OPEN SOLUTIONS INC
Form 10-K
March 16, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2004

or

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

For the transition period of to

Commission file number 000-02333

Open Solutions Inc.
(Exact name of registrant as specified in its charter)

Delaware	**22-3173050**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
300 Winding Brook Drive, Glastonbury, CT	**06033**
(Address of principal executive offices)	*(Zip Code)*

(860) 652-3155
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value per share
(Title of Class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). þ

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sale price for such stock on June 30, 2004: $476,100,415.

As of March 9, 2005, 19,475,290 shares of common stock, $0.01 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document Description	Form 10-K Part
Portions of the Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2005	III

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to the historical information, this Annual Report on Form 10-K contains or incorporates forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate and management s beliefs and assumptions. In addition, other written or oral statements that constitute forward-looking statements may be made by or on our behalf. Words such as expect, anticipate, intend, plan, believe, seek, estimate, and variations of s and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. We have included important factors in the cautionary statements under the heading Factors That May Affect Future Results that we believe could cause our actual results to differ materially from the forward-looking statements we make. We do not intend to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

Item 1. *Business*

Overview

Open Solutions Inc. is a provider of software and services that allow financial institutions to compete and service their customers more effectively. We develop, market, license and support an enterprise-wide suite of software and services that performs a financial institution s data processing and information management functions, including account, transaction, lending, operations, back office, client information and reporting. Our core software and our complementary products access and update real-time data stored in a single relational database, which is designed to deliver strategic benefits to financial institutions. Our software can be operated either by the financial institution internally, on an outsourced basis in one of our outsourcing centers or through an outsourcing center hosted by one of our resellers. We have historically targeted commercial banks and thrifts with assets under $20 billion and all credit unions. Our aggregate revenues increased from approximately $44.3 million in 2002 to approximately $63.9 million in 2003, and were approximately $107.2 million for the year ended December 31, 2004.

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

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

With the acquisition of the Payment Solutions Group of Datawest Solutions Inc, we have added products targeted at institutions beyond the traditional definition of a financial institution, but which nonetheless participate in the processing of retail financial transactions in North America and internationally. These include independent sales organizations, large merchants and non-bank transaction processors. We believe that the products sold by the Payments Solutions Group of Datawest allow these institutions to drive and manage their own network of ATM and point of service terminals, as well as connect to national and international transaction processing networks.

Open Solutions Inc. is headquartered in Glastonbury, Connecticut, and has other facilities in Connecticut, New York, Michigan, Georgia, Indiana, New Hampshire and Ontario and British Columbia, Canada. We were founded in 1992 and are incorporated in Delaware. We operate and manage our business as one reportable segment, the development and marketing of computer software and related services and operate primarily in two geographic areas, the United States of America and Canada. As of March 1, 2005, we had approximately 776 employees. Our common stock is quoted on the Nasdaq National Market under the symbol OPEN.

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We are subject to the informational requirements of the Securities Exchange Act of 1934 and will file reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. Such reports, proxy statements and other information, as well as the registration statement and the exhibits and schedules thereto, may be inspected, without charge, at the public reference facility maintained by the SEC at 450 Fifth Street, NW, Washington, D.C. 20549. Copies of such material may also be obtained from the Public Reference Section of the SEC at 450 Fifth Street, NW, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the SEC public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330. Such materials can also be inspected on the SEC s website at *www.sec.gov.*

We maintain a website with the address www.opensolutions.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We have posted on our website a copy of our code of business conduct and ethics. In addition, we intend to disclose on our website any amendments to, or waivers from, our code of business conduct and ethics that are required to be publicly disclosed pursuant to rules of the SEC and the Nasdaq National Market.

Industry Background

Financial institutions have historically invested a significant amount of money in information technology systems. Technology research firm IDC estimates that banks, thrifts and credit unions in the United States spent approximately $42 billion on information technology during 2004 and expects spending to grow to over $52 billion by 2007. According to Thomson Financial Inc., a leading provider of industry information, there are approximately 19,460 commercial banks, thrifts and credit unions in the United States, approximately 19,400 of which have an asset base of under $20 billion.

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

Financial institutions have traditionally fulfilled their information technology needs through legacy computer systems, operated either by the institution itself or through an outsourcing center. Legacy systems, which operate in large mainframe or minicomputer environments, are generally highly proprietary, inflexible and costly to operate and maintain. Legacy systems often require financial institutions to purchase a specific vendor s hardware and software, requiring them to conform evolving business processes and reporting needs to the architecture of the legacy systems, and preventing them from adopting new technologies or launching new products on a cost-effective and timely basis. Most legacy systems employed by commercial banks are designed primarily to batch process a large number of transactions and create centralized financial records, limiting the ability of these banks to offer their customers real-time transaction processing. On the other hand, most legacy systems employed by credit unions are designed for real-time transaction processing, but they

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limit the ability to conduct high-volume processing or more traditional commercial banking functions. In addition, legacy systems typically store data in non-relational, or sequentially indexed, files. Because the data is not organized by customer, financial institutions often face challenges extracting information from their legacy systems, which are unable to easily provide real-time, actionable customer data to the individuals within the financial institution servicing customers without additional software.

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

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

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

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

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

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

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

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

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

Our Solution

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

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The key attributes of our solution are its:

Full Integration at the Core Level

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

Open Architecture

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

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

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

Flexibility

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

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

Customer-Centric Architecture

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

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

Efficiency

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

Business Strategy

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

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

Expand Our Sources of Recurring Revenue. We generate recurring revenue through outsourcing and maintenance services. We currently host applications for approximately 535 financial institutions in our outsourcing centers and intend to continue to enhance this service, which we believe is an attractive solution for many of our targeted clients. Our outsourcing centers serve clients using our core software and clients using one or more of our Internet banking, ATM, cView, check imaging, cash management, collections, automated clearing house, or ACH, processing and check and item processing products. In the future, we plan to offer all of our products in our outsourcing centers and continue to market our outsourcing services aggressively. Our outsourcing services provide a source of recurring revenue which can grow as the number of accounts processed for a client increases. We continue to seek to expand our client base through licensing arrangements, which we expect to increase the recurring revenues, such as maintenance, that correspond to those licenses.

