

ONLINE RESOURCES CORP

Form S-3/A

March 18, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
to
Form S-3

REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

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
Suite 300
Chantilly, Virginia 20151
(703) 653-3100

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Matthew P. Lawlor
Chairman and Chief Executive Officer
ONLINE RESOURCES CORPORATION
4795 Meadow Wood Lane
Suite 300
Chantilly, Virginia 20151
(703) 653-3100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practical after this Registration Statement becomes effective.

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If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 other than securities offered only in connection with dividend or interest reinvestment, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.0001 par value	4,504,893 shares	\$10.05	\$45,274,175	\$5,329(3)

- (1) Pursuant to Rule 416 under the Securities Act of 1933, as amended, this registration statement also covers such number of additional shares of common stock to be issued to prevent dilution resulting from stock splits, dividends or similar transactions.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low prices for the common stock of Online Resources Corporation, on February 8, 2005, as reported on the Nasdaq National Market.
- (3) \$5,202 has previously been paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED MARCH 18, 2005

PROSPECTUS

Online Resources Corporation

Shares

Common Stock

We are offering _____ shares of our common stock and the selling stockholders are offering 404,893 shares of common stock. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

Our shares of common stock are listed on the Nasdaq National Market under the symbol ORCC. The last reported sales price of our common stock on the Nasdaq National Market on March 15, 2005 was \$8.00 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 8 to read about factors and material risks that you should consider before buying our shares of common stock.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$
Proceeds, before expenses, to selling stockholders	\$	\$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters a 30-day option to purchase up to an aggregate of 675,734 additional shares of our common stock at the public offering price, less the underwriting discounts and commissions, solely to cover over-allotments, if any.

We expect that the shares of our common stock will be ready for delivery to purchasers on or about _____, 2005.

FRIEDMAN BILLINGS RAMSEY

JEFFERIES & COMPANY, INC.

D.A. DAVIDSON & CO.

The date of this prospectus is _____, 2005

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in those jurisdictions where those offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time and delivery of this prospectus or of any sale of shares of common stock offered by this prospectus.

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed business information and financial statements and related notes that appear elsewhere in this prospectus and in the documents that we incorporate by reference into this prospectus. This prospectus may contain certain forward-looking information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors.

Business Overview

Online Resources provides Internet financial technology services for over 700 financial services provider clients nationwide. Our services are provided on an outsourced basis and are branded to each client. Our clients have approximately 37 million consumer and business account relationships and over 3 million holders of these accounts are enrolled users of our services.

Through our account presentation services, users may access and view their accounts online, and perform a variety of self-service functions. Through our payment services, users transact electronic bill payments and account-to-account, person-to-person and other funds transfers. Through our relationship management services, clients may take advantage of our customer care and proprietary consumer marketing services to drive Internet channel adoption and cross-selling of additional products. Of our total revenue, we currently derive approximately 15% from account presentation, 60% from payments and 15% from relationship management. The remaining 10% comes from professional services and other revenue.

Our services are packaged for three vertical financial services markets — banks and credit unions, credit card issuers and payment acquirers.

Our *Quotien*sm product line is designed for banks, credit unions and other depository financial institutions. We provide a fully integrated suite of web-based banking and payment services, giving clients a single point of accountability for the user experience and the marketing machinery to drive Internet channel adoption. We also provide bill payment services on a stand-alone basis. We process over \$10 billion in bill payments annually for our full service and stand-alone payments clients.

Our *Incurrent*sm product line is designed for credit card issuers. Cardholders may access their account and transaction information, set up payments and perform self-service functions. We also provide card issuers with a low-cost, web-based payment inquiry service and a means to collect delinquent payments. Incurrent Solutions Inc., which we acquired on December 22, 2004, and which now operates as a division of our company, developed our credit card issuer services.

