as certain office lease and other contract termination costs resulting from our plan to reduce costs through the consolidation of our Internet and bill payment operations.

Depreciation consists of depreciation of property, equipment and capitalized software development costs.

Amortization of intangible assets relates to goodwill, acquired technology and other intangible assets resulting from our acquisitions. Intangible assets are being amortized over lives ranging from two to five years.

Stock-based compensation consists of amortization of deferred compensation for certain stock options with an exercise price below the initial public offering price and compensation expense for stock sold or awarded to employees at prices below the initial public offering price.

Loss on sale of assets includes non-cash charges recorded to reduce the carrying costs of certain assets to their fair market value upon their sale.

We use cash loss as a metric to measure our on-going operating performance. Cash loss is defined as net loss attributable to common shareholders, excluding the effects of amortization of intangible assets, amortization of stock-based compensation and non-cash losses on the sale of assets.

We have incurred operating losses through March 31, 2001. Due to the uncertainty of the realizability of the net operating losses, we have not reflected an income tax benefit in our statements of operations, and we have recorded a valuation for the full amount of our net operating loss carry-forwards.

Although we have experienced significant growth in customers and revenues, we have incurred substantial operating losses and negative cash flows from operations. We incurred net losses of approximately \$16.2 and \$20.4 million for the three months ended March 31, 2000 and March 31, 2001, respectively. Depreciation, amortization, amortization of stock-based compensation and non-cash losses on the sale of assets accounted for approximately 80% of the net loss attributable to common shareholders for the three months ended March 31, 2001. We incurred cash losses, excluding restructuring costs of approximately \$3.3 and \$2.6 million for the three months ended March 31, 2000 and March 31, 2001, respectively.

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Results of Operations

The following tables set forth the results of our operations and selected cash flow data for the three months ended March 31, 2000 and 2001, and selected balance sheet data as of December 31, 2000 and March 31, 2001. These

operating results are not necessarily indicative of our future results.

Results of operations:

	Three Months Ended March 31,			
	2000	% of Revenues	2001	% of Revenues
	(Unaudited)		(Unaudited)	
Revenues	\$2,815,349(A)	100%	\$7,468,466	100%
Cost of service, license, hardware, implementation, and maintenance	1,590,902	57%	4,383,965	59%
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GROSS PROFIT	1,224,447(A)	43%	3,084,501	41%
Cash expenses:				
Selling and marketing	2,242,075	80%	1,301,594	17%
General and administrative, excluding amortization of stock-based compensation and restructuring costs	1,828,822	65%	3,503,132	47%
Restructuring costs	0	0%	1,858,645	25%
Depreciation	275,278	10%	495,071	7%
Preferred stock dividends	130,000	5%	130,000	2%
Interest expense, net	68,727	2%	296,854	4%
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Subtotal cash expenses	4,544,902	162%	7,585,296	102%
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CASH LOSS (B)	(3,320,455)(A)	-119%	(4,500,795)	-61%
Amortization	11,733,798	98%	11,733,798	157%
Stock-based compensation	792,759	48%	792,759	10%
Loss on sale of assets	5,762,208			

Other net expenses	12,526,557	15,899,622
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NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$(15,847,012)	(A)	\$(20,400,417)
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Weighted average basic shares outstanding	20,780,927	26,856,100
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Cash loss per share	\$(0.16)	\$(0.17)
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Net loss per share before cumulative effect of change in accounting principle	\$(0.76)	\$(0.76)
--	----------	----------

Cash loss excluding restructuring costs	\$(3,320,455)	(A)	\$(2,642,150)	(C)
---	---------------	-----	---------------	-----

Cash loss per share excluding restructuring costs	\$(0.16)	\$(0.10)	(C)
--	----------	----------	-----

Net loss excluding restructuring costs, loss on sale of assets and before cumulative effect of change in accounting principle	\$(15,847,012)	(A)	\$(12,779,564)	(D)
---	----------------	-----	----------------	-----

Net loss per share excluding restructuring costs, loss on sale of assets and before cumulative effect of change in accounting principle	\$(0.76)	\$(0.48)	(D)
--	----------	----------	-----

Note A The quarter ended March 31, 2000 has been restated to reflect our adoption of SAB 101 during 2000.

