ONLINE RESOURCES CORP
Form 10-K
March 03, 2009

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

Form 10-K

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

For the fiscal year ended December 31, 2008

Commission file number 0-26123

ONLINE RESOURCES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**52-1623052**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
4795 Meadow Wood Lane Chantilly, Virginia	**20151**
(Address of principal executive offices)	*(Zip code)*

(703) 653-3100
(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:

Title of Each Class
Common Stock, $0.0001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No þ

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 the 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

The aggregate market value of the registrant s voting and non-voting common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) computed by reference to $8.35 as of the last business day of the registrant s most recently completed second fiscal quarter was $244 million.

As of February 25, 2009, the registrant had 29,668,222 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held on May 6, 2009.

ONLINE RESOURCES CORPORATION

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

		Page
	PART I	
Item 1:	Business Overview	4
Item 1A:	Risk Factors	17
Item 2:	Properties	28
Item 3:	Legal Proceedings	28
Item 4:	Submission of Matters to a Vote of Security Holders	28
	PART II	
Item 5:	Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	29
Item 6:	Selected Consolidated Financial Data	29
Item 7:	Management s Discussion and Analysis of Financial Condition and Results of Operations	31
Item 7A:	Quantitative and Qualitative Disclosures About Market Risk	48
Item 8:	Consolidated Financial Statements and Supplementary Data	50
	Index to Consolidated Financial Statements	50
Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	90
Item 9A:	Controls and Procedures	90
Item 9B:	Other Information	91
	PART III	
Item 10:	Directors and Executive Officers of the Company	92
Item 11:	Executive Compensation	92
Item 12:	Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters	92
Item 13:	Certain Relationships and Related Transactions	92
Item 14:	Principal Accountant Fees and Services	92
	PART IV	
Item 15:	Exhibits and Financial Statement Schedules	93
Signatures		96

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, anticipate, intend, plan, believe, estimate, potential, continue, the negative of these terms or other comparable terminolo statements are only predictions. Actual events or results may differ materially from any forward-looking statement. In evaluating these statements, you should specifically consider various factors, including the risks outlined under Risk Factors in Item 1A. of Part I of this Annual Report on From 10-K.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Annual Report on Form 10-K.

PART I

Item 1. *Business Overview*

Business Overview

Online Resources provides outsourced, web- and phone-based financial technology services to financial institution, biller, card issuer and creditor clients and their millions of consumer end-users. End-users may access and view their accounts online and perform various self-service functions. They may also make electronic bill payments and funds transfers, utilizing our unique, real-time debit architecture, ACH and other payment methods. Our value-added relationship management services reinforce a favorable user experience and drive a profitable and competitive online channel for our clients. Further, we provide professional services, including software solutions, which enable various deployment options, a broad range of customization and other value-added services. Multi-year service contracts with our clients provide us with a recurring and predictable revenue stream that grows with increases in users and transactions. With our major business lines in two primary vertical markets, we currently derive approximately 80% of our revenues from payments and 20% from other services including account presentation relationship management, professional services, and custom software solutions.

We provide the following services for two primary vertical markets:

Banking Services: For banks, credit unions and other depository financial institutions, we provide a fully integrated suite of web-based account presentation, payment, relationship management and professional services, giving clients a single point of accountability, an enhanced experience for their users, the marketing processes to drive Internet channel adoption, and innovative services that help them maintain their competitive position. We enable business and consumer end-users to consolidate information from multiple accounts and make bill payments to multiple billers or merchants, or virtually anyone, via their financial institution s web site. We also offer our electronic bill payment services to financial institutions on a stand-alone basis. Many of the bill payment services we offer use our patented payments gateway, which leverages the nation s real-time electronic funds transfer, also known as EFT, infrastructure. By debiting end-users accounts in real-time, we are able to improve the speed, cost and quality of payments, while eliminating the risk that bills will be paid against insufficient funds.

e-Commerce Services: For billers, card issuers and credit providers, we provide web- and phone-based account presentation, payment, relationship management and professional services. We enable consumer and business end-users to manage their account or make a payment to a single card issuer, credit provider or biller. For billers, we provide a full suite of payment options, including consolidation of incoming payments made by credit cards, signature debit cards, ACH and PIN-less debit via multiple access points such as online, interactive voice response, or IVR, and call center customer service representatives. The suite also includes bill presentment, convenience payments, and flexible payment scheduling. We obtained these biller services and the industry s largest biller network as a result of our acquisitions of Princeton eCom Corporation, which we refer to as Princeton, in July 2006 and Internet Transaction Solutions, Inc., which we refer to as ITS, in August 2007. Specifically for card issuers and credit providers, we offer account presentation and self-service capabilities. In addition, we offer an award-winning web-based tool that improves collections of late and delinquent funds in a private, non-confrontational manner. In addition, for payment acquirers and very large online billers we provide payment services that enable real-time debits for a variety of web-originated consumer payments and fund transfers using our patented EFT payments gateway, which lowers transaction costs and increases the speed and certainty of payments.

We believe our domain expertise fulfills the large and growing need among both smaller financial services providers, who lack the internal resources to build and operate web-based financial services, and larger providers and billers, who choose to outsource niche solutions in order to use their internal resources elsewhere. We also believe that, because our business requires significant infrastructure along with a high

degree of flexibility, real-time solutions, and the ability to integrate financial information and transaction processing with a low tolerance for error, there are significant barriers to entry for potential competitors.

We are headquartered in Chantilly, Virginia. We also maintain operations facilities in Princeton, New Jersey, Parsippany, New Jersey, Woodland Hills, California, Columbus, Ohio and Pleasanton, California and an additional data center facility in Newark, New Jersey. We were incorporated in Delaware in 1989.

Our Industry

The Internet continues to grow in importance as an account presentation and payments channel for consumers and businesses, driven in part by the 24 hours a day, seven days a week access to financial services that it makes available. Offering services through this channel, as well as mobile and phone channels, allows financial services providers and billers to enhance their competitive positions and gain market share by retaining their existing end-users, aggressively attracting new ones and expanding the end-user relationship. As referenced in its April 2007 report, *US Online Banking: Five Year Forecast*, Forrester Research, a technology research and advisory firm, supported this growth proposition for the bank and credit union market when it estimated that the number of U.S. households banking online will grow from 52.5 million in 2007 to 71.7 million in 2011. Further, Forrester Research predicts that 59.4 million households will pay bills online in 2011, up from 42.3 million at the end of 2007, according to its May 2007 report, *US EBPP Forecast: 2006 To 2011*.

Financial services providers understand that access to their services through the Internet increases profitability. The advantages provided by a web-based channel include the opportunity to offer financial services to targeted audiences while reducing or eliminating workload, paper and other back office expenses associated with traditional distribution channels. Two landmark studies support this point, which remains the cornerstone business case for supporting this channel:

The Boston Consulting Group, a financial research and advisory firm, found in 2003 that online bill payment customers of depository financial institutions were up to 40 percent more profitable at the end of a 12-month period compared to those customers who did not pay bills online, because the online bill payment customers:

- generate significantly higher revenues than offline customers by using more banking products and services and maintaining higher account balances;
- cost less to serve because online users tend to utilize more self-service functions and therefore interact with the more costly retail branch and call center service channels less frequently than offline customers; and
- are less likely to move their accounts to other financial institutions than offline customers.

Bank of America s 2002 control group study found that online bill payers were 31% more profitable for the bank than non-bill payers. Bank of America also concluded that online bill payers were less likely to move their accounts to other banks. Consequently, Bank of America and many other large financial institutions eliminated their monthly end-user fees for online bill payment and launched aggressive marketing campaigns to promote adoption of the online channel. A growing majority of smaller financial institutions have also eliminated online bill payment fees and responded with similar marketing campaigns. This practice has since become standard practice for financial intuitions, which is positive for Online Resources because the elimination of online bill payment fees has generated significant increase in end-user adoption, more than offsetting any volume pricing discounts we may extend to our clients.

The largest U.S. financial services providers typically develop and maintain their own hosted solution for the delivery of web-based financial services and outsource only niche services. By contrast, the majority of small to mid-sized providers, including the approximately 16,000 banks and credit unions in the U.S. with assets of less than $20 billion, prefer to outsource their web-based financial services initiatives to a technology services provider. These smaller providers understand that they need to provide an increasing level of web-

based services, but frequently lack the capital, expertise, or information technology resources to develop and maintain these services in-house.

Many of the factors driving the outsourcing of web-based financial services in the depository financial institution market are also driving the outsourcing of similar services in the credit card issuer and processor market. For example, credit card issuers are reducing operating costs while increasing cardholder loyalty as a greater number of cardholders use the web to manage their credit card accounts. A market research firm, comScore, reported in its August 2007 report, *Online Credit Card Report* that 69% of consumers who use the Internet now manage one or more of their credit card accounts online.

In the biller market, use of the online channel is being driven primarily by the high cost of processing paper bills and checks. According to the Federal Reserve, an estimated 33.1 billion paper checks were written in the United States in 2006 down from an estimated 37.6 billion in 2003. Approximately 60% of major billers today present electronic bills and an additional 30% of major billers have plans to do so, according to Tower Group, a financial services research advisory firm. Of an estimated 17.0 billion consumer bill payments that occurred in 2007, 33% were paid electronically compared to 23% in 2004 according to the US Postal Service. We believe increased consumer access to the Internet, and the continued cost to both the biller and the consumer of processing paper bills and checks, will continue to drive billers toward use of the web channel to provide and manage their payments.

The majority of financial services providers and billers that offer varying degrees of web-based services continue to consider technology to further improve operations and overall results, however new obstacles created by adopting technology, include:

managing multiple technology vendors to provide account presentation, payments and other services;

reconciling multiple payment methods and sources in increasingly shortened timeframes;

understanding how to evaluate and enhance channel profitability; and

maximizing the value of the channel by increasing adoption and usage.

As a technology services provider, we assist our clients in meeting these challenges by delivering outsourced account presentation, payments, relationship management and professional solutions.

Our Solution

In contrast to financial technology providers with narrower service sets, who must link with others to provide a full web-channel offering, we are the only single provider of vertically, and increasingly horizontally, integrated, proprietary account presentation, payments, relationship management and custom software services that enable our clients to maintain a competitive and profitable online channel. As an outsourcer, we provide economies of scale and technical expertise to our clients that may lack the resources to compete in the dynamic and complex financial services industry, or lack the ability to manage the growing payment vehicles and delivery methods enabled by the web channel. We believe our services provide our clients with a cost-effective means to retain and expand their end-user base, deliver and manage their services more efficiently and strengthen their end-user relationships, while competing successfully against offerings from other financial services providers and businesses. Our services are provided through the following:

Our Technology Infrastructure. We connect to our clients, their core processors, their end-users and other financial services providers through our integrated communications, systems, processing and support capabilities. For our

account presentation services, we employ both real-time and batch communications and processing to ensure reliable delivery of current financial information to end-users. For our payment services we use our patented process to ensure real-time funds availability and process payments through a real-time EFT gateway. This gateway consists of over 50 certified links to ATM networks and core processors, which in turn have real-time links to virtually all of the nation s consumer checking accounts. These key links were established on a one-by-one basis throughout our history and enable us to access end-user accounts to draw funds and pay bills as requested. This gateway infrastructure has improved the cost, speed and quality of our bill payment services for the banking and credit union community and we believe differentiates us from others

in the marketplace. We believe this infrastructure is difficult to replicate and creates a significant barrier to entry for potential payment services competitors. In addition, we incorporate ACH and other payment methods in our services.

Since our acquisitions of Princeton in July 2006 and ITS in August 2007, we have linked our real-time EFT gateway with access to the nation s consumer checking accounts to the large networks of billers that had been established by Princeton and ITS. The result is the industry s largest payments network linking financial institutions and billers. As billers move toward enabling real-time credits and we further integrate vertically, this network will enable faster payment delivery and posting for end-users, convenience fee revenue for banks and billers, and lower processing costs for us. Today, over 50% of bank transactions are now on us with little or no incremental cost.

The following chart depicts this network:

Our Operating and Technical Expertise. After more than a decade of continuous operating experience, we have established the processes, procedures, controls and staff necessary to provide our clients secure, reliable services. Further, this experience, coupled with our scale and industry focus, allows us to invest efficiently in new product development on our clients behalf. We add value to our clients by relieving them of research and development costs required to provide highly competitive web-based services.

Our Integrated Marketing Process. With our relationship management services, we use a unique integrated consumer management process that combines data, technology and multiple consumer contact points to activate, support and sell new services to our clients consumer and business end-users. This proprietary process not only provides, in our opinion, a superior end-user experience, it also creates new revenue channels for our clients products and services, including the ones we offer. This enables us to increase adoption rates of our services. Using this process, we are able to sell multiple products to consumers, which ultimately can create more profits for our clients. For example, the success of our proprietary process is evident in our ability to add bill payments services, offered through our banking clients to users of our account presentation services, at approximately twice the estimated average industry rate.

Our Professional and Support Services. We provide professional services and custom software solutions that enable us to offer clients various deployment options and value-added web modules that require a high level of customization, such as account opening or lending. In addition, our clients can purchase one or more

of a comprehensive set of support services to complement our online services. These services include training, information reporting and analysis, and other professional services.

Our Strategy

Our objective is to become the leading supplier of outsourced account presentation and payments services to banks and credit unions, billers and card issuers and credit providers. Our strategy for achieving our objectives is to:

Continue to Grow Our Client Bases. Our clients have traditionally been regional and community-based depository financial institutions with assets of under $10 billion. These small to mid-sized financial services providers are compelled to keep pace with the service and technology standards set by larger financial services providers in order to stay competitive, but often lack the capital and human resources needed to develop and manage the technology infrastructure required to provide web-based services. With our July 2006 acquisition of Princeton and our August 2007 acquisition of ITS, we obtained the industry s largest network of billers who use us to provide payments and manage their complex payments mix, along with relationships with larger depository financial institutions. With our June 2005 acquisition of Integrated Data Systems, Inc., which we refer to as IDS, we obtained relationships with larger depository financial institutions along with the highly customizable applications and professional services expertise to support expansion in this market sector. With our December 2004 acquisition of Incurrent Solutions, Inc., which we refer to as Incurrent, we entered the credit card market, servicing mid-sized credit card issuers, processors for smaller issuers and large issuers who use us to service one or more of their niche portfolios. In addition, we believe that our depository and credit card financial services providers and our biller clients can benefit from our flexible, cost-effective, and broadly networked technology, and we intend to continue to market and sell our services to those providers under long-term recurring revenue contracts.

Increase Adoption Rates. Our clients typically pay us either usage or license fees based on their number of end-users or volume of transactions. Registered end-users using account presentation and payments services are the major drivers of our recurring revenues. Using our proprietary marketing processes, we will continue to assist our clients in growing the adoption and usage rates for our services.

As Princeton and ITS did not provide relationship management services prior to the acquisition, we continue to further introduce our consumer marketing and customer care services to billers to help increase adoption and usage of their online payment services.

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 new products and services available to our clients through internal development, partnerships and alliances. For example, in the credit card market, we have introduced a collections support product, developed by us, that allows credit card issuers to direct past due end-users to a website where they can set up payment plans and schedule payments.

Our acquisition of Princeton and ITS have created numerous opportunities to cross-sell their services to our banking and e-commerce services client bases. For example, our biller clients can benefit from the relationship management services we have traditionally offered to financial institutions to help drive consumer adoption and use of their payment services, that could result in an increase in transactions and enhanced customer relationships. Another example is that billers may benefit from offering our web-based collections tool that is currently used by our card issuer clients.

Maintain and Leverage Technological Leadership. We have a history of introducing innovative web-based financial services products for our clients. For example, we developed and currently obtain real-time funds through a patented EFT gateway with over 50 certified links to ATM networks and core processors. We were awarded additional patents

covering the confidential use of payment information for targeted marketing that is integrated into our proprietary marketing processes. Our technology and integration expertise has further enabled us to be among the first to adopt an outsourced web-based account presentation capability, and we pioneered the integration of real-time payments and relationship marketing. Further, we have received recognition for innovation and excellence for specific products.

We believe the scope and integration of our technology-based services give us a competitive advantage and we intend to continue the investments necessary to maintain our technological leadership.

Pursue Strategic Acquisitions. To complement and accelerate our internal growth, we continue to explore acquisitions of businesses and products that will complement our existing institutional client offerings, extend our target markets and expand our client base.

Leverage Growth Over Our Relatively Fixed Cost Base. Our business model is highly scaleable. We have invested heavily in our processes and infrastructure and, as such, can add large numbers of clients and end-users without significant cost increases. We expect that, as our revenues grow, and we begin to encounter the price pressures inherent to a maturing market, our cost structure will allow us to maintain or expand our operating margins.

Our Services

We provide our bank, credit union, biller and creditor and clients with payments and other services that they, in turn, offer to end-users branded under their own names.

The following chart depicts the services we now offer and plan to offer for the markets we serve:

Our bank and credit union clients select one of two primary service configurations: full service, consisting of our integrated suite of account presentation, bill payment, customer care, end-user marketing and other support services; or stand-alone bill payment services. Our card issuer and creditor clients use our account presentation services and/or collections payments services. Our biller and credit provider clients use our transaction processing services, as well as a host of other services, including web-based collections.

Our clients typically enter into long-term recurring revenue contracts for our services. Most of our services generate revenues from recurring monthly fees charged to the clients. These fees are typically fixed amounts for applications access or hosting, variable amounts based on the number of end-users or volume of transactions on our system, or a combination of both. Clients also separately engage our professional services capabilities for enhancement and maintenance of their applications.

In the banking market, our clients generally derive increased revenue, cost savings, account retention, increased payment speed and other benefits by offering our services to their end-users. Therefore, most of our clients offer the account presentation portion of our services free of charge to end-users and an increasing number are eliminating fees for bill payment services as well. Billers offer many of our payment services to their end-users for free in order to facilitate collections, though they will often charge convenience fees to their end-users for certain payment services. In the credit card market, account presentation and payment services are also typically offered to end-users free of charge, though usage based convenience fees may apply to certain payments services.

Account Presentation Services. We currently offer account presentation services to financial institutions and card issuers. These services provide a comprehensive set of online capabilities that allow end-users to:

view transaction histories and account balances;

review and retrieve current and past statements;

transfer funds and balances;

initiate or schedule either one-time or recurring payments;

access and maintain account information; and

perform many self-service administrative functions.

In addition, we offer our financial institution clients a number of complementary services. We can provide these clients with two types business banking services, a full cash management service intended for larger end-users and a basic business offering intended for small business end-users. *Money HQ* sm allows end-users to obtain account information from multiple financial institutions, view bills, transfer money between accounts at multiple financial institutions, make person-to-person payments and receive alerts without leaving their financial institution s web site. We also offer mobile access, check images, check reorder, Quicken® interface, statement presentment and other functionality that enhances our solution. Account presentment is also protected by our multi-factor security solutions.

Payments Services. For our financial institution clients, our web-based bill payment services may be bundled with our account presentation services or purchased as a stand-alone service integrated with a third-party account presentation solution. Our payments services for these clients are unique in the industry because they leverage the banking industry s ATM infrastructure through our real-time EFT gateway, which consists of over 50 certified links to ATM networks and core processors. Through this patented technology, our clients take advantage of existing trusted systems, security, clearing, settlement, regulations and procedures. End-users of our web-based payment service benefit from a secure, reliable, real-time direct link to their accounts. This enables them to schedule transactions using our intuitive web user interface, including same-day, expedited payments. They can also obtain complete application support and payment inquiry processing through our customer care center. Additionally, clients offering our web-based payment services can enable their end-users to register for *Money HQ* sm and other services that we can offer through our web interfaces.

Our remittance service is an attractive add-on service for financial institutions of all sizes that run their own in-house online banking system, or for other providers of web-based banking solutions that lack a bill payment infrastructure. Our remittance service enhances their systems by adding the extra functionality of bill payment processing, backed by complete funds settlement, payment research, inquiry resolution, and merchant services. End-users provide bill payment instructions through their existing online banking interface, which validates the availability of funds on the date bills are to be paid. On a daily basis, we receive a file of all bill payment requests from the financial institution. We process and remit the bill payments to the designated merchants or other payees and settle the transactions with our financial institution clients.

For our biller clients, we provide a full suite of payment options, including consolidation of incoming payments made by credit cards, signature debit cards, ACH and PIN-less debit via multiple access points such as online, IVR, or call center customer service representatives. The suite also includes bill presentment, convenience payments, and flexible payment scheduling. We also provide our web-based collections support product that allows our biller clients to direct past due end-users to a specialized website where they can review account balances, set up payment plans and make

payments.

For our credit card clients, we offer the ability to schedule either one-time or recurring payments to the provider through our account presentation software. We do not currently process those payments, but have plans to do so in the future. These clients may also use our web-based collections support product.

For other large billers and payment acquirers, we provide real-time account debit services via our EFT gateway, enabling them to obtain funds faster, and eliminating the risk of non-sufficient funds.

Relationship Management Services. Our relationship management services consist of the customer care services we maintain for our financial institution and biller clients, and the marketing programs we run on their behalf. Our customer care center, located in Chantilly, Virginia, responds to end-users questions relating to enrollment, transactions or technical support. End-users can contact one of approximately 75 consumer service representatives by phone, fax or e-mail 24 hours a day, seven days a week.

We view each interaction with an end-user or potential end-user as an opportunity to sell additional products that we or our clients offer. We use an integrated consumer management process that allows our traditionally small to mid-size financial institution and biller client base to offer not only comprehensive support solutions to its consumers but also creates a sales channel and increases adoption of web-based services. We believe this significant service is unique and differentiates us in the industry. This process combines data, technology and multiple consumer contacts to acquire and retain, and sell multiple services to customers of our financial institution and biller clients. Using this process, we help guide consumers through the online banking lifecycle, which ultimately results in more profits for our clients. The success of our proprietary process is evident in our rate of selling payments services to account presentation customers that is approximately double the industry average.

Professional Services. Our professional services include highly customized software applications, such as account opening and lending for our financial institution clients, which enable them to acquire more consumers via the web channel, and to enhance customer relationships. Our professional services also include implementation services, which convert existing data and integrate our platforms with the client s legacy host system or third party core processor, and ongoing maintenance of client specific applications or interfaces. Additionally, we offer professional services intended to tailor our services to meet the clients specific needs, including customization of applications, training of client personnel, and information reporting and analysis.

Third-Party Services. Though the majority of our technology is proprietary, included as part of our web-based financial services platforms are a limited number of service capabilities and content that are provided or controlled outside of our platform by third parties. These include:

- fully integrated bill payment and account retrieval through Intuit s Quicken®;
- check ordering available through Harland, Deluxe, Clarke American or Liberty;
- inter-institution funds transfer and account aggregation provided by CashEdge;
- check imaging provided by AFS and its service bureaus, Bisys, Fiserv, FSI/ Vsoft, Empire Corporate, Intercept, Fidelity, Corporate One, Eascorp, MICR Resource Management (MRM), Synergy, Transdata and Mid-Atlantic; and
- electronic statement through BIT Statement, COWWW, BDI e-statement, Datamail, Digital Mailer, InfoImage, Reed Data, XDI and Bankware.

Sales and Marketing

We seek to retain and expand our financial services provider and biller client base, and to help our clients drive end-user adoption rates for our web-based services. Our client services function consists of client business executives who support and cross-sell our services to existing clients, a sales team focusing on new prospects, and a marketing department supporting both our sales efforts and those of our clients.

Our client business executives support our existing clients in maximizing the benefit of their web-based channel. They do this by assisting clients in the deployment and use of our services, applying our extensive relationship management capabilities and supporting the clients own marketing programs. The client business executive team is also the first contact point for cross-selling new and enhanced services to our clients. Additionally, this team handles contract renewals and supports our clients in resolving operating issues.

Our sales team focuses on new client acquisition, either through direct contact with prospects or through our network of reseller relationships. Our target prospects are financial services providers and billers who are

either looking to replace their current web services provider, have no existing capability, or are looking for outsourced capability for a niche product line.

Our marketing department concentrates on two primary audiences: financial services providers and their end-users. Our corporate marketing team supports our sales efforts through marketing campaigns targeted at financial services provider and biller prospects. It also supports client business executives through marketing campaigns and events targeted at existing financial services provider and biller clients. Our consumer marketing team focuses on attracting and retaining end-users. It uses our proprietary integrated consumer management process, which combines consumer marketing expertise, cutting-edge technology using embedded ePiphany software, and our multiple consumer contact points.

Our Technology

Our systems and technology utilize both real-time and batch communications capabilities to optimize reliability, scalability, functionality, and cost. All of our systems are based on a multi-tiered architecture consisting of:

front-end servers proprietary and commercial communications software and hardware providing Internet and private communications access to our platform for end-users;

middleware proprietary and commercial software and hardware used to integrate end-user and financial data and to process financial transactions;

back-end systems databases and proprietary software which support our account presentation and payments services;

support systems proprietary and commercial systems supporting our end-user service and other support services;

enabling technology software enabling clients and their end-users to easily access our platform; and

interoperable Service Oriented Architecture, or SOA software design permitting consistent, tight integration of product functionality across various product lines.

Our systems architecture is designed to provide end-user access for banking and bill payment remotely, primarily in application service provider, or ASP, mode. ASP mode is a fully managed service hosted in our technology centers, utilizing single instances of our applications software to provide cost effective and fully outsourced operations to multiple clients. We also offer single instance software for certain of our applications that can be hosted in our technology centers or installed in a client s facilities, allowing increased customization and operational control.

Supplementary third-party financial services are linked to our systems through the Internet, which we integrate into our end-user applications and transaction processing. Incorporating such third-party capabilities into our system enables us to focus our technical resources on our proprietary applications, middleware and integration capabilities, which our technology framework facilitates.

Service oriented architecture, or SOA, is a key component of our technology. SOA permits the tight integration of product functionality in a consistent fashion across our various product lines. SOA powers our ability to deploy an application locally or remotely in a transparent manner, and provides both scalability and redundancy crucial to scaling transaction volume and providing uninterrupted service.

We typically interface to our clients and, in the case of banks and credit unions, their core processors, through the use of high-speed telecommunication circuits to facilitate both real time access and batch download of account and transaction detail. This approach allows us to deliver responsive, high performing, scalable, and reliable services ensuring capture and transmission of the most current information and providing enhanced functionality through real-time use of our communications gateways.

For the processing of payments and eCommerce transactions initiated though many of our bank and credit union clients, we operate a unique, real-time EFT gateway, with over 50 certified links to ATM networks and

core processors. This gateway, depicted below, allows us to use online debits to retrieve funds in real-time, perform settlement authentication and obtain limited supplemental financial information. By using an online payment network to link into a client s primary database for end-user accounts, we take advantage of established EFT gateway infrastructure. This includes all telecommunications and software links, security, settlements and other critical operating rules and processes. Using this real-time payments architecture, clients avoid the substantial additional costs necessary to expand their existing infrastructure. We also believe that our real-time architecture is more flexible and scalable than traditional batch systems.