Our *CertnFunds*sm product line has been recently introduced and is designed for e-commerce providers, primarily payment acquirers and large online billers. Our patented EFT payments gateway has real-time payment links to over 50 ATM networks and core processors, which, in turn, have real-time links to virtually all the nation's consumer checking accounts. By routing their Internet-originated consumer payments through the CertnFunds platform, payment acquirers and billers may lower their transaction costs and increase the speed and certainty of collections.

We believe that our domain expertise in web-based, business-to-business-to-consumer financial services fulfills a large and growing need among specialized or community-based providers. We also believe there are also significant barriers to entry in our business, as it requires the development and maintenance of a large biller database, a high degree of flexibility, real-time solutions and the ability to integrate financial information and transaction processing with a low tolerance for error.

Our business model is based primarily on consumer and business usage. Multi-year service contracts with our clients provide us with recurring user fees, which in turn are leveraged over our relatively fixed cost base. Our strategy is focused on increasing user adoption of web-based financial services within our

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current clients and expanding our institutional client base within the financial services market. We also intend to make strategic acquisitions to expand distribution, increase volume over our relatively fixed cost base and add new product capabilities to sell through our distribution channels.

We are a Delaware corporation with principal executive offices located at 4795 Meadow Wood Lane, Chantilly, Virginia. Our telephone number is 703-653-3100 and our website address is www.orcc.com. Through the Investor Relations section of our website, we make available free of charge our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practical after such material is electronically filed with or furnished to the Securities and Exchange Commission. We include our web address in this prospectus only as an inactive textual reference and do not intend it to be an active link to our website.

The Offering

Common stock offered by:

Online Resources 4,100,000 shares

The selling stockholders 404,893 shares

Total 4,504,893 shares

Common stock to be outstanding after this offering 23,517,266 shares

Use of proceeds We intend to use the net proceeds from this offering for acquisitions of related businesses, technology development, product development and other general corporate purposes. See Use of Proceeds.

Risk factors See Risk Factors beginning on page 8 of this prospectus for a discussion of factors that you should carefully consider before deciding to invest in our common stock.

Nasdaq National Market symbol ORCC

Except as otherwise indicated, all information in this prospectus assumes no exercise of the underwriters' over-allotment option.

In addition to the 23,517,266 shares of common stock expected to be outstanding after this offering, and based upon the number of shares issued and options and warrants granted as of March 3, 2005, we had additional shares of common stock available for issuance under the following plans and arrangements:

4,959,695 shares underlying options outstanding at a weighted average exercise price of \$5.72 per share, of which 3,295,574 were exercisable;

507,821 shares available for future issuance under our stock option and stock purchase plans; and

200,000 shares issuable upon the exercise of warrants at an exercise price of \$4.75 per share, all of which were exercisable.

The terms Online Resources, we, our and us refer to Online Resources Corporation.

SUMMARY FINANCIAL DATA

(In thousands, except per share data)

The following table displays our summary financial data for the periods ended or as of the dates indicated. We derived certain of the historical data for the years ended 2002, 2003 and 2004 from our audited consolidated financial statements. The summary financial data should be read in conjunction with Use of Proceeds, Management's Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements included in this prospectus. Our December 31, 2004 consolidated balance sheet reflects the acquisition of Incurrent. Our consolidated statements of operations for the period ended December 31, 2004, however, do not include any results for our new card and credit services division, formerly Incurrent, as their results were deemed to be immaterial to our results.