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

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

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

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

Pursue Strategic Acquisitions. To complement and accelerate our internal growth, we continue to explore acquisitions of businesses and products that will complement our existing products and services as well as expand our client base. Since 2000, we have completed the following acquisitions:

Date	Seller	Products and Services
June 2000	Global Payment Systems LLC	Web-based cash management system
August 2001	Sound Software Development, Inc.	Loan and mortgage origination product
December 2001	Imagic Corporation	Check imaging product
March and October 2002	HNC Financial Solutions, Inc. and HNC Software, Inc.	General ledger, profitability and other financial products
July 2003	Liberty FiTech Systems, Inc.	Core processing software for credit unions
February 2004	Maxxar Corporation	Interactive voice response, contact center management and voice over IP
June 2004	Eastpoint Technologies, LLC	Core processing software for banks
July 2004	re:Member Data Services, Inc.	Core processing software for credit unions
July 2004	Omega Systems of North America LLC	Document processing product
October 2004	Datawest Solutions Inc.	Core processing software for credit unions and software for payment processing in Canada and internationally

Technology

We design our software to integrate with other products, to allow individual customer data to be easily accessible at all times, and to be able to deliver strategic benefits to financial institutions at a lower cost. We released our initial product in 1995, at a time when technical advancements such as distributed computing, browser-based applications and standards for integrating disparate applications were becoming commonly adopted in the marketplace. To take advantage of these technical developments, we created an open product architecture to maximize a client s flexibility with respect to both hardware options and integration with other software applications. In addition, we sought to design a single platform that could service all financial institutions, including commercial banks, thrifts and credit unions. We d3also understood the difficulties financial institutions face in retrieving timely, accurate information with respect to their customers, and therefore designed our software with a single relational database as its integral component, placing an emphasis on access to customer information rather than account data. By creating a core processing solution that is open and customer-centric, we believe we have minimized the need for financial institutions to purchase costly middleware and additional databases to perform the tasks that our products achieve with only one software application and a single database.

Our core software application offers the following benefits:

- an open architecture that permits full integration with third-party hardware and software and emerging technologies,
- flexible functionality, scalability and high performance, and
- a highly relational database designed around customer information.

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We believe that our software provides these benefits through an open architecture that utilizes a relational database, as well as leading graphical user interfaces and report generation tools. Our software operates in an open systems environment, does not require any proprietary hardware components and is currently deployed on a wide range of client and server platforms. Our open architecture also permits our software to interface with a broad range of third-party applications and peripherals that are commonly used in banks and credit unions.

We implement our flexible solution through application modules, each of which performs a specific core processing function. All of our modules share and are able to access the data in a single relational database, allowing for consistency of data throughout our product suite. Through database normalization, data is organized in tables that are easily accessible through a variety of query tools as well as through the application modules. In contrast to legacy systems, our architecture allows a financial institution to capture an unlimited amount of data regarding each of its customers without requiring additional software or support. As a result, a higher degree of independence between a client s business processes and underlying data is achieved and the solution is more scalable and adaptable to changing business needs. New application modules may be developed or existing modules may be altered as required without having to change the underlying data model.

Our software utilizes a single, enterprise-wide relational database model, as opposed to a distributed database in which data is spread among two or more components, and typically resides on different computers. The principal benefits of an architecture using a single enterprise-wide relational database is that it virtually eliminates the introduction of redundant data and permits real-time processing so that, for example, transactions are immediately reflected in a bank or credit union customer s account. This contrasts with a batch processing approach in which all accounts are updated at scheduled intervals, typically at the end of the business day. Our software may also be configured to operate in a hybrid memo batch/ real time mode for those banks or credit unions that prefer to operate using the workflow model.

Our payments processing software is designed to run on a scaleable cluster of small processors. This flexible architecture allows these solutions to be viable for very small institutions but also for extremely large transaction processing organizations, like our own payments processor in Canada, POSHnet, which operates the largest network of ATMs in Canada entirely using our own software products. These switching systems operate on a continuous, 24/7 basis and use industry standard and operating system capabilities to deliver ultra-high availability and transaction reliability. We believe that our customers benefit from the ease of use and scalability of the payments processing software.

Products and Services

We offer core software as well as several complementary products that may be purchased with our core solution or separately. The open and flexible architecture of our core solution is designed to provide our clients with the maximum array of options for complementary applications. While all of our products function independently of each other, financial institutions which use our entire software suite benefit from our fully-integrated platform and the ability to obtain comprehensive real-time information on all of their customers.

Core Software

The Complete Banking Solution and The Complete Credit Union Solution. We market our core software in two versions, one directed primarily at commercial banks and thrifts and the other directed primarily at credit unions. The Complete Banking Solution and The Complete Credit Union Solution share a common software platform that provides a comprehensive real-time open architecture system capable of managing all of a financial institution s core processing requirements. Our core software permits the financial institution and its customers to view their transactions immediately, whether the transactions occur over the telephone, on the Internet, at the ATM, inside the financial institution or at an external debit location.

We believe that our core software is less expensive to install and maintain than most legacy systems. It can be easily integrated with third party applications or our own complementary products to provide a comprehensive solution that can immediately retrieve valuable customer information for specifically targeting customers with cross-selling or up-selling opportunities.

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Some of the key features of our core software include:

- customer-centric system,
- real-time customer touch-point integration,
- integrated real-time and/or batch processing,
- comprehensive lending and deposit processing,
- forms integration (including signature and photo storage),
- customizable web-based reporting,
- comprehensive teller/ customer service applications,
- commercial institution functionality,
- institution and branch operations,
- direct payroll processing, and
- product delivery manager.