Note B Cash loss is defined as net loss attributable to common shareholders excluding the non-cash effect of amortization of intangible assets, amortization of stock-based compensation and loss on sale of assets.

Depreciation expense is included in cash loss as a measure of capital expenditures. Cash loss and cash loss per share are not measures of financial performance under generally accepted accounting principles and should not be considered either as an alternative to net loss attributable to common shareholders as an indicator of our operating performance, or to cash flow as a measure of our

liquidity. Note C Excludes

\$1,858,645 in restructuring costs associated with our office consolidations and

reorganization. Note D Excludes

\$1,858,645 in restructuring costs and \$5,762,208 in loss on sale of assets.

SELECTED CASH FLOW INFORMATION:

	Three Months Ended	
	March 31, 2000	March 31, 2001
	(Unaudited)	(Unaudited)
Cash used in operating activities:	\$(4,673,942)	\$(3,148,014)
Cash (used in) provided by investing activities:	(931,092)	13,043,629
Cash used in financing activities:	(4,320,716)	(10,442,321)
Net decrease in cash and cash equivalents	\$(9,925,750)	\$(546,706)

SELECTED BALANCE SHEET INFORMATION:

	December 31, 2000	March 31, 2001
		(Unaudited)
Cash and cash equivalents	\$960,231	\$413,525
Accounts receivable	5,836,904	4,192,832
Leases receivable	1,874,186	1,757,589
Deferred revenue	8,699,675	5,063,303
Related party borrowings	20,000,000	9,405,834

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000*Revenues*

Total revenues increased by approximately \$4.7 million or 165%, from approximately \$2.8 million for the three months ended March 31, 2000 to approximately \$7.5 million for the three months ended March 31, 2001. This increase consisted primarily of an increase in monthly maintenance and service revenues due primarily to the increase in the number of financial institution customers, and an increase in the number of financial institution customers utilizing our products. This increased customer base is a result of new sales, additional product sales to existing customers and customers obtained from certain of the Acquired Operations.

Cost of services, license, hardware, implementation and maintenance

Cost of services, license, hardware, implementation and maintenance increased by approximately \$2.8 million, or 176%, from approximately \$1.6 million for the three months ended March 31, 2000 to approximately \$4.4 million for the three months ended March 31, 2001. The increase in the cost of services, license, hardware, implementation and maintenance was due primarily to an increase in the number of new institutional customers for which we have implemented our products. Additionally, we experienced increased data center costs required to support the increase in the total number of institutions to which we provided services.

As a percentage of revenue, cost of services, license, hardware, implementation and maintenance increased to 59% from 57% for the three months ended March 31, 2001 as compared to the three months ended March 31, 2000.

Correspondingly, our gross margin decreased from 43% to 41% for the three months ended March 31, 2001 as compared to the three months ended March 31, 2000. This decrease in gross margin was due primarily to our sale of the DPSC assets in February 2001 which generated higher margins relative to our other businesses.

Selling and marketing expenses

Selling and marketing expenses decreased by approximately \$940,000, or 42%, from approximately \$2.2 million for the three months ended March 31, 2000 to approximately \$1.3 million for the three months ended March 31, 2001. The decrease in selling and marketing expenses was primarily due to a decrease in sales personnel, lower new sales volume in 2001 as compared to 2000 and a decrease in our advertising expenditures. As a percentage of revenue, selling and marketing expenses decreased to 17% from 80% for the three months ended March 31, 2001 as compared to the three months ended March 31, 2000.