	Year Ended December 31,		
	2002	2003	2004
Statements of Operations Data:			
Revenues:			
Account presentation services	\$ 5,309	\$ 4,064	\$ 3,030
Payment services	15,254	21,042	28,277
Relationship management services	9,040	8,501	7,895
Professional services and other	2,751	4,801	3,083
	<u>32,354</u>	<u>38,408</u>	<u>42,285</u>
Costs and expenses:			
Total cost of revenues	14,628	15,503	16,201
	<u>17,726</u>	<u>22,905</u>	<u>26,084</u>
Gross Profit	17,726	22,905	26,084
General and administrative	7,038	8,628	9,931
Sales and marketing	5,368	6,433	7,416
Systems and development	4,345	3,830	3,793
	<u>16,751</u>	<u>18,891</u>	<u>21,140</u>
Total expenses	16,751	18,891	21,140
Income (loss) from operations	975	4,014	4,944
Other income (expense), net	(1,168)	(755)	36
Debt conversion expense	(213)	(495)	
	<u>(406)</u>	<u>2,764</u>	<u>4,980</u>
Net (loss) income	\$ (406)	\$ 2,764	\$ 4,980
Net (loss) income per share:			
Basic	\$ (0.03)	\$ 0.18	\$ 0.28
Diluted	\$ (0.03)	\$ 0.17	\$ 0.25
Shares used in calculation of net (loss) income per share:			
Basic	13,521	15,141	18,057
Diluted	13,521	16,686	20,128
Other Financial Data:			
EBITDA(1)	\$ 3,655	\$ 7,378	\$ 8,637

	December 31, 2004	
	Actual	Pro Forma As Adjusted(2)
Consolidated Balance Sheet Data:		
Cash, cash equivalents and investments	\$ 6,291	\$ 37,205
Working capital	11,790	42,704
Total assets	44,617	75,531
Other non-current liabilities	2,037	2,037
Total liabilities	8,151	8,151
Stockholders equity	36,466	67,380

- (1) EBITDA, a non-GAAP financial measure, is defined as GAAP net income (loss) plus interest expense, income taxes and depreciation and amortization less interest earned. EBITDA as calculated by us may be calculated differently than EBITDA for other companies. We have provided EBITDA because we believe it is a commonly used measure of financial performance in comparable companies and is provided to help investors evaluate companies on a consistent basis, as well as to enhance an understanding of our operating results. EBITDA should not be construed as either an alternative to net income (loss), as an indicator of our operating performance; or as an alternative to cash flows as a measure of liquidity.

Reconciliations of net (loss) income to EBITDA are as follows:

	Year Ended December 31,		
	2002	2003	2004
Net (loss) income	\$ (406)	\$ 2,764	\$ 4,980
Interest and other expense (income), net	1,381	1,234	(182)
Provision for income taxes		16	146
Depreciation	2,680	3,137	3,666
Amortization		227	27
EBITDA	\$ 3,655	\$ 7,378	\$ 8,637

- (2) As adjusted to give effect to this offering as if it occurred on December 31, 2004. Assumes the sale of 4,100,000 shares at an assumed public offering price of \$8.00, the last reported sales price of our common stock on the Nasdaq National Market on March 15, 2005, net of underwriting commissions, and before the exercise, if any, of the underwriters' over-allotment option.

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 actually occurs, 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. You should also refer to the other information in this prospectus and in the documents we incorporate by reference into this prospectus, including our financial statements and the related notes.

Risks Related to Our Business

Prior to the third quarter of 2002, we had a history of net losses; we have achieved net income profitability for all, but one, fiscal quarters since the third quarter of 2002 and cannot be sure that we will be profitable in all future periods.

Although we achieved profitability under generally accepted accounting principles, or GAAP, in all but one of the fiscal quarters since the third quarter of 2002, we cannot be certain that we can be profitable in future periods. As of December 31, 2004, we had an accumulated deficit of \$78 million. Although we believe we have achieved economies of scale, if growth in our revenues does not significantly outpace the increase in our expenses, we may not be profitable in future periods.

We are dependent on the financial services industry, and changes within that industry could reduce demand for our products and services.

The large majority of our revenues are derived from banks, credit unions and credit card issuers. Unfavorable economic conditions adversely impacting those parts of the financial services industry we serve could have a material adverse effect on our business, financial condition and results of operations. For example, depository financial institutions have experienced, and may continue to experience, cyclical fluctuations in profitability as well as increasing challenges to improve their operating efficiencies. Due to the entrance of non-traditional competitors and the current environment of low interest rates, the profit margins of depository financial institutions have narrowed. As a result, some financial institutions have slowed, and may continue to slow, their capital spending, 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 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.