The features of our core software offer a comprehensive real-time view of each customer relationship, which enables our clients to provide better customer service by having a complete customer profile available to tellers and officers instantaneously.

Complementary Products

To enhance our core software, we offer a number of complementary products. All of our complementary products are designed to run on any core processing system. However, when used with our core solution, our complementary products are designed to take advantage of the availability of real-time customer information. These products provide functionality beyond that in any core solution, and include:

cView. cView is an advanced business-intelligence suite designed around two key functional areas: real-time customer contact and knowledge management. cView permits a financial institution to leverage relational technology, customer account and transaction data and instant messaging to gather, convert and analyze disparate customer information into knowledge that can be applied to support timely and responsive initiatives such as promotional offers and make them available immediately through front-line delivery channels, such as Internet banking, tellers and others. cView is designed to operate on any core processing system, whether designed by us or by a third party. The cView suite consists of the following web-based components:

Dynamic Messaging Manager. Application that allows the financial institution to set rules that define the real-time distribution and receipt of messages throughout the organization.

Activity Manager. Application that allows the financial institution to track and manage the activities of its customers and prospects.

My Vision. Access point for cView applications, intranet communications and access to relevant documents, messages and Internet links.

Report Wizard. Query and report writing tool, which allows users to simplify views of complex database table design, effectively collapsing multiple tables into one.

Market Vision. Customer data warehouse designed to permit financial institutions to learn about their customers, prospects, products and business lines so they can make sound business decisions and create effective marketing plans.

Each component of the cView suite is integrated with the other components, as well as with our core software, allowing clients to focus on the implementation of CRM strategies rather than the support and maintenance of separate software applications.

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Channel Management Center. Channel Management Center is a suite of applications and services designed to facilitate the building and processing of interfaces between disparate systems. Channel Management Center is designed to act as a translator between core, business and delivery systems and to centralize the collection and movement of information throughout the financial institution, eliminating the need for multiple types of middleware services.

eCommerce Banker Consumer and eCommerce Banker Business. Our eCommerce Banker suite provides clients with Internet banking and cash management tools for commercial and retail customers. The modules permit a financial institution to choose from a wide menu of financial services that may be provided to either individuals or businesses, including:

Account Information. Customers can view balance information for checking and savings accounts, certificates of deposit, lines of credit, automobile loans and mortgage loans. Customers can also view year-to-date interest accrued or paid, interest rates and deposit maturity dates.

Cash Management. Business customers can monitor their accounts, make tax payments and execute automated clearing house or wire transfers. We also provide a cash concentration function, which periodically sweeps cash from several accounts into a single interest-bearing account.

Funds Transfer. Customers can transfer funds among accounts and establish real-time electronic bill payment.

Compatibility with Personal Financial Management Software. Popular personal financial management software, such as Intuit Quicken® and Microsoft Money®, can be automatically synchronized with recent transactions.

Bill Payment. Customers can pay bills electronically 24 hours a day, seven days a week and can establish future and recurring payments.

Secure Messaging. Customers can communicate with a financial institution through secure encrypted message systems.

Additional Features. Customers can reorder paper checks, request an account statement or contact financial institution personnel by e-mail.

Our Internet banking application supports the open financial exchange, or OFX standard, which enables the system to interface to financial institution services that use a variety of devices to originate customer transactions. These administrative components include the ability for financial institutions customers and potential customers to submit account applications in a secure environment. Also, financial institutions can automatically generate e-mail responses to customer applications, update product interest rates and terms and receive customer-specific marketing and data analysis.

Check Imaging. This software application enables our clients to create and store digital check images for inclusion in monthly statements and to facilitate their customer support services. This product suite includes item/ image capture, document imaging/ computer output to laser disc, or COLD, signature verification, electronic statements, full-service check and item processing and managed services. This product is designed to comply with federal legislation known as The Check Clearing For The 21st Century Act, commonly known as Check 21, and to be compatible with the Federal Reserve s FedImage Platform. These features are important because when financial institutions exchange checks electronically rather than physically as the legislation will require, they will seek Check 21 compliant solutions. The product is also designed to be web-enabled, to eliminate a large portion of entry keying, and together with remote branch capture, to assist our clients in centralizing electronic image storage. Our clients can choose to purchase these products on an in-house, serviced or managed services basis.

Loan Origination. Our loan origination technologies are designed to provide full-service loan origination processing. Because no two lenders transact business in exactly the same manner, our loan origination

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products can also be adapted to suit a financial institution s specific needs. Our software suite provides integrated systems for mortgage, consumer and commercial lending:

The Sound Mortgage Management System provides comprehensive mortgage lending management. This product automates the mortgage process, including advanced disclosures, prequalification, origination, document preparation, processing, loan tracking, underwriting, commitment, closing, full management and government reporting. The system automatically books loans to our clients in-house or outsourced servicing systems. The system can be wide-area network enabled throughout all branches, and also provides for remote origination using the Internet.

The Sound Consumer Loan Management System provides consumer loan management through a comprehensive set of features, including full document preparation, loan processing, tracking, underwriting, reporting and government reporting requirements as well as an automated decision service.

The Sound Commercial Loan Documenter provides commercial loan management from the creation of commitment/ proposal letters to the final production and tracking of complete document packages for any small-business to middle-market loan, including commercial and industrial, or C&I, commercial real estate and construction and Small Business Administration loans.

Financial Products. Our financial accounting software suite is designed to provide fully-integrated back-office financial management technology to financial institutions, including general ledger, accounts payable and fixed assets. In addition, we offer strategic financial management tools such as asset/ liability management, profitability and financial planning:

Financial Accounting Platform. Our financial accounting platform is an integrated and comprehensive financial management suite. With detailed reporting and responsive service, it helps clients streamline accounting operations and improve the quality of their financial management. The financial accounting platform is comprised of four modules: general ledger, investment management, accounts payable and fixed assets accounting. Each system can operate as a stand-alone product or as part of the integrated financial accounting platform. As a whole or on a stand-alone basis, the open architecture and standardized file specifications are designed to allow integration with other accounting and information management software applications.