Note: This diagram is a representation of our gateway and does not include all links. Connections depicted are for illustrative purposes only.

Our payments gateway has allowed us to reduce the cost, while improving the speed and quality of the bill payment services we provide to these bank and credit union clients. In addition to the benefits associated with bill payment, our ability to retrieve funds from end-user accounts in real-time is enabling us to develop the new payments services desired by financial services providers beyond our traditional client base. For example, we are now offering real-time account debit services to some payment acquirers and billers. Other applications, such as the real-time movement of money between accounts at different financial institutions, are particularly well suited for our system of Internet delivery coupled with the real-time debiting of funds.

Where the payment services we provide do not include accessing the end-users accounts to retrieve funds, we use the Automated Clearing House, or ACH, network to obtain funds for payment. We initiate an ACH debit either directly against the account of the end user or against the account of a financial institution that has consolidated the funds for all payments requested by its end user customers. For our biller clients, we also process credit card transactions as source of funds for payments.

We use the Mastercard RPPS network, the ACH network and other delivery channels to credit funds to our biller clients and other merchants and payment recipients. We maintain comprehensive, proprietary biller and merchant warehouses for validation of remittance information, ensuring industry-leading accuracy in delivering payments. Our diverse biller and merchant base allows us to achieve extremely high levels of electronic payments, enhanced by tight technical integration with our biller clients.

Our services and related products are designed to provide security and system integrity, based on Internet and other communications standards, EFT network transaction processing procedures, and banking industry

standards for control and data processing. Prevailing security standards for Internet-based transactions are incorporated into our Internet services, including but not limited to, Secure Socket Layer 128K encryption, using public-private key algorithms developed by RSA Security, along with firewall technology for secure transactions. In the case of payment and transaction processing, we meet security transaction processing and other operating standards for each EFT network or core processor through which we route transactions. Additionally, we have established a business resumption plan to ensure that our technical services and operating infrastructure could be resumed within an acceptable time frame should some sort of business interruption affect our data center. Furthermore, management receives feedback on the sufficiency of security and controls built into our information technology, payment processing, and end-user support processes from independent reviews such as semi-annual network penetration tests, an annual Statement on Auditing Standards (SAS) 70 Type II Examination, periodic FFIEC examinations, and internal audits.

Proprietary Rights

In June 1993, we were awarded U.S. Patent number 5,220,501 covering our real-time EFT network-based payments process. This patent covers bill payment and other online payments made from the home using any enabling device where the transaction is routed in real-time through an EFT network. In March 1995, in settlement of litigation, we cross-licensed this patent to Citibank for its internal use.

On February 9, 1999, we were awarded U.S. Patent number 5,870,724 for targeting advertising in a home banking delivery service. This patent provides for the targeting of advertising or messaging to home banking users, using their confidential bill payment and other financial information, while preserving consumer privacy.

On March 13, 2001, we were awarded U.S. Patent number 6,202,054, a continuation of U.S. Patent number 5,220,501. The continuation expands the claims in that patent, thereby increasing its applicability and usefulness.

On July 11, 2006 we were awarded U.S. Patent number 7,076,458, a continuation of U.S. patent number 5,220,501. This final continuation expands the claims in that patent to cover a wide range of Internet banking applications that use ATM network-compatible messaging originated by a digital request message to conduct real-time debits and credits from customer bank accounts, whether from the home or another location and regardless of the type of equipment used to initiate the message. Since speed of payment is becoming increasingly valuable in the Internet bill payment market, our proprietary right to use ATM network-based payment methods (one of the few real time payment methods) represents a competitive advantage.

U.S. Patent Number 5,220,501 and all continuing applications of that patent (U.S. Patent numbers 6,202,054 and 7,076,458) expire in December 2009. Once these patents expire, we lose the ability to prevent current or potential competitors from mimicking our methods for using the ATM networks to make real-time debits and credits, increasing the speed of their Internet bill payment services and reducing a competitive advantage. The strict requirements of certifying to the ATM networks, time required to do so and know how needed to execute these non-standard transactions effectively, would still provide significant barriers to competitors trying to duplicate our network connections and methodologies.

In addition to our patents, we have registered trademarks. A significant portion of our systems, software and processes are proprietary. Accordingly, as a matter of policy, all management and technical employees execute non-disclosure agreements as a condition of employment.

Competition

We are not aware of any other company that provides highly integrated, comprehensive online financial services technology that is both scaled and flexible, and focused solely on the online channel. While a number of companies can offer the services provided by us and compete directly with us to provide such services, in many cases they have recently acquired such services and therefore cannot match our level of integration expertise and experience. In addition, in many cases these companies are focused on different services, with online financial technology being a secondary or tertiary offering. We may both compete with, and provide services for, other companies that also serve our targeted client bases. For example, we compete with S1 and

Fiserv in aspects of our business, but they are also our channel partners for the distribution of certain of our bill payment services.

In the banking market, we compete with specialized providers of web-based software and services and diversified financial technology providers, such as banking core processors, who bundle web capabilities with their other offerings. Specialized web-based providers include Digital Insight (an Intuit company), S1Corporation, FundsXpress (a First Data company), Corillian (a Fiserv company) and Sybase Financial Fusion, who sell banking account presentation capabilities and partner with others (including ourselves) for bill payment and other services. Specialized web-based bill payment providers include CheckFree (a Fiserv company), Metavante and iPay. Specialized web-based bill presentment providers include firms such as Yodlee, who integrate their aggregation technology and direct links to billers with a third-party payment partner.

Other competition in the small and mid-sized banking market includes diversified financial technology providers, particularly banking core processors such as Fiserv, Fidelity Information Systems, Jack Henry, Metavante, John Harland and Open Solutions. These core processors typically have one or more account presentation platforms with varying levels of capability. Some core processors, including Metavante, Fiserv and Fidelity Information Systems, also have captive bill payment capabilities. Other diversified financial technology providers, such as CashEdge and Intuit, compete with aspects of our business using their presentment and funds transfer products and services.

In the eCommerce market, we compete with web and telephone-based providers including biller and remittance service providers, credit card account presentation providers, and self-service collection software and services. Competition in the biller market includes JP Morgan Chase (through its Paymentech affiliate), First Data, CheckFree (a Fiserv company), Metavante, Aliaswire, Cleartran, DST Output and other diversified remittance and lockbox providers such as banks. We also compete with expedited payments providers, who provide billers and their customers with same day payments, sometimes charging the consumer a convenience fee. These competitors include Fiserv s BillMatrix and Western Union s Speedpay, as well as the captive expedited payment capabilities of our more diversified competitors. There are also several providers that compete with us in the bill presentment arena. These include Oracle s eDocs, which does not have an outsourced payment processing capability, Kubra, whose solution combines bill printing and payment, and Harbor Payments, which focuses on business-to-business invoice presentment and payment.

Other competition in the ecommerce market comes from providers of account presentation and payment to credit card issuers. These include specialized providers such as Corillian (a Fiserv company), and diversified credit card processors such as TSYS and First Data, who have captive web-based capabilities. We also compete with internal information technology groups of our large prospective clients, and with debit, bill payment and remittance providers for credit card payments. While the primary targeted market for our web-based collection service is card issuers, we also target other credit providers and collection agencies. Competition with our web-based collection service includes such firms Apollo and Debt Resolve, and the internal information technology groups of our large prospective clients.

Additionally, there are Internet financial services providers supporting brokerage firms, credit card issuers, insurance and other financial services companies. There are also Internet financial portals, such as Quicken.com, Yahoo Finance and MSN, who offer bill payment and aggregate consumer financial information from multiple financial institutions. Suppliers to these remote financial services providers potentially compete with us.

Many of our current and potential competitors have longer operating histories, greater name recognition, larger installed end-user bases and significantly greater financial, technical and marketing resources. Further, some of our more specialized competitors, such as CheckFree (a Fiserv company), have been part of continued industry consolidation where diversified financial technology providers have begun to position themselves as end-to-end providers and may increasingly direct their marketing initiatives toward our targeted client base. We believe our

advantage in the financial services market will continue to stem from our significant experience and ability to offer a fully integrated end-to-end solution to our clients.

In addition to our large installed end-user base and proprietary payments architecture, we believe our ability to continue to execute successfully will be driven by our performance in the following areas, including:

trust and reliability;

technical capabilities, scalability, and security;

speed to market;

end-user service;

ability to interface with our clients and their technology; and

operating effectiveness.

Government Regulation

We are not licensed by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the National Credit Union Administration or other federal or state agencies that regulate or supervise depository institutions or other providers of financial services. However, many of our current and prospective clients providing retail financial services, such as commercial banks, credit unions, brokerage firms, credit card issuers, consumer finance companies, other loan originators and insurers, operate in markets that are subject to extensive and complex federal and state regulations and oversight. Under the authority of the Bank Service Company Act, the Gramm Leach Bliley Act of 1999 and other federal laws that apply to retail financial service providers, federal depository institution regulators have taken the position that we are subject to examination resulting from the services we provide to the institutions they regulate. In order not to compromise our clients standing with the regulatory authorities, we have agreed to periodic examinations by these regulators, who have broad supervisory authority to remedy any shortcomings identified in any such examination.

Although we are not directly subject to regulation as a retail financial service provider, our services and related products may be subject to certain regulations and, in any event, must be designed to work within the extensive and evolving regulatory constraints in which our clients operate. These constraints include federal and state truth-in-lending disclosure rules, state usury laws, the Equal Credit Opportunity Act, the Electronic Funds Transfer Act, the Fair Credit Reporting Act, the Bank Secrecy Act, the Community Reinvestment Act, the Financial Services Modernization Act, the Bank Service Company Act, the Electronic Signatures in Global and National Commerce Act, regulations promulgated by the United States Treasury s Office of Foreign Assets Control (OFAC), privacy and information security regulations, laws against unfair or deceptive practices, the USA Patriot Act of 2001 and other state and local laws and regulations. Given the wide range of services we provide and clients we serve, the application of such regulations to our services is often determined on a case-by-case basis.

In the future federal, state or foreign agencies may attempt to regulate our activities. For example, Congress could enact legislation to regulate providers of electronic commerce services as retail financial services providers or under another regulatory framework. The Federal Reserve Board may adopt new rules and regulations for electronic funds transfers that could lead to increased operating costs and could also reduce the convenience and functionality of our services, possibly resulting in reduced market acceptance. Because of the growth in the electronic commerce market, Congress has held hearings on whether to regulate providers of services and transactions in the electronic commerce market, and federal or state authorities could enact laws, rules or regulations affecting our business operations. We also may be subject to federal, state and foreign money transmitter laws, encryption and security export laws and

regulations and state and foreign sales and use tax laws. If enacted or deemed applicable to us, such laws, rules or regulations could be imposed on our activities or our business thereby rendering our business or operations more costly, burdensome, less efficient or impossible, any of which could have a material adverse effect on our business, financial condition and operating results.

Furthermore, some consumer groups have expressed concern regarding the privacy, security and interchange pricing of financial electronic commerce services. It is possible that one or more states or the federal government may adopt laws or regulations applicable to the delivery of financial electronic commerce services in order to address these or other privacy concerns, whether or not as part of a larger regulatory framework. We cannot predict the impact that any such regulations could have on our business.

We currently offer services over the Internet. It is possible that further laws and regulations may be enacted with respect to the Internet, covering issues such as user privacy, pricing, content, characteristics and quality of services and products rendering our business or operations more costly, burdensome, less efficient impossible, any of which could have a material adverse effect on our business, financial condition and operating results.

Employees

At December 31, 2008, we had 619 employees. None of our employees are represented by a collective bargaining arrangement. We believe our relationship with our employees is good.

Available Information

For more information about us, visit our web site at www.orcc.com. Our electronic filings with the U.S. Securities and Exchange Commission (including our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to these reports) are available free of charge through our web site as soon as reasonably practicable after we electronically file with or furnish them to the U.S. Securities and Exchange Commission.

Item 1A. ***Risk Factors***

You should carefully consider the following risks before investing in our common stock. These are not the only risks that we may face. If any of the events referred to below occur, our business, financial condition, liquidity and results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We cannot be sure that we will achieve profitability in all future periods.

Although we first achieved profitability in the third quarter of 2002, we have experienced some unprofitable quarters since that time and cannot be certain that we can be profitable in all future periods. Unprofitable quarters may be due to the loss of a large client, acquisition of additional businesses or other factors. For example, we have had unprofitable quarters since our acquisition of Princeton, due to increased cash and non-cash expenses associated with that acquisition and its financing. Although we believe we have achieved economies of scale in our operations, if growth in our revenues does not significantly outpace the increase in our operating and non-operating expenses, we may not be profitable in future periods. Recent economic and market conditions have adversely impacted the financial services industry, particularly banks and credit unions.

Our clients are concentrated in a small number of industries, including the financial services industry, and changes within those industries could reduce demand for our products and services.

A large portion of our revenues are derived from financial service providers, primarily banks, credit unions and credit card issuers. Recently, financial services providers have been adversely affected by significant illiquidity and credit

tightening trends in the financial markets in which they operate. Unfavorable economic conditions adversely impacting those types of businesses could have a material adverse effect on our business, financial condition and results of operations. Depository financial institutions have experienced, and may continue to experience, fluctuations in profitability which, in the current market environment, may be extreme. Additionally, the entrance of non-traditional competitors and the current environment of low interest

rates have narrowed the profit margins of depository financial institutions, increasing challenges to improve their operating efficiencies. As a result, the business and profitability of some financial institutions has slowed, and may continue to slow, their capital and operating expenditures, including spending on web-based products and solutions, which can negatively impact sales of our online payments, account presentation, marketing and support services to new and existing clients. Decreases in, or reallocation of, capital and operating expenditures by our current and potential clients, unfavorable economic conditions and new or persisting competitive pressures could adversely affect our business, financial condition and results of operations.

Our biller clients are concentrated in the health care, utilities, consumer lending and insurance industries. Unfavorable economic conditions adversely impacting one or more of these industries could have a material adverse effect on our business, financial condition and results of operations.

The failure to retain existing end-users or changes in their continued use of our services will adversely affect our operating results.

There is no guarantee that the number of end-users using our services will continue to increase. Because our fee structure is designed to establish recurring revenues through monthly usage by end-users of our clients, our recurring revenues are dependent on the acceptance of our services by end-users and their continued use of account presentation, payments and other financial services we provide. Failing to retain the existing end-users and the change in spending patterns and budgetary resources of our clients and their end-users will adversely affect our operating results.

Any failure of our clients to effectively market our services could have a material adverse effect on our business.

To market our services to end-users, we require the consent, and often the assistance of, our clients. We generally charge our clients fees based on the number of their end-users who have enrolled with our clients for the services we provide or on the basis of the number of transactions those end-users generate. Therefore, end-user adoption of our services affects our revenue and is important to us. Because our clients offer our services under their name, we must depend on those clients to get their end-users to use our services. Although we offer extensive marketing programs to our clients, our clients may decide not to participate in our programs or our clients may not effectively market our services to their end-users. Any failure of our clients to allow us to effectively market our services could have a material adverse effect on our business.

Demand for low-cost or free online financial services and competition may place significant pressure on our pricing structure and revenues and may have an adverse effect on our financial condition.

Although we charge our client institutions for the services we provide, our clients offer many of the services they obtain from us, including account presentation and bill payments, to their customer end-users at low cost or for free. Clients and prospects may therefore reject our services in favor of those offered by other companies if those companies offer more competitive prices. Thus, market competition may place significant pressure on our pricing structure and revenues and may have an adverse effect on our financial condition.

If we are unable to expand or adapt our services to support our clients and end-users needs, our business may be materially adversely affected.

We may not be able to expand or adapt our services and related products to meet the demands of our clients and their end-users quickly or at a reasonable cost. We have experienced, and expect to continue to experience, significant user and transaction growth. This growth has placed, and will continue to place, significant demands on our personnel, management and other resources. We will need to continue to expand and adapt our infrastructure, services and

related products to accommodate additional clients and their end-users, increased transaction volumes and changing end-user requirements. This will require substantial financial, operational and management resources. If we are unable to scale our system and processes to support the variety and number of transactions and end-users that ultimately use our services, our business may be materially adversely affected.

If we lose a material client, our business may be adversely impacted.

Loss of any material client could negatively impact our ability to increase our revenues and maintain profitability in the future. Additionally, the departure of a large client could impact our ability to attract and retain other clients. Currently, no one client or reseller partner accounts for more than 3% of our revenues.

Consolidation of the financial services industry could negatively impact our business.

The continuing consolidation of the financial services industry could result in a smaller market for our bank-related services. Consolidation frequently results in a change in the systems of, and services offered by, the combined entity. This could result in the termination of our services and related products if the acquirer has its own in-house system or outsources to our competitors. This would also result in the loss of revenues from actual or potential retail end-users of the acquired financial services provider.

Our failure to compete effectively in our markets would have a material adverse effect on our business.

We may not be able to compete with current and potential competitors, many of whom have longer operating histories, greater name recognition, larger, more established end-user bases and significantly greater financial, technical and marketing resources. Further, some of our competitors provide, or have the ability to provide, the same range of services we offer. They could market to our client and prospective client base. Other competitors, such as core banking processors, have broad distribution channels that bundle competing products directly to financial services providers. Also, competitors may compete directly with us by adopting a similar business model or through the acquisition of companies, such as resellers, who provide complementary products or services.

A significant number of companies offer portions of the services we provide and compete directly with us. For example, some companies compete with our web-based account presentation capabilities. Some software providers also offer some of the services we provide on an outsourced basis. These companies may use bill payers who integrate with their account presentation services. Also, certain services, such as Intuit s Quicken.com and Yahoo! Finance, may be available to retail end-users independent of financial services providers.

Many of our competitors may be able to afford more extensive marketing campaigns and more aggressive pricing policies in order to attract financial services providers. Our failure to compete effectively in our markets would have a material adverse effect on our business.

Our quarterly financial results are subject to fluctuations, which could have a material adverse effect on the price of our stock.

Our quarterly revenues, expenses and operating results may vary from quarter to quarter in the future based upon a number of factors, many of which are not within our control. Our revenue model is based largely on recurring revenues derived from actual end-user counts and the volume of transactions conducted by those end-users. The number of our total end-users and the number of total transactions they conduct are affected by many factors, many of which are beyond our control, including the number of new user registrations, end-user turnover, loss of clients, and general consumer trends. Our results of operations for a particular period may be adversely affected if the revenues based on the number of end-users or transactions forecasted for that period are less than expected. As a result, our operating results may fall below market analysts expectations in some future quarters, which could have a material adverse effect on the market price of our stock.

Interest rate fluctuations could have a material adverse impact on our revenues.

As part of our pricing structure, we earn interest (float interest) in clearing accounts that hold funds collected from end-users until they are disbursed to receiving merchants or financial institutions. The float interest we earn on these clearing accounts is considered in our determination of the fee structure for clients and represents a portion of the payment for our services. Interest rates declined significantly in 2008 reducing our float interest. This had the affect of reducing our revenues and results of operations by approximately

$5.3 million compared to 2007 results. Should interest rates continue to remain low, this could have a continuing material adverse effect on the market price of our stock.

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

We rely on a combination of patent, copyright, trademark and trade secret laws, as well as licensing agreements, third-party nondisclosure agreements and other contractual provisions and technical measures to protect our intellectual property rights. There can be no assurance that these protections will be adequate to prevent our competitors from copying or reverse-engineering our products, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. To protect our trade secrets and other proprietary information, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. Although we hold registered United States patents and trademarks covering certain aspects of our technology and our business, we cannot be sure of the level of protection that these patents and trademarks will provide. We may have to resort to litigation to enforce our intellectual property rights, to protect trade secrets or know-how, or to determine their scope, validity or enforceability. Enforcing or defending our proprietary technology is expensive, could cause diversion of our resources and may not prove successful.

Our failure to properly develop, market or sell new products could adversely affect our business.

The expansion of our business is dependent, in part, on our developing, marketing and selling new financial products to our clients and their customers. If any new products we develop prove defective or if we fail to properly market these products to our clients or sell these products to their customers, the growth we envision for our company may not be achieved and our revenues and profits may be adversely affected.

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

There can be no assurance that a third party will not assert that our technology violates its intellectual property rights. As the number of products offered by our competitors increases and the functionality of these products further overlap, the provision of web-based financial services technology may become increasingly subject to infringement claims.

Any claims, whether with or without merit, could:

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

We cannot assure that third parties will not assert infringement claims against us in the future with respect to our current or future products or that any such assertion will not require us to enter into royalty arrangements (if available). Litigation could result from claims of infringement that could be costly to us.

System failures could hurt our business and we could be liable for some types of failures the extent or amount of which cannot be predicted.

Like other system operators, our operations are dependent on our ability to protect our system from interruption caused by damage from fire, earthquake, power loss, telecommunications failure, unauthorized entry or other events beyond our control. We maintain our own and outsourced offsite disaster recovery facilities for our primary data centers. In the event of major disasters, both our primary and backup locations could be equally impacted. We do not currently have sufficient backup facilities to provide full Internet services if our primary facilities are not functioning. We could also experience system interruptions due to the failure of our systems to function as intended or the failure of the systems we rely upon to deliver our services, such as: ATM networks, the Internet, the systems of financial institutions, processors that integrate with our systems and other networks and systems of third parties. Loss of all or part of our systems or the systems of third parties with which our systems interface for a period of time could have a material adverse effect on our business. We may be liable to our clients for breach of contract for interruptions in service. Due to the numerous variables surrounding system disruptions, we cannot predict the extent or amount of any potential liability.

Security breaches could have a material adverse effect on our business.

Like other system operators, our computer systems may be vulnerable to computer viruses, hackers, and other disruptive problems caused by unauthorized access to, or improper use of, our systems by third parties or employees. We store and transmit confidential financial information in providing our services. Although we intend to continue to implement state-of-the-art security measures, computer attacks or disruptions may jeopardize the security of information stored in and transmitted through our computer systems or those of our clients and their end-users. Actual or perceived concerns that our systems may be vulnerable to such attacks or disruptions may deter financial services providers and consumers from using our services.

Additionally, a majority of states have adopted, and the remaining states may be adopting, laws and regulations requiring that in-state account holders of a financial services provider be notified if their personal confidential information is compromised. If the specific account holders whose information has been compromised cannot be identified, all in-state account holders of the provider must be notified. If any such notice is required of us, confidence in our systems integrity would be undermined and both financial services providers and consumers may be reluctant to use our services.

Data networks are also vulnerable to attacks, unauthorized access and disruptions. For example, in a number of public networks, hackers have bypassed firewalls and misappropriated confidential information. It is possible that, despite existing safeguards, an employee could divert end-user funds while these funds are in our control, exposing us to a risk of loss or litigation and possible liability. In dealing with numerous end-users, it is possible that some level of fraud or error will occur, which may result in erroneous external payments. Losses or liabilities that we incur as a result of any of the foregoing could have a material adverse effect on our business.

The potential obsolescence of our technology or the offering of new, more efficient means of conducting account presentation and payments services could negatively impact our business.

The industry for web-based account presentation and payments services is subject to rapid change. Our success will depend substantially upon our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products and features that meet the changing financial services provider and retail end-user requirements and incorporate technological advancements. If we are unable to develop new products and enhanced functionalities or technologies to adapt to these changes or, if we cannot offset a decline in revenues of existing products by sales of new products, our business would suffer.

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

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

The failure to attract or retain our officers and skilled employees could have a material adverse effect on our business.

If we fail to attract, assimilate or retain highly qualified managerial and technical personnel, our business could be materially adversely affected. Our performance is substantially dependent on the performance of our executive officers and key employees who must be knowledgeable and experienced in both financial services and technology. We are also dependent on our ability to retain and motivate high quality personnel, especially management and highly skilled technical teams. The loss of the services of any executive officers or key employees could have a material adverse effect on our business. Our future success also depends on the continuing ability to identify, hire, train and retain other highly qualified managerial and technical personnel. If our managerial and key personnel fail to effectively manage our business, our results of operations and reputation could be harmed.

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

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

Failure to comply with financial network operating rules could reduce the value of our services to our clients and make those services more costly to provide.

Our services require interaction with several privately operated financial networks. Each of these networks has its own evolving set of operating rules governing various aspects of the business we do with them, including transaction

eligibility, data formatting, record keeping and processing and pricing methodology. For reasons of confidentiality, some of these networks also limit our access to their operating rules, making the

task of compliance more difficult. Additionally, we can also be held accountable for compliance by our clients if they access these networks through us.

Our operating agreements with these networks give them the right to perform periodic examinations of our compliance with their operating rules. They have the sole authority to interpret these rules and can require us to stop or change anything we do that they consider non-compliant. Failure to comply with a network s operating rules, or a disagreement with a network s examiners regarding our compliance, could result in financial penalties or inability to access the network. If we have to modify our services to maintain compliance, or if we cannot access a network, our services could become less valuable to our clients and our operations could become more costly, which could adversely affect our revenue and profits.

Government regulation could interfere with our business.

The financial services industry is subject to extensive and complex federal and state regulation. In addition, our clients are heavily concentrated in the financial services, utility and healthcare industries, and therefore operate under high levels of governmental supervision. Our clients must ensure that our services and related products work within the extensive and evolving regulatory requirements applicable to them.

We are not licensed by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the National Credit Union Administration or other federal or state agencies that regulate or supervise depository institutions or other providers of financial services. Under the authority of the Bank Service Company Act, the Gramm Leach Bliley Act of 1999 and other federal laws that apply to depository financial institutions, federal depository institution regulators have taken the position that we are subject to examination resulting from the services we provide to the institutions they regulate. In order not to compromise our clients standing with the regulatory authorities, we have agreed to periodic examinations by these regulators, who have broad supervisory authority to remedy any shortcomings identified in any such examination.

Federal, state or foreign authorities could also adopt laws, rules or regulations relating to the industries we serve that affect our business, such as requiring us or our clients to comply with additional data, record keeping and processing and other requirements. It is possible that laws and regulations may be enacted or modified with respect to the Internet, covering issues such as end-user privacy, pricing, content, characteristics, taxation and quality of services and products. If enacted or deemed applicable to us, these laws, rules or regulations could be imposed on our activities or our business, thereby rendering our business or operations more costly, burdensome, less efficient or impossible and requiring us to modify our current or future products or services.

If we cannot maintain a satisfactory rating from the federal depository institution regulators, we may lose existing clients and have difficulty attracting new clients.

The examination reports of the federal agencies that examine us are distributed and made available to our depository clients. A less than satisfactory rating from any regulatory agency increases the obligation of our clients to monitor our capabilities and performance as a part of their own compliance process. It could also cause our clients and prospective clients to lose confidence in our ability to adequately provide services, thereby possibly causing them to seek alternate providers, which would have a corresponding detrimental impact on our revenues and profits.

We are exposed to increased costs and risks associated with complying with increasing and new regulation of corporate governance and disclosure standards.