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 financial services providers 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. Therefore, end-user enrollment 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.

Account holders eligible to use many of the online services we offer, including account presentation, bill payments and relationship management, may demand that these services be offered for lower cost or free. Clients and prospects may therefore reject our services in favor of companies that can offer more competitive prices. Thus, demand and 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 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. The number of end-users registered for our services has increased from 841,000 as of December 31, 2003 to 3.1 million as of December 31, 2004, 2.0 million of which we obtained from our recent acquisition of Incurrent. This resulting growth has placed, and is expected to 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 who 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 contract 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.

One of our clients, California Federal Bank, commonly known as Cal Fed, accounted for 9% and 15% of our revenues for the years ended December 31, 2003 and 2002, respectively. During 2002, Citigroup acquired Cal Fed and converted the Cal Fed end-users to the Citigroup banking and bill payment platform in the first quarter of 2003.

Additionally, BB&T Corporation acquired our second largest client, First Virginia Banks, Inc. (First Virginia), in the third quarter of 2003. In the years ended December 31, 2003 and 2002, First Virginia accounted for 5% of our revenues. BB&T converted the First Virginia end-users to the BB&T banking and bill payment platform in the fourth quarter of 2003.

Currently, among our continuing client base, no one client accounts for more than 4% of our revenues. We are anticipating the loss, by the end of the first quarter of 2005, of two of our larger banking clients, Greenpoint Bank and Riggs National Bank, as a result of their pending acquisitions. In addition, we also expect to lose Sears as a client before mid-year as it has sold its credit card portfolio. These banks collectively account for 4%, and Sears accounts for 6%, of our revenues. We anticipated the loss of Sears as part of our acquisition of Incurrent.

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 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 competitive vendors. 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. The number of our total end-users is 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 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.

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 covering certain aspects of our technology, we cannot be sure of the level of protection that these patents 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 financial services providers and their customers. If any new products we develop prove defective or if we fail to properly market these products to financial services providers or sell these products to these providers' 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.

There can be no assurance 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) or litigation 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. Currently, we have an agreement with an offsite disaster recovery facility. In March of this year, we intend to start maintaining our own offsite disaster recovery facility. 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 facility is 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, or 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 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 of 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, California has adopted, and other states may adopt, 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 account presentation and payments services is relatively new and 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. There can be no assurance that errors will not be found 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.

Financial services providers 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.

Government regulation could interfere with our business.

The financial services industry is subject to extensive and complex federal and state regulation. Financial institutions such as commercial banks, savings and loan associations, savings banks, and credit unions operate under high levels of governmental supervision. Our end-users 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 financial services industry that affect our business, such as requiring us or our end-users to comply with 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 achieve and 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 the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq National 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 new, and neither companies nor auditing firms have significant experience in testing or complying with these requirements. Although we believe we currently have adequate internal controls over financial reporting, 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.

Risks Related to Incurrent

We may face difficulties in integrating the businesses of Incurrent.

To achieve the anticipated benefits of the Incurrent acquisition, we will need to continue the integration of the businesses of Incurrent with our operations. We need to consolidate certain functions and 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 Incurrent 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 Incurrent's business or if the integration takes longer than expected, we could be subject to significant costs and our business could be adversely affected.

Our acquisition of Incurrent has increased the size of our operations and the risks described in this annual report.

Our acquisition of Incurrent has increased the size of our operations and may intensify some of the other risks described in this annual report. There will also be additional risks associated with managing a significantly larger company, including, among other things, the application of company-wide controls and procedures.

We made our acquisition of Incurrent on the basis of available information, and Incurrent may have liabilities or obligations that were not adequately disclosed.