Asset/Liability Management and Financial Planning System. Our asset/ liability management and financial planning system provides analytical, budgeting and strategic planning software to enable financial institutions to better comprehend the factors driving their profitability. This software is designed to provide a financial institution with the ability to analyze the institution s balance sheet in order to determine market value and risk, helping to ensure preservation of capital.

ProfitVision. ProfitVision analyzes profitability at any level of the organization. It is designed to generate profit results and value indicators that reveal the contributors to an institution s bottom line. It can also be used to segment and profile valuable customers and determine which products, business units and channels are top performers.

Interactive Voice Solutions. Our interactive voice solutions, which we obtained through the acquisition of Maxxar Corporation on February 24, 2004, are designed to provide financial institutions with products that enhance productivity, strengthen customer services and reduce overall operational costs.

Interactive Voice Response. Our interactive voice response solution provides a financial institution s customer with round the clock access to their financial information and the ability to complete account transactions such as transferring funds, applying for loans, and accessing information about products and services. The product supports both touch-tone keypad response or natural language speech recognition.

Contact Center Management. Our contact center management solution is comprised of an enhanced Automatic Call Distributor (ACD) designed to provide sophisticated routing of telephone contacts and other forms of electronic media and agent workflow software used to manage a broad range of client services and marketing needs of a financial institution.

Voice Over IP. Our voice over IP product provides a financial institution with a reliable and economical voice communication solution to meet the needs of a multi-site organization.

Payments Products

To provide a complete operating environment for financial institution and other customers wishing to provide transaction services either in-house, as a service bureau, or using our own service, the Payment Solutions Group develops and markets a number of products. These products are independent of the Core and Complementary products but can be integrated to provide further synergies for their enhanced operation.

POSH (Point of Sale Handler). POSH provides customers with the functionality needed for point of sale terminals, or equivalent devices, at retail sites for credit and debit transactions. POSH also provides the capability to operate and manage the customer relationships with merchants and partners in the POS marketplace as well as manage the financial reconciliation and settlement of transaction value and fees. The functionality includes:

Transaction Routing. Card-based transactions can be routed for approval to international networks, local processors, and in-house and remote hosts. Transactions are all managed with the integrity required by international standards.

Data Security. All mandated processing relating to the security of cardholder information and PINs is included in POSH.

Settlement and Reconciliation. POSH tracks and reports on all transaction activity and can provide all the needed information to ensure ongoing integrity in all processing and financial relationships with outside partners and agencies.

Merchant/ ISO Management. Fees, statements, and information provision are handled by POSH to allow all downstream partners in either a proprietary or service bureau business model to receive all their payments, revenues, and control information.

POSHweb. A variety of integrated information services are available over the public world-wide web, subject to security controls. These include: report distribution, financial and transaction history, cash positions, monitoring status, history, and statistics, and news alerts.

ConCentre Application Monitoring. ConCentre is a comprehensive software tool designed to detect and manage errors and unusual events in a complex system processing environment such (as but not limited to) a large ATM network. Customers use Concentre to manage the alerts and faults in their network by improving service availability, track and enforce service level agreements, manage support personnel efficiently and use pre-emptive remediation techniques which allow for the automated correction of real-time errors. ConCentre functionality includes:

Flexible Error Detection. The ConCentre Interface Agent provides testing of resources, application relationships, timing, and statuses of any application environment. This information is collected in a non-intrusive way to ensure no noticeable degradation in the application environment being monitored.

Automated Remediation. In addition to merely reporting errors in the environment, ConCentre can be configured to automatically attempt to repair errors. This feature can increase overall availability and reduce resource costs.

Behavioral Analysis . The TRAFC component of ConCentre is designed to observe transactional activity and detect patterns of unusual or suspicious behavior. This service is particularly useful when monitoring dial-up POS terminals and can be beneficial in detecting errors outside of the range of the customer s own environment. It is also helpful in detecting signs of fraudulent activity.

Outsourcing Services

We have the capability to host a client s data processing functions at our outsourcing centers, giving the client the benefit of our products and services without having to maintain personnel to develop, update and run

these systems and without having to make large initial expenditures. Our outsourcing centers currently host applications for 535 financial institutions, including clients who use our core software and clients who use one or more of our Internet banking, ATM, cView, check imaging, cash management, collections, ACH processing, payments processing and check and item processing products. Our payments processing services operate over 18,000 terminal devices for over 180 Independent Sales Organizations.

Training, Maintenance and Support Services

Installation and Training. We provide comprehensive installation and training services in connection with the purchase of in-house systems and for new outsourcing center clients. The complete installation process of a core system typically includes planning, design, data conversion and testing.

Both in connection with installation of new systems and on an ongoing basis, our clients need, and we provide, extensive training services and programs related to our products and services. Training can be provided in our training centers, at meetings and conferences or onsite at our clients locations, and can be customized to meet our clients requirements. The large majority of our clients acquire additional training services, both to improve their employees proficiency and productivity and to make full use of the functionality of our systems.

Professional Services. Our professional service organization provides services on a contract basis such as operational reviews, which leverage the best practices of our clients to improve operational efficiency and effectiveness across our entire client base.

Support Services. We provide immediate telephone response service during normal working hours and on-call support 24 hours a day, seven days a week for all components of our solution. In addition, we offer remote product support services whereby our support team directly connects in a secure environment to our client s server to troubleshoot or perform routine maintenance.

Clients

We serve financial institutions of all sizes, however, the majority of our clients are commercial banks and thrifts with under $20 billion of assets and credit unions of all sizes. The majority of our clients are located in the United States and Canada, although we also have clients in several other foreign countries. As of December 31, 2004, approximately 2,780 financial institutions were using one or more of our products. One customer, Bisys, Inc., accounted for 11.7% of total revenues for the fiscal year ended December 31, 2004. No client accounted for more than 10% of our revenues in the fiscal years ended December 31, 2003 or 2002.