We are spending an increased amount of management time and external resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including but not limited to, the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq Global Select Market rules. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires management s annual review and evaluation of our internal control systems, and attestations of the effectiveness of these systems by our independent registered public accounting firm. We document and test our internal control systems and

procedures and consider improvements that may be necessary in order for us to comply with the requirements of Section 404. This process requires us to hire outside advisory services and results in additional expenses for us. In addition, the evaluation and attestation processes required by Section 404 are conducted annually. In the event that our chief executive officer, chief financial officer or independent registered public accounting firm determines that our controls over financial reporting are not effective as defined under Section 404 in the future, investor perceptions of our Company may be adversely affected and could cause a decline in the market price of our stock.

If we are unable to expand our financial reporting capabilities to accommodate our rapid growth, we could fail to prevent or detect material errors and have to restate our financial statements. Any such restatement could increase our litigation risk, limit our access to the capital markets and reduce investor confidence, which may adversely affect the market price of our common stock.

Our rapid growth, compounded by the complexity introduced into our financial statements by acquisitions, has strained our financial systems, processes and personnel. If we are not be able to increase our capabilities fast enough to ensure that material errors are prevented or detected by our internal controls in a timely manner, we could have to restate our financial statements. Any such restatement could adversely affect our ability to access the capital markets or the market price of our common stock. We might also face litigation, and there can be no assurance that any such litigation, either against us specifically or as part of a class, would not materially adversely affect our business or the market price of our common stock.

Risks Related to Acquisitions

We may face difficulties in integrating acquired businesses.

We acquired Incurrent in December 2004, IDS in June 2005, Princeton in July 2006, ITS in August 2007, and we may acquire additional businesses in the future. To achieve the anticipated benefits of these acquisitions, we must successfully integrate the acquired businesses with our operations, to consolidate certain functions and to integrate procedures, personnel, product lines and operations in an efficient and effective manner.

The integration process may be disruptive to, and may cause an interruption of, or a loss of momentum in, our business as a result of a number of potential obstacles, such as:

the loss of key employees or end-users;

the need to coordinate diverse organizations;

difficulties in integrating administrative and other functions;

the loss of key members of management following the acquisition; and

the diversion of our management s attention from our day-to-day operations.

If we are not successful in integrating these businesses or if the integrations take longer than expected, we could be subject to significant costs and our business could be adversely affected.

We may have limited knowledge of, or experience with, the industries served and products provided by our acquired businesses.

Though we have acquired, and intend to continue to acquire, businesses that are related to our existing business, we may acquire businesses that offer products or services that are different from those we otherwise offer. For example, prior to our acquisition of Princeton, we did not have any products targeted to billers or any biller clients. In such cases, we may need to rely heavily on the management of the acquired business for some period until we can develop the understanding required to manage that business segment independently. If we are unable to retain key members of the acquired management team or are unable to develop an understanding of that business segment in a timely manner, we may miss opportunities or make business

decisions that could impact client and prospect relationships, future product offerings, service levels and other areas that could adversely impact our business.

Our acquisitions increase the size of our operations and the risks described herein.

Our acquisitions increase the size of our operations and may intensify some of the other risks we have described. There are also additional risks associated with managing a significantly larger company, including, among other things, the application of company-wide controls and procedures.

We made our acquisitions and may make future acquisitions, on the basis of available information, and there may be liabilities or obligations that were not or will not be adequately disclosed.

In connection with any acquisition, we conduct a review of information as provided by the management of that company. The company to be acquired may have incurred contractual, financial, regulatory or other obligations and liabilities that may impact us in the future, which may not be adequately reflected in financial and other information upon which we based our evaluation of the acquisition. If the financial and other information on which we have relied in making our offer for that company proves to be materially incorrect or incomplete, it could have a material adverse effect on our consolidated businesses, financial condition and operations.

Acquired companies give us limited warranties and indemnities in connection with their businesses, which may give rise to claims by us.

We have relied upon, and may continue to rely upon, limited representations and warranties of the companies we acquire. Although we put in place contractual and other legal remedies and limited escrow protection for losses that we may incur as a result of breaches of representations and warranties, we cannot assure you that our remedies will adequately cover any losses that we incur.

Goodwill recorded on our balance sheet may become impaired, which could have a material adverse effect on our operating results.

As a result of recent acquisitions we have undertaken, we have recorded a significant amount of goodwill. As required by Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Intangible Assets* (SFAS No. 142), we evaluate at least annually the potential impairment of goodwill that was recorded at each acquisition date. Testing for impairment of goodwill involves the identification of reporting units and the estimation of fair values. The estimation of fair values involves a high degree of judgment and subjectivity in the assumptions used. Circumstances could change which would give rise to an impairment of the value of that recorded goodwill. Examples of these circumstances could be continued deterioration of market conditions or a reduction in our share price. This potential impairment would be charged as an expense to the statement of operations which could have a material adverse effect on our operating results.

Risks Related to Our Capital Structure

Our stock price is volatile.

The market price of our common stock has been subject to significant fluctuations and may continue to be volatile in response to:

- actual or anticipated variations in quarterly operating results;

announcements of technological innovations;

new products or services offered by us or our competitors;

changes in financial estimates or ratings by securities analysts;

conditions or trends in the Internet and online commerce industries;

changes in the economic performance and/or market valuations of other Internet, online service industries;

announcements by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

additions or departures of key personnel;

future equity or debt offerings or acquisitions or our announcements of these transactions; and

other events or factors, many of which are beyond our control.

The stock market in general, and the Nasdaq Global Select Market specifically, have experienced extreme price and volume fluctuations and volatility that has particularly affected the market prices of many technology companies. Such fluctuations and volatility have often been unrelated or disproportionate to the operating performance of such companies. In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted against a company. Litigation, if instituted, whether or not successful, could result in substantial costs and a diversion of management s attention and resources, which would have a material adverse effect on our business.

We have a substantial number of shares of common and convertible preferred stock outstanding, including shares issued in connection with certain acquisitions and shares that may be issued upon exercise of grants under our equity compensation plans that, if sold, could affect the trading price of our common stock.

We have issued shares of our common and convertible preferred stock in connection with certain acquisitions and may issue additional shares of our common stock in connection with future acquisitions. For example, we issued shares of convertible preferred stock to a single investor group as a part of the financing for our acquisition of Princeton which are currently convertible into 4.6 million shares of common stock. We also have over 3.7 million shares of common stock that may be issued upon the exercise of stock options and or vesting of restricted stock, and over an additional 2.2 million shares reserved for the future issuance under our equity compensation plan and our employee stock purchase program. We cannot predict the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale will have on the market price of our common stock. Sales of substantial amounts of common stock (including shares issued upon the exercise of equity compensation grants), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

We have a significant amount of debt and redeemable preferred stock which will have to be repaid and may adversely affect our financial performance.

In connection with our acquisition of Princeton, we incurred $85 million in debt and issued $75 million in redeemable preferred stock. The interest we pay on the debt and the amounts we accrete to the redeemable preferred stock reduce our earnings and our cash flows. The reduction of our earnings associated with this debt and redeemable preferred stock could have an adverse impact on the trading price of our shares of common stock.

Our plans to operate and grow may be limited if we are unable to obtain sufficient financing.

We may desire to expand our business through further strategic acquisitions and new markets when we identify desirable opportunities. We may need additional equity and debt financing for these purposes, but may not be able to obtain such financing on acceptable terms, or at all. Our existing debt financing limits our capacity to borrow additional funds and carries interest expense that burdens our cost structure. Additionally, the holders of our preferred stock must approve the issuance of any debt or equity financing except for equity issued in a public offering. Failure

to obtain additional financing could weaken our operations or prevent us from achieving our business objectives. Equity financings, as well as debt financing with convertible features or accompanying warrants, can be dilutive to our stockholders. Negative covenants associated with debt financings may also restrict the manner in which we would otherwise desire to operate our business.

Holders of our outstanding preferred stock have liquidation and other rights that are senior to the rights of the holders of our common stock.

Our board of directors has the authority to designate and issue preferred stock that may have dividend, liquidation and other rights that are senior to those of our common stock. In connection with our acquisition of Princeton, our board designated 75,000 shares of our preferred stock as Series A-1 Redeemable Convertible Preferred Stock (Series A-1 Preferred Stock) all of which have been issued at a price of $1,000 per share. Holders of our shares of Series A-1 Preferred Stock are entitled to a liquidation preference, before amounts are distributed on our shares of common stock, of 115% of the original issue price of these shares plus 8% per annum of the original issue price with an interest factor thereon tied to the iMoneyNet First Tier Institutional Average. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common stock. In addition, holders of our Series A-1 Preferred Stock have the right to elect one director to our board of directors.

Holders of our Series A-1 Preferred Stock have voting rights that may restrict our ability to take corporate actions.

We cannot issue any security or evidence of indebtedness, other than in connection with an underwritten public offering, without the consent of the holders of a majority of the outstanding shares of Series A-1 Preferred Stock. We also cannot amend our certificate of incorporation nor have our board designate any future series of preferred stock if any such amendment or designation adversely impacts the Series A-1 Preferred Stock. Our inability to obtain these consents may have an adverse impact in our ability to issue securities in the future to advance our business.

Holders of our Series A-1 Preferred Stock have a redemption right.

After the seventh anniversary of the original issue date of our shares of Series A-1 Preferred Stock which will occur in July 2013, the holders of such shares have the right to require us to repurchase their shares, if then outstanding, at 115% of the original issue price of these shares and a cumulative dividend at 8% per annum of the original issuance price with an interest factor thereon based upon the iMoneyNet First Tier Institutional Average. Upon the election of this right of redemption, we may not have the necessary funds to redeem the shares and we may not have the ability to raise funds for this purpose on favorable terms or at all. Our obligation to redeem these shares could have an adverse impact on our financial condition and upon the operations of our business.

Efforts by the Series A-1 Preferred Stockholders to alter the strategic direction of the Company and elect alternative nominees to our Board of Directors may adversely affect the Company s business and financial performance.

On December 23, 2008 Tennenbaum Capital Partners, LLC (TCP), the investment advisor to the Series A-1 Preferred Stockholders, submitted a letter to the Company s Board of Directors and filed an amendment to its Schedule 13D filing that expressed a desire that the Company pursue certain consolidating transactions and indicated TCP s intentions could include nominating an alternate slate of directors and seeking a change of control of the Company. On February 13, 2009 TCP and certain of its affiliates (including the Series A-1 Preferred Stockholders) filed a preliminary proxy statement to be used in the solicitation of stockholder votes in favor of the election of an alternate slate of nominees to the Company s Board of Directors at the Company s 2009 Annual Stockholders Meeting. As noted above, the holders of our Series A-1 Preferred Stock are entitled to receive a liquidation preference payment upon a change of control transaction equal to 115% of the original issue price of the Series A-1 Preferred Stock. As a result, the payment that the Series A-1 Preferred Stockholders receive for the Series A-1 Preferred Stock will not be impacted by the price that may be offered for the Company as part of a change of control transaction, and this may put the interests of the Series A-1 Preferred Stockholders in conflict with the interests of common stockholders. The Company may expend significant time and resources in ensuring that the actions of TCP and the Series A-1 Preferred Stockholders do not result in outcomes that are not in the best interests of all stockholders. In addition, the actions of

TCP and the Series A-1 Preferred Stockholders may divert the attention of our management, disrupt

our operations and create uncertainty for our employees, vendors, customers and other business partners. These matters, alone or in combination, may adversely affect our business and financial performance.

Future offerings of debt, which would be senior to our common stock upon liquidation, and/or preferred equity securities which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, including deemed liquidations resulting from an acquisition of our company, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Our Series A-1 Preferred Stock has a preference on liquidating distributions that could limit our ability to pay a dividend or make another distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings.

If we are unable to comply with the covenants in our credit agreement, a default under the terms of that agreement could arise thereby potentially resulting in an acceleration of the repayment of borrowed funds.

Our credit agreement requires us to comply with certain covenants, including prescribed financial requirements. Our ability to meet these requirements may be affected by events beyond our control, including, without limitation, sales levels, contract terminations and market pricing pressures. No assurance can be provided that our financial performance will enable us to remain in compliance with these financial requirements. If we are unable to comply with the terms of our credit agreement, a default could arise under this agreement. In the event of a default, our lenders could terminate their commitment to lend or accelerate any loans and declare all amounts borrowed due and payable. In this event, there can be no assurance that we would be able to make the necessary payment to the lenders or that we would be able to find alternative financing on terms acceptable to us.

Item 2. ***Properties***

We are headquartered in Chantilly, Virginia where we lease approximately 100,000 square feet of office space. The lease expires September 30, 2014. We also lease office space in Princeton, New Jersey, Parsippany, New Jersey, Woodland Hills, California, Pleasanton, California and Columbus, Ohio. Our Banking segment operates from our Chantilly, Virginia, Princeton, New Jersey, Woodland Hills, California and Pleasanton, California offices; our eCommerce segments operate from our Chantilly, Virginia, Princeton, New Jersey, Parsippany, New Jersey and Columbus, Ohio offices. We believe that all of our facilities are in good condition and are suitable and adequate to meet our operations. Additionally, we believe that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

Item 3. ***Legal Proceedings***

We are not a party to any litigation, individually or in the aggregate, that we believe would have a material adverse effect on our financial condition or results of operations.

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

No matters were submitted to a vote of stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of 2008.

PART II

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

Our common stock began trading on the NASDAQ National Market on June 4, 1999 and now trades on the NASDAQ Global Select Market under the symbol ORCC . The following table sets forth the range of high and low closing sales prices of our common stock for the periods indicated, as reported by NASDAQ:

	2008		2007	
Fiscal Quarter Ended	**High**	**Low**	**High**	**Low**
First Quarter	$ 12.01	$ 9.09	$ 11.47	$ 9.03
Second Quarter	10.47	8.35	12.43	10.21
Third Quarter	10.26	6.84	13.75	10.39
Fourth Quarter	7.65	2.00	13.39	7.86

The market price of our common stock is highly volatile and fluctuates in response to a wide variety of factors. For additional information, see Item 1A., *Risk Factors Our Stock Price is Volatile* included in this Annual Report on From 10-K.

On December 31, 2008, we had approximately 151 holders of record of common stock. This does not reflect persons or entities that hold their stock in nominee or street name through various brokerage firms.

We have not paid any cash dividends on our common stock and currently intend to retain any future earnings for use in our business. Accordingly, we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future.

For information regarding securities authorized for issuance under the our equity compensation plans, see Note 15, *Equity Compensation Plans* , in the Notes to the Consolidated Financial Statements contained in Part II, Item 8, of this Annual Report on Form 10-K.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))**
Equity compensation plans approved by security holders	1,834,666	$5.14	2,074,331
Equity compensation plans not approved by security holders	1,902,863	$4.56	

Item 6. ***Selected Consolidated Financial Data***

The selected consolidated financial data set forth below with respect to Online Resources Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006 and with respect to Online Resources Consolidated Balance Sheets at December 31, 2008 and 2007 are derived from the audited Consolidated Financial Statements of Online Resources Corporation, which are included in Item 8, *Consolidated Financial Statements and Supplementary Data* in this Annual Report on Form 10-K. Consolidated Statements of Operations data for the fiscal years ended December 31, 2005 and 2004 and Consolidated Balance Sheet data at December 31, 2006, 2005 and 2004 are derived from Consolidated Financial Statements of Online Resources not included herein. The selected consolidated financial data set forth below is qualified in its entirety by, and should be read in conjunction with, the Consolidated Financial Statements, the related

Notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

	Year Ended December 31, (In thousands, except per share amounts)				
	2008	**2007**	**2006**	**2005**	**2004**
Statement of Operations Data:					
Revenues:					
Service fees	$ 138,278	$ 121,364	$ 81,573	$ 52,383	$ 39,202
Professional services and other	13,364	13,768	10,163	8,118	3,083
Total revenues	151,642	135,132	91,736	60,501	42,285
Cost of revenues	77,353	64,083	41,317	26,057	19,279
Gross profit	74,289	71,049	50,419	34,444	23,006
General and administrative	33,445	28,933	19,780	13,664	9,586
Sales and marketing	24,207	23,446	18,009	8,680	6,263
Systems and development	9,906	9,196	7,382	4,204	3,246
Total expenses	$ 67,558	$ 61,575	$ 45,171	$ 26,548	$ 19,095
Income from operations	$ 6,731	$ 9,474	$ 5,248	$ 7,896	$ 3,911
Other (expense) income	(3,637)	(11,231)	(3,992)	1,301	182
Income (loss) before income tax provision (benefit)	3,094	(1,757)	1,256	9,197	4,093
Income tax provision (benefit)(1)	1,175	(12,703)	935	(13,466)	146
Net income	1,919	10,946	321	22,663	3,947
Preferred stock accretion	8,873	8,302	4,309		
Net (loss) income available to common stockholders	$ (6,954)	$ 2,644	$ (3,988)	$ 22,663	$ 3,947
Net (loss) income available to common stockholders per share:					
Basic	$ (0.24)	$ 0.10	$ (0.16)	$ 0.97	$ 0.22
Diluted	$ (0.24)	$ 0.09	$ (0.16)	$ 0.88	$ 0.20
Shares used in calculation of net (loss) income to common stockholders per share:					
Basic	29,111	27,153	25,546	23,434	18,057
Diluted	29,111	29,150	25,546	25,880	20,128

	Year Ended December 31, (in thousands)				
	2008	**2007**	**2006**	**2005**	**2004**

Balance Sheet Data:					
Cash, cash equivalents and investments(2)	$ 23,978	$ 22,362	$ 32,154	$ 55,864	$ 4,641
Working capital	24,243	17,625	41,483	61,688	10,056
Total assets	323,677	340,717	286,591	115,596	44,533
Notes payable, less current portion	59,500	75,438	85,000		
Other long-term liabilities	6,377	6,508	9,565	5,229	1,998
Total liabilities	94,149	120,005	111,148	12,560	9,712
Redeemable convertible preferred stock	91,415	82,542	72,108		
Stockholders equity	138,113	138,170	103,335	103,036	34,771

(1) Includes a $13.7 million release of valuation allowance in 2007 related to federal net operating losses. Includes $0.2 million release of valuation allowance in 2008 related to state net operations losses.

(2) Includes a $1.0 million short-term investment in the Columbia Strategic Cash Portfolio fund in 2008, which is expected to liquidate within the next twelve months. For additional information, see Note 5, *Investments*, in the Notes to the consolidated Financial Statements.

Item 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

CAUTIONARY NOTE

The following discussion should be read in conjunction with Item 8, *Consolidated Financial Statements and Supplementary Data,* included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors including, but not limited to, those under *Risk Factors* contained in Item 1A, in this Annual Report on From 10-K.

OVERVIEW

We provide outsourced, web-and phone- based financial technology services to financial institution, biller, card issuer and creditor clients and their millions of consumer end-users. With our major business lines in two primary vertical markets, we currently derive approximately 80% of our revenues from payments and 20% from other services including account presentation relationship management, professional services, and custom software solutions. End-users may access and view their accounts online and perform various web-based self-service functions. They may also make electronic bill payments and funds transfers, utilizing our unique, real-time debit architecture, ACH and other payment methods. Our value-added relationship management services reinforce a favorable user experience and drive a profitable and competitive Internet channel for our clients. Further, we have professional services, including software solutions, which enable various deployment options, a broad range of customization and other value-added services. We currently operate in two business segments Banking and eCommerce. The operating results of the business segments exclude general corporate overhead expenses and intangible asset amortization.

Registered end-users using account presentation, bill payment or both, and the payment transactions executed by those end-users are the major drivers of our revenues. Since December 31, 2007, the number of users of our account presentation services decreased 8%, and the number of users of our payment services increased 15%, for an overall 7% increase in users. The decline in account presentation services users is primarily due to the departure of a card account presentation services client in the second quarter of 2008. eCommerce payment services users increased at a higher rate than usual due to our acquisition of Internet Transaction Solutions, Inc. (ITS) in August of 2007.

The following table summarizes users and payment services transactions:

	Period Ended December 31,		Increase/ (Decrease)	
	2008	**2007**	**Change**	**%**
Account presentation users (000s):				
Banking segment	1,360	1,101	259	24%

eCommerce segment	2,493	3,066	−573	−19%
Enterprise	3,853	4,167	−314	−8%
Payment services users (000s):				
Banking segment	3,693	3,459	234	7%
eCommerce segment	5,905	4,890	1,015	21%
Enterprise	9,598	8,349	1,249	15%
Total users (000s):				
Banking segment	4,820	4,367	453	10%
eCommerce segment	8,398	7,956	442	6%
Enterprise	13,218	12,323	895	7%

We have long-term service contracts with most of our clients. The majority of our revenues are recurring, though these contracts also provide for implementation, set-up and other non-recurring fees. Account presentation services revenues are based on either a monthly license fee, allowing our clients to register an unlimited number of customers, or a monthly fee for each registered customer. Payment services revenues are either based on a monthly fee for each customer enrolled, a fee per executed transaction, or a combination of both. Our clients pay nearly all of our fees and then determine if or how they want to pass these costs on to their users. They typically provide account presentation services to users free of charge, as they derive significant potential benefits including account retention, delivery and paper cost savings, account consolidation and cross-selling of other products.

As a network-based service provider, we have made substantial up-front investments in infrastructure, particularly for our proprietary systems. While we continue to incur ongoing development and maintenance costs, we believe the infrastructure we have built provides us with significant operating leverage. We continue to automate processes and develop applications that allow us to make only small increases in labor and other operating costs relative to increases in customers and transactions. We believe our financial and operating performance will be based primarily on our ability to leverage additional end-users and transactions over this relatively fixed cost base.

Critical Accounting Policies and Estimates

The policies discussed below are considered by management to be critical to an understanding of our consolidated financial statements because their application places the most significant demands on management s judgment, with financial reporting results relying on estimates about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, management cautions that future events rarely develop exactly as forecasted, and the best estimates routinely require adjustment.

Revenue Recognition Policy. We generate revenues from service fees, professional services and other supporting services as a financial technology services provider in the Banking and eCommerce markets. Service fee revenues are generally comprised of account presentation services, payment services and relationship management services. Many of our contracts contain monthly user fees, transaction fees and new user registration fees for the account presentation services, payment services and relationship management services we offer that are often subject to monthly minimums, all of which are classified as service fees, for account presentation, payment, relationship management and professional services, in our consolidated statements of operations. Additionally, some contracts contain fees for relationship management marketing programs which are also classified as service fees in our consolidated statements of operations. These services are not considered separate deliverables pursuant to Emerging Issues Task Force (EITF) No. 00-21 *Revenue Arrangements with Multiple Deliverables* (EITF No. 00-21). Fees for relationship management marketing programs, monthly user and transaction fees, including the monthly minimums, are recognized in the month in which the services are provided or, in the case of minimums, in the month to which the minimum applies. We recognize revenues from service fees in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements* (SAB No. 104), which requires that revenues generally are realized or realizable and earned when all of the following criteria are met: a) persuasive evidence of an arrangement exists; b) delivery has occurred or services have been rendered; c) the seller s price to the buyer is fixed or determinable; and d) collectibility is reasonably assured. Revenues associated with services that are subject to refund are not recognized until such time as the exposure to potential refund has lapsed.

We collect funds from end-users and aggregate them in clearing accounts, which are not included in our consolidated balance sheets, as we do not have ownership of these funds. For certain transactions, funds may remain in the clearing accounts until a payment check is deposited or other payment transmission is accepted by the receiving merchant. We earn interest on these funds for the period they remain in the clearing accounts. The collection of interest on these clearing accounts is considered in our determination of the fee structure for clients and represents a portion of the payment for our services. This interest totaled $5.0 million, $10.3 million and $6.4 million for the years ended

December 31, 2008, 2007 and 2006, respectively and is classified as presentation service revenue in our consolidated statements of operations.

Professional services revenues consist of implementation fees associated with the linking of our financial institution clients to our service platforms through various networks, along with web development and hosting fees, training fees, communication services and sales of software licenses and related support. When we provide access to our service platforms to the customer using a hosting model, revenues are recognized in accordance with SAB No. 104. The implementation and web hosting services are not considered separate deliverables pursuant to EITF No. 00-21. Revenues from web development, web hosting, training and communications services are recognized over the term of the contract as the services are provided.

We changed the application of our accounting policy on recognizing revenues for implementation and new user registration fees in the third quarter of 2007. Historically, these fees were deferred and recognized as revenues on a straight-line basis over the period from the date that implementation and new user registration work concludes through the end of the contract. In accordance with EITF No. 00-21, these fees should be considered a single unit of accounting with the service fees associated with the contract. As such, implementation and new user registration fees are recognized consistently when service fees are recorded, on a proportionate performance basis. These fees are included in our revenues from relationship management services and professional services and other. We assessed the cumulative impact of this change in accounting policy and determined that the change is not material to the consolidated financial statements as of and for the year ended December 31, 2007 or any prior period. See Note 2, *Summary of Significant Accounting Policies* , in the Notes to the Consolidated Financial Statements contained in Part II, Item 8, of this Annual Report on Form 10-K for additional information regarding the change in the application of accounting policy.

When we provide services to the customer through the delivery of software, revenues from the sale of software licenses, services and related support are recognized according to Statement of Position (SOP) No. 97-2, *Software Revenue Recognition* (SOP 97-2) as amended by SOP No. 98-9, *Software Revenue Recognition With Respect to Certain Transactions* (SOP No. 98-9). In accordance with the provisions of SOP No. 97-2, revenues from sales of software licenses are recognized when there is persuasive evidence that an arrangement exists, the fee is fixed or determinable, collectibility is probable and the software has been delivered, provided that no significant obligations remain under the contract. We have multiple-element software arrangements that typically include support services, in addition to the delivery of software. For these arrangements, we recognize revenues using the residual method. Under the residual method, the fair value of the undelivered elements, based on vendor specific objective evidence of fair value, is deferred. The difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenues related to the delivered elements. We determine the fair value of the undelivered elements based on the amounts charged when those elements are sold separately. For sales of software that require significant production, modification or customization, pursuant to SOP No. 97-2, we apply the provisions of Accounting Research Bulletin (ARB) No. 45, *Long-Term Construction-Type Contracts* (ARB No. 45), and SOP No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1), and recognize revenues related to software license fees and related services using the percentage-of-completion method. The percentage-of-completion is measured based on the percentage of labor effort incurred to date to estimated total labor effort to complete delivery of the software license. Changes in estimates to complete and revisions in overall profit estimates on these contracts are charged to our consolidated statements of operations in the period in which they are determined. We record any estimated losses on contracts immediately upon determination. Revenues related to support services are recognized on a straight-line basis over the term of the support agreement.

Most contracts can be terminated by our clients within a specific period, typically thirty to sixty days following notice by the client. Our contracts contain termination fees which generally, at a minimum, cover our remaining incremental costs related to the contract. We have not historically incurred losses on terminated contracts.

Other revenues consist of service fees related to enhanced third-party solutions and termination fees. Service fees for enhanced third-party solutions include fully integrated bill payment and account retrieval services through Intuit s Quicken, check ordering, inter-institution funds transfer, account aggregation and check imaging. Revenues from these service fees are recognized over the term of the contract as the services are provided. Termination fees are recognized upon termination of a contract.