General and administrative expenses

General and administrative expenses increased by approximately \$1.7 million, or 92%, from approximately \$1.8 million for the three months ended March 31, 2000 to approximately \$3.5 million for the three months ended March 31, 2001. The increase in general and administrative expenses was primarily due to increases in overall business and operating activities, an increase in the number of employees and facilities obtained from certain of the Acquired Operations and an increase in management, support staff and general operating expenses resulting from our growth over the prior year. These increases were partially offset by reductions in personnel and facility costs resulting from our restructuring and office consolidation efforts. As a percentage of revenue, general and administrative expenses decreased to 47% from 65% for the three months ended March 31, 2001, as compared to the three months ended March 31, 2000. This decrease was due primarily to the increase in our revenues.

Restructuring costs

Restructuring costs for the quarter ended March 31, 2001 consisted of severance and payroll related items, as well as certain office lease and contract termination costs. During the first quarter of 2001, we finalized and announced a plan to reduce our operating expenses through the consolidation of our Internet banking and bill payment operations. This plan will result in the closure of our offices in Kentucky, Tennessee and Texas, and a reduction in our operations in Alabama and Connecticut.

Depreciation

Depreciation increased by approximately \$220,000, or 80%, from approximately \$275,000 for the three months ended March 31, 2000 to approximately \$495,000 for the three months ended March 31, 2001. This increase was due primarily to the depreciation of acquired assets and from depreciation associated with capital acquisitions used to support our growth during the prior year. As a percentage of revenue, depreciation expenses decreased to 7% from 10% for the three months ended March 31, 2001 as compared to the three months ended March 31, 2000.

Interest expense, net

Net interest expense increased by approximately \$228,000, or 332%, from approximately \$69,000 for the three months ended March 31, 2000 to approximately \$297,000 for the three months ended March 31, 2001. This increase was due primarily to a higher average debt balance for debt incurred to fund our operations for the three months ended March 31, 2001, as compared to the three months ended March 31, 2000. As a percentage of revenue, net interest expense increased from 2% to 4% for the three months ended March 31, 2001 as compared to the three months ended

March 31, 2000.

Cash loss

Cash loss increased by approximately \$1.2 million from approximately \$3.3 million for the three months ended March 31, 2000 to approximately \$4.5 million for the three months ended March 31, 2001. Excluding restructuring costs, cash loss decreased by approximately \$700,000 to approximately \$2.6 million for the three months ended March 31, 2001 compared to approximately \$3.3 million for the comparable period in 2000. This decrease was due primarily to increases in revenues and the realization of expense reductions during the first quarter of 2001 resulting from our restructuring activities.

Amortization expense

Amortization expense decreased by approximately \$2.0 million, or 18%, from approximately \$11.7 million for the three months ended March 31, 2000 to approximately \$9.7 million for the three months ended March 31, 2001. Amortization expense decreased due primarily to the write-down of intangible assets during the fourth quarter of 2000, combined with the elimination of the amortization related to the DPSC assets which we sold in February 2001. These were partially offset by the additional amortization expense resulting from certain of the Acquired Operations purchased during 2000.

Stock-based compensation

Stock-based compensation decreased by approximately \$313,000, or 39%, from approximately \$793,000 for the three months ended March 31, 2000 to \$480,000 for the three months ended March 31, 2001. Stock-based compensation expense declined due to the forfeiture of certain stock options by terminated employees and the accelerated vesting of a restricted stock award during the fourth quarter of 2000.

Loss on sale of assets

Non-cash loss on sale of assets was approximately \$5.8 million for the three months ended March 31, 2001 and resulted primarily from the sale of our DPSC assets in February 2001.

Liquidity and Capital Resources

Our operating activities used cash of approximately \$3.1 million and \$4.7 million for the three months ended March 31, 2001 and March 31, 2000, respectively. Cash used in operating activities resulted primarily from our net operating losses.