Sales and Marketing

We have established a multi-channel distribution and sales network. We sell and license our products directly to end-users through our direct sales force and indirectly through resellers, including third-party outsourcing centers. In addition, we support our direct and indirect sales efforts through strategic marketing relationships and public relations programs, trade shows and other marketing activities. We operate primarily in two geographical areas, the United States and Canada.

Direct Sales

We market our products primarily through a direct sales force which is split between our sales personnel who sell our core software and those who sell our complementary products. As of March 1, 2005, our direct sales force was comprised of 46 salespersons, 17 of which were selling our core software, 23 of which were selling our complementary products and 6 of which were selling our payments products. In addition, our sales group is complemented by application specialists, all of whom have extensive experience in banking technology and provide pre-sales support to potential clients on product information and deployment capabilities. Each client is also assigned an account manager who is that client s primary contact at Open Solutions, recommends complementary products suitable for that client s business and works with our sales group to generate sales. Our sales group for core software is focused in two distinct areas; the banking industry

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and the credit union industry. We believe that this distinction facilitates the ongoing effort to design, develop and build better technology products aimed at the specific needs of the banking and credit union industries.

Indirect Sales

We supplement our direct sales force with a range of resellers who sell our complementary products in conjunction with their own products and services. These resellers include a range of hardware and software vendors and permit us to better address specific geographical markets, including those outside the United States, and potential clients reliant on existing third-party core solutions.

Historically, a significant portion of financial institutions have chosen to satisfy their information technology needs through third-party outsourcing centers. In addition to our own technology outsourcing centers, we have entered into software license and marketing agreements with BISYS and COCC. Under our agreements with these strategic marketing partners, we receive license fees based on the asset size of the financial institution using our applications.

BISYS has the right to provide outsourcing services using our The Complete Banking Solution software to banks in the United States. Under the amended agreement, BISYS has also agreed to pay us minimum license fees and must achieve minimum sales requirements, as well as pay us annual maintenance fees for each of their clients that uses one or more of our products or services. In exchange, we have agreed not to compete with BISYS for the provision of outsourcing services to banks in the United States through September 2005 and thereafter (so long as BISYS continues to pay us the required minimum fees and meet the required minimum sales), and we have agreed not to enter into similar reseller agreements with any one of six named competitors of BISYS before March 1, 2005. Our agreement with COCC provides it with the right to provide services using our The Complete Banking Solution software to banks in ten states, primarily in the northeastern and mid-Atlantic United States. In February 2004, we entered into an expanded agreement with COCC, which provides for the license and resale of our e-Commerce Banker suite of electronic banking and cash management products operated from their data center. This agreement was amended in December 2004 and granted COCC the right to additional TCBS modules and ancillary products. The amended agreement has a term of ten years, with an option to renew for another five years at COCC s option. In addition, COCC will pay us non-refundable minimum license fees related to the achievement of certain minimum sales requirements for both unit sales and license fees.

During the fiscal year ended December 31, 2004, BISYS represented approximately $12.5 million, or 11.7%, of our total revenues, and COCC represented approximately $2.0 million, or 1.9%, of our total revenues. During the fiscal year ended December 31, 2003, BISYS represented approximately $5.8 million, or 9.1%, of our total revenues, and COCC represented approximately $1.5 million, or 2.4%, of our total revenues. During the fiscal year ended December 31, 2002, BISYS represented approximately $2.9 million, or 6.5%, of our total revenues, and COCC represented approximately $1.3 million, or 2.9%, of our total revenues.

Marketing

Our marketing program includes:

- direct mail,
- telemarketing,
- hosting an annual client conference,
- advertising in banking and credit union trade journals and periodicals,
- publishing articles and editorials,
- speaking engagements, and
- participating in seminars and trade shows.

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Product Development

We plan to continue to invest significant resources to maintain and enhance our current product and service offerings, and we are continually developing new products that complement these offerings. For the years ended December 31, 2004, 2003 and 2002, product development expenses were $11.0 million, $6.8 million and $6.2 million, respectively. We have historically released two upgrades of existing products each year, and, since the beginning of fiscal year 2002, we have introduced a collections system, a safe deposit box system, a web-based business intelligence suite, a web-based imaging system and tools to facilitate the building and processing of interfaces between disparate systems, as well as several smaller modules. The collections system and safe deposit box system were market-driven additions to our core software suite. The business intelligence, web-based imaging systems and the interface tools were designed to exploit the uniqueness of our core architecture, but as with all of our complementary products, they work with other core solutions. We have several new products under development and plan to sell them to both our existing client base and new clients. Our clients also regularly advise us of new products and functionalities that they desire, which we take into account with respect to planning our research and development operations. As of March 1, 2005, we employed a staff of 132 development employees.

Competition

The financial services software market is intensely competitive and subject to technological change. Competitors vary in size and in the scope and breadth of products and services offered. We encounter competition in the United States from a number of companies including Fiserv, Inc., Jack Henry & Associates, Inc., Fidelity National Financial Corporation and John H. Harland Company. We also compete against a number of smaller, regional competitors, as well as vendors of products that compete with one or more of our complementary products. Many of our current competitors have longer operating histories, larger client bases and greater financial resources than we do. In general, we compete on the basis of product architecture and functionality, service and support, including the range and quality of technical support, installation and training services, and product pricing in relation to performance and support.

Intellectual Property and Other Proprietary Rights

We rely primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. Our license agreements contain provisions which limit the number of users, state that title remains with Open Solutions and protect confidentiality. We presently have no patents or patent applications pending.

Open Solutions Inc., The Complete Banking Solution, The Complete Credit Union Solution, Bank-on-it and We Move Money are registered trademarks, and eCommerce Banker and eCommerce Mart are trademarks of ours. Open Solutions Inc. is also a service mark of ours. All other trade names and trademarks referred to in this Annual Report on Form 10-K are the property of their respective owners.

