

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

*(State or other jurisdiction of
incorporation or organization)*

52-1623052

*(I.R.S. Employer
Identification Number)*

**4795 Meadow Wood Lane
Chantilly, Virginia**

(Address of principal executive offices)

20151

(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 No

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 No

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

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

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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.

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

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 through 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:

Fiscal Quarter Ended	2008		2007	
	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 Form 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 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

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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 Form 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%

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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%
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	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 incre