Our investing activities provided cash of approximately \$13.0 million and used cash of approximately \$931,000 for the three months ended March 31, 2001 and March 31, 2000, respectively. Cash provided by investing activities for the three months ended March 31, 2001 resulted primarily from the disposition of our DPSC assets. This was partially offset by the purchase of property, equipment and costs associated with capitalized software development as well as our acquisition of assets from HomeCom in March 2001. Cash used in investing activities for the three months ended March 31, 2000 resulted primarily from our investment in property, equipment and capitalized software for our data centers.

Our financing activities used cash of approximately \$10.4 million and \$4.3 million for the three months ended March 31, 2001 and March 31, 2000, respectively. Cash used in financing activities for the three months ended

March 31, 2001 resulted primarily from repayments on our credit facility with proceeds from the sale of our regulatory reporting assets offset by additional borrowings from our credit facility. The cash used for the three months ending March 31, 2000 resulted from repayments of related party borrowings and payments of notes payable assumed in the acquisition of DVI. This was partially offset by additional borrowings from related parties and proceeds from the exercise of warrants.

Our working capital balance as of March 31, 2001 was approximately \$6.8 million compared to \$(5.5) million at December 31, 2000. This increase in working capital is primarily due to proceeds from the sale of our regulatory reporting assets, offset by our operating and capital requirements. We calculate our working capital balances by taking our current assets net of current liabilities plus borrowings available on our line of credit.

In February 2001, we completed the sale of certain of our regulatory reporting assets acquired from DPSC in 1999. As a result, we received cash proceeds of approximately \$14.1 million. We used approximately \$11.8 million of the proceeds to pay down principal balances on the \$20 million joint credit facility. The balance of the proceeds was used to fund operations as well as to pay certain closing costs and certain liabilities related to the sale. As of March 31, 2001, we had an outstanding balance under this credit facility, including accrued interest, of approximately \$9.4 million, with approximately \$10.6 million available under the line.

In connection with this sale, we converted our \$15 million line of credit with InterCept and our \$5 million promissory note with Harland into a \$20 million joint credit facility (\$15 million funded by InterCept and \$5 million funded by Harland). The terms of the credit facility remain consistent with the terms of the former line of credit and promissory note, except that both InterCept and Harland now have the right (instead of just InterCept) to enforce the covenants contained in the line of credit agreement.

Subsequent to March 31, 2001, we sold certain Call Me Bill assets to iPay and iPay assumed certain related operating liabilities. We received net proceeds of \$1,275,000 which were primarily used to pay down our line of credit facility. The balance borrowed under this facility as of May 9, 2001 was approximately \$10.5 million, including accrued interest.

As a result of this sale, Harland's portion of the joint credit facility was permanently reduced to \$4,775,000, reducing the total credit facility to \$19,775,000. InterCept's portion of the credit facility will remain at \$15 million. The facility will now be funded approximately 76% by InterCept and 24% by Harland.

On March 2, 2000 warrants to purchase 461,876 shares of common stock were exercised. Proceeds from the exercise of the warrants totaled approximately \$1.5 million.

We believe that our existing capital resources, together with cash provided by our operations and borrowings under our credit facility, will be sufficient to fund our working capital requirements for the next 12 months. If we are unable to achieve our cost savings goals, if our working capital requirements exceed our current expectations, if cash provided by our operations is less than anticipated, or if we make additional acquisitions, we may need to raise additional capital either through debt or equity sources before that time. We cannot be sure that we will be able to obtain the additional financing necessary to satisfy these additional capital requirements or to implement our growth strategy on acceptable terms or at all. If we cannot obtain this financing on terms acceptable to us, we may be forced to curtail some planned business expansion, we may be unable to fund our ongoing operations, or we may have to cease operations altogether. Alternatively, we may be required to reduce the level of spending on capital and operating expenses in order to utilize our existing financing and sources of liquidity to operate the business on a reduced scale.