Allowance for Doubtful Accounts. The provision for losses on accounts receivable and allowance for doubtful accounts are recognized based on our estimate, which considers our historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data and financial health of specific customers. During the year ended December 31, 2008, we reserved an additional $56,000 of accounts receivable of which all was written off during the year to reflect a balance of $84,000 at year end. This represents management s estimate of the probable losses in the accounts receivable balance at December 31, 2008. While the allowance for doubtful accounts and the provision for losses on accounts receivable depend to a large degree on future conditions, management does not forecast significant adverse developments in 2009.

Income Taxes. Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax net operating loss carryforwards. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when such amounts are expected to reverse or be utilized. The realization of deferred tax assets is contingent upon the generation of future taxable income during the carryforward period. Valuation allowances are provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized. Management believes that the Company will generate sufficient taxable income over the next five years to recover the net operating loss carryforwards. The net operating loss carryforwards expire from 2019-2026, therefore, management believes that it is more likely than not that they will recover net operating losses prior to their expiration.

As a result of a positive taxable income trend during 2006 and 2007 and projected taxable income over the next five years, in 2007 we reversed deferred tax valuation allowances of $29.4 million, in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). This reversal resulted in recognition of an income tax benefit totaling $13.7 million for the year ended December 31, 2007. The remaining $15.7 million was related to valuation allowances accrued in purchase accounting and therefore did not benefit earnings when reversed. In addition, we reversed $31.1 million of our gross deferred tax asset and the related deferred tax asset valuation allowance after electing to waive Princeton net operating losses that were deemed not realizable during 2007.

In 2008, based on the positive taxable income trend in New Jersey and projected taxable income over the next five years, the Company reversed approximately $1.9 million of valuation allowance against state net operating loss carry forwards. This reversal resulted in recognition of an income tax benefit totaling $0.2 million for the year ended December 31, 2008. The remaining $1.7 million was related to valuation allowance established in purchase accounting and therefore resulted in a reduction of goodwill when reversed. We established a deferred tax asset valuation of approximately $0.3 million related to realized and unrealized capital losses from our investment in the Columbia Strategic Cash Portfolio. Our estimates of future taxable income represent critical accounting estimates because such estimates are subject to change and a downward adjustment could have a significant impact on future earnings.

Cost of Internal Use Software and Computer Software to be Sold. We capitalize the cost of computer software developed or obtained for internal use in accordance with SOP No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP No. 98-1). Capitalized computer software costs consist primarily of payroll-related and consulting costs incurred during the development stage. We expense costs related to preliminary project assessments, research and development, re-engineering, training and application maintenance as they are incurred. Capitalized software costs are being depreciated on a straight-line basis over an estimated useful life of three years upon being placed in service.

We capitalize the cost of computer software to be sold according to SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed* (SFAS No. 86). Software development costs are capitalized beginning when a product s technological feasibility has been established by completion of a working model of the product and ending when a product is ready for general release to customers. We capitalized

approximately $7.4 million of software development costs and amortized approximately $5.5 million of capitalized computer software for the year ended December 31, 2008.

Impairment of Goodwill, Intangible Assets and Long-Lived Assets. We evaluate the recoverability of our identifiable intangible assets, goodwill and other long-lived assets in accordance with SFAS No. 142 and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). Under these provisions, we assess the recoverability of our goodwill at least on an annual basis and when events or circumstances indicate a potential impairment. When assessing the recoverability of our goodwill, we use the income method to determine the fair value of our two reporting units, Banking and eCommerce, based upon our forecasted discounted cash flows. The estimates we use in evaluating goodwill are consistent with the plans and estimates that we use to manage our operations. We use undiscounted cash flows to assess the recoverability of our amortizable intangible and other long-lived assets, when events and circumstances indicate a potential impairment.

We did not experience any impairment of goodwill or other intangible assets for the years ended December 31, 2008, 2007 or 2006. If market conditions continue to weaken, our revenue and cost forecasts may not be achieved and we may incur charges for goodwill impairment, which could be significant and could have a material negative effect on our results of operations. Additionally, if our stock price declines from our stock price of $4.74 as of December 31, 2008, we could incur goodwill impairment charges.

The Company s reporting units, Banking and eCommerce, have a carrying value of approximately $120 million and approximately $130 million, respectively, as of December 31, 2008. If the fair value for our Banking reporting unit declines approximately 15% from the December 31, 2008 fair value, or the fair value of our eCommerce reporting unit declines approximately 17% from the December 31, 2008 fair value, it is likely that we would incur goodwill impairment charges.

Theoretical Swap Derivative. We bifurcated the fair market value of the embedded derivative associated with the Series A-1 Redeemable Convertible Preferred Stock (Series A-1 Preferred Stock) issued in conjunction with the Princeton eCom acquisition on July 3, 2006 in accordance with SFAS No. 133. We determined that the embedded derivative is defined as the right to receive a fixed rate of return on the accrued, but unpaid dividends and the variable negotiated rate, which creates a theoretical swap between the fixed rate of return on the accrued, but unpaid dividends and the variable rate actually accrued on the unpaid dividends. This embedded derivative is marked to market at the end of each reporting period through earnings and an adjustment to other assets in accordance with SFAS No. 133. There is no active market quote available for the fair value of the embedded derivative. Thus, management measures fair value of the derivative by estimating future cash flows related to the asset using a forecasted iMoney Net First Tier rate based on the one-month LIBOR rate adjusted for the historical spread for the estimated period in which the Series A-1 Preferred Stock will be outstanding.

There is no active quoted market available for the fair value of the embedded derivative. Thus, management has to make substantial estimates about the future cash flows related to the liability, the estimated period which the Series A-1 Preferred Stock will be outstanding and the appropriate discount rates commensurate with the risks involved. The fair value of this derivative fluctuates based on changes to interest rates. An increase to interest rates will decrease the fair value of the derivative. Changes to the fair value of the derivative are recorded in interest expense on the consolidated statement of operations.

Derivative Instruments and Hedging Activities. From time to time, we have entered into derivative instruments to serve as cash flow hedges for our debt instruments. SFAS No. 133 requires companies to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income or loss and reclassified into operations in the same line item associated with the forecasted transaction in the same

period or periods during which the hedged transaction affects earnings (for example, in interest expense when the hedged transactions are interest cash flows associated with floating-rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other income/expense in current operations during the period of change. Alternatively, if meeting the criteria of Derivative Implementation Group Statement 133 Implementation Issue No. G20, a cash flow hedge is considered perfectly effective and the entire gain or loss on the derivative instrument is reported as a component of other comprehensive income or loss and reclassified into operations in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings. Derivatives are reported on the balance sheet in other current and long-term assets or other current and long-term liabilities based upon when the financial instrument is expected to mature. Accordingly, derivatives are included in the changes in other assets and liabilities in the operating activities section of the statement of cash flows. Alternatively, in accordance with SFAS No. 95, *Statement of Cash Flows* , derivatives containing a financing element are reported as a financing activity in the statement of cash flows.

Stock-Based Compensation. On January 1, 2006, we adopted SFAS No. 123(R), Share-Based Payment (SFAS No. 123(R)). Prior to the adoption of SFAS 123(R), we accounted for our equity compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). No stock-based employee compensation cost was recognized in the consolidated statements of operations for 2005, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), using the modified-prospective transition method. Under that transition method, compensation cost recognized in 2006, 2007 and 2008 include: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, 2007 and 2008, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used in this model are expected dividend yield, expected volatility, risk-free interest rate and expected term. The expected volatility for stock options is based on historical volatility.

Recently Issued Pronouncements.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), *Business Combinations,* (SFAS No. 141(R)), which replaces SFAS No. 141. SFAS No. 141(R) will significantly change the way we will account for business combinations. The more significant changes under SFAS No. 141(R) included the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. The standard also requires more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date and contingent liabilities assumed to be measured at fair value in each subsequent reporting period. In addition, under SFAS No. 141(R), changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will affect the income tax provision. This pronouncement is effective for annual reporting periods beginning after December 15, 2008. Early adoption is not permissible; therefore we will apply this standard to acquisitions made after January 1, 2009. The provisions of the standard related to changes in deferred tax assets valuation allowances and income tax uncertainties will be applied to acquisitions entered into prior to the adoption of this standard.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements,* (SFAS No. 160), which amends Accounting Research Bulletin No. 51. SFAS No. 160 establishes accounting and

reporting standards that require 1) non-controlling interests held by non-parent parties to be clearly identified and presented in the consolidated statement of financial position within equity, separate from the parent s equity and 2) the amount of consolidated net income attributable to the parent and to the non-

controlling interest to be clearly presented on the face of the consolidated statement of income. SFAS No. 160 also requires consistent reporting of any changes to the parent s ownership while retaining a controlling financial interest, as well as specific guidelines over how to treat the deconsolidation of controlling interests and any applicable gains or losses. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. The standard currently does not affect our consolidated financial statements; however we will adopt this standard beginning January 1, 2009.

On January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for financial assets and liabilities. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, the standard specifies that the fair value should be the exit price, or price received to sell the asset or liability as opposed to the entry price, or price paid to acquire an asset or assume a liability. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2 which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except for those that are disclosed in the consolidated financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. We are currently assessing the impact, if any, adoption of the statement for nonfinancial assets and liabilities will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities,* which requires enhanced disclosures about an entity s derivative and hedging activities. Constituents have expressed concerns that the existing disclosure requirements in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activity,* do not provide adequate information about how derivative and hedging activities affect an entity s financial position, financial performance, and cash flows, and accordingly this new standard improves the transparency of financial reporting. This standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This standard encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company will adopt this standard beginning January 1, 2009 and adoption will not materially affect the Company s consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets (FSP No. 142-3). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, Goodwill *and Other Intangible Assets* (SFAS No. 142), and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS No. 142 s entity-specific factors. FSP No. 142-3 is effective beginning January 1, 2009 and will be applied prospectively to intangible assets acquired after the effective date. We are currently assessing the impact this adoption will have on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (*GAAP*), which is a hierarchy of authoritative accounting guidance. The current GAAP hierarchy is included in the American Institute of Certified Public Accountants Statement of Auditing Standards No. 69, *The Meaning of Present Fairly in Confirmation with Generally Accepted Accounting Principles.* The new statement is explicitly and directly applicable to preparers of financial statements as opposed to being directed to auditors and will not result in a change in current practice. The new statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from auditing standards, where it has resided for some time.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60,* which requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has

occurred in an insured financial obligation. The standard currently does not affect our consolidated financial statements.

In October 2008, the FASB issued Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP No. 157-3). FSP No. 157-3 clarifies the application of SFAS No. 157, which we adopted as of January 1, 2008, in cases where a market is not active. We have considered the guidance provided by FSP No. 157-3 and determined that the impact was not material on estimated fair values as of December 31, 2008.

Results of Operations

The Company changed the way it determines operating results of the business segments during 2008. Intangible asset amortization that previously had been unallocated is now allocated to the respective Banking or eCommerce segments. For each of the years ended December 31, 2008, 2007 and 2006, $9.5 million, $9.4 million and $5.0 million, respectively, of intangible asset amortization was reclassified from Corporate to the Banking and eCommerce segments.

The following table presents the summarized results of operations for our two reportable segments, Banking and eCommerce (corporate expenses are comprised of general corporate overhead) (dollars in thousands):

	Year Ended December 31,					
	2008		2007		2006	
	Dollars	%	Dollars	%	Dollars	%
Revenues:						
Banking	$ 94,557	62%	$ 100,119	74%	$ 77,106	84%
eCommerce	57,085	38%	35,013	26%	14,630	16%
Total	$ 151,642	100%	$ 135,132	100%	$ 91,736	100%

	Dollars	Margin	Dollars	Margin	Dollars	Margin
Gross profit:						
Banking	$ 48,561	51%	$ 57,706	58%	$ 46,045	60%
eCommerce	25,728	45%	13,343	38%	4,374	30%
Total	$ 74,289	49%	$ 71,049	53%	$ 50,419	55%

	Dollars	%	Dollars	%	Dollars	%
Operating expenses:						
Banking	$ 27,104	40%	$ 28,096	46%	$ 26,534	59%
eCommerce	22,702	34%	18,535	30%	10,297	23%
Corporate(1)	17,752	26%	14,944	24%	8,340	18%

Total	$ 67,558	100%	$ 61,575	100%	$ 45,171	100%

	Dollars	Margin	Dollars	Margin	Dollars	Margin
Income from operations:						
Banking	$ 21,457	23%	$ 29,610	30%	$ 19,511	25%
eCommerce	3,026	5%	(5,192)	–14%	(5,923)	–40%
Corporate(1)	(17,752)		(14,944)		(8,340)	
Total	$ 6,731	4%	$ 9,474	7%	$ 5,248	6%

(1) Corporate expenses are primarily comprised of corporate general and administrative expenses that are not considered in the measure of segment profit or loss used to evaluate the segments.

Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Revenues

We generate revenues from account presentation, payment, relationship management and professional services and other revenues. Revenues increased $16.5 million, or 12%, to $151.6 million for the year ended December 31, 2008, from $135.1 million in 2007. This increase was attributable to the addition of revenues from our acquisition of ITS, which we acquired on August 10, 2007. The remainder of our revenues remained flat due to the addition of new business offset by the departures of several large clients during 2007 and 2008 and a significant decrease in float interest revenue of approximately $5.3 million.

	Years Ended December 31,		Change	
	2008	2007	Difference	%
Revenues (in thousands):				
Account presentation services	$ 7,909	$ 8,998	$ (1,089)	−12%
Payment services	122,301	104,228	18,073	17%
Relationship management services	8,068	8,138	(70)	−1%
Professional services and other	13,364	13,768	(404)	−3%
Total revenues	$ 151,642	$ 135,132	$ 16,510	12%
Payment metrics (in thousands):				
Banking payment transactions	159,268	166,815	(7,547)	−5%
Biller payment transactions(1)	42,690	31,896	10,794	34%

Notes:

(1) Excludes ITS for the purposes of comparison to prior year.

Account Presentation Services. Both the Banking and eCommerce segments contribute to account presentation services revenues, which decreased 12%, or $1.1 million, to $7.9 million. The decrease is primarily due to the departure of a card account presentation services client in April 2008.

Payment Services. Both the Banking and eCommerce segments contribute to payment services revenues, which increased to $122.3 million for the year ended December 31, 2008 from $104.2 million in the same period of the prior year. While the majority of the increase was related to the addition of new revenues from the acquisition of ITS, the remaining increase was driven by growth in our eCommerce segment. Banking transactions decreased by 5% compared to the year ended 2007, and biller transactions grew by 34%. Banking transactions decreased as a result of the departures of three large banking bill payment clients in August 2007, December 2007 and April 2008. After excluding transactions from the three departed clients, banking payment transactions grew by 19%. Additionally, the increase in payment services revenue was not as high as in the prior year due to a decline in banking revenues which was a result of significantly lower interest rates, which negatively impacted float interest revenues by $5.3 million. Revenues in the eCommerce segment increased due to growth in biller transactions, excluding ITS, as a result of increased usage at our existing clients and the net addition of new clients since 2007.

Relationship Management Services. Primarily composed of revenues from the Banking segment, relationship management services revenues remained flat.

Professional Services and Other. Both the Banking and eCommerce segments contribute to professional services and other revenues, which decreased by $0.4 million, or 3%. Revenues from professional services and other fees decreased due to a larger than average early termination fee we received in the second quarter of 2007.

Costs and Expenses

	Years Ended December 31,		Change	
	2008(1)	2007(1)	Difference(1)	%
Revenues	$ 151,642	$ 135,132	$ 16,510	12%
Costs of revenues	77,353	64,083	13,270	21%
Gross profit	74,289	71,049	3,240	5%
Gross margin	49%	53%	(4%)	(8%)
Operating expenses				
General and administrative	33,445	28,933	4,512	16%
Sales and marketing	24,207	23,446	761	3%
Systems and development	9,906	9,196	710	8%
Total operating expenses	67,558	61,575	5,983	10%
Income from operations	6,731	9,474	(2,743)	(29%)
Other (expense) income				
Interest income	531	1,242	(711)	(57%)
Interest and other expense	(4,168)	(6,848)	2,680	(39%)
Loss on extinguishment of debt		(5,625)	5,625	100%
Total other (expense) income	(3,637)	(11,231)	7,594	(68%)
Income (loss) before tax (benefit) provision	3,094	(1,757)	4,851	(276%)
Income tax provision (benefit)	1,175	(12,703)	13,878	(109%)
Net income	1,919	10,946	(9,027)	(82%)
Preferred stock accretion	8,873	8,302	571	7%
Net (loss) income available to common stockholders	$ (6,954)	$ 2,644	$ (9,598)	(363%)
Net (loss) income available to common stockholders per share:				
Basic	$ (0.24)	$ 0.10	$ (0.34)	(340%)
Diluted	$ (0.24)	$ 0.09	$ (0.33)	(367%)
Shares used in calculation of net (loss) income available to common stockholders per share:				
Basic	29,111	27,153	1,953	7%
Diluted	29,111	29,150	(44)	0%

Notes:

(1) In thousands except for per share amounts.

Costs of Revenues. Costs of revenues encompass the direct expenses associated with providing our services. These expenses include telecommunications, payment processing, systems operations, customer service, implementation and professional services work. Costs of revenues increased by $13.3 million to $77.4 million for the year ended December 31, 2008, from $64.1 million for the same period in 2007. The inclusion of costs for ITS, which was acquired in August 2007, represents the majority of this increase. Additionally, volume-related payment processing costs increased, and we released a number of software development projects into production since January 1, 2007.

Gross Profit. Gross profit increased $3.0 million for the year ended December 31, 2008; however, excluding ITS results, gross profit would have decreased due to the departures of five large clients in the past twenty-four months and a significant decrease in float interest revenue. Gross margin decreased to 49% in

2008 from 53% in 2007 due to lower float interest revenues and ITS having lower gross margins compared to the rest of the Company.

General and Administrative. General and administrative expenses primarily consist of salaries for executive, administrative and financial personnel, consulting expenses and facilities costs such as office leases, insurance and depreciation. General and administrative expenses increased $4.5 million, or 16% to $33.4 million for the year ended December 31, 2008. The increase was partially due to the addition of general and administrative expenses for ITS, which was acquired in August 2007. Also contributing to the increase were $1.4 million of strategic and market development expenses that were part of sales and marketing in the prior year, but were included as general and administrative expenses in the current year due to a change in that group s core responsibilities. The increase was also the result of $1.3 million and $1.0 million of increased professional services fees and equity compensation expense, respectively, during the year ended 2008.

Sales and Marketing. Sales and marketing expenses include salaries and commissions paid to sales and client services personnel and other costs incurred in selling our services and products. Sales and marketing expenses increased $0.8 million, or 3%, to $24.2 million for the year ended December 31, 2008. The increase is primarily due to the addition of sales and marketing expenses for ITS, which was acquired in August 2007, and increased amortization of intangible assets related to the customer list acquired as part of the ITS acquisition. The increase was slightly offset by strategic business and market development salaries that were part of sales and marketing expenses in the prior year, but was included as general and administrative expenses in the current year due to a change in that group s core responsibilities.

Systems and Development. Systems and development expenses include salaries, consulting fees and all other expenses incurred in supporting the research and development of new services and products and new technology to enhance existing products. Systems and development expenses increased by $0.7 million, or 8%, to $9.9 million for the year ended December 31, 2008. The increase is primarily due to the addition of systems and development expenses for ITS, which was acquired in August 2007. We capitalized $7.5 million and $6.3 million of development costs associated with software developed for internal use or to be sold, leased or otherwise marketed during each of the years ended December 31, 2008 and 2007, respectively.

Income from Operations. Income from operations decreased $2.7 million, or 29%, to $6.7 million for the year ended December 31, 2008. The decrease was primarily due to the departures of five large clients in 2008 and 2007, which negatively impacted our income from operations as a result of our high incremental margin, fixed cost business model. Additionally, income from operations was negatively impacted by significantly lower float interest revenues in 2008, which has no associated costs and is the result of lower interest rates.

Interest Income. Interest income decreased $0.7 million to $0.5 million for the year ended December 31, 2008 due to lower average interest earning cash balances and lower average interest rates.

Interest and Other Expense. Interest and other expense, including loss on extinguishment of debt, decreased by $8.3 million due primarily to lower interest rates in the current period, an increase mark-to-market valuation related to the theoretical swap derivative in 2008 of approximately $2.5 million compared to 2007 and debt issuance costs related to our 2007 Notes written off in 2007, partially offset by the mark-to-market valuation of the ITS put valuation.

Income Tax (Benefit) Provision. Income tax expense was $1.2 million for the year ended December 31, 2008, an increase of $13.9 million over the prior year. This increase is primarily due to the release of valuation allowance in the prior year of approximately $13.7 million related to federal net operating losses. Our effective tax rate was 37.98%. The difference between our effective tax rate and the federal statutory rate is primarily due to non-taxable items and

release of a state valuation allowance in the current year of approximately $0.2 million. The non-taxable items include the mark-to-market adjustment valuation of the ITS price protection and interest expense for the accretion of the Series A-1 Preferred Stock.

Preferred Stock Accretion. The accretion related to the Series A-1 Preferred Stock issued on July 3, 2006 increased as a result of higher interest costs related to the escalation accrual associated with the Series A-1 Preferred Stock.

Net Loss (Income) Available to Common Stockholders. Net loss (income) available to common stockholders decreased $9.6 million to a net loss of $7.0 million for the year ended December 31, 2008, compared to net income of $2.6 million for the year ended December 31, 2007. The decrease is due to a $13.7 million tax benefit recognized in the prior year period that was related to the reversal of deferred tax asset valuation allowance, a decrease in float interest of approximately $3.3 million net of tax, offset by full year of ITS activity. Basic and diluted net loss per share was $0.24 for the year ended December 31, 2008, compared to basic and diluted net income per share of $0.10 and $0.09, respectively for the year ended December 31, 2007. Basic shares outstanding increased by 7% as a result of shares issued in connection with the exercise of company-issued stock options, our employees participation in our employee stock purchase plan and the 2.3 million shares issued with the acquisition of ITS, net of the repurchase of shares from ITS shareholders exercising their price protection rights.

Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

Revenues

We generate revenues from account presentation, payment, relationship management and professional services and other revenues. Revenues increased $43.4 million, or 47%, to $135.1 million for the year ended December 31, 2007, from $91.7 million for the same period of 2006. Approximately 53% and 19% of the increase was attributable to the addition of revenues from our acquisitions of Princeton and ITS, respectively, while the remaining 28% of the increase was attributable to organic growth relative to 2006.

	Years Ended December 31,		Change	
	2007	2006	Difference	%
Revenues (in thousands):				
Account presentation services	$ 8,998	$ 8,051	$ 947	12%
Payment services	104,228	65,501	38,728	59%
Relationship management services	8,138	8,022	116	1%
Professional services and other	13,768	10,162	3,606	35%
Total revenues	$ 135,132	$ 91,736	$ 43,396	47%
Payment metrics:				
Payment services clients(1)	902	877	25	3%
Payment transactions (000s)(1)	66,766	58,151	8,615	15%
Adoption rates:				
Account presentation services Banking(1)(2)	32.8%	26.5%	6.3%	24%
Payment services Banking(1)(3)	11.8%	10.4%	1.4%	13%

Notes:

(1) Excludes Princeton and ITS for the purposes of comparison to prior year.

(2) Represents the percentage of users subscribing to our account presentation services out of the total number of potential users enabled for account presentation services.

(3)

Represents the percentage of users subscribing to our payment services out of the total number of potential users enabled for payment services.

Account Presentation Services. Both the Banking and eCommerce segments contribute to account presentation services revenues, which increased $0.9 million to $9.0 million. The increase is the result of growth in eCommerce account presentation services offered to card issuer clients.

Payment Services. Payment services revenue is driven by both the Banking and eCommerce segments. Payment services revenues increased to $104.2 million for the year ended December 31, 2007 from $65.5 million in the prior year. While approximately 58% and 21% of the increase was related to the addition

of new revenues from the acquisitions of Princeton and ITS, respectively, the remaining 21% was driven by growth in our existing business in the form of a 38% increase in the number of period-end payment services users and a 15% increase in the number of payment transactions processed during the period. The increases in period-end payment services users and the number of payment transactions processed by our existing business resulted from two factors: an increase in financial services provider clients using our payment services and an increase in payment services adoption by our payment services clients end-users. Compared to December 31, 2006, the number of financial services provider clients using our payment services increased from 877 to 902. Additionally, the adoption rate of our payment services increased from 10.4% at December 31, 2006 to 11.8% at December 31, 2007.

Relationship Management Services. Primarily composed of revenues from the Banking segment, relationship management services revenues increased slightly to $8.1 million. The increase was the result of a 14% increase in the number of period-end Banking segment end-users utilizing either account presentation or payment services compared to 2006.

Professional Services and Other. Both the Banking and eCommerce segments contribute to professional services and other revenues, which increased by $3.6 million, or 35%, to $13.8 million in 2007 compared to $10.2 million in 2006. The increase is the result of the addition of new revenues from the acquisition of Princeton, higher professional services fees in the legacy eCommerce segment, higher termination fees in 2007 and the launch of our new risk-based authentication service in the fourth quarter of 2006.

Costs and Expenses

	Years Ended December 31,		Change	
	2007(1)	2006(1)	Difference(1)	%
Revenues	$ 135,132	$ 91,736	$ 43,396	47%
Costs of revenues	64,083	41,317	22,766	55%
Gross profit	71,049	50,419	20,630	41%
Gross margin	53%	55%		
Operating expenses				
General and administrative	28,933	19,780	9,153	46%
Sales and marketing	23,446	18,009	5,437	30%
Systems and development	9,196	7,382	1,814	25%
Total operating expenses	61,575	45,171	16,404	36%
Income from operations	9,474	5,248	4,226	81%
Other (expense) income				
Interest income	1,242	1,961	(719)	(37%)
Interest and other expense	(6,848)	(5,953)	(895)	n/a
Loss on extinguishment of debt	(5,625)		(5,625)	n/a
Total other (expense) income	(11,231)	(3,992)	(7,239)	n/a
(Loss) income before tax (benefit) provision	(1,757)	1,256	(3,013)	n/a
Income tax (benefit) provision	(12,703)	935	(13,638)	n/a
Net income	10,946	321	10,625	n/a
Preferred stock accretion	8,302	4,309	3,993	93%
Net income (loss) available to common stockholders	$ 2,644	$ (3,988)	$ 6,632	n/a
Net income (loss) available to common stockholders per share:				
Basic	$ 0.10	$ (0.16)	$ 0.26	n/a
Diluted	$ 0.09	$ (0.16)	$ 0.25	n/a
Shares used in calculation of net income (loss) available to common stockholders per share:				
Basic	27,153	25,546	1,607	6%
Diluted	29,150	25,546	3,604	14%

Notes:

(1) In thousands except for per share amounts.