Employees

As of March 1, 2005, we had a total of 776 employees. Approximately 33 employees in Canada are unionized and subject to a collective bargaining agreement which expired on February 28, 2003. We are currently negotiating a new collective bargaining agreement. We have not experienced any work stoppages and believe that our relations with our employees are good.

Infrastructure

Our communications and network equipment is located in our corporate headquarters in Glastonbury, Connecticut and other offices throughout the United States and Canada. We have preventive maintenance and disaster recovery plans, which include periodic equipment, software and disaster recovery testing, data monitoring and maintaining records of system errors. We have 24-hour monitoring and engineering support

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and emergency communication lines. In the event of an emergency, we have a contingency plan to provide services through a nationally recognized emergency service provider.

Item 2. ***Properties***

Our operations are currently conducted at the leased facilities described below. In 2005, we will move our executive offices to another leased facility in Glastonbury, Connecticut. The new facility is approximately 46,000 square feet and that lease expires in 2012.

Location	Operations Conducted	Approximate Square Feet	Lease Expiration Date
Glastonbury, Connecticut	Executive offices	12,000	2005
Glastonbury, Connecticut	Executive offices	30,000	2005
Windsor Locks, Connecticut	Item processing center	5,000	2010
Shelton, Connecticut	Sales office	4,000	2006
Atlanta, Georgia	Support and data processing center	21,000	2008
Marietta, Georgia	Sales office	6,000	2006
Dryden, New York	Sales office	1,000	2007
Whitesboro, New York	Item processing center	2,000	2007
Indianapolis, Indiana	Support and data processing center	60,000	2010
Wixom, Michigan	Sales office	12,000	2007
Bedford, New Hampshire	Sales office	14,000	2006
Vancouver, British Columbia	Canadian executive offices	6,000	2005
Vancouver, British Columbia	Support and data processing center	29,000	2007
Missassauga, Ontario	Development office	2,000	2005
Oakville, Ontario	Payment processing center	30,000	2009

Item 3. ***Legal Proceedings***

We are from time to time a party to legal proceedings which arise in the normal course of business. We are not currently involved in any material litigation, the outcome of which would, in management s judgment based on information currently available, have a material adverse effect on our results of operations or financial condition, nor is management aware of any such litigation threatened against us.

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

None

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PART II

Item 5. ***Market for Registrant s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Since November 26, 2003, our common stock has traded on the Nasdaq National Market under the symbol OPEN. On March 9, 2005, the closing sale price of our common stock was $20.95 per share. The following table sets forth the high and low sales prices per share of our common stock for the periods indicated as reported on the Nasdaq National Market.

	High	Low
November 26, 2003 (inception of trading) December 31, 2003	$ 19.78	$ 15.65
First Quarter 2004	$ 26.07	$ 17.40
Second Quarter 2004	$ 25.75	$ 19.42
Third Quarter 2004	$ 25.86	$ 20.33
Fourth Quarter 2004	$ 28.60	$ 23.66

As of March 9, 2005, there were approximately 58 record holders of our common stock. This number does not include stockholders for whom shares are held in a nominee or street name.

We have never paid cash dividends. We currently intend to retain all future earnings, if any, for use in our business and we do not anticipate paying any cash dividends in the foreseeable future.

Initial Public Offering and Use of Proceeds from Sales of Registered Securities

On December 2, 2003, we completed an initial public offering of 5,750,000 shares of our common stock, par value $.01 per share, at a price to the public of $17.00 per share. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a Registration Statement on Form S-1 (File No. 333-108293), which was declared effective by the Securities and Exchange Commission on November 25, 2003. After expenses, the net proceeds to us from the IPO were approximately $86.4 million.

In addition to the use of proceeds previously disclosed in our Form 10-K for the year ended December 31, 2003, during the year ended December 31, 2004, we spent $6.9 million, $21.9 million, $47.6 million, $6.8 million and $2.5 million on the purchase of all of the capital stock of Maxxar Corporation, re:Member Data Services, Inc. and Datawest Solutions Inc. and substantially all of the assets of Eastpoint Technologies, LLC and Omega Systems of North America LLC, respectively, which accounts for all of the net proceeds from the IPO. Payments of proceeds were to persons other than our directors or officers or their associates, persons owning 10% or more of our equity securities, or our affiliates.

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Item 6. *Selected Financial Data*

The selected financial data set forth below are derived from our audited financial statements. Since June 2000, we have acquired ten businesses, as more fully described in Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. These acquisitions have significantly affected our revenues, results of operations and financial condition. The operating results of each business acquired have been included in our financial statements from the respective dates of acquisition.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Software license	$ 33,032	$ 21,391	$ 13,449	$ 9,971	$ 8,595
Service, maintenance and hardware	74,151	42,461	30,896	17,295	11,625
Total revenues	107,183	63,852	44,345	27,266	20,220
Cost of revenues:					
Software license	6,705	5,341	3,152	1,592	2,165
Service, maintenance and hardware	37,919	23,540	18,430	10,084	7,229
Total cost of revenues	44,624	28,881	21,582	11,676	9,394
Operating expenses (including restricted stock expense and related taxes of $3,444 for the year ended December 31, 2003)	46,396	33,471	25,773	25,929	26,152
Income (loss) from operations	16,163	1,500	(3,010)	(10,339)	(15,326)
Interest income and other, net	1,520	43	145	428	661
Income (loss) before income taxes	17,683	1,543	(2,865)	(9,911)	(14,665)
Income tax (provision) benefit	7,441	(234)	(32)	250	
Net income (loss)	25,124	1,309	(2,897)	(9,661)	(14,665)
Preferred stock accretion charge		(31,500)			
Net income (loss) attributable to common stockholders	$ 25,124	$ (30,191)	$ (2,897)	$ (9,661)	$ (14,665)
Net income (loss) per common share					