We do not use derivative financial instruments in our operations and do not have operations subject to fluctuations in foreign currency exchange rates. We have a joint line of credit with InterCept and Harland that has an interest rate that fluctuates based on the prime rate as published in the Wall Street Journal, plus 2%. As of March 31, 2001, we had approximately \$9.4 million outstanding on this facility which exposed us to interest rate risk. Interest rate risk reflects the fact that increases in interest rates, which may increase the interest rate on our borrowings, would make it more costly to borrow funds thereunder and may impede our acquisition and growth strategies if we determine the costs associated with borrowing funds are too high to implement these strategies. These increased costs may also hinder our ability to fund our working capital requirements.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

Not applicable.

Item 2. *Changes in Securities and Use of Proceeds*

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*

Not applicable.

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

(a) *Exhibits.*

Exhibit No.	Description Of Exhibits
2.1*	Agreement and Plan of Merger, dated August 6, 1999, by and among Direct Access Interactive, Inc., SBS Corporation and the shareholders of SBS Corporation.(1)
2.2* Agreement and Plan of Merger, dated September 3, 1999, by and among Netzee, Inc., Dyad Corporation and certain of the shareholders of	

Dyad
Corporation.(1)2.3*
Asset
Contribution
Agreement, dated
September 3,
1999, by and
among The
InterCept Group,
Inc., Netzee, Inc.
and The Bankers
Bank.(1)2.4*
Asset
Contribution
Agreement, dated
September 3,
1999, by and
among The
InterCept Group,
Inc., Netzee, Inc.
and TIB The
Independent
BankersBank.(1)2.5*
Acquisition
Agreement, dated
September 3,
1999, by and
among Netzee,
Inc., Call Me
Bill, LLC and
each of the
members of Call
Me Bill,
LLC.(1)2.6*
Asset Transfer
Agreement, dated
August 6, 1999,
by and between
The InterCept
Group, Inc. and
Direct Access
Interactive,
Inc.(1)2.7*
Agreement and
Plan of Merger,
dated
September 3,
1999, by and
between Netzee,
Inc. and Direct
Access
Interactive,
Inc.(1)2.8* Asset
Purchase
Agreement, dated
December 15,
1999, by and
among Netzee,
Inc., Netcal, Inc.
and DPSC
Software,
Inc.(2)2.9* Asset

Purchase Agreement, dated February 28, 2000, by and among Netzee, Inc., Digital Visions, Inc. and certain shareholders of Digital Visions, Inc.(3)2.10*
Asset Purchase Agreement, dated July 28, 2000, by and among Netzee, Inc., NetzeePlus, Inc., Card Plus, Inc. and the shareholders of Card Plus, Inc.(10)2.11*
Asset Purchase Agreement, dated September 29, 2000, by and among Netzee, Inc., John H. Harland Company, Concentrex Incorporated, Meca Software, L.L.C. and MoneyScape Holdings, Inc. (11)2.11.1*
Amendment No. 1 to the Asset Purchase Agreement, dated November 10, 2000, by and among Netzee, Inc., John H. Harland Company, Concentrex Incorporated, Meca Software, L.L.C. and MoneyScape Holdings, Inc.(11)2.12*
Asset Purchase Agreement, dated February 2, 2001, by and among Netzee, Inc., Netcal, Inc. and The InterCept Group,

Inc.(12)3.1
 Amended
 Articles of
 Incorporation of
 Netzee, Inc., as
 amended to
 date.(10)3.2
 Amended and
 Restated Bylaws
 of Netzee, Inc.,
 as
 amended.(4)4.1
 Form of Netzee,
 Inc. common
 stock
 certificate.(1)4.2.1
 Form of Netzee,
 Inc. Series A 8%
 Convertible
 Preferred Stock
 certificate.(2)4.2.2
 Form of Netzee,
 Inc. Series B 8%
 Convertible
 Preferred Stock
 certificate.(10)4.3
 Registration
 Rights
 Agreement, dated
 August 6, 1999,
 by and among
 Netzee, Inc. (as
 successor to
 Direct Access
 Interactive, Inc.)
 and each of the
 former
 shareholders of
 SBS
 Corporation.(1)