Costs of Revenues. Costs of revenues encompass the direct expenses associated with providing our services. These expenses include telecommunications, payment processing, systems operations, customer service, implementation and professional services work. Costs of revenues increased by $22.8 million to $64.1 million for the year ended December 31, 2007, from $41.3 million for the same period in 2006. Additional costs of revenues associated with Princeton and ITS accounted for 45% and 21% of this increase, respectively, exclusive of the Princeton amortization related to purchased technology. Additional expense increases resulted from a $0.8 million increase in amortization of intangible assets, headcount increases in our call center, volume-related payment processing costs and the release of a number of software development projects into production since the end of 2006.

Gross Profit. Gross profit increased $20.6 million for the year ended December 31, 2007 to $71.0 million, and gross margin percentage decreased from 55% in 2006 to 53% in 2007. Princeton and ITS

accounted for 62% and 16%, respectively, of the increase in gross profit, exclusive of the Princeton amortization related to purchased technology. The total decrease in gross margin is the result of increased amortization of intangible assets purchased as part of the July 2006 Princeton acquisition, the addition of the lower margin ITS in August 2007 and increased amortization of software development projects.

General and Administrative. General and administrative expenses primarily consist of salaries for executive, administrative and financial personnel, consulting expenses and facilities costs such as office leases, insurance, and depreciation. General and administrative expenses increased $9.2 million, or 46%, to $28.9 million for the year ended December 31, 2007, from $19.8 million in the same period of 2006. Additional costs associated with Princeton and ITS accounted for 19% and 13% of this increase, respectively. We also experienced additional expenses associated with professional fees, increased payroll and increased depreciation as a result of a general increase in capital expenditures.

Sales and Marketing. Sales and marketing expenses include salaries and commissions paid to sales and marketing personnel, corporate marketing costs and other costs incurred in marketing our services and products. Sales and marketing expenses increased $5.4 million, or 30%, to $23.4 million for the year ended December 31, 2007, from $18.0 million in 2006. Additional costs associated with Princeton and ITS accounted for 69% and 2% of the increase, respectively, exclusive of amortization expense related to Princeton and ITS customer lists. Amortization of intangible assets, including customer lists, of $3.6 million also contributed to the increase. We also had increased salary and benefits costs as a result of the expansion of our sales forces and increased partnership commission expenses resulting from increased volumes in the Banking and eCommerce segments.

Systems and Development. Systems and development expenses include salaries, consulting fees and all other expenses incurred in supporting the research and development of new services and products and new technology to enhance existing products. Systems and development expenses increased $1.8 million, or 25%, to $9.2 million for the year ended December 31, 2007, from $7.4 million in 2006. All of the increase is the result of additional costs associated with Princeton and ITS. Costs otherwise remained flat as a result of additional capitalization of development costs associated with software developed for internal use or to be sold. This increase in capitalization is the result of our effort to finish a platform re-write that has been ongoing for some time. We capitalized $6.3 million and $5.1 million of development costs associated with software developed or obtained for internal use or to be sold, leased or otherwise marketed during the years ended December 31, 2007 and 2006, respectively.

Income from Operations. Income from operations increased $4.2 million, or 81%, to $9.5 million for the year ended December 31, 2007. The increase was due to leveraging increased service fee revenue over our relatively fixed cost base.

Interest Income. Interest income decreased $0.7 million to $1.2 million for the year ended December 31, 2007 due to lower average cash balances in 2007 resulting primarily from our use of $35 million in cash to partially finance the Princeton acquisition in July 2006 and $20 million in cash to partially finance the ITS acquisition in August 2007.

Interest and Other Expense. Interest and other expense increased $0.9 million to $6.8 million primarily due to interest expense and the amortization of debt issuance costs incurred in connection with $85 million in senior secured notes outstanding for all twelve months of 2007 compared to only six months of 2006. As of December 31, 2007 the senior secured notes carried an interest rate equal to 275 basis points above one-month London Interbank Offered Rate (LIBOR). The increase was partially offset by the mark to market valuation of the stock price protection in the transaction with ITS resulting in a decrease in valuation of $0.4 million and the increase in the valuation of the theoretical swap derivative of $1.1 million.

Loss on Extinguishment of Debt. We incurred a $5.6 million loss on the extinguishment of the senior secured notes issued on July 3, 2006 when we re-financed the notes with $85 million in term loans on February 21, 2007. The loss represents the write-off of $3.9 million in debt issuance costs incurred in connection with $85 million in senior secured notes issued on July 3, 2006 and a $1.7 million prepayment penalty.

Income Tax (Benefit) Provision. Our income tax benefit for the year ended December 31,2007 was $12.7 million compared to a $0.9 million provision for the year ended December 31, 2006. At December 31, 2007, we determined that our recent operating performance, as well as our projection of future taxable income provided sufficient evidence to warrant realization of our deferred tax asset through the release of substantially all of the remaining valuation allowance against that asset, except for the valuation allowance needed against state tax net operating losses which are currently not more likely than not to be recoverable. Even though we are still utilizing our net operating loss carry-forwards and are not paying federal income taxes, we are subject to and are making estimated Alternative Minimum Tax payments.

Preferred Stock Accretion. The Series A-1 Preferred Stock was issued on July 3, 2006 and was recorded at its fair value at inception net of its issuance costs of $5.1 million and the fair market value of the embedded derivative that represents interest on unpaid accrued dividends. The Series A-1 Preferred Stock carries a dividend equal to 8% per annum of the original issuance price, plus a money market rate of interest on any accrued but unpaid dividend (preferred dividend). The security is subject to put and call rights following the seventh anniversary of its issuance for an amount equal to 115% of the original issuance price plus the preferred dividend. The carrying value of the Series A-1 Preferred Stock is accreted to its estimated redemption amount. Preferred stock accretion increased as a result of the preferred stock being outstanding for twelve months in 2007 compared to only six months in 2006.

Net Income (Loss) Available to Common Stockholders. Net income available to common stockholders increased $6.6 million to net income of $2.6 million for the year ended December 31, 2007, compared to a loss of $4.0 million for the year ended December 31, 2006. Basic and diluted net income available to common stockholders per share was $0.10 and $0.09 for the year ended December 31, 2007, respectively, compared to a basic and diluted net loss available per common share of $0.16 for the year ended December 31, 2006. Basic and diluted shares outstanding increased by 6% and 14%, respectively, as a result of shares issued in connection with the exercise of company-issued stock options, our employees participation in our employee stock purchase plan and the 2.2 million shares issued in connection with the acquisition of ITS in August 2007. Diluted shares also increased as 2006 did not include any dilutive potential shares due to the net loss available to common stockholders for the year ended 2006.

Liquidity and Capital Resources

Net cash provided by operating activities was $27.6 million for the year ended December 31, 2008. This represented a $9.4 million increase in cash provided by operating activities compared to prior year. The increase is primarily due to an increase in our net income after excluding non-cash income and expenses, of $3.9 million and an increase of $5.5 million due to changes in operating assets and liabilities.

In 2007, following our acquisition of ITS, our consolidated balance sheet, in relation to our ITS operations, reflected consumer deposit receivables which were comprised of in-transit customer payment transactions that we have not yet received and consumer deposit payables which were comprised of cash held or in transit, that will be remitted for the benefit of customers for collections made on their behalf. In the first quarter of 2008, we changed the manner in which the ITS payment processing operations were structured to be consistent with how the rest of the Company processes bill payment funds. As a result of the change in the ITS payment processing structure, we only have fiduciary responsibility over the bill payment funds associated with our ITS operations. Therefore, we no longer have rights and obligations associated with ITS bill payment funds and as such no longer report consumer deposit receivables, payables and related cash as part of our consolidated balance sheet at December 31, 2008. The impact to cash flows for the year ended December 31, 2008 was a decrease to cash provided by operating activities of $4.3 million.

Net cash used by investing activities for the year ended December 31, 2008 was $7.0 million, which was the result of capital expenditures of $13.5 million, partially offset by $6.6 million in liquidation payments received from our investment in the Columbia Strategic Cash Portfolio Fund (the Fund).

Net cash used by financing activities was $10.8 million for the year ended December 31, 2008, which was primarily the result of two principal payments on our 2007 Notes of $9.6 million and cash paid to shareholders exercising price protection rights of $2.1 million from our acquisition of ITS.

In December 2007, we reclassified our investment (investment) in the Fund from cash and cash equivalents to short-term investments. The Fund was short-term and highly liquid in nature prior to the fourth quarter of 2007 and was classified as a cash equivalent. During the fourth quarter of 2007, the Fund was closed by the Fund administrator to future investment, partially due to the subprime credit market crisis, and began liquidating the Fund in an orderly manner. The Funds were then converted to a net asset value basis and marked to market daily. We intend to remain in the Fund through the liquidation period. Approximately half of our investment in the Fund is expected to substantially liquidate over the next twelve months. This portion of the investment is classified in short-term investments at fair value on the consolidated balance sheet. The remainder of the investment, or $1.0 million, is expected to liquidate beyond twelve months and as such this portion of the remaining balance in the Fund is classified in long-term other assets on the consolidated balance sheet. The value of the investment was $2.0 million and $9.1 million at December 31, 2008 and 2007, respectively. We adjusted the investment in the Fund to its estimated fair value at December 31, 2008. In addition, we received $6.6 million in liquidation payments from the Fund administrator during the year ended December 31, 2008 and recorded a loss of $0.5 million.

As part of the purchase consideration for ITS, we also agreed to provide the former shareholders of ITS with price protection related to the 2,216,653 shares issued to them for a period of one year from the date the shares were issued, which was August 10, 2007 (the Closing Date). Under the protection, if the volume weighted average price of our shares for the 10 trading-day period ending two business days before the six, nine and twelve month anniversary dates of the Closing Date was less than $11.15, these shareholders had the right to ask us to restore them to a total value per share equal to the issuance price, either through the issuance of additional stock or through the repurchase of the stock issued as consideration.

On the six month anniversary date, which occurred during the first quarter of 2008, certain shareholders exercised their price protection rights. We acquired 189,917 common shares subject to the price protection for $2.1 million, including $0.1 million for the difference under the price protection. These shares are classified as treasury shares on our consolidated balance sheet. In addition, we issued 25,209 shares of our common stock to shareholders who own 497,751 shares and exercised their price protection rights in the first quarter of 2008.

On the nine month anniversary date, which occurred during the second quarter of 2008, the remaining shareholders exercised their price protection rights. We issued an additional 238,396 shares of our common stock to shareholders who owned 1,528,985 shares and exercised their price protection rights in the second quarter of 2008. As of December 31, 2008, all obligations under the price protection have been fulfilled.

During the fourth quarter of 2008, certain Company management elected to receive approximately 160,000 shares of restricted stock units that vested ratably each month of the fourth quarter of 2008, in lieu of cash compensation. In addition, certain members on our Board of Directors elected to receive approximately 23,500 shares of restricted stock units that vested ratably in each month of the fourth quarter of 2008, in lieu of cash compensation.

Our material commitments under operating and capital leases and purchase obligations are as follows (in thousands):

		For the Years Ended					
	Total	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**
Capital lease obligations	$ 55	$ 36	$ 19	$	$	$	$
Operating leases	28,869	4,680	4,640	4,611	4,247	4,013	6,678
Purchase obligations	1,356	917	379	60			
Notes payable(1)	75,437	15,937	17,000	32,938	9,562		

Total obligations	$ 105,717	$ 21,570	$ 22,038	$ 37,609	$ 13,809	$ 4,013	$ 6,678

(1) Senior secured debt (2007 Notes)

The estimated interest payments related to the 2007 Notes are $3.8 million, $1.6 million, $1.0 million and less than $0.1 million for 2009, 2010, 2011 and 2012, respectively. The estimated interest payments for 2009

were calculated based on a fixed rate of 2.9%, since we entered into an interest rate swap agreement, effective October 31, 2008 through December 31, 2009, that swaps the one-month LIBOR interest rate for a fixed interest rate equal to 2.9%. The estimated interest payments for years 2010 through 2012 were calculated based on the one- month LIBOR rate on December 31, 2008.

Given continuing economic uncertainty and interest rate volatility, we could experience unforeseeable impacts on our results of operations, cash flows, ability to meet debt and other contractual requirements, and other items in future periods. While there can be no guarantees as to outcome, we have developed a contingency plan to address the negative effects of these uncertainties, if they occur.

Future capital requirements will depend upon many factors, including our need to finance any future acquisitions, the timing of research and product development efforts and the expansion of our marketing effort.

We expect to continue to expend significant amounts on expansion of facility infrastructure, ongoing research and development, computer and related equipment, and personnel.

We currently believe that cash on hand, investments and the cash we expect to generate from operations will be sufficient to meet our current anticipated cash requirements for at least the next twelve months. There can be no assurance that additional capital beyond the amounts currently forecasted by us will not be required or that any such required additional capital will be available on reasonable terms, if at all, at such time as required.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

We invest primarily in short-term, investment grade, marketable government, corporate, and mortgage-backed debt securities. Our interest income is most sensitive to changes in the general level of U.S. interest rates and given the short-term nature of our investments, our exposure to interest rate risk is not material. We do not have operations subject to risks of foreign currency fluctuations, nor do we use derivative financial instruments in our investment portfolio.

We are exposed to the impact of interest rate changes as they affect our outstanding senior secured notes, or 2007 Notes. The interest rate on our 2007 Notes varies based on LIBOR and, consequently, our interest expense could fluctuate with changes in the LIBOR rate through the maturity date of the senior secured note. We had entered into an interest rate cap agreement that effectively limited our exposure to interest rate fluctuations on $65.0 million of the $85.0 million average outstanding senior notes during the first half of 2008 and $42.5 million of the $81.8 million average outstanding senior secured notes outstanding during the third quarter of 2008 (2007 Hedge). The remaining amounts of approximately $20.0 million during the first half of 2008 and $39.3 million during the third quarter of 2008 were not subject to any interest rate cap agreements.

The counter party for the 2007 Hedge became insolvent during the third quarter of 2008. As such, we declared the 2007 Hedge to have no fair value and expensed the remaining fair value of the cash flow hedge and the unrealized losses previously recorded in other comprehensive income, totaling $0.1 million, as interest expense. On October 17, 2008, we entered into an interest rate swap agreement, swapping the one-month LIBOR interest rate for a fixed interest rate equal to 2.9% through December 31, 2009. This interest rate swap has a notional value equal to the outstanding principal at the end of each month.

The Company performed a sensitivity analysis on the weighted average balances of the outstanding 2007 notes not subject to any interest rate cap or interest rate swap agreements. If the LIBOR rate increased or decreased by one percent as of December 31, 2008, interest expense would have increased or decreased by $0.3 million for the year ended December 31, 2008. The Company is hedged against changes in interest rates through December 31, 2009, but

could have exposure beyond December 31, 2009 if the Company does not enter into a new hedging arrangement.

We earn interest (float interest) in clearing accounts that hold funds collected from end-users until they are disbursed to receiving merchants or financial institutions. The float interest we earn on these clearing accounts is considered in our determination of the fee structure for clients and represents a portion of the payment for our services. As such, the float interest earned is classified as payment services revenue in our consolidated statements of operations. This float interest revenue is exposed to changes in the general level of

U.S. interest rates as it relates to the balances of these clearing accounts. The float interest totaled $5.0 million and $10.3 million for the years ended December 31, 2008 and 2007, respectively. If there was a change in interest rates of one percent as of December 31, 2008, revenues associated with float interest would have increased or decreased by approximately $1.8 million for the year ended December 31, 2008.

In December 2007, we reclassified our investment in the Columbia Strategic Cash Portfolio (the Fund) from cash and cash equivalents to short-term investments. The Fund was short-term and highly liquid in nature prior to the fourth quarter of 2007 and was classified as a cash equivalent. During the fourth quarter of 2007, the Fund was closed by the Fund administrator to future investment, partially due to the subprime credit market crisis, and began liquidating the Fund in an orderly manner. The Funds were then converted to a net asset value basis and marked to market daily. We intend to remain in the Fund through the liquidation period. Approximately half of our investment in the Fund is expected to substantially liquidate over the next twelve months and as such this portion is classified in short-term investments at fair value on the consolidated balance sheet. The remainder of our investment in the Fund, or $1.0 million, is expected to liquidate beyond twelve months and as such this portion of the Fund is classified in long-term other assets on the consolidated balance sheet.

The value of the Fund was $2.0 million and $9.1 million at December 31, 2008 and December 31, 2007, respectively. We adjusted our investment in the Fund to its estimated fair value at December 31, 2008. In addition, we received $6.6 million in liquidation payments from the Fund administrator during the year ended December 31, 2008. There may be further decreases in the value of the Fund based on changes in market values of the securities held in the Fund. To the extent we determine there is a further decline in fair value, we may recognize additional unrealized losses in future periods.

Item 8. ***Consolidated Financial Statements and Supplementary Data***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firm	51
Consolidated Balance Sheets	54
Consolidated Statements of Operations	55
Consolidated Statements of Stockholders Equity	56
Consolidated Statements of Cash Flows	57
Notes to Consolidated Financial Statements	59
Supplementary Data	
Financial Statement Schedule for each of the three years in the period ended December 31, 2008	
Schedule II Valuation and Qualifying Accounts and Reserves*	95

* All other schedules prescribed under Regulation S-X are omitted because they are not applicable or not required.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Stockholders of Online Resources Corporation:

We have audited Online Resources Corporation s (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting (Item 9A(c)). Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the two-year period ended December 31, 2008, and our report dated March 2, 2009*,* expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

McLean, Virginia
March 2, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Online Resources Corporation:

We have audited the accompanying consolidated balance sheets of Online Resources Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the two-year period ended December 31, 2008. In connection with our audit of the consolidated financial statements, we also have audited financial statement schedule II for the two years ended December 31, 2008 and 2007. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Online Resources Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2009, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

McLean, Virginia
March 2, 2009

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of Online Resources Corporation:

We have audited the accompanying consolidated balance sheet of Online Resources Corporation as of December 31, 2006 (not included herein), and the related consolidated statements of operations, stockholders equity and cash flows for the year ended December 31, 2006. Our audit also included the financial statement schedule listed in the accompanying index in Item 15. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Online Resources Corporation at December 31, 2006, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule when considered in relation to the basic financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in 2006 the Company adopted the provisions of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, pursuant to which the Company recorded a cumulative adjustment to accumulated deficit as of January 1, 2006 to correct prior period errors in recording certain revenue.

/s/ Ernst & Young LLP

McLean, Virginia
March 15, 2007

ONLINE RESOURCES CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except par value amounts)

	December 31, 2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,969	$ 13,227
Restricted cash		1,535
Consumer deposits receivable		8,279
Short-term investments	1,009	9,135
Accounts receivable (net of allowance of $84 and $84, respectively)	15,742	16,546
Deferred implementation costs	1,669	1,459
Deferred tax asset, current portion	8,782	902
Prepaid expenses and other current assets:	2,344	4,601
Total current assets	52,515	55,684
Property and equipment, net	28,707	26,852
Deferred tax asset, less current portion	25,295	32,914
Deferred implementation costs, less current portion	1,555	1,628
Goodwill	181,516	184,300
Intangible assets	27,668	36,924
Other assets	6,421	2,415
Total assets	$ 323,677	$ 340,717
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,198	$ 2,001
Consumer deposits payable		10,555
Accrued expenses	2,686	5,494
Accrued compensation	932	2,019
Notes payable, senior secured debt, current portion	15,937	9,562
Deferred revenues, current portion	5,732	5,673
Interest payable	6	72
Interest rate swap liability	1,454	
Other current liabilities	327	2,683
Total current liabilities	28,272	38,059
Notes payable, senior secured debt, less current portion	59,500	75,438
Deferred revenues, less current portion	3,573	3,916
Other long-term liabilities	2,804	2,592
Total liabilities	94,149	120,005

Commitments and contingencies		
Redeemable convertible preferred stock:		
Series A-1 convertible preferred stock, $0.01 par value; 75 shares authorized and issued at December 31, 2008 and 2007 (Redeemable on July 3, 2013 at $135,815)	91,415	82,542
Stockholders equity:		
Series B junior participating preferred stock, $0.01 par value; 297.5 shares authorized; none issued		
Common stock, $0.0001 par value; 70,000 shares authorized; 29,808 issued and 29,526 outstanding at December 31, 2008 and 28,895 issued and 28,819 outstanding at December 31, 2007	3	3
Additional paid-in capital	208,079	198,333
Accumulated deficit	(66,698)	(59,744)
Treasury stock, 282 shares at December 31, 2008 and 76 shares at December 31, 2007	(2,360)	(228)
Accumulated other comprehensive loss	(911)	(194)
Total stockholders equity	138,113	138,170
Total liabilities and stockholders equity	$ 323,677	$ 340,717

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended December 31,		
	2008	**2007**	**2006**
Revenues:			
Account presentation services	$ 7,909	$ 8,998	$ 8,051
Payment services	122,301	104,228	65,500
Relationship management services	8,068	8,138	8,022
Professional services and other	13,364	13,768	10,163
Total revenues	151,642	135,132	91,736
Costs and expenses:			
Service costs	72,632	57,456	34,623
Implementation and other costs	4,721	6,627	6,694
Costs of revenues	77,353	64,083	41,317
Gross profit	74,289	71,049	50,419
General and administrative	33,445	28,933	19,780
Sales and marketing	24,207	23,446	18,009
Systems and development	9,906	9,196	7,382
Total expenses	67,558	61,575	45,171
Income from operations	6,731	9,474	5,248
Other (expense) income:			
Interest income	531	1,242	1,961
Interest expense	(3,612)	(6,731)	(5,506)
Other (expense) income	(556)	(117)	(447)
Loss on extinguishment of debt		(5,625)	
Total other (expense) income	(3,637)	(11,231)	(3,992)
Income (loss) before income taxes	3,094	(1,757)	1,256
Income tax (benefit) provision	1,175	(12,703)	935

Net income	1,919	10,946	321
Preferred stock accretion	8,873	8,302	4,309
Net income (loss) available to common stockholders	$ (6,954)	$ 2,644	$ (3,988)
Net income (loss) available to common stockholders per share:			
Basic	$ (0.24)	$ 0.10	$ (0.16)
Diluted	$ (0.24)	$ 0.09	$ (0.16)
Shares used in calculation of net income (loss) available to common stockholders per share:			
Basic	29,111	27,153	25,546
Diluted	29,111	29,150	25,546

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(in thousands)

	Common Stock		Additional Paid-In	Accumulated	Treasury	Accumulated Other Comprehensive Income	Total Stockholders
	Shares	Amount	Capital	Deficit	Stock	(Loss)	Equity
Balance at December 31, 2005	25,213	$ 3	$ 160,249	$ (56,988)	$ (228)	$	$ 103,036
Adjustment under SAB No. 108				(1,412)			(1,412)
Comprehensive loss:							
Net income				321			321
Unrealized loss on hedging instrument						(407)	(407)
Comprehensive loss							(86)
Preferred stock accretion				(4,309)			(4,309)
Equity compensation cost			2,512				2,512
Exercise of common stock options	541		3,288				3,288
Issuance of common stock	35		306				306
Balance at December 31, 2006	25,789	3	166,355	(62,388)	(228)	(407)	103,335
Comprehensive income:							
Net income				10,946			10,946
Net unrealized gain on hedging instrument, net of taxes of $60						213	213
Comprehensive income							11,159
Preferred stock accretion				(8,302)			(8,302)
Equity compensation cost			3,296				3,296
Exercise of common stock options	771		3,767				3,767
Issuance of common stock	42		202				202
Issuance of common stock in connection with ITS acquisition	2,217		24,713				24,713
Balance at December 31, 2007	28,819	$ 3	$ 198,333	$ (59,744)	$ (228)	$ (194)	$ 138,170
Comprehensive income:							

Net income				1,919			1,919
Net unrealized loss on hedging instrument, net of taxes of $496						(717)	(717)
Comprehensive income							1,202
Treasury shares purchased					(167)		(167)
Preferred stock accretion				(8,873)			(8,873)
Equity compensation cost			4,874				4,874
Exercise of common stock options	290		826				826
Issuance of common stock	343		190				190
Issuance of common stock in connection with ITS price protection	74		3,856		(1,965)		1,891
Balance at December 31, 2008	29,526	$ 3	$ 208,079	$ (66,698)	$ (2,360)	$ (911)	$ 138,113

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2008	**2007**	**2006**
Operating activities			
Net income	$ 1,919	$ 10,946	$ 321
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred tax benefit	778	(13,380)	(531)
Depreciation and amortization	21,270	19,811	12,772
Equity compensation expense	4,696	3,198	2,512
Write off and amortization of debt issuance costs	372	4,330	445
Loss on disposal of assets	50	180	1
Provision for losses on accounts receivable	56	(12)	(21)
Loss on investments	556	117	
Change in fair value of stock price protection	1,565	(355)	
Change in fair value of theoretical swap derivative	(3,574)	(1,145)	
Loss on cash flow hedge derivative security	261	350	
Loss on preferred stock derivative security			158
Changes in operating assets and liabilities, net of acquisitions:			
Restricted cash	1,535	2,292	(1,699)
Consumer deposit receivable	8,279	(3,297)	
Consumer deposit payable	(10,555)	5,285	
Redemption of certificate of deposit	2,294		
Accounts receivable	748	(2,169)	(1,486)
Prepaid expenses and other assets	1,595	(1,769)	646
Deferred implementation costs	(137)	(474)	(1,484)
Accounts payable	(438)	(3,245)	58
Accrued expenses and other liabilities	(3,319)	(1,118)	(275)
Interest payable	(65)	(2,616)	2,688
Deferred revenues	(284)	1,296	2,905
Net cash provided by operating activities	27,602	18,225	17,010
Investing activities			
Purchases of property and equipment	(13,471)	(16,360)	(9,823)
Purchase of short-term investments		(10,167)	(965)
Sale of short-term investments	6,570	1,880	
Acquisition of Internet Transactions Solutions, Inc., net of cash acquired	(110)	(12,220)	
Acquisition of Princeton, net of cash acquired			(184,362)
Net cash used in investing activities	(7,011)	(36,867)	(195,150)
Financing activities			
Net proceeds from issuance of common stock	827	3,998	3,486
Repurchase of shares issued related to ITS acquisition	(1,965)		

Payments for ITS price protection	(112)		
Net proceeds from issuance of redeemable convertible preferred stock			69,912
Purchase of cash flow derivative		(121)	(455)
Sale of cash flow derivative		22	
Debt issuance costs on refinancing of long-term debt		(1,479)	
Prepayment penalty on repayment of 2006 notes		(1,700)	
Proceeds from issuance of 2007 notes		85,000	
Repayment of 2006 notes		(85,000)	
Net proceeds from issuance of 2006 notes			80,549
Repayment of 2007 Notes	(9,563)		
Repayment of capital lease obligations	(36)	(40)	(27)
Net cash (used in) provided by financing activities	(10,849)	680	153,465
Net (decrease) increase in cash and cash equivalents	9,742	(17,962)	(24,675)
Cash and cash equivalents at beginning of year	13,227	31,189	55,864
Cash and cash equivalents at end of year	$ 22,969	$ 13,227	$ 31,189

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(in thousands except share data)

SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS:

	Year Ended December 31,		
	2008	**2007**	**2006**
Cash paid for interest	$ 4,772	$ 10,091	$ 2,665
Income taxes paid	$ 632	$ 464	$ 77
Net unrealized (loss) gain on hedge and investments	$ (1,759)	$ 137	$ (407)

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:

	Year Ended December 31,		
	2008	**2007**	**2006**
Common stock issued in connection with ITS acquisition	$ 3,856	$ 24,713	$
Common stock issued in connection with IDS earnout and acquisition	$	$	$ 119
Issuance of equity award liabilities	$	$	$ (11)

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Online Resources Corporation (the Company) provides outsourced, web-and phone-based financial technology services to financial institution, biller, card issuer and creditor clients and their millions of consumer end-users. End-users may access and view their accounts online and perform various self-service functions. They may also make electronic bill payments and funds transfers, utilizing the Company s unique, real-time debit architecture, ACH and other payment methods. The Company s value-added relationship management services reinforce a favorable user experience and drive a profitable and competitive online channel for its clients. Further, the Company provides professional services, including software solutions, which enable various deployment options, a broad range of customization and other value-added services. The Company currently operates in two business segments Banking and eCommerce.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include the determination of the fair value of stock awards issued, allowances for accounts receivable, the assessment for impairment of long-lived assets, and income taxes. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant accounts, transactions and profits between the consolidated companies have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash of $1.5 million at December 31, 2007 consisted of funds from unclaimed bill payment checks, which the Company either returned to the initiator of the bill payment or surrendered the funds to the appropriate state escheat funds. The Company had no restricted cash at December 31, 2008.