Basic	$	1.37	$	(7.74)	$	(1.18)	$	(4.71)	$	(7.42)
Diluted		1.26		(7.74)		(1.18)		(4.71)		(7.42)
Weighted average common shares used to compute net income (loss) per common share										
Basic		18,313		3,903		2,453		2,051		1,977
Diluted		19,896		3,903		2,453		2,051		1,977

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	December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except per share data)				
Balance Sheet Data:					
Cash and cash equivalents	$ 49,447	$ 14,853	$ 11,414	$ 11,552	$ 8,522
Working capital	59,084	73,305	1,486	3,261	5,051
Total assets	225,474	133,071	35,839	33,745	20,905
Long-term debt, current portion	1,239		750	748	
Long-term debt, less current portion	1,736		700		
Mandatorily redeemable convertible preferred stock			31,100	31,100	20,084
Redeemable convertible preferred stock			26,480	26,480	24,744
Stockholders equity (deficit)	178,313	105,419	(43,261)	(40,699)	(33,751)

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with, and are derived from, our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management s expectations. Important factors that could cause these differences include those described in Factors That May Affect Future Results and elsewhere in this Annual Report on Form 10-K.

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

Overview

We are a provider of software and services that allow financial institutions to compete and service their customers more effectively. We develop, market, license and support an enterprise-wide suite of software and services that perform a financial institution s data processing and information management functions, including account, transaction, lending, operations, back office, client information and reporting. Our complementary products and services supplement our core software to provide our clients with fully-integrated business intelligence, customer relationship management, or CRM, check imaging, Internet banking and cash management, general ledger and profitability, loan origination, interactive voice solutions and check and item processing functions. Our software can be operated either by the financial institution itself, on an outsourced basis in one of our outsourcing centers or through an outsourcing center hosted by one of our resellers. Substantially all of our historical revenue has been generated through the licensing of our core software and our complementary products and the provision of related services and maintenance to small and mid-size commercial banks and thrifts and credit unions of all sizes. In connection with our acquisition of Datawest Solutions Inc. in October 2004, we also derive revenue from payment processing services.

We derive revenues from two primary sources:

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

Our revenues have grown from approximately $14.1 million in 1999 to approximately $107.2 million in 2004. This growth has resulted primarily from strategic acquisitions and internal expansion, through which we have developed and acquired new products and services and have expanded the number of clients using one or more of our products to approximately 2,780 financial institutions as of December 31, 2004.

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

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

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

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

In the fourth quarter of 2004, we have reversed the valuation allowance of $17.9 million against our deferred tax assets because we have determined that it is more likely than not that current and future net income will allow for the realization of these assets. As a result, we have recorded an income tax benefit directly related to the reversal of the valuation allowance of $8.6 million in the fourth quarter. The remainder of the valuation allowance reversal was primarily recorded as an increase to equity of $7.8 million. For subsequent periods, we anticipate recording a tax provision against income at our effective tax rate. However, we do not expect to incur significant federal tax payments until all anticipated net operating loss carry forwards are utilized. We continue to maintain a full valuation allowance on deferred tax assets related to Datawest Solutions Inc.

On March 10, 2005, we acquired the U.S.-based services to credit unions business of CGI-AMS Inc., a provider of core processing solutions for credit unions, for cash consideration of approximately $24.0 million. We believe this acquisition will increase our core data processing client base among credit unions and increase the recurring revenue component of our revenues.

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Results of Operations

	Year Ended December 31,		
	2004	**2003**	**2002**
		(In thousands)	
Statement of Operations Data:			
Revenues:			
Software license	$ 33,032	$ 21,391	$ 13,449
Service, maintenance and hardware	74,151	42,461	30,896
Total revenues	107,183	63,852	44,345
Cost of revenues:			
Software license	6,705	5,341	3,152
Service, maintenance and hardware	37,919	23,540	18,430
Total cost of revenues	44,624	28,881	21,582
Operating expenses:			
Sales and marketing	14,272	10,729	9,533
Product development	11,001	6,854	6,223
General and administrative (includes restricted stock expense and related taxes of $3,444 for the year ended December 31, 2003)	21,123	15,888	10,017
Total operating expenses	46,396	33,471	25,773
Income (loss) from operations	16,163	1,500	(3,010)
Interest income and other, net	1,520	43	145
Income (loss) before income taxes	17,683	1,543	(2,865)
Income tax (provision) benefit	7,441	(234)	(32)
Net income (loss)	$ 25,124	$ 1,309	$ (2,897)

	Year Ended December 31,		
	2004	**2003**	**2002**
As a Percentage of Revenues:			
Revenues:			
Software license	30.8	33.5	30.3
Service, maintenance and hardware	69.2	66.5	69.7
Total revenues	100.0	100.0	100.0

	Year Ended December 31,		
	2004	2003	2002
Cost of revenues:			
Software license	6.3	8.4	7.1
Service, maintenance and hardware	35.3	36.9	41.6
Total cost of revenues	41.6	45.3	48.7
Operating expenses:			
Sales and marketing	13.3	16.8	21.5
Product development	10.3	10.7	14.0
General and administrative	19.7	24.9	22.6
Total operating expenses	43.3	52.4	58.1
Income (loss) from operations	15.1	2.3	(6.8)
Interest income and other, net	1.4	0.1	0.3
Net income (loss) before income taxes	16.5	2.4	(6.5)
Income tax (provision) benefit	6.9	(0.4)	(0.1
Net income (loss)	23.4%	2.0%	(6.6)%