**Exhibit
 No.**

Description Of Exhibits

4.4 Registration
 Rights
 Agreement, dated
 September 3,
 1999, by and
 among Netzee,
 Inc., The Bankers
 Bank and TIB
 The Independent
 BankersBank.(1)4.5
 Registration
 Rights
 Agreement, dated
 August 31, 1999,

by and among
Netzee, Inc. and
each of the
former
shareholders of
Dyad
Corporation.(1)4.6
Agreement, dated
September 3,
1999, by and
between Netzee,
Inc. and Sirrom
Investments, Inc.,
regarding
registration rights
of Sirrom.(1)4.7
Registration
Rights
Agreement, dated
October 18,
1999, by and
between Netzee,
Inc. and Kellett
Partners,
L.P.(1)4.8
Warrant, dated
October 18,
1999, issued to
Kellett Partners,
L.P.(1)4.9
Registration
Rights
Agreement, dated
December 15,
1999, by and
between Netzee,
Inc. and each of
the former
shareholders of
DPSC Software,
Inc.(2)4.9.1 First
Amendment to
Registration
Rights
Agreement, dated
September 29,
2000, by and
between Netzee,
Inc. and Bruce R.
Gall &
Associates, Inc.,
on behalf of each
of the former
shareholders of
DPSC Software,
Inc.(10)4.10
Registration
Rights
Agreement, dated
March 7, 2000,
by and between
Netzee, Inc. and

Digital Visions,
Inc.(3)4.11
Registration
Rights
Agreement, dated
July 28, 2000, by
and between
Netzee, Inc. and
Card Plus, Inc.
(10)4.12
Registration
Rights
Agreement, dated
November 10,
2000, by and
between Netzee,
Inc. and John H.
Harland
Company.(11)10.1
Netzee, Inc. 1999
Stock Option and
Incentive
Plan.(1)10.2
Option
Agreement, dated
July 1, 1999, by
and between
Netzee, Inc. (as
successor to
Direct Access
Interactive, Inc.)
and Glenn W.
Sturm.(1)10.3
Option
Agreement, dated
July 1, 1999, by
and between
Netzee, Inc. (as
successor to
Direct Access
Interactive, Inc.)
and John W.
Collins.(1)10.4
Option
Agreement, dated
August 5, 1999,
by and between
Netzee, Inc. (as
successor to
Direct Access
Interactive, Inc.)
and Richard S.
Eiswirth.(1)10.5
Employment
Agreement, dated
September 1,
1999, by and
between Netzee,
Inc. and Glenn
W. Sturm.(1)10.6
Employment
Agreement, dated

September 1,
1999, by and
between Netzee,
Inc. and C.
Michael
Bowers.(1)10.7
Employment
Agreement, dated
March 1, 2000,
by and between
Netzee, Inc. and
Richard S.
Eiswirth.(4)10.8
Form of
Indemnification
Agreement
entered into
between Netzee,
Inc. and each of
its executive
officers and
directors.(1)10.9
Promissory Note,
dated August 6,
1999, from
Netzee, Inc. as
maker to The
InterCept Group,
Inc. as payee, in
the principal
amount of
\$21,534,625.(1)

**Exhibit
No.**

Description Of Exhibits

10.10 Promissory
Note, dated
September 1, 1999,
from Netzee, Inc. as
maker to The
InterCept Group,
Inc. as payee, in the
principal amount of
\$4,399,639.22.(1)10.11
Promissory Note,
dated September 1,
1999, from Netzee,
Inc. as maker to The
InterCept Group,
Inc. as payee, in the
principal amount of
\$2,882,200.(1)10.12
Promissory Note,
dated September 1,
1999, from John W.
Collins as maker to
Netzee, Inc. (as