Consumer Deposit Receivable and Payables

In 2007, following the Company s acquisition of Internet Transaction Solutions, Inc. (ITS), the Company s balance sheet, in relation to its ITS operations, reflected consumer deposit receivables which consisted of in-transit customer payment transactions that had not yet been received by the Company and consumer deposit payables which consisted of cash held or in transit, that were to be remitted for the benefit of customers for collections made on their behalf. In the first quarter of 2008, the Company changed the manner in which the ITS payment processing operations were structured. As a result of the change, the Company has only fiduciary responsibility over the bill payment funds associated with its ITS operations. Therefore, the Company no longer has rights and obligations associated with ITS bill payment funds and no longer reports consumer deposit receivables, payables and related cash as part of its consolidated balance sheet at December 31, 2008.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Short-term Investments

Short-term investments consist of the Company s short term portion of the Columbia Strategic Cash Portfolio (the Fund). In December 2007, this Fund was closed by the Fund administrator to future investment, partially due to the subprime credit market crisis. The Fund converted from a cash and cash equivalent to a net asset value basis and marked to market daily. Half of the Company s investment in the Fund is expected to substantially liquidate over the next twelve months and the Company will remain in the Fund through the liquidation period.

The value of the investment was $2.0 million and $9.1 million at December 31, 2008 and December 31, 2007, respectively. The short-term portion of the total value of the investment was $1.0 million and $9.1 million, respectively at December 31, 2008 and December 31, 2007. During the year ended December 31, 2008, the Company received $6.6 million in liquidation payments from the Fund administrator. In addition, a loss of $0.5 million was recognized for the year ended December 31, 2008 related to the investment in the Fund and liquidation, and was recorded as other expense in the consolidated statement of operations.

Fair Value of Financial Instruments

At December 31, 2008 and 2007, the carrying values of the following financial instruments: cash and cash equivalents, restricted cash, consumer deposits receivable, short-term investments, accounts receivable, accounts payable, consumer deposits payable, accrued expenses, notes payable and other liabilities approximate their fair values based on the liquidity of these financial instruments or based on their short-term nature. The carrying values of the Company s notes payable approximate fair value due to the variable interest rate which resets every month based upon interest benchmarks and a premium that varies based upon financial metrics. Additionally, the Company has a cash flow hedge related to the interest. See fair value of cash flow hedge in Note 10, *Financial Instruments.*

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk at December 31, 2008 and 2007 consist primarily of cash and cash equivalents and short-term investments. The Company has cash in financial institutions that is insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. At December 31, 2008 and 2007, the Company had cash and cash equivalents, restricted cash and short-term investment accounts in excess of the FDIC insured limits.

A customer that accounts for a significant percentage of sales relative to the Company s total sales could potentially subject the Company to concentrations of credit risk. A December 31, 2008 and 2007, no one client or reseller partner accounted for more than 3% of our revenues.

Revenue Recognition

The Company generates revenues from service fees, professional services, and other supporting services as a financial technology services provider in the Banking and eCommerce markets.

Service fee revenues are generally comprised of account presentation services, payment services and relationship management services. Many of the Company s contracts contain monthly user fees, transaction fees and new user

registration fees for the account presentation services, payment services and relationship management services it offers that are often subject to monthly minimums, all of which are classified as service fees in the Company s consolidated statements of operations. Additionally, some contracts contain fees for relationship management marketing programs which are also classified as service fees in the Company s consolidated statements of operations. These services are not considered separate deliverables pursuant to EITF No. 00-21. Fees for relationship management marketing programs, monthly user and transaction fees, including the monthly minimums, are recognized in the month in which the services are provided or, in the

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

case of minimums, in the month to which the minimum applies. The Company recognizes revenues from service fees in accordance with SAB No. 104, which requires that revenues generally are realized or realizable and earned when all of the following criteria are met: a) persuasive evidence of an arrangement exists; b) delivery has occurred or services have been rendered; c) the seller s price to the buyer is fixed or determinable; and d) collectibility is reasonably assured. Revenues associated with services that are subject to refund are not recognized until such time as the exposure to potential refund has lapsed.

Implementation and new user registration fees, in accordance with EITF No. 00-21, are considered a single unit of accounting with the service fees associated with the contract. As such, implementation and new user registration fees are recognized consistently the way service fees are recorded, on a proportionate performance basis.

The Company collects funds from end-users and aggregates them in clearing accounts, which are not included in its consolidated balance sheets, as the Company does not have ownership of these funds. For certain transactions, funds may remain in the clearing accounts until a payment check is deposited or other payment transmission is accepted by the receiving merchant. The Company earns interest on these funds for the period they remain in the clearing accounts. The collection of interest on these clearing accounts is considered in the Company s determination of its fee structure for clients and represents a portion of the payment for services performed by the Company. The interest totaled $5.0 million, $10.3 million and $6.4 million for the years ended December 31, 2008, 2007 and 2006, respectively, and is classified as payment services revenue in the Company s consolidated statements of operations.

Professional services revenues consist of implementation fees associated with the linking of the Company s financial institution clients to its service platforms through various networks, along with web development and hosting fees, training fees, communication services and sales of software licenses and related support. When the Company provides access to its service platforms to the customer using a hosting model, revenues are recognized in accordance with SAB No. 104. The implementation and web hosting services are not considered separate deliverables pursuant to EITF No. 00-21. Revenues from web development, web hosting, training and communications services are recognized over the term of the contract as the services are provided.

When the Company provides services to the customer through the delivery of software, revenues from the sale of software licenses, services and related support are recognized according to Statement of Position (SOP) No. 97-2, *Software Revenue Recognition* (SOP 97-2) as amended by SOP No. 98-9, *Software Revenue Recognition With Respect to Certain Transactions* (SOP No. 98-9). In accordance with the provisions of SOP No. 97-2, revenues from sales of software licenses are recognized when there is persuasive evidence that an arrangement exists, the fee is fixed or determinable, collectibility is probable and the software has been delivered, provided that no significant obligations remain under the contract. The Company has multiple-element software arrangements, which in addition to the delivery of software, typically also include support services. For these arrangements, the Company recognizes revenues using the residual method. Under the residual method, the fair value of the undelivered elements, based on vendor specific objective evidence of fair value, is deferred. The difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenues related to the delivered elements.

The Company determines the fair value of the undelivered elements based on the amounts charged when those elements are sold separately. For sales of software that require significant production, modification or customization, pursuant to SOP No. 97-2, the Company applies the provisions of Accounting Research Bulletin (ARB) No. 45, *Long-Term Construction-Type Contracts* (ARB No. 45), and SOP No. 81-1, *Accounting for Performance of*

Construction-Type and Certain Production-Type Contracts (SOP 81-1), and recognizes revenues related to software license fees and related services using the percentage-of-completion method.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The percentage-of-completion is measured based on the percentage of labor effort incurred to date to estimated total labor effort to complete delivery of the software license. Changes in estimates to complete and revisions in overall profit estimates on these contracts are charged to the Company s consolidated statements of operations in the period in which they are determined. The Company records any estimated losses on contracts immediately upon determination. Revenues related to support services are recognized on a straight-line basis over the term of the support agreement.

Other revenues consist of service fees related to enhanced third-party solutions and termination fees. Service fees for enhanced third-party solutions include fully integrated bill payment and account retrieval services through Intuit s Quicken, check ordering, inter-institution funds transfer, account aggregation and check imaging. Revenues from these service fees are recognized over the term of the contract as the services are provided. Termination fees are recognized upon termination of a contract.

Deferred Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax net operating loss and alternative minimum tax credit carryforwards. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when such amounts are expected to reverse or be utilized. The realization of total deferred tax assets is contingent upon the generation of future taxable income. Valuation allowances are provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized. See Note 9, *Income Taxes,* for further discussion.

Allowance for Doubtful Accounts

Allowance for Doubtful Accounts. The Company performs ongoing credit evaluations of its customers financial condition and limits the amount of credit extended when deemed necessary, but generally does not require collateral. Management believes that any material risk of loss is significantly reduced due to the Company s broad client base as well the number of its customers and geographic areas. The Company maintains an allowance for doubtful accounts to provide for probable losses in accounts receivable.

Property and Equipment

Property and equipment, including leasehold improvements, are recorded at cost. Depreciation is calculated using the straight-line method over the assets estimated useful lives. See the table below for depreciable lives for each asset grouping. Depreciation expense was $6.3 million, $6.4 million and $5.3 million for the years ended December 31, 2008, 2007, and 2006, respectively, and is included as cost of revenues and general and administrative expenses in the consolidated Statements of Operations. See Note 6, *Property and Equipment and Capitalized Software Costs,* for additional information.

Asset Group	**Depreciable Life**
Central processing systems and terminals	3-5 years
Office furniture and equipment	5 years

Central processing systems and terminals under capital leases	shorter life of 3-5 years or lease term
Office furniture and equipment under capital leases	shorter life of 5 years or lease term
Leasehold improvements	generally remaining lease term (1)

(1) If the leasehold improvements estimated life is shorter than the remaining lease term, the estimated life is used as the depreciable term.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capitalized Software Costs

The Company capitalizes the cost of computer software developed or obtained for internal use in accordance with SOP No. 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* (SOP No. 98-1). Capitalized computer software costs consist primarily of payroll-related and consulting costs incurred during the development stage. The Company expenses costs related to preliminary project assessments, research and development, re-engineering, training and application maintenance as they are incurred. Capitalized software costs are being depreciated on the straight-line method over a period of three years upon being placed in service.

The Company capitalizes the cost of computer software to be sold according to Statement of Financial Accounting Standards (SFAS) No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed* (SFAS No. 86). Software development costs are capitalized beginning when a product s technological feasibility has been established by completion of a working model of the product and ending when a product is ready for general release to customers.

Amortization of capitalized computer software costs was $5.5 million, $4.0 million and $2.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. See Note 6, *Property and Equipment and Capitalized Software Costs,* for additional information.

Goodwill

The Company recorded goodwill and intangible assets in accordance with SFAS No. 141, *Business Combinations* (SFAS No. 141) for the acquisitions of ITS on August 10, 2007, Princeton eCom Corporation (Princeton) on July 3, 2006, Integrated Data Systems, Inc. (IDS) on June 27, 2005, and Incurrent Solutions, Inc. (Incurrent) on December 22, 2004. In accordance with SFAS No. 142, *Goodwill and Intangible Assets* (SFAS No. 142), goodwill is not amortized and is tested at the reporting unit level at least annually or whenever events or circumstances indicate that goodwill might be impaired. The fair value of the Company s reporting units are measured under the income method by utilizing discounted cash flows. The estimates the Company uses in evaluating goodwill are consistent with the plans and estimates that the Company uses to manage its operations.

The Company did not experience any impairment of goodwill or other intangible assets for the years ended December 31, 2008, 2007 or 2006. If market conditions continue to weaken, the Company s revenue and cost forecasts may not be achieved and the Company may incur charges for goodwill impairment, which could be significant and could have a material negative effect on our results of operations. Additionally, if the Company s stock price declines from our stock price of $4.74 as of December 31, 2008, the Company could incur goodwill impairment charges.

The Company s reporting units, Banking and eCommerce, have a carrying value of approximately $120 million and approximately $130 million, respectively, as of December 31, 2008. If the fair value for our Banking reporting unit declines approximately 15% from the December 31, 2008 fair value, or the fair value of our eCommerce reporting unit declines approximately 17% from the December 31, 2008 fair value, it is likely that we would incur goodwill impairment charges.

Impairment of Long-Lived Assets and Intangible Assets

In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), the Company periodically evaluates the recoverability of long-lived assets, including deferred implementation costs, property and equipment and intangible assets, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets include customer lists, non-compete agreements, purchased technology, patents and trademarks, which are amortized over their useful lives of five to eleven years based on a schedule that approximates the pattern in which economic

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

benefits of the intangible assets are consumed or otherwise used up. Other intangible assets represent long-lived assets and are assessed for potential impairment whenever significant events or changes occur that might impact recovery of recorded costs. There were no indicators of impairment for this particular asset group during the three years ended December 31, 2008.

Theoretical Swap Derivative

The Company bifurcated the fair market value of the embedded derivative associated with the Series A-1 Redeemable Convertible Preferred Stock (Series A-1 Preferred Stock) issued in conjunction with the Princeton eCom acquisition on July 3, 2006 in accordance with SFAS No. 133. The Company determined that the embedded derivative is defined as the right to receive a fixed rate of return on the accrued, but unpaid dividends and the variable negotiated rate, which creates a theoretical swap between the fixed rate of return on the accrued, but unpaid dividends and the variable rate actually accrued on the unpaid dividends. This embedded derivative is marked to market at the end of each reporting period through earnings and an adjustment to other assets in accordance with SFAS No. 133. There is no active market quote available for the fair value of the embedded derivative. Thus, management measures fair value of the derivative by estimating future cash flows related to the asset using a forecasted iMoney Net First Tier rate based on the one-month LIBOR rate adjusted for the historical spread for the estimated period in which the Series A-1 Preferred Stock will be outstanding.

Derivative Instruments

SFAS No. 133 requires companies to recognize all of its derivative instruments as either assets or liabilities in the consolidated balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income or loss and reclassified into operations in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings (for example, in interest expense when the hedged transactions are interest cash flows associated with floating-rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other income/expense in current operations during the period of change.

Alternatively, if meeting the criteria of Derivative Implementation Group Statement 133 Implementation Issue No. G20, a cash flow hedge is considered perfectly effective and the entire gain or loss on the derivative instrument is reported as a component of other comprehensive income or loss and reclassified into operations in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings. Derivatives are reported on the balance sheet in other current and long-term assets or other current and long-term liabilities based upon when the financial instrument is expected to mature. Accordingly, derivatives are included in the changes in other assets and liabilities in the operating activities section of the statement of cash flows.

Alternatively, in accordance with SFAS No. 95, *Statement of Cash Flows*, derivatives containing a financing element are reported as a financing activity in the statement of cash flows.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Staff Accounting Bulletin No. 108

In September 2006, the SEC staff issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108). SAB No. 108 requires that public companies utilize a dual-approach method to assess the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment (rollover method) and a balance sheet focused assessment (iron curtain method). The guidance in SAB No. 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006.

Under the provisions of SAB No. 108 we reevaluated our recognition of certain user set-up fees charged to clients to establish online banking capabilities to individual customers. We determined that these fees should be recognized as revenue over the remaining life of client contracts rather than at the time of set up as had been done in prior years. While the impact on prior year financial statements was not considered material using the rollover method, the error was considered material using the iron curtain method. In accordance with the transition provisions of SAB 108, the cumulative effect of the error was recorded as an adjustment of accumulated deficit as of January 1, 2006. The resulting cumulative effect adjustment was a $1.4 million increase to deferred revenue and corresponding increase to the accumulated deficit.

Reclassification

Certain amounts reported in prior periods have been reclassified to conform to the 2008 presentation.

Net (Loss) Income Available to Common Stockholders Per Share

Net (loss) income available to common stockholders per share is computed by dividing the net (loss) income available to common stockholders for the period by the weighted average number of common shares outstanding. Shares associated with stock options, restricted stock units, warrants and convertible securities are not included to the extent they are anti-dilutive.

Accumulated Comprehensive Income (Loss)

SFAS No. 130, *Reporting Comprehensive Income* (SFAS No. 130), requires that items defined as comprehensive income or loss are to be separately classified in the financial statements and that the accumulated balance of other comprehensive income or loss be reported separately from accumulated deficit and additional paid-in capital in the equity section of the balance sheet.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), using the modified-prospective transition method. Under that transition method, compensation cost recognized in 2006, 2007 and 2008 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006,

based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). See Note 15, *Equity Compensation Plans,* for a description of the Company s equity compensation plans and the details of the Company s stock compensation expense.

Pursuant to SFAS No. 123(R), the Company chose to apply the with-and-without approach for the ordering recognition of excess tax benefits for share based awards and other benefits in accordance with Emerging Issues Task Force Topic No. D-32, *Intraperiod Tax Allocation of the Tax Effect of Pretax Income from Continuing Operations.*

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recently Issued Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standards (SFAS) No. 141(R), *Business Combinations,* (SFAS No. 141(R)), which replaces SFAS No. 141. SFAS No. 141(R) will significantly change the way the Company accounts for business combinations. The more significant changes under SFAS No. 141(R) included the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. The standard also requires more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date and contingent liabilities assumed to be measured at fair value in each subsequent reporting period. In addition, under SFAS No. 141(R), changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will affect the income tax provision. This pronouncement is effective for annual reporting periods beginning after December 15, 2008. Early adoption is not permissible; therefore the Company will apply this standard to acquisitions made after January 1, 2009. The provisions of the standard related to changes in deferred tax assets valuation allowances and income tax uncertainties will be applied to acquisitions entered into prior to the adoption of this standard.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements,* (SFAS No. 160), which amends Accounting Research Bulletin No. 51. SFAS No. 160 establishes accounting and reporting standards that require 1) non-controlling interests held by non-parent parties to be clearly identified and presented in the consolidated statement of financial position within equity, separate from the parent s equity and 2) the amount of consolidated net income attributable to the parent and to the non-controlling interest to be clearly presented on the face of the consolidated statement of income. SFAS No. 160 also requires consistent reporting of any changes to the parent s ownership while retaining a controlling financial interest, as well as specific guidelines over how to treat the deconsolidation of controlling interests and any applicable gains or losses. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. The standard currently does not affect the Company s consolidated financial statements; however the Company will adopt this standard beginning January 1, 2009.

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for financial assets and liabilities. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, the standard specifies that the fair value should be the exit price, or price received to sell the asset or liability as opposed to the entry price, or price paid to acquire an asset or assume a liability. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2 which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except for those that are disclosed in the consolidated financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. The Company is currently assessing the impact, if any, adoption of the statement for nonfinancial assets and liabilities will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities,* which requires enhanced disclosures about an entity s derivative and hedging activities. Constituents have expressed concerns that the existing disclosure requirements in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activity,* do not provide adequate information about how derivative and hedging activities affect an entity s financial position, financial performance, and cash flows, and accordingly this new standard improves the transparency of financial reporting. This standard is effective for financial statements issued for fiscal years and

interim periods beginning after November 15, 2008, with early application encouraged. This standard encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company will adopt this standard beginning January 1, 2009 and adoption will not materially affect the Company s consolidated financial statements.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets (FSP No. 142-3). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, Goodwill *and Other Intangible Assets* (SFAS No. 142), and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS No. 142 s entity-specific factors. FSP No. 142-3 is effective beginning January 1, 2009 and will be applied prospectively to intangible assets acquired after the effective date. The Company is currently assessing the impact this adoption will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (*GAAP*), which is a hierarchy of authoritative accounting guidance. The current GAAP hierarchy is included in the American Institute of Certified Public Accountants Statement of Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.* The new statement is explicitly and directly applicable to preparers of financial statements as opposed to being directed to auditors and will not result in a change in current practice. The new statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from auditing standards, where it has resided for some time.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60,* which requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. The standard currently does not affect the Company s consolidated financial statements.

In October 2008, the FASB issued Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP No. 157-3). FSP No. 157-3 clarifies the application of SFAS No. 157, which the Company adopted as of January 1, 2008, in cases where a market is not active. The Company has considered the guidance provided by FSP No. 157-3 and determined that the impact was not material on estimated fair values as of December 31, 2008.

3. ACQUISITIONS

Internet Transaction Solutions, Inc.

On August 10, 2007, pursuant to the terms of the Agreement and Plan of Merger dated July 26, 2007, as thereafter amended and restated, the Company and its wholly-owned subsidiary, ITS Acquisition Sub, LLC, completed the merger under which the Company acquired all of the outstanding stock of Internet Transaction Solutions, Inc., a Delaware corporation, for total consideration of approximately $48.1 million including transaction related costs of $0.3 million. The Company agreed to issue 2,216,552 shares of its common stock to the stockholders and preferred rights holder of ITS in partial payment of the purchase price. These shares have been valued at $24.7 million, and the balance of the purchase price, approximately $20.3 million, was paid in cash. Of the $20.3 million paid in cash, $3.6 million was escrowed to cover indemnification claims, of which $2.8 million was released to the ITS

stockholders and $0.8 million remains subject to indemnification claims in favor of the Company.

As part of the purchase consideration for ITS, the Company also agreed to provide the former shareholders of ITS with price protection related to the 2,216,653 shares issued to them for a period of one year from the date the shares were issued, which was August 10, 2007 (the Closing Date). Under the protection, if the volume weighted average price of the Company s shares for the 10 trading-day period ending two business days before the six, nine and twelve month anniversary dates of the Closing Date was less than

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$11.15, these shareholders had the right to ask the Company to restore them to a total value per share equal to the issuance price, either through the issuance of additional stock or through the repurchase of the stock issued as consideration.

On the six month anniversary date, which occurred during the first quarter of 2008, certain shareholders exercised their price protection rights. The Company acquired 189,917 common shares subject to the price protection for $2.1 million, including $0.1 million for the difference under the price protection. These shares are classified as treasury shares on the Company s consolidated balance sheet. In addition, the Company issued 25,209 shares of the Company s common stock to shareholders who owned 497,751 shares and exercised their price protection rights in the first quarter of 2008.

On the nine month anniversary date, which occurred during the second quarter of 2008, the remaining shareholders exercised their price protection rights. The Company issued an additional 238,396 shares of the Company s common stock to shareholders who owned 1,528,985 shares and exercised their price protection rights in the second quarter of 2008. As of December 31, 2008, all obligations under the price protection have been fulfilled.

This purchase price protection represents a stand-alone derivative which was included as part of the consideration issued for the acquisition. Using a trinomial tree model, the Company determined that the value of this option was $2.8 million as of July 26, 2007, the date the share issuance price was established, and recorded this amount in other current liabilities on the consolidated balance sheet. The liability was marked to market, each period, through the second quarter of 2008 until all rights were exercised and reflected changes in the value of the option that were driven by share price, share price volatility and time to maturity. Interest expense of $1.7 million was recorded during 2008, before all rights had been exercised, related to the mark to market adjustment of the derivative. Since all rights had been exercised during the first half of 2008, the value of the option liability at December 31, 2008 is zero. The value of the remaining portion of the option, using the same trinomial tree model, was determined to have been $2.4 million at December 31, 2007.

ITS is a leading provider of electronic payment solutions to receivable management companies and utilities. ITS solutions enable consumers to process bill payments through the Web, telephone (integrated voice response) or a customer service representative, resulting in significant cost savings, faster collections, and improved service for its biller customers. ITS services are primarily utilized by receivable management companies and utilities billers. ITS generates revenue from billpay transaction fees, which are either paid by the end-user or the client biller.

The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated to the estimated fair value of the assets acquired and liabilities assumed. The estimated fair value of the tangible assets acquired and liabilities assumed approximated the historical basis. ITS had significant intangible assets related to its customer list and employee base. An identified value was assigned to the customer list, and the identified value assigned to the employee base was included within goodwill. No other significant intangible assets were identified or included in goodwill.

The results of operations for ITS are included within the eCommerce segment in the consolidated statements of operations beginning August 11, 2007. The financial information in the table below summarizes the results of operations of the Company and ITS on a pro forma basis, as though the companies had been combined as of the beginning of the periods presented. This pro forma information is presented for informational purposes only and is not

necessarily indicative of the results of operations that would have been achieved had the acquisition actually taken place as of the beginning of the periods presented (in thousands except per share amounts).

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Unaudited Pro forma Information For the Year Ended December 31	
	2007	**2006**
Revenues	$ 146,891	$ 106,267
Net income (loss) available to common stockholders	2,703	(4,931)
Net income (loss) available to common stockholders per share:		
Basic	$ 0.09	$ (0.18)
Diluted	$ 0.07	$ (0.18)

The following table summarizes the estimate fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

	At August 10, 2007
Cash and cash equivalents	$ 8,431
Consumer deposits receivable	4,982
Accounts receivable	48
Other current assets	50
Property and equipment	2,063
Trademarks and patents	8
Customer lists	21,220
Goodwill	33,123
Other assets	15
Total assets purchased	69,940
Accounts payable	7,634(1)
Consumer deposits payable	5,270
Accrued expenses	1,089
Deferred tax liabilities	7,808
Total liabilities assumed	21,801
Total net assets	$ 48,139
Cash	$ 20,306
Issuance of 2,216,552 common shares at $11.15 per share	24,713
Stock price guarantee	2,783
Transaction costs	337

Aggregate purchase price	$	48,139

(1) Included $7.1 million of liabilities assumed related to the settlement of stock options which was expected to occur prior to closing.

In 2008 the Company finalized the purchase price allocations based upon the final allocation of identifiable intangible assets and goodwill of $21.5 million and $32.9 million, respectively. The identifiable intangible asset will be amortized over its useful life of ten years based on an accelerated amortization schedule that approximates the pattern in which economic benefit of the intangible asset is consumed or

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

otherwise used up. Approximately $0.1 million of additional acquisition costs were incurred by the Company for the year ended December 31, 2008.

Princeton

On July 3, 2006, the Company and its wholly-owned subsidiary, Online Resources Acquisition Co., completed the merger under which the Company acquired all of the outstanding stock of Princeton eCom, a Delaware corporation, for a cash acquisition price of $180 million with a $10 million contingent payment tied to the occurrence of a future event which subsequently did not occur, thereby negating the payment obligation.