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues. We generate revenues from licensing the rights to use our software products and certain third-party software products to clients. We also generate revenues from installation, training, maintenance and support services provided to clients, from outsourcing center services and from hardware sales related to our check imaging and telephony businesses. Revenues increased 67.9% from $63.9 million for the year ended December 31, 2003 to $107.2 million for the year ended December 31, 2004. This increase was attributable to a $11.6 million increase in licensing revenue from our core and complementary products attributable to sales to new clients, including those clients of our acquired entities, sales of additional products to existing clients and an increase in license fees from BISYS. Of the $11.6 million increase in licensing revenues, $3.1 million related to revenue from those acquisitions completed subsequent to January 1, 2004, which were Maxxar Corporation, Eastpoint Technologies, LLC, re:Member Data Services, Inc., Omega Systems of North America LLC and Datawest Solutions Inc, adjusted for the partial year impact of the Liberty FiTech Systems, Inc. business. The increase in revenues was also attributable to an increase of $7.1 million in our implementation and other professional services, $2.6 million of which was from acquired businesses. We also realized an increase of $10.2 million in our maintenance revenue, $6.5 million of which was from acquired businesses, and an increase of $12.9 million in our outsourcing revenues, $12.2 million of which was from acquired businesses. The increases in implementation, professional services and maintenance revenues were also directly related to the increase in sales of licenses to new clients and sales of additional products to existing clients. Additionally, revenues associated with hardware and other revenues increased by $1.6 million. The acquired businesses provided $1.8 million of hardware and other revenues.

Cost of Revenues. Cost of revenues increased 54.5% from $28.9 million for the year ended December 31, 2003 to $44.6 million for the year ended December 31, 2004. The increase was due primarily to a $4.1 million increase in costs associated with implementation and other professional services, $1.8 million of which is from the acquired businesses, a $3.1 million increase in costs associated with maintenance, $2.6 million of which was from the acquired businesses and a $6.2 million increase in costs associated with the growth of our outsourcing business, $5.4 million of which is from the acquired businesses. Cost of revenues represented 45.3% of revenues for the year ended December 31, 2003 as opposed to 41.6% of revenues for the year ended December 31, 2004. Cost of revenues increased on an absolute basis primarily as a result of the acquisitions completed since January 1, 2004, but also from increased third party license costs and costs of professional services associated with our revenue growth. Cost of revenues as a percentage of revenues decreased primarily because certain of our costs are fixed and our revenues (particularly maintenance, support and data center revenue) grew at a faster rate than our costs.

Operating Expenses

Sales and Marketing. Sales and marketing expenses increased 33.0% from $10.7 million for the year ended December 31, 2003 to $14.3 million for the year ended December 31, 2004. This increase was due primarily to $1.5 million in sales and marketing expenses from the acquired businesses and higher sales commissions due to the increase in license revenues. Sales and marketing expenses represented 13.3% of revenues for the year ended December 30, 2004 as opposed to 16.8% of revenues for the year ended December 30, 2003. Sales and marketing expenses as a percentage of revenues decreased because sales and marketing expenses did not increase proportionally to our revenue growth. In the event that we acquire product lines or businesses in the future, we would anticipate that, based on the nature and magnitude of those acquisitions, our sales and marketing expenses would increase as a result of those acquisitions.

Product Development. Product development expenses increased 60.5% from $6.9 million for the year ended December 31, 2003 to $11.0 million for the year ended December 31, 2004. This increase was due primarily to a $3.4 million increase in product development expenses from the acquired businesses. Product development expenses represented 10.7% of revenues for the year ended December 30, 2003 as opposed to 10.3% of revenues for the year ended December 30, 2004. Product development expenses as a percentage of revenues decreased primarily because our major product lines are largely developed and therefore did not require incremental investment. In the event that we acquire product lines or businesses in the future, we would anticipate that, based on the nature and magnitude of those acquisitions, our product development expenses would increase as a result of those acquisitions. As we increase our international operations, including the business acquired in the Datawest transaction, we expect to increase our product development expenses in order to modify our current product offerings to perform in non-U.S. banking systems.

General and Administrative. General and administrative expenses increased 32.9% from $15.9 million for the year ended December 31, 2003 to $21.1 million for the year ended December 31, 2004. The increase was due primarily to $5.3 million of expense from the acquired businesses, professional fees and other costs related to the requirements of being a public company, including the costs of compliance with Section 404 of Sarbanes-Oxley and capital based taxes of approximately $280,000, partially offset by a $3.4 million charge in 2003 related to the shares of restricted stock issued to certain employees as a result of our initial public offering. General and administrative expenses represented 24.9% of revenues for the year ended December 30, 2003 as opposed to 19.7% of revenues for the year ended December 30, 2004. In the event that we acquire product lines or businesses in the future, we would anticipate that, based on the nature and magnitude of those acquisitions, our general and administrative expenses would increase as a result of those acquisitions.

Interest Income and Other, net. Interest income and other, net, increased from $43,000 for the year ended December 30, 2003 to $1.5 million for the year ended December 31, 2004. This increase was due primarily to increased interest income from the investment of the proceeds of our initial public offering in the fourth quarter of 2003 and our follow-on public offering in the second quarter of 2004, as well as a foreign exchange gain of approximately $470,000 realized in the fourth quarter of 2004, partially offset by a loss on disposed equipment.

Income Tax (Benefit) Provision. Income tax benefit increased from a provision of $234,000 for the year ended December 31, 2003 to a U.S. tax benefit of $7.4 million for the year ended December 31, 2004. The increase was primarily the result of reversing our valuation allowance against our deferred tax assets in the fourth quarter of 2004. As a result, we have recorded an income tax benefit of $8.6 million in the fourth quarter directly related to the reversal of the valuation allowance. The remainder of the valuation allowance reversal was primarily recorded as an increase to equity of $7.8 million. For subsequent periods, we anticipate recording a tax provision against income at our effective tax rate.

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

Revenues. Revenues increased 44.0% from $44.3 million for the year ended December 31, 2002 to $63.9 million for the year ended December 31, 2003. This increase was attributable primarily to a $6.9 million increase in licensing revenue from our core and complimentary products attributable to sales to new clients, cross sales to existing clients and an increase in license fees from BISYS. Of th