We have operated our Incurrent business for a very short period of time. In connection with our acquisition of Incurrent, we conducted a review of information regarding Incurrent as provided by Incurrent's management. Incurrent may have incurred contractual, financial, regulatory or other obligations and liabilities that may impact us in the future which were not adequately reflected in financial and other information regarding Incurrent upon which we based our evaluation of this acquisition. If the financial and other information on which we have relied in making our offer for Incurrent proves to be materially incorrect or incomplete, it could have a material adverse effect on the business and operations of Incurrent and on our consolidated businesses, financial condition and operations.

Incurrent has given limited warranties and indemnities to us in connection with its business, which have not yet expired and may give rise to claims by us.

In acquiring Incurrent, we relied upon limited representations and warranties of Incurrent. Although we have contractual and other legal remedies and limited escrow protection for losses that we may incur as a result of breaches of agreements, representations and warranties pertaining to the acquisition, we cannot assure you that our remedies will adequately cover any losses that we incur.

Incurrent may face competition from other companies, which could have a material adverse effect on our business.

We cannot assure you that we will not face more competitors or that we can compete effectively against any companies that develop products and services similar to Incurrent's. We also cannot assure you that Incurrent can compete effectively or not suffer from pricing pressure with respect to its existing and developing products that could adversely affect its ability to generate revenues. If and to the extent that Incurrent cannot compete effectively or it suffers from pricing pressure, these problems will become our problems as the new owners of Incurrent.

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 National Market have experienced extreme price and volume fluctuations and volatility that has particularly affected the market prices of many technology, emerging growth and developmental stage 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 stock, including shares that may be issued upon exercise of options under our equity compensation plan and in connection with the Incurrent transaction that, if sold, could affect the trading price of our common stock.

We have approximately 5,800,000 shares of common stock that may be issued upon exercise of stock options and warrants and participation in our employee stock purchase program. We have also issued 1,000,014 shares of our common stock to the shareholders of Incurrent, of which Incurrent shareholders are intending to sell 79,893 under this prospectus. 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 stock options or warrants), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Our stockholder rights plan contains provisions that could discourage a takeover.

In January 2002, we announced that our Board of Directors adopted a stockholder rights plan. This plan, along with provisions contained in our Certificate of Incorporation, may discourage or prevent a change of control through the issuance of additional equity securities that can substantially dilute the interests of a third party seeking to gain control over our company in the absence of the approval of our Board of Directors.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance and can be identified by terminology such as may, will, should, expects, anticipates, believes, estimates, predicts, or continue or the negative of such terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under Risk Factors, that may cause our or our industry's actual results, levels of activity, performance or achievements to vary from those expressed or implied by such forward-looking statements. Before deciding to purchase our common stock you should carefully consider the risks described in the Risk Factors section, in addition to the other information set forth in this prospectus and the documents incorporated by reference herein.

Although we believe 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 such statements. We do not intend to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results except as required by law.

Any forward-looking statements represent our best judgment as of the date of this prospectus, and we caution third parties not to place undue reliance on such statements. Actual performance and results of operations may differ materially from those projected or suggested in the forward-looking statements due to certain risks and uncertainties, including, but not limited to, the risks and uncertainties described or discussed in the section Risk Factors. These risks include, among others, the following:

- our history of prior losses and lack of certainty as to our continuing profitability;
- possible fluctuations of our quarterly financial results;
- our failure to retain or increase our end-users;
- our dependence on the marketing efforts of third parties;
- our dependence on our clients to market our services;
- the possibility that we may not be able to expand to meet increased demand for our services and related products;
- the potential adverse impact that a loss of a material client may have on our financial results;
- our potential inability to compete with larger, more established businesses offering similar products or services;
- our inability to attract and retain qualified management and technical personnel and our dependence on our executive officers and key employees;
- possible security breaches or system failures disrupting our business and the liability associated with these disruptions;
- the possibility of the development of defective new products;
- reduction or elimination of the fees we charge for some services due to the consumer demand for low-cost or free online financial services;
- the potential impact of the consolidation of the banking and financial services industry;
- interference with our business from the adoption of government regulations;
- our need to maintain satisfactory ratings from federal depository institution regulators;

the potential of litigation;

our volatile stock price;

the trading of a substantial number of shares adversely impacting the price of our shares; and

the possibility of discouraging a takeover as a result of the adoption of a Stockholder Rights Plan.