successor to Direct Access Interactive, Inc.)(1)10.13 Promissory Note, dated September 1, 1999, from Glenn W. Sturm as maker to Netzee, Inc. (as successor to Direct Access Interactive, Inc.)(1)10.14 Promissory Note, dated September 1, 1999, from Donny R. Jackson as maker to Netzee, Inc. (as successor to Direct Access Interactive, Inc.)(1)10.15 Promissory Note, dated September 1, 1999, from Richard S. Eiswirth as maker to Netzee, Inc. (as successor to Direct Access Interactive, Inc.)(1)10.16 Line of Credit Agreement, dated October 18, 1999, by and between Netzee, Inc. and Kellett Partners, L.P.(1)10.17 General Marketing Agent Agreement, dated September 3, 1999, as amended, by and between Netzee, Inc. and TIB The Independent BankersBank.(1)(5)10.18 General Marketing Agent Agreement, dated September 3, 1999, as amended, by and between Netzee, Inc. and The Bankers Bank.(1)(5)10.19 Sublease, dated September 1, 1999, by and between The Bankers Bank and Netzee, Inc.(1)10.20 Commercial Lease, dated January 9, 1998, by and between DMB, LLC and Netzee, Inc. (as successor to Direct

Access Interactive,
Inc. (as successor to
SBS
Corporation)).(1)10.21
Employment
Agreement, dated
February 28, 2000,
by and between
Netzee, Inc. and
Michael E.
Murphy.(4)10.22
Promissory Note,
dated March 24,
2000, from Netzee,
Inc. as maker to The
InterCept Group,
Inc., as payee, in the
principal amount of
\$7,800,000.(4)10.23
Master Agreement,
dated March 1, 2000
by and between
Netzee, Inc. and The
Bankers
Bank.(4)(6)10.23.1
Amendment to
Master Agreement
and Schedule, dated
June 1, 2000, by and
between Netzee,
Inc. and The
Bankers
Bank.(8)(9)10.24
Maintenance
Agreement, dated
March 1, 2001, by
and between Netzee,
Inc. and The
Bankers
Bank.(4)(6)10.25
Credit Agreement,
dated May 31, 2000,
by and between
Netzee, Inc. and The
InterCept Group,
Inc.(7)10.25.1
Amendment No. 1
to Credit
Agreement, dated
September 29, 2000,
by and between
Netzee, Inc. and The
InterCept Group,
Inc.(10)10.25.2
Amended and
Restated Credit
Agreement, dated
February 2, 2001,
by and among
Netzee, Inc., The
InterCept Group,
Inc. and John H.

Harland
Company.(12)10.26
Employment
Agreement, dated
July 26, 2000, by
and between Netzee,
Inc. and Catherine
G. Silver.(10)

18

**Exhibit
No.**

Description Of Exhibits

10.27
Promissory
Note, dated
September 29,
2000, from
Netzee, Inc. as
maker to John
H. Harland
Company, as
payee, in the
principal
amount of
\$5,000,000.(10)10.28
Warranty Bill of
Sale, dated
March 1, 2001,
from Netzee,
Inc. in favor of
W-II
Investments,
Inc. (13)10.29
Assignment and
Assumption
Agreement
(Business Loan
Agreement),
dated March 1,
2001, by and
between Netzee,
Inc. and W-II
Investments,
Inc.(13)10.30
Assignment and
Assumption
Agreement
(Mortgage,
Security
Agreement and
Assignment),
dated March 1,
2001, by and
between Netzee,
Inc. and W-II
Investments,
Inc. (13)10.31
Aircraft Lease

Agreement,
dated March 1,
2001, by and
among Netzee,
Inc., W-II
Investments,
Inc., The
InterCept
Group, Inc.,
Nelson Mullins
Riley &
Scarborough,
LLP, Glenn W.
Sturm, John W.
Collins and
Donny R.
Jackson.
(13)10.32
Employment
Agreement,
dated October 9,
2000, by and
between Netzee,
Inc. and Dan
Anderson.
(13)10.33
Severance
Agreement,
dated
November 1,
2000, by and
between Netzee,
Inc. and
Catherine G.
Silver.
(13)10.34
Employment
Agreement,
dated
October 10,
2000, by and
between Netzee,
Inc. and Donny
R. Jackson. (13)