To finance the Princeton acquisition, the Company issued, on July 3, 2006, $85 million of senior secured notes (2006 Notes) due, payable in full, on June 26, 2011 and $75 million of Series A-1 Preferred Stock. The Company incurred issuance costs of $4.5 million for the senior secured notes and $5.1 million for the Series A-1 Preferred Stock. Interest on the 2006 Notes was one-month London Interbank Offered Rate (LIBOR) plus 700 basis points, and was payable quarterly. On February 21, 2007, the Company entered into an agreement with Bank of America to refinance its existing debt with $85 million in term loans (2007 Notes). The Company paid a $1.7 million pre-payment penalty and wrote-off $3.9 million in deferred financing costs in conjunction with the transaction. Interest on the 2007 Notes is one-month LIBOR plus 225 to 275 basis points based upon the ratio of the Company s funded indebtedness to its earnings before interest, taxes, depreciation and amortization (EBITDA, as defined in the 2007 Notes), and is payable monthly. The interest rate at December 31, 2007 was 7.57%.

The Series A-1 Preferred Stock accrues a cumulative dividend at 8% per annum of the original issuance price with an interest factor thereon based upon the iMoneyNet First Tier Institutional Average. For a full description of the senior secured notes and Series A-1 Preferred Stock, see Notes 11, *Senior Secured Notes,* and Note 12, *Redeemable Convertible Preferred Stock*.

The Company s primary reasons for acquiring Princeton were to allow the Company to enter a complementary biller vertical market, exploit potential product and customer synergies between the companies and acquire management for that biller business line. In the Company s opinion, the value of this acquisition rests in the synergies of the combined operations and expanding the Company s product offering to include biller services using the Princeton platform.

The Company now operates the Princeton businesses within its Banking and eCommerce segments. Founded in 1984, Princeton provides electronic payment solutions. Princeton s solutions enable consumers to process bill payments from the Web, telephone (integrated voice response), customer service representative, and home banking platforms, resulting in significant cost savings, faster collections, and improved service for its bank and biller customers. Princeton s services are utilized by financial institutions, billers, and distribution partners, including many top 100 banks and Fortune 1000 billers. These customers take advantage of Princeton s wide range of electronic payment solutions, which include lockbox and concentration payment products; one-time, enrolled, and convenience pay services; and electronic bill presentment solutions. Princeton generates revenues from (i) transaction fees, including invoice presentment and payment processing fees; (ii) professional services fees for implementation and customized solutions; and (iii) interest on funds held.

The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated to the estimated fair value of the assets acquired and liabilities assumed. The estimated fair value of the tangible assets

acquired and liabilities assumed approximated the historical basis. Princeton had significant intangible assets related to its customer list, technology and employee base. Identified values were assigned to the customer list and technology and the identified value assigned to the employee base was included within goodwill. No other significant intangible assets were identified or included in goodwill.

The finalized purchase price allocations to identifiable intangible assets and goodwill were $27.7 million and $151.2 million, respectively. The identifiable intangible assets will be amortized over their useful lives of

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6-11 years based on an accelerated amortization schedule that approximates the pattern in which economic benefits of the intangible assets are consumed or otherwise used up.

In connection with the integration of Princeton, the Company formulated a plan to involuntarily terminate employees in duplicative positions within 150 days of the acquisition. As a result of these terminations, severance costs of $0.6 million were incurred and recognized as part of the purchase price. The Company has no plans to exit an activity of Princeton or terminate any additional employees beyond those terminations that were communicated within the first 60 days following the acquisition. All terminations were completed prior to November 30, 2006.

The results of operations for Princeton are included in the consolidated statements of operations beginning July 1, 2006, which was not materially different from the acquisition date of July 3, 2006. The financial information in the table below summarizes the results of operations of the Company and Princeton on a pro forma basis, as though the companies had been combined as of the beginning of the periods presented. This pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition actually taken place as of the beginning of the periods presented.

Assuming the acquisition had taken place on January 1, 2006 the Company s pro forma results for the year ended December 31, 2006 would have been (in thousands except per share amounts):

		Unaudited Pro forma Information For the Year Ended December 31 2006
Revenues	$	111,924
Net (loss)	$	(8,640)
Net loss available to common stockholders	$	(17,267)
Net loss available to common stockholders per share:		
Basic	$	(0.68)
Diluted	$	(0.68)

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

	At July 3, 2006
Current assets	$ 13,697
Property, plant and equipment	1,836
Other assets	125
Identifiable intangible assets (nine year weighted-average useful life):	
Customer list (eleven year weighted-average useful life)	18,355
Purchased technology (six year weighted-average useful life)	9,361
	43,374
Goodwill	151,406
Total assets acquired	194,780
Current liabilities	(3,915)
Long-term liabilities	(503)
Total liabilities assumed	(4,418)
Net assets acquired	$ 190,362

4. REPORTABLE SEGMENTS

The Company manages its business through two reportable segments: Banking and eCommerce. The Banking segment s market consists primarily of banks, credit unions and other depository financial institutions in the United States. The segment s fully integrated suite of account presentation, bill payment, relationship management and professional services are delivered through the Internet. The eCommerce segment s market consists of billers, card issuers, processors, and other creditors such as payment acquirers and very large online billers. The segment s account presentation, payment, relationship management and professional services are distributed to these clients through the Internet.

Factors used to identify the Company s reportable segments include the organizational structure of the Company and the financial information available for evaluation by the chief operating decision-maker in making decisions about how to allocate resources and assess performance. The Company s operating segments have been broken out based on similar economic and other qualitative criteria. The Company operates both reporting segments in one geographical area, the United States. The Company s management assesses the performance of its assets in the aggregate, and accordingly, they are not presented on a segment basis.

The Company changed the way it determines operating results of the business segments during 2008. Intangible asset amortization that previously had been unallocated is now allocated to the respective Banking or eCommerce segments. For each of the years ended December 31, 2008, 2007 and 2006, $9.5 million, $9.4 million and $5.0 million, respectively, of intangible asset amortization was reclassified from Corporate to the Banking and eCommerce segments.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The results of operations from these reportable segments were as follows for the three years ended December 31, 2008 (in thousands):

	Banking	eCommerce	Corporate(1)	Total
Year ended December 31, 2008:				
Revenues:				
Account presentation services	$ 3,146	4,763		7,909
Payment services	74,021	48,280		122,301
Relationship management services	8,053	15		8,068
Professional services and other	9,337	4,027		13,364
Total revenues	94,557	57,085		151,642
Costs of revenues	45,996	31,357		77,353
Gross profit	48,561	25,728		74,289
Operating expenses	27,104	22,702	17,752	67,558
Income (loss) from operations	$ 21,457	$ 3,026	$ (17,752)	$ 6,731
Year ended December 31, 2007:				
Revenues:				
Account presentation services	$ 2,936	$ 6,062	$	$ 8,998
Payment services	80,334	23,894		104,228
Relationship management services	8,032	106		8,138
Professional services and other	8,817	4,951		13,768
Total revenues	100,119	35,013		135,132
Costs of revenues	42,413	21,670		64,083
Gross profit	57,706	13,343		71,049
Operating expenses	28,096	18,535	14,944	61,575
Income (loss) from operations	$ 29,610	$ (5,192)	$ (14,944)	$ 9,474

	Banking	eCommerce	Corporate(1)	Total
Year ended December 31, 2006:				
Revenues:				
Account presentation services	$ 2,751	$ 5,300	$	$ 8,051
Payment services	59,276	6,224		65,500
Relationship management services	7,988	34		8,022
Professional services and other	7,091	3,072		10,163
Total revenues	77,106	14,630		91,736
Costs of revenues	31,061	10,256		41,317
Gross profit	46,045	4,374		50,419
Operating expenses	26,534	10,297	8,340	45,171
Income (loss) from operations	$ 19,511	$ (5,923)	$ (8,340)	$ 5,248

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Corporate expenses are primarily comprised of corporate general and administrative expenses that are not considered in the measure of segment profit or loss used to evaluate the segments.

5. INVESTMENTS

In December 2007, the Company reclassified its investment (investment) in the Columbia Strategic Cash Portfolio (the Fund) from cash and cash equivalents to short-term investments. The Fund was short-term and highly liquid in nature prior to the fourth quarter of 2007 and was classified as a cash equivalent. During the fourth quarter of 2007, the Fund was closed by the Fund administrator to future investment, partially due to the subprime credit market crisis, and began liquidating the Fund in an orderly manner. The Funds were then converted to a net asset value basis and marked to market daily. The Company intends to remain in the Fund through the liquidation period. Approximately half of the balance of the Company s investment in the Fund at December 31, 2008 is expected to substantially liquidate over the next twelve months. This portion of the investment is classified in short-term investments at fair value on the consolidated balance sheet. The remainder of the investment, or $1.0 million, is expected to liquidate beyond twelve months and as such this portion of the Fund is classified in long-term other assets on the consolidated balance sheet.

The value of the investment was $2.0 million and $9.1 million at December 31, 2008 and December 31, 2007, respectively. During the year ended of 2008, the Company received $6.6 million in liquidation payments from the Fund administrator. In addition, a loss of $0.5 million was recognized for the year ended December 31, 2008 related to the investment in the Fund and liquidation, as was recorded as other expense in the consolidated statement of operations.

The value of the Company s investment in the Fund may fluctuate based on changes in market values of the securities held in the Fund. To the extent the Company determines there is an increase or decrease in fair value, the Company may recognize additional unrealized gains or losses in future periods.

6. PROPERTY AND EQUIPMENT

Property and equipment and capitalized software costs consist of the following (in thousands):

	December 31, 2008	2007
Central processing systems and terminals	$ 33,024	$ 30,900
Office furniture and equipment	4,414	3,057
Central processing systems and terminals under capital leases	1,476	1,476
Office furniture and equipment under capital leases	237	237
Internal use software	27,983	20,552
Leasehold improvements	7,479	6,048
Total	74,613	62,270

Less accumulated depreciation and amortization	(30,517)	(26,717)
Less accumulated amortization of internal use software	(13,871)	(8,374)
Less accumulated depreciation on assets held under capital leases	(1,518)	(327)
	$ 28,707	$ 26,852

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill consists of the following (in thousands):

	Banking Segment	eCommerce Segment	Total
Balance at December 31, 2006	$ 91,416	$ 76,669	$ 168,085
Goodwill acquired (ITS acquisition)		33,123	33,123
Adjustments(1)	(9,638)	(7,270)	(16,908)
Balance at December 31, 2007	81,778	102,522	184,300
Adjustments(2)	(1,383)	(1,401)	(2,784)
Balance at December 31, 2008	$ 80,395	$ 101,121	$ 181,516

(1) Primarily related to the reversal of income tax valuation allowance established in acquisitions.

(2) Primarily related to the sale of Princeton s net operating losses of $1.9 million, reversal of the valuation allowance on deferred tax assets acquired with Princeton of $1.7 million and a reclassification of ITS customer base upon receipt of the final valuation report offset by various acquisition related fees.

Intangible assets consist of the following (in thousands):

	December 31, 2008	2007
Gross carrying amount:		
Purchased technology	$ 11,171	$ 11,171
Customer lists	40,754	40,483
Patents and Trademarks	236	244
Non-compete agreements	33	33
Total gross carrying amount	52,194	51,931
Accumulated amortization:		
Less accumulated amortization of purchased technology	(5,386)	(3,440)
Less accumulated amortization of customer lists	(18,943)	(11,380)
Less accumulated amortization of patents and trademarks	(174)	(171)

Less accumulated amortization of non-compete	(23)	(16)
Total accumulated amortization	(24,526)	(15,007)
Total intangible assets	$ 27,668	$ 36,924

Amortization expense related to intangible assets was $9.5 million, $9.4 million and $5.0 million for the years ended December 31, 2008, 2007 and 2006, respectively.

All intangible assets are amortized over their useful lives of five to eleven years based on a schedule that approximates the pattern in which economic benefits of the intangible assets are consumed or otherwise used up. Amortization expense is expected to approximate $7.6 million, $5.9 million, $4.8 million, $3.4 million and $2.0 million for the years ended December 31, 2009, 2010, 2011, 2012 and 2013.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. COMMITMENTS &CONTINGENCIES

The Company leases office space under operating leases expiring in 2010, 2013 and 2014. All but one of the leases provide for escalating rent over the respective lease term. Rent expense is recognized on a straight-line basis over the period of the lease. Rent expense under the operating leases for the years ended December 31, 2008, 2007, and 2006, was $5.5 million, $5.6 million and $3.7 million, respectively.

On October 1, 2007, the Company executed a seven-year lease covering approximately 22,000 additional square feet of office and data center space that Company s headquarters in Chantilly, VA. Rent expense under this additional operating lease was $0.6 million and $0.1 million, respectively for the years ended December 31, 2008 and 2007.

The Company also amended its lease for its facilities in Princeton, NJ in March 2007. In conjunction with the lease amendment, the Company received a lease incentive of approximately $0.6 million related to the Company s construction of a disaster recovery site at its Princeton facilities. The benefit of this lease incentive has been deferred as part of a lease incentive obligation, recorded as a reduction to lease expense and recognized ratably over the term of the lease.

The Company also leases certain equipment under capital leases. Future minimum lease payments under operating and capital leases are as follows (in thousands):

	Operating	Capital
2009	$ 4,680	$ 40
2010	4,640	20
2011	4,611	
2012	4,247	
2013	4,013	
Thereafter	6,678	
Total minimum lease payments	$ 28,869	60
Less amount representing interest		(5)
Present value of minimum lease payments		55
Less current portion		(36)
Long-term portion of minimum lease payments		$ 19

Online Resources Corporation is currently a defendant in a civil action, Kent D. Stuckey v. Online Resources Corporation, filed in the United States District Court for the Southern District of Ohio, Eastern Division on December 19, 2008. The plaintiffs are the former stockholders of Internet Transaction Solutions, Inc., a company that Online Resources acquired in August, 2007, and allege that they did not receive the full consideration due them as part

of the acquisition. Online Resources disputes all the claims made by the plaintiffs; at this juncture, and does not anticipate any material liability from this lawsuit.

9. INCOME TAXES

The Company incurred a current tax liability for federal income taxes resulting from alternative minimum tax (AMT), of approximately $0.3 million and $0.2 million for the years ended December 31, 2008 and 2007, respectively. As a result of the AMT paid, the Company has approximately $0.8 million in AMT credits that can be used to offset regular income taxes when paid in the future. In addition, the Company incurred a current state tax liability of approximately $0.1 million for both the years ended December 31, 2008 and 2007, respectively. A deferred benefit of $0.2 million was accrued during 2008 primarily related to the release of valuation allowance. During 2007, deferred benefit of $13.4 million was recognized.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2008, the Company has federal net operating loss carryforwards of approximately $100.1 million that expire at varying dates from 2019 to 2026, excluding approximately $17.8 million related to the exercise of stock options. The benefit of the stock compensation deductions will be recognized in shareholders equity when the net operating losses are realized and reduce income taxes payable.

Pursuant to the acquisition of Princeton in July 2006, the Company acquired a net deferred tax asset of $19.9 million representing the acquisition of Princeton s net operating loss carryforwards and the inclusion of non-deductible intangible asset amortization. This amount has been adjusted from the initial estimate of $48.9 million due to certain elections made in the company s tax return after the initial purchase accounting was reflected in the 2006 financial statements. The net deferred tax asset was offset with a valuation allowance that was also accrued in purchase accounting. Approximately $1.7 million of the valuation allowance was released. As of December 31, 2008, approximately $1.5 million of the valuation allowance remains that was accrued in purchase accounting. State income tax, net shown in the tax rate reconciliation below includes $0.2 million and $2.0 million related to the release of state tax valuation allowances for 2008 and 2007, respectively.

The timing and manner in which the Company may utilize the net operating loss carryforwards in subsequent tax years will be limited to the Company s ability to generate future taxable income and, potentially, by the application of the ownership change rules under Section 382 of the Internal Revenue Code. The Company expects to utilize approximately $17.8 million of federal net operating loss carryforwards for the year ended December 31, 2008. While Section 382 limitations apply to the company, the limitations alone are not expected to result in the expiration of tax benefits should the company produce taxable income sufficient to utilize the loss carryforwards.

As of December 31, 2008, the Company has a recent history of operating profits. As a result of this positive earnings trend and projected taxable income over the next five years, the Company reversed approximately $1.9 million of its gross deferred tax asset valuation allowance; having determined that it was more likely than not that this portion of the deferred tax asset would be realized. This reversal resulted in recognition of an income tax benefit totaling $0.2 million. The remaining $1.7 million was related to valuation allowances accrued in purchase accounting and therefore did not benefit earnings when reversed. In addition, the Company added a $0.3 million valuation allowance against certain deferred tax assets that are not more likely than not realizable. This represents the total valuation allowance as of December 31, 2008. Should it become more likely than not that these deferred tax assets become realizable, all of the $0.3 million will benefit tax expense.

Our estimates of future taxable income represent critical accounting estimates because such estimates are subject to change and a downward adjustment could have a significant impact on future earnings. Furthermore, the Company continues to evaluate its net deferred tax asset valuation allowance in regards to the likelihood of realization of the deferred tax assets. Included in the current portion of deferred tax asset are net operating losses forecasted to be utilized within the next twelve months. Actual amounts utilized could differ from these estimates.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of the Company s net deferred tax assets are as follows (in thousands):

	December 31, 2008	2007
Deferred tax assets:		
Net operating loss carryforwards	$ 38,607	$ 48,006
Deferred wages	3,223	2,552
Deferred revenue	774	739
Deferred rent	1,192	1,056
Fixed assets	910	825
Other credits	992	647
Other deferred tax assets	921	186
Total deferred tax assets	46,619	54,011
Valuation allowance for deferred tax assets	(1,726)	(5,883)
Deferred liabilities:		
Acquired intangible assets	(10,816)	(14,312)
Total deferred tax liabilities	(10,816)	(14,312)
Net deferred tax assets	$ 34,077	$ 33,816

The Internal Revenue Code limits the utilization of net operating losses when ownership changes occur, as defined by Section 382 of the code. Based on the Company s analysis, a sufficient amount of net operating losses are available to offset the Company s taxable income for the year ended December 31, 2008. In addition, the Company has recognized a deferred tax asset at December 31, 2007 with respect to a substantial portion of its net operating losses. The net deferred tax asset represents the amount of tax benefit that the Company currently believes it will, more likely than not, have taxable income against which to apply that benefit, likely within the next five years. A valuation allowance of $0.3 million has been determined to be appropriate at December 31, 2008 related to realized and unrealized capital losses is not more likely that not.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the items that caused the income tax expense to differ from taxes computed using the statutory federal income tax rate for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Tax expense at statutory Federal rate	$ 1,052	$ (597)	$ 427
Effect of:			
State income tax, net	190	(401)	113
Other Permanent differences	(370)	(267)	392
Return to provision adjustment		256	
Other	71		
(Decrease) increase in valuation allowance	232	(11,694)	3
Income tax expense (benefit)	$ 1,175	$ (12,703)	$ 935
Income tax expense consists of the following (in thousands):			
Current Expense			
Federal	$ 317	$ 402	$
State	80	275	3
	397	677	3
Deferred Expense			
Federal	570	(12,497)	761
State	208	(883)	171
	778	(13,380)	932
Income tax expense (benefit)	$ 1,175	$ (12,703)	$ 935

The Company has adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), as of January, 1, 2007. This standard modifies the previous guidance provided by SFAS No. 5, *Accounting for Contingencies* , and SFAS No. 109, *Accounting for Income Taxes* , for uncertainties related to the Company s income tax liabilities. The Company has analyzed its income tax positions using the criteria required by FIN 48 and concluded that there is no cumulative effect relating to the adoption of FIN 48. In addition, as of December 31, 2008 the company determined it has no material uncertain tax positions and no interest or penalties have been accrued.

The tax return years since 1999 in the Company s major tax jurisdictions, both federal and various states, have not been audited and are not currently under audit. Due to the existence of tax attribute carryforwards, the Company treats certain post-1999 tax positions as unsettled due to the taxing authorities ability to modify these attributes. The

Company does not have reason to expect any changes in the next twelve months regarding uncertain tax positions.

The Company estimates that it is reasonably possible that no reduction in unrecognized tax benefit may occur in the next twelve months due primarily to the expiration of the statute of limitations in various state and local jurisdictions. The Company does not currently estimate any additional material reasonably possible uncertain tax positions occurring within the next twelve month time frame.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. FINANCIAL INSTRUMENTS

Derivatives Instruments and Hedging Activities

Cash Flow Hedging Strategy

On March 30, 2007, the Company entered into an interest rate cap agreement (2007 Hedge) that protected the cash flows on designated one-month LIBOR-based interest payments beginning on April 3, 2007 through July 31, 2009. The counter party for the 2007 Hedge became insolvent during the third quarter of 2008. As such, the Company declared the 2007 Hedge to have no fair value and expensed the remaining fair value of the cash flow hedge and the unrealized losses previously recorded in other comprehensive income, totaling $0.1 million, through interest expense.

On October 17, 2008, the Company entered into an interest rate swap agreement, with a large commercial bank, to effectively swap the one-month LIBOR interest rate for a fixed interest rate equal to 2.9% plus 225 to 275 basis points based upon the ratio of the Company s funded indebtedness to its EBITDA, through December 31, 2009. The interest rate swap is designated as a cash flow hedge and any unrealized gains or losses related to changes in the fair market value of the hedge will be recorded in other comprehensive income until realized. The interest rate swap has a notional value of $75.4 million, the principal amount outstanding on our 2007 Notes on December 31, 2008, the effective date. Subsequent notional amounts will equal the outstanding principal at the end of each month. The fair market value of the interest rate swap at December 31, 2008 was a liability of $1.5 million and is expected to be realized in earnings in the next twelve months.

Theoretical Swap Derivative

The Company bifurcated the fair market value of the embedded derivative associated with the Series A-1 Redeemable Convertible Preferred Stock (Series A-1 Preferred Stock) issued in conjunction with the Princeton eCom acquisition on July 3, 2006 in accordance with SFAS No. 133. The Company determined that the embedded derivative is defined as the right to receive a fixed rate of return on the accrued, but unpaid dividends and the variable negotiated rate, which creates a theoretical swap between the fixed rate of return on the accrued, but unpaid dividends and the variable rate actually accrued on the unpaid dividends. This embedded derivative is marked to market at the end of each reporting period through earnings and an adjustment to other assets in accordance with SFAS No. 133. There is no active market quote available for the fair value of the embedded derivative. Thus, management measures fair value of the derivative by estimating future cash flows related to the asset using a forecasted iMoney Net First Tier rate based on the one-month LIBOR rate adjusted for the historical spread for the estimated period in which the Series A-1 Preferred Stock will be outstanding. The fair value of the theoretical swap derivative was $4.6 million at December 31, 2008 and $1.0 million at December 31, 2007 and included in other assets on the consolidated balance sheet. The Company recorded a reduction to other expense on the consolidated statements of operations of approximately $3.6 million for the year ended December 31, 2008 and an increase to other expense of $1.1 million for the year ended December 31, 2007 that reflected the change in fair value of the theoretical swap derivative in each period, respectively.

Series A-1 Preferred Stock

The Company s Series A-1 Preferred Stock is carried at its fair value at inception adjusted for accretion of unpaid dividends and interest accruing thereon, the 115% redemption price, the original fair value of the bifurcated embedded derivative, and the amortized portion of its original issuance costs, which approximates its redemption value. At December 31, 2008 its carrying value was $91.4 million. See Note 12, *Redeemable Convertible Preferred Stock,* for a detailed explanation of the Series A-1 Preferred Stock.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ITS Price Protection

As part of the purchase consideration for ITS, the Company also agreed to provide the former shareholders of ITS with price protection related to the 2,216,653 shares issued to them for a period of one year from the date the shares were issued, which was August 10, 2007 (the Closing Date). Under the protection, if the volume weighted average price of the Company s shares for the 10 trading-day period ending two business days before the six, nine and twelve month anniversary dates of the Closing Date was less than $11.15, these shareholders had the right to ask us to restore them to a total value per share equal to the issuance price, either through the issuance of additional stock or through the repurchase of the stock issued as consideration.

On the six month anniversary date, which occurred during the first quarter of 2008, certain shareholders exercised their price protection rights. The Company acquired 189,917 common shares subject to the price protection for $2.1 million, including $0.1 million for the difference under the price protection. These shares are classified as treasury shares on the Company s consolidated balance sheet. In addition, the Company issued 25,209 shares of the Company s common stock to shareholders who owned 497,751 shares and exercised their price protection rights in the first quarter of 2008.

On the nine month anniversary date, which occurred during the second quarter of 2008, the remaining shareholders exercised their price protection rights. The Company issued an additional 238,396 shares of the Company s common stock to shareholders who owned 1,528,985 shares and exercised their price protection rights in the second quarter of 2008. As of December 31, 2008, all obligations under the price protection have been fulfilled.

This purchase price protection represents a stand-alone derivative which was included as part of the consideration issued for the acquisition. Using a trinomial tree model, the Company determined that the value of this option was $2.8 million as of July 26, 2007, the date the share issuance price was established, and recorded this amount in other current liabilities on the consolidated balance sheet. The liability was marked to market, each period, through the second quarter of 2008 until all rights were exercised and reflected changes in the value of the option that were driven by share price, share price volatility and time to maturity. Interest expense of $1.7 million was recorded during 2008, before all rights had been exercised, related to the mark to market adjustment of the derivative. Since all rights had been exercised during the first half of 2008, the value of the option liability at December 31, 2008 is zero. The value of the remaining portion of the option, using the same trinomial tree model, was determined to have been $2.4 million at December 31, 2007.

11. SENIOR SECURED NOTES

On February 21, 2007, the Company entered into an agreement with Bank of America to refinance its then existing debt with $85.0 million in senior secured notes (2007 Notes). The agreement also provides a $15 million revolver (Revolver) under which the Company can secure up to $5 million in letters of credit. Currently, there are no amounts outstanding under the Revolver, but available credit under the Revolver has been reduced by approximately $1.6 million as a result of letters of credit the bank has issued. The Company had made principal payments of $9.6 million on the 2007 Notes during the year ended December 31, 2008, reducing the outstanding principal from $85.0 million to $75.4 million. The Company will make principal payments each quarter until the 2007 Notes are due in 2012 as noted in the table below.