RECENT DEVELOPMENTS INCURRENT ACQUISITION

On December 22, 2004, we completed the acquisition of Incurrent Solutions, Inc., a New Jersey corporation, pursuant to which Incurrent merged with and into our wholly-owned subsidiary, Incurrent Acquisition LLC, a New Jersey limited liability company. We now operate the Incurrent business as our card and credit services division.

Founded in 1997, Incurrent develops and operates advanced web-based products for financial institutions in the global payment card industry, including issuers of consumer, small business, purchasing, corporate and private label cards. Incurrent's products enhance all aspects of the issuers' relationship with their cardholders by allowing the issuer to achieve enhanced service and functionality on the Internet. Services provided by Incurrent include:

account, statement and transaction inquiry;

account maintenance requests;

payments;

compliant statements; and

collections.

The acquisition adds 35 employees and a facility in Parsippany, New Jersey. We issued 1,000,014 of our shares of common stock to the Incurrent shareholders. We also paid to, and for the benefit of, the Incurrent shareholders, approximately \$7.9 million in cash. We used part of our available cash resources to pay the cash portion of the purchase price. We have agreed to allow Incurrent shareholders to offer shares acquired in this transaction in this offering. For shares not sold in this offering, we have agreed to file a registration statement under the Securities Act of 1933, as amended, to cover the resale of our shares of common stock not sold in this offering.

When we acquired Incurrent, we were aware that Sears, its largest customer, had sold its credit card portfolio and would cease being a client by the middle of 2005. Given the pending departure of Sears, references to the number of clients, account holders and end-users, contained in this prospectus are exclusive of Sears.

Our December 31, 2004 consolidated balance sheet reflects the acquisition of Incurrent. Our consolidated statements of operations for the period ended December 31, 2004, however, do not include any results for our new card and credit services division, formerly Incurrent, as their results were deemed to be immaterial to our results.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of 4,100,000 shares of our common stock pursuant to this offering, based upon an assumed public offering price of \$8.00 per share, will be approximately \$30.9 million (\$36.0 million if the underwriters' over-allotment option to purchase additional shares is exercised in full), after deducting underwriting discounts and commissions. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

We expect to use the net proceeds from this offering for acquisitions of related businesses, technology development, product development and other general corporate purposes. The amounts actually spent by us may vary significantly and will depend upon a number of factors, including our future revenue and the other factors described under Risk Factors. Accordingly, our management has broad discretion in the allocation of the net proceeds from this offering. Pending these uses, we may invest the net proceeds from this offering temporarily in short-term, investment-grade, interest-bearing securities or guaranteed obligations of the United States government.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock is traded on the Nasdaq National Market under the symbol ORCC.

The following table sets forth, for the periods indicated, the range of high and low sale prices for our common stock all as reported by the Nasdaq National Market. The quotations represent interdealer quotations, without adjustments for retail mark ups, mark downs, or commissions, and may not necessarily represent actual transactions.

	Price Range of Common Stock	
	High	Low
Year Ended December 31, 2003:		
First Quarter	\$ 3.45	\$ 2.50
Second Quarter	\$ 6.37	\$ 2.62
Third Quarter	\$ 7.40	\$ 5.24
Fourth Quarter	\$ 7.98	\$ 6.03
Year Ended December 31, 2004:		
First Quarter	\$ 8.28	\$ 5.70
Second Quarter	\$ 7.48	\$ 5.75
Third Quarter	\$ 7.27	\$ 5.90
Fourth Quarter	\$ 7.53	\$ 6.70

On March 15, 2005, the last reported sale price of our common stock on the Nasdaq National Market was \$8.00 per share. As of March 15, 2005, there were approximately 141 holders of record of our common stock.