* Certain schedules and exhibits to this exhibit have been omitted in accordance with the rules of the Securities and Exchange Commission. Netzee, Inc. agrees to furnish supplementally a copy of any such omitted schedule or exhibit to the Securities and Exchange Commission upon request.

(1) Previously
filed as an
exhibit to
Netzee, Inc. s
Registration
Statement on
Form S-1 (File
No. 333-87089),
and hereby
incorporated by
reference

herein.(2) Previously
filed as an
exhibit to
Netzee, Inc. s
Form 10-Q for
the quarter ended
September 30,
1999, as filed
with the
Securities and
Exchange
Commission on
December 22,
1999, and hereby
incorporated by
reference

herein.(3) Previously
filed as an
exhibit to
Netzee, Inc. s
Form 8-K dated
March 7, 2000,
as filed with the
Securities and
Exchange
Commission on
March 22, 2000,
and hereby
incorporated by
reference

herein.(4) Previously
filed as an
exhibit to
Netzee, Inc. s
Form 10-K for
the fiscal year
ended
December 31,
1999 as filed
with the
Securities and
Exchange
Commission on
March 29, 2000,
and as amended
on May 1, 2000,
and hereby
incorporated by
reference

herein.(5) Portions
of this exhibit

were previously omitted pursuant to a confidential treatment request granted by the Securities and Exchange Commission on November 8, 1999 and renewed on November 15, 2000.(6) Portions of this exhibit were previously omitted pursuant to a confidential treatment request granted by the Securities and Exchange Commission on July 18, 2000.(7) Previously filed as an exhibit to Netzee, Inc.'s Form 8-K dated May 31, 2000, as filed with the Securities and Exchange Commission on June 20, 2000, and hereby incorporated by reference herein.(8) Previously filed as an exhibit to Netzee, Inc.'s Form 10-Q for the quarter ended June 30, 2000, as filed with the Securities and Exchange Commission on August 15, 2000, and hereby incorporated by

reference herein.

(9) Portions of this exhibit were omitted pursuant to a confidential treatment request granted by the Securities and Exchange Commission on November 15, 2000.

(10) Previously filed as an exhibit to Netzee, Inc. s Form 10-Q for the quarter ended September 30, 2000, as filed with the Securities and Exchange Commission on November 14, 2000, and hereby incorporated by reference herein.(11) Previously filed as an exhibit to Netzee, Inc. s Form 8-K, dated November 10, 2000, as filed with the Securities and Exchange Commission on November 22, 2000, and hereby incorporated by reference herein.(12) Previously filed as an exhibit to Netzee, Inc. s Form 8-K, dated February 2, 2001, as filed with the Securities and

Exchange
Commission
on February
16, 2001, and
hereby
incorporated
by reference
herein.(13) Previously
filed as an
exhibit to
Netzee, Inc. s
Form 10-K for
the fiscal year
ended
December 31,
2000, as filed
with the
Securities and
Exchange
Commission
on April 2,
2001, and
hereby
incorporated
by reference
herein.

(b) *Reports on Form 8-K.*

During the
first quarter
of our 2001
fiscal year,
we filed the
following
report on
Form 8-K:Form 8-K,
dated
February 2,
2001, as filed
with the
Exchange
Commission
on
February 16,
2001,
reporting the
disposition
of the DPSC
assets.

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.

NETZEE, INC.

Date: May 15, 2001 /s/ Richard S. Eiswirth

Senior Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer and Duly Authorized Officer) Date: May 15, 2001 /s/ Jarett J. Janik

Vice President and Controller (Principal Accounting Officer)