The interest rate on both the Revolver and the 2007 Notes is the one-month London Interbank Offered Rate (LIBOR) plus 225 to 275 basis points based upon the ratio of the Company s funded indebtedness to its earnings before interest, taxes, depreciation and amortization (EBITDA, as defined in the 2007 Notes), and it is payable monthly. At year end of 2008, the margin was 250 basis points and the average interest rate on the 2007 Notes for the year was 5.55%. The 2007 Notes and the Revolver are secured by the assets of the Company.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Maturities of long-term debt for each of the next five years are as follows (in thousands):

Year	Maturing Amounts
2009	$ 15,937
2010	$ 17,000
2011	$ 32,938
2012	$ 9,562
2013	$ 0

12. REDEEMABLE CONVERTIBLE PREFERRED STOCK

Series A-1 Redeemable Convertible Preferred Stock

Pursuant to the restated certificate of incorporation, the Board of Directors has the authority, without further action by the stockholders, to issue up to 3,000,000 shares of preferred stock in one or more series. Of these 3,000,000 shares of preferred stock, 75,000 shares have been designated Series A-1. Subject to certain exceptions related to the amendment of the restated certificate of incorporation, the issuance of additional securities or debt or the payment of dividends, the Series A-1 Preferred votes as a single class and on an as converted basis with the common stock.

Shares of the Series A-1 Preferred Stock are initially convertible into common shares at a rate of $16.22825 per share, or 4,621,570 shares in the aggregate. Although the Series A-1 Preferred Stock shares have anti-dilution protection, in no event can the number of shares of common stock issued upon conversion of the Series A-1 Preferred Stock exceed 5,102,986 common shares. The anti-dilution protection of the Series A-1 Preferred Stock is based on the weighted average price of shares issued below the conversion price, provided that (a) shares issued in connection with compensatory equity grants, (b) shares issued above $12.9826 and (c) other issuances as set forth in the certificate of designations of the Series A-1 Preferred Stock are excluded from the anti-dilution protections of the Series A-1 Preferred Stock.

The Series A-1 Preferred Stock has a redemption value of 115% of the face value of the stock, on or after seven years from the date of issuance, or July 3, 2013. EITF Topic D-98, *Classification and Measurement of Redeemable Securities*, requires the Company to account for the securities by accreting to its expected redemption value over the period from the date of issuance to the first expected redemption date. The Company recognized $1.6 million, $1.5 million and $0.8 million, respectively, for the years ended December 31, 2008, 2007 and 2006, to adjust for the redemption value at maturity.

The Series A-1 Preferred Stock has a feature that grants holders the right to receive interest-like returns on accrued, but unpaid, dividends that accumulate at 8% per annum. This 8% per annum increase is convertible into shares of common stock, subject to the conversion limit noted above; however the Corporation has the right to pay the 8% per annum increase in cash in lieu of conversion into common stock. For the years ended December 31, 2008, 2007 and 2006, $6.0 million, $6.0 million and $3.0 million of preferred stock accretion was recognized in the consolidated statements of operations, for the 8% per annum cumulative dividends. The right to receive the accrued, but unpaid

dividends is based on a variable interest rate, and as such the difference between the fixed and variable rate of returns is a theoretical swap derivative. The Company bifurcates this feature and accretes it to the Series A-1 Preferred Stock over the life of the security. For the years ended December 31, 2008, 2007 and 2006, $0.6 million, $0.1 million and $0.2 million, respectively, of preferred stock accretion expense was recognized for the theoretical swap derivative in the consolidated statement of operations.

Shares of Series A-1 Preferred Stock are subject to put and call rights following the seventh anniversary of their issuance for an amount equal to 115% of the original issuance price plus the 8% per annum increase

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

with the interest factor thereon. The Corporation can require the conversion of the Series A-1 Preferred Stock prior to the seventh anniversary if the 30 day weighted closing price per share of the Corporation s common stock is at least 165% of the initial conversion price.

Finally, the cost to issue the Series A-1 Preferred Stock of $5.1 million is accreted, over a seven year period or through July 2013, back to the redemption value of the Series A-1 Preferred Stock and generated an additional $0.7 million of preferred stock accretion, in the consolidated statements of operations, for each of the years ended December 31, 2008 and 2007 and $0.4 million for the year ended December 31, 2006.

Series B Preferred Stock

In connection with the adoption of a stockholders rights plan that was implemented on January 11, 2002, the Company, through a certificate of designation that became effective on December 24, 2001, authorized 297,500 shares of Series B Junior Participating Preferred Stock (Series B Preferred Stock). The stockholders rights plan has been terminated and no shares of Series B stock will be issued.

13. NET (LOSS) INCOME AVAILABLE TO COMMON STOCKHOLDERS PER SHARE

The following table sets forth the computation of basic and diluted net income (loss) available to common stockholders per share (in thousands, except per share amounts):

	Year Ended December 31,		
	2008	2007	2006
Net (loss) income available to stockholders	$ (6,954)	$ 2,644	$ (3,988)
Weighted average shares outstanding used in calculation of net income (loss) per share:			
Basic	29,111	27,153	25,546
Dilutive options		1,997	
Diluted	29,111	29,150	25,546
Net (loss) income available to common stockholders per share:			
Basic	$ (0.24)	$ 0.10	$ (0.16)
Diluted	$ (0.24)	$ 0.09	$ (0.16)

Due to their anti-dilutive effects, outstanding shares from the conversion of the Convertible Preferred Stock, stock options and restricted stock units to purchase 7,402,367, 6,690,160 and 3,921,330 shares of common stock at December 31, 2008, 2007 and 2006, respectively, were excluded from the computation of diluted net income available to common stockholders per share.

14. EMPLOYEE BENEFIT PLANS

Employee Savings and Retirement Plan

The Company has a 401(k) plan that allows eligible employees to contribute up to but not exceed limits set by law. The Company has total discretion about whether to make an employer contribution to the plan and the amount of the employer contribution. In fiscal 2008, the Company matched employee contributions to the 401(k) plan at a rate of fifty percent on the first six percent of the employee s contributions to the plan, up to an annual limitation of $2,000 per employee. Expense related to the 401(k) employee contribution match were $0.7 million, $0.5 million and $0.3 million, respectively, for the years ended December 31, 2008, 2007 and 2006. The Company incurred no administrative expenses for its 401(k) plan for the year ended December 31, 2008, but incurred expenses of $18,594 and $13,135 during the years ended December 31, 2007 and 2006, respectively. This is due to the Company changing administrators during the fourth quarter of 2007.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Employee Stock Purchase Plan

The Company has an employee stock purchase plan for all eligible employees to purchase shares of common stock at 95% of the fair market value on the last day of each three-month offering period. Employees may authorize the Company to withhold up to 10% of their compensation during any offering period, subject to certain limitations. The employee stock purchase plan authorizes up to 400,000 shares to be granted. During the years ended December 31, 2008, 2007 and 2006, 24,174, 17,770 and 17,286 shares were issued under the plan at an average price of $8.14, $11.17 and $10.77 per share, respectively. At December 31, 2008, 138,844 shares were reserved for future issuance.

15. EQUITY COMPENSATION PLANS

At December 31, 2008, the Company had three stock-based employee compensation plans, which are described more fully below. The Company used the modified-prospective transition method of SFAS No. 123(R), *Share-Based Payment,* to recognize compensation costs which include (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The compensation expense for stock-based compensation was $4.7 million, $3.2 million and $2.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

A portion of the stock based compensation cost has been capitalized as part of software development costs in accordance with Statements of Position (SOP) No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* and SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* . For the years ended December 31, 2008, 2007 and 2006 approximately $177,000, $98,000 and $185,000, respectively, was capitalized as part of software development costs.

At the beginning of each year, the Management Development and Compensation (MD&C) Committee of the Board of Directors approves a bonus plan for the Company s management. These plans grant a combination of cash and restricted stock units that vest based upon the attainment of approved corporate goals. On May 20, 2008 and December 10, 2008, the Company modified its 2008 Bonus Plans. At these times, the MD&C Committee approved the modifications to the 2008 bonus plans. In modifying the 2008 bonus plan, the Company will recognize $0.1 million and $0.4 million, respectively, in total incremental compensation cost as a result of these modifications.

Restricted Stock and Option Plans

During 1989, the Company adopted an Incentive Stock Option Plan (the 1989 Plan), which has since been amended to allow for the issuance of up to 2,316,730 new shares of common stock. The option price under the 1989 Plan cannot be less than fair market value of the Company s common stock on the date of grant. The vesting period of the options is determined by the Board of Directors and is generally four years. Outstanding options expire after ten years.

During 1999, the Company adopted the 1999 Stock Option Plan (the 1999 Plan), which permits the granting of both incentive stock options and nonqualified stock options to employees, directors and consultants. The aggregate number of new shares that can be granted under the 1999 Plan is 5,858,331. The option exercise price under the 1999 Plan cannot be less than the fair market value of the Company s common stock on the date of grant. The vesting period of

the options is determined by the Board of Directors and is generally four years. Outstanding options expire after seven to ten years.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2005, the stockholders approved the 2005 Restricted Stock and Option Plan, which permits the granting of restricted stock units and awards, stock appreciation rights, incentive stock options and non-statutory stock options to employees, directors and consultants. In May of 2008, the stockholders approved the 2005 Amended and Restated Restricted Stock and Option Plan (2005 Plan), which increased the number of authorized shares under the 2005 Plan from 1,700,000 to 3,500,000. The vesting period of the options and restricted stock is determined by the Board of Directors and is generally one to three years. Outstanding options expire no later than ten years from the date the award is granted. The amended 2005 Plan was filed by the Company on Form 8-K with the Securities and Exchange Commission on April 22, 2008.

Stock Options

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton option-pricing formula that uses the assumptions noted in the table and discussion that follows:

	Year Ended December 31,		
	2008	**2007**	**2006**
Dividend yield			
Expected volatility	51%	56%	65%
Risk-free interest rate	3.37%	4.62%	4.57%
Expected life in years	5.8	5.3	5.2

Dividend Yield. The Company has never declared or paid dividends and has no plans to do so in the foreseeable future.

Expected Volatility. Volatility is a measure of the amount by which a financial variable, such as a share price, has fluctuated (historical daily volatility) or is expected to fluctuate (expected volatility) during a period. The Company uses the historical average daily volatility over the average expected term of the options granted.

Risk-Free Interest Rate. This is the average U.S. Treasury rate for the week of each option grant during the period having a term that most closely resembles the expected term of the option.

Expected Life of Option Term. Expected life of option term is the period of time that the options granted are expected to remain unexercised. Options granted during the period have a maximum term of seven to ten years. The Company used historical expected terms with further consideration given to the class of employees to whom the equity awards were granted to estimate the expected life of the option term.

Forfeiture Rate. Forfeiture rate is the estimated percentage of equity awards granted that are expected to be forfeited or canceled on an annual basis before becoming fully vested. The Company estimates forfeiture rate based on past turnover data ranging anywhere from one to five years with further consideration given to the class of employees to whom the equity awards were granted.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of option activity under the 1989, 1999 and 2005 Plans as of December 31, 2008, and changes in the period then ended is presented below (in thousands, except exercise price and remaining contract term data):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term	Aggregate Intrinsic Value
Outstanding at January 1, 2008	3,016	$ 5.39		
Granted	395	$ 10.40		
Exercised	(290)	$ 2.85		
Forfeited or expired	(169)	$ 8.43		
Outstanding at December 31, 2008	2,952	$ 6.14	3.73	$ 2,956
Vested or expected to vest at December 31, 2008	2,928	$ 6.12	3.74	$ 2,939
Exercisable at December 31, 2008	2,102	$ 5.59	3.28	$ 2,348

The weighted-average grant-date fair value of options granted during the years ended December 31, 2008, 2007 and 2006 was $5.30, $5.44 and $6.60 per share, respectively. In the table above, the total intrinsic value is calculated as the difference between the market price of the Company s stock on the last trading day of the quarter and the exercise price of the options. For options exercised, intrinsic value is calculated as the difference between the market price on the date of exercise and the grant price. The intrinsic value of options exercised in the years ended December 31, 2008, 2007 and 2006 was $1.7 million, $4.8 million and $3.3 million, respectively.

As of December 31, 2008, there was $1.9 million of total unrecognized compensation cost related to stock options granted under the 1999 and 2005 Plans. That cost is expected to be recognized over a weighted average period of 1.6 years.

Cash received from option exercises under all share-based payment arrangements for the years ended December 31, 2008, 2007 and 2006 was $0.8 million, $3.8 million and $3.3 million, respectively. There was no tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements since the Company currently recognizes a full valuation allowance against that benefit.

Restricted Stock Units

A summary of the Company s non-vested restricted stock units as of December 31, 2008, and changes for the year then ended, is presented below (in thousands, except grant-date fair value data):

	Weighted-Average

	Shares	Grant-Date Fair Value
Non-vested at January 1, 2008	496	$ 10.39
Granted	814	9.74
Vested	(319)	6.63
Forfeited	(205)	11.08
Non-vested at December 31, 2008	786	11.06

The fair value of non-vested units is determined based on the opening trading price of the Company s shares on the grant date. As of December 31, 2008, there was $2.4 million of total unrecognized compensation

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

cost related to non-vested restricted stock units granted under the 2005 Plan. That cost is expected to be recognized over a weighted average period of 1.7 years.

During the fourth quarter of 2008, certain Company management elected to receive approximately 160,000 shares of restricted stock units that vested ratably each month of the fourth quarter of 2008, in lieu of cash compensation of approximately $0.6 million. In addition, certain members of the Company s Board of Directors elected to receive approximately 23,500 shares of restricted stock units that vested ratably in each month of the fourth quarter of 2008, in lieu of cash compensation of approximately $0.1 million.

16. FAIR VALUE MEASUREMENTS

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for financial assets and liabilities. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, the standard specifies that the fair value should be the exit price, or price received to sell the asset or liability as opposed to the entry price, or price paid to acquire an asset or assume a liability.

In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2 which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except for those that are disclosed in the consolidated financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. The Company is currently assessing the impact, if any; adoption of the statement for nonfinancial assets and liabilities will have on its consolidated financial statements.

The standard provides valuation techniques and a fair value hierarchy used to measure fair value. The hierarchy prioritizes inputs for valuation techniques used to measure fair value into three categories:

(1) Level 1 inputs, which are considered the most reliable, are quoted prices in active markets for identical assets or liabilities.

(2) Level 2 inputs are those that are observable in the market place, either directly or indirectly for the asset or liability.

(3) Level 3 inputs are unobservable due to unavailability and as such the entity s own assumptions are used.

The table below shows how the Company categorizes certain financial assets and liabilities based on the types of inputs used in valuation techniques for measuring fair value:

	Fair Value Measurements at December 31, 2008		
	Quoted Prices in Active Markets for	Significant Other	Significant

	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Financial assets (in thousands):				
Merrill Lynch Institutional Fund	$ 11,030	$	$	$ 11,030
Investment in Strategic Cash Fund(1)			2,009	2,009
Theoretical swap derivative(2)			4,562	4,562
	$ 11,030	$	$ 6,571	$ 17,601
Financial liabilities (in thousands):				
Interest Rate Swap(3)		(1,454)		(1,454)
	$	$ (1,454)	$	$ (1,454)

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Includes the Company s short and long-term investment in the Columbia Strategic Cash Fund (the Fund) that was converted to a net asset value basis in December 2007 primarily due to liquidity issues. The $1.0 million classified as long-term is primarily the fair market value for the Fund s investments in certain asset backed securities and structured investment vehicles that are collateralized by sub-prime mortgage securities or related to mortgage securities. The multiple investments included in the Fund are no longer trading and therefore the prices are not observable in the marketplace. As such, fair value of the Fund is assessed through review of current investment ratings, as available, and evaluation of the liquidation value of assets held by each investment and their subsequent cash redemptions. This assessment from multiple indicators of fair value is then discounted to reflect the expected timing of disposition and market risks to arrive at an estimated fair value of the Fund.

(2) Represents the fair market value of the embedded derivative associated with the Series A-1 Redeemable Convertible Preferred Stock issued in conjunction with the Princeton eCom acquisition on July 3, 2006. Management measures fair value of the derivative by estimating future cash flows related to the asset using a forecasted iMoney Net First Tier rate based on the one-month LIBOR rate adjusted for the historical spread for the estimated period in which the Series A-1 Preferred Stock will be outstanding.

(3) On October 17, 2008, the Company entered into an interest rate swap agreement, with a large commercial bank, to effectively swap the one-month LIBOR interest rate for a fixed interest rate equal to 2.9%. The fair market value of the interest rate swap is measured using the discounted present value of the forecasted one month LIBOR, an observable market input.

The following table is a summary of the Company s financial assets that use Level 3 inputs to measure fair value (in thousands):

	Strategic Cash Fund Investment	Theoretical Swap Derivative
Balance as of January 1, 2008	$ 9,135	$ 988
Realized and unrealized (loss) gain(1)	(555)	3,574
Redemptions(2)	(6,571)	
Balance as of December 31, 2008	$ 2,009	$ 4,562

(1) The realized and unrealized losses and gains are included as other (expense) income in the consolidated statements of operations for the nine months ended December 31, 2008.

(2) Redemptions are payments received by the Company for partial liquidation of the Columbia Strategic Cash Fund.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. SUMMARIZED QUARTERLY DATA (UNAUDITED)

The following financial information reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Summarized quarterly data for the years 2008 and 2007 is as follows (in thousands, except per share amounts):

	Quarter Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Total revenues	$ 39,196	$ 37,153	$ 38,133	$ 37,160
Gross profit	$ 19,421	$ 17,699	$ 18,554	$ 18,615
Net (loss) income	$ (1,405)	$ (974)	$ 766	$ 3,532
Net (loss) income available to common stockholders	$ (3,582)	$ (3,173)	$ (1,471)	$ 1,272
Net (loss) income available to common stockholders per share:				
Basic	$ (0.12)	$ (0.11)	$ (0.05)	$ 0.04
Diluted	$ (0.12)	$ (0.11)	$ (0.05)	$ 0.04

	Quarter Ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Total revenues	$ 30,849	$ 31,941	$ 34,244	$ 38,098
Gross profit	$ 15,764	$ 17,264	$ 18,022	$ 19,999
Net (loss) income	$ (7,419)	$ 970	$ 3,090	$ 14,305
Net (loss) income available to common stockholders	$ (9,454)	$ (1,158)	$ 1,123	$ 12,133
Net (loss) income available to common stockholders per share:				
Basic	$ (0.36)	$ (0.04)	$ 0.04	$ 0.42
Diluted	$ (0.36)	$ (0.04)	$ 0.04	$ 0.40

During the fourth quarter of 2007, the Company recognized a $13.7 million tax benefit related to its release of valuation allowance.

During the fourth quarter of 2008, the Company recognized a $0.2 million tax benefit related to its release of valuation allowance. Additionally the Company recorded $2.9 million reduction to other expense in the fourth quarter of 2008 related to the fair value adjustment of its theoretical swap derivative.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

ITEM 9A. ***Controls and Procedures***

(a) Effectiveness of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 and for the assessment of the effectiveness of internal control over financial reporting.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including Online Resources Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2008 in timely alerting them of material information relating to Online Resources that is required to be disclosed by Online Resources in the reports it files or submits under the Securities Exchange Act of 1934.

(b) Changes in Internal Control over Financial Reporting

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

During the quarter ended December 31, 2008 Management remediated the two material weaknesses identified as part of its 2007 evaluation of internal controls. In the quarter ended December 31, 2008, we had sufficient evidence to conclude that we completed remediation of both material weaknesses.

Ineffective Monitoring Activities. We completed the design and implementation of additional controls surrounding our account analysis and the electronic spreadsheets we use to support financial reporting. As part of this process, we implemented additional access and monitoring procedures to ensure that our electronic spreadsheets are functioning as designed, and we validated the operational effectiveness of these controls through testing. We hired additional accounting and internal audit staff, including a new Chief Accounting Officer, to implement these additional monitoring controls. Additionally, we implemented education and training to provide detailed guidance as to newly established policies, monitoring controls, and checklists. Senior management heightened staff awareness to the importance of monitoring controls and documentation.

Lack of Effective Tax Accounting Expertise and Oversight. We hired a new Chief Accounting Officer and an additional accounting employee who possess the necessary tax accounting knowledge and experience to effectively review information from its third-party tax accounting service provider. We completed the design and implementation of monitoring controls to ensure the completeness and accuracy of our income tax reporting and validated the operational effectiveness of these controls through testing. Additionally, our staff responsible for the tax reporting oversight attended external training on tax reporting topics.

While we have concluded that our internal controls over financial reporting are effective, we will continue to make improvements to our internal controls. Certain controls we established to remediate our material weaknesses are manual and we consider them to be effective but temporary. We intend to replace these controls with more efficient controls, particularly for controls surrounding our electronic spreadsheets and develop new higher level controls.

(c) MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Online Resources Corporation (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial officer, and effected by the Company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

The Company s internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company s assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Management of the Company conducted an evaluation of the effectiveness of the Company s internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on this evaluation, management has concluded that the Company s internal control over financial reporting was effective as of December 31, 2008 based upon those criteria.

KPMG LLP, our independent registered public accounting firm, that audited the 2008 financial statements included in this annual report has issued an audit report on our internal control over financial reporting as of December 31, 2008 in which they expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2008.

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors and Executive Officers of the Company***

The information required by this item is incorporated by reference to the sections and subsections entitled Management , Executive Compensation , Code of Ethics , Audit Committee , Audit Committee Financial Experts a Section 16(a) Beneficial Ownership Reporting Compliance contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

Item 11. ***Executive Compensation***

The information required by this item is incorporated by reference to the section entitled Executive Compensation and Transactions contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is incorporated by reference to the section entitled Security Ownership of Certain Beneficial Owners and Management contained in Part II, Item 5, *Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities* and in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

Item 13. ***Certain Relationships and Related Transactions***

The information required by this item is incorporated by reference to the section entitled Certain Relationships and Related Transactions contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item is incorporated by reference to the section entitled Principal Accountant Fees and Services contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as part of this report:

(1) *Consolidated Financial Statements.* All financial statements are filed in Part II, Item 8 of this report on Form 10-K.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Stockholders Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(2) *Schedule II Valuation and Qualifying Accounts.*

All other schedules set forth in the applicable accounting regulations of the Securities and Exchange Commission either are not required under the related instructions or are not applicable and, therefore, have been omitted.

(3) *List of Exhibits.*

2.2	Agreement and Plan of Merger dated July 26, 2007 among the Company, its acquisition subsidiary and Internet Transaction Solutions, Inc. (filed as Ex. 99-1 to our Form 8-K filed on August 1, 2007)
3.1	Form of Amended and Restated Certificate of Incorporation of the Company (incorporated by reference from our registration statement on Form S-1; Registration No. 333-74777)
3.2	Form of Amended and Restated Bylaws of the Company
3.4	Certificate of Designation of shares of Series A-1 Convertible Preferred Stock (filed as Exhibit 3.1 to our Form 8-K filed on July 3, 2006)
3.5	Certificate of Correction to Certificate of Designation for the shares of Series A-1 Convertible Preferred Stock (filed as Ex. 3.2 to our Form 8-K filed on September 14, 2006)
4.1	Specimen of Common stock Certificate of the Company (incorporated by reference from our registration statement on Form S-1; Registration No. 333-74777)
4.5	Investor Rights Agreement dated July 3, 2006, by and among the Company and the holders of its shares of Series A-1 Convertible Preferred Stock (filed as Ex. 4.3 to our Form S-3/A filed on November 14, 2006
10.2	Online Resources & Communications Corporation 1989 Stock Option Plan (incorporated by reference from our registration statement on Form S-1; Registration No. 333-74777)
10.3	1999 Stock Option Plan (incorporated by reference from our registration statement on Form S-1; Registration No. 333-40674)
10.4	

Employee Stock Purchase Plan (incorporated by reference from our registration statement on Form S-8; Registration No. 333-40674)

10.5 Lease Agreement to premises at 4795 Meadow Wood Lane, Chantilly, Virginia (filed as an exhibit to our form 10-Q for the quarter ended September 30, 2004 filed on November 5, 2004)

10.6 Amended and Restated 2005 Restricted Stock and Option Plan (filed as Exhibit 10.9 to our Form 10-Q for the quarter ended June 30, 2008 on August 11, 2008.)

10.7 Equity Purchase Agreement by and among the Company and the purchasers of its Series A-1 Convertible Preferred Stock (filed as Ex. 10.1 to our Form 8-K filed on July 3, 2006)

10.8 Credit Agreement with Bank of America dated February 21, 2007 and filed as Exhibit 99.1 to the Company s Form 8-K on February 26, 2007

23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm

23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
31.1	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended
31.2	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended
32.	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Schedule II Valuation and Qualifying Accounts:
(in thousands)

Classification	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 2006	$ 154	$ 42	$ 48(1)	$ 148
Year ended December 31, 2007	$ 148	$	$ 64(1)	$ 84
Year ended December 31, 2008	$ 84	$ 56	$ 56(1)	$ 84
Allowance for deferred tax asset:				
Year ended December 31, 2006	$ 16,443	$ 56,889(2)	$ 5,111	$ 68,221
Year ended December 31, 2007	$ 68,221	$	$ 62,338(3)	$ 5,883
Year ended December 31, 2008	$ 5,883	$ 255(4)	$ 4,412(5)	$ 1,726

Notes:

(1) Uncollectable accounts written off.

(2) 2006 allowance for deferred tax asset balances have been revised to reflect the Company s acquisition of Princeton eCom Corporation (Princeton) and other items (which had no impact on the net deferred tax asset).

(3) Reversal of $31.1 million due to electing to waive Princeton net operating losses that were determined not to be recoverable, release of $15.7 million of valuation allowance through goodwill related to valuation allowances established as a result of acquisitions, the release of $13.7 million through the income statement and a $1.9 million balance sheet reclassification.

(4) The Company added a $0.3 million valuation allowance against certain deferred tax assets arising from capital losses that are not more likely than not realizable.

(5) Includes release of approximately $1.9 million of valuation allowance related to New Jersey net operating losses that were determined to be recoverable and New Jersey net operating losses sold. Approximately $0.2 million of the valuation amount released resulted in an income tax benefit.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ONLINE RESOURCES CORPORATION

By: /s/ MATTHEW P. LAWLOR
Matthew P. Lawlor
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ MATTHEW P. LAWLOR Matthew P. Lawlor	Chairman and Chief Executive Officer (Principal Executive Officer)	March 2, 2009
/s/ CATHERINE A. GRAHAM Catherine A. Graham	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 2, 2009
/s/ DAVID G. MATHEWS, III David G.. Mathews, III	Vice President, Accounting (Principal Accounting Officer)	March 2, 2009
/s/ WILLIAM H. WASHECKA William H. Washecka	Director	March 2, 2009
/s/ JOSEPH J. SPALLUTO Joseph J. Spalluto	Director	March 2, 2009
/s/ STEPHEN S. COLE Stephen S. Cole	Director	March 2, 2009
/s/ ERVIN R. SHAMES Ervin R. Shames	Director	March 2, 2009
/s/ MICHAEL E. LEITNER	Director	March 2, 2009

Michael E. Leitner		
/s/ BARRY D. WESSLER	Director	March 2, 2009
Barry D. Wessler		
/s/ MICHAEL H. HEATH	Director	March 2, 2009
Michael H. Heath		
/s/ JANEY A. PLACE	Director	March 2, 2009
Janey A. Place		
/s/ JO ANN HEIDI ROIZEN	Director	March 2, 2009
Jo Ann Heidi Roizen		