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.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2004 on an actual basis and on an as adjusted basis. The as adjusted data give effect to the sale of 4,100,000 shares of common stock offered by us in this offering at an assumed public offering price of \$8.00 per share, the last reported sales price of our common stock on the Nasdaq National Market on March 15, 2005, and the application of the net proceeds from the offering as described under Use of Proceeds.

Please read this capitalization table together with the sections of this prospectus entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and Recent Developments and our financial statements and the related notes included elsewhere in this prospectus or incorporated by reference into this prospectus.

	December 31, 2004	
	Actual	Pro Forma Adjusted for this Offering
Cash and cash equivalents	\$ 4,992,401	\$ 35,906,401
Investments	1,298,909	1,298,909
Stockholders' equity:		
Series A convertible preferred stock, \$.01 par value; 1,000,000 shares authorized, none issued at December 31, 2004		
Series B junior participating preferred stock, \$0.01 par value; 297,500 shares authorized, none issued at December 31, 2004		
Common stock, \$.0001 par value; 35,000,000 shares authorized, 19,340,222 issued and 19,264,697 outstanding at December 31, 2004	1,926	2,336
Additional paid-in capital	114,647,954	145,561,544
Accumulated deficit	(77,956,386)	(77,956,386)
Treasury stock, 75,525 shares at December 31, 2004	(227,800)	(227,800)
Accumulated other comprehensive loss	(115)	(115)
Total stockholders' equity	\$ 36,465,579	\$ 67,379,579

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion may contain certain forward-looking information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors. See Special Note Regarding Forward Looking Statements.

Overview

We are a leading outsourcer of web-based account presentation, payment and relationship management services to financial services providers nationwide. Our services, branded in the clients' name, integrate seamlessly into a single-vendor, end-to-end solution, supported by 24x7 customer care, targeted consumer marketing, training and other network and technical professional products and services.

Registered end-users using account presentation, bill payment or both, are the major drivers of our revenues. Exclusive of the users obtained in the acquisition of Incurrent, from December 31, 2003 through December 31, 2004, the number of users using our account presentation services increased 17%, and the number of users using our payment services increased 47%, for an overall 34% increase in users. While we have seen some reduction in average monthly recurring revenue per user, due largely to our decisions to fix price the account presentation service to our clients and offer volume-based bill payment price reductions, this has been more than offset by a decline in the average monthly recurring cost per user, thereby improving our gross margin. Gross margin for the year ended December 31, 2003 was 60%, and it increased to 62% for the year ended December 31, 2004.

We have long-term service contracts with our financial services provider 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 financial institution clients to register an unlimited number of customers, or a monthly fee for each registered customer. Payment services revenues are based on either 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 of December 31, 2004 approximately 60% of our clients were charging their users for providing payment services.

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. In 2003 we began an effort to upgrade and rewrite certain of our applications infrastructure that will continue into 2006. We expect that this effort will require incremental capital expenditures, primarily for additional development labor, of between \$3.0 million and \$5.0 million over that period.

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.

Financial Condition

While we have achieved net income for the past six quarters and expect our profitability to be sustainable, we have historically experienced operating losses and negative cash flow due to the initial costs of developing our infrastructure and the early revenues typical of an emerging market segment. As a result, at December 31, 2004 we had an accumulated deficit of \$78 million. We have funded our operations

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primarily through the issuance of equity and debt securities. Our ongoing working capital requirements consist primarily of personnel costs related to providing our services and operating, enhancing and maintaining our systems.

Cash and investments in securities available-for-sale were \$6.3 and \$13.6 million as of December 31, 2004 and 2003, respectively. The \$7.3 million decrease in cash and investments in available for sale securities results from \$9.1 million in capital expenditures and \$8.2 million in cash used in the acquisition of Incurrent. These cash expenditures were partially offset by \$8.9 million in cash generated by operating activities and \$1.1 million in cash generated by financing activities.

Results of Operations

The following table presents certain items derived from our statements of operations expressed as a percentage of revenues.

	Year Ended December 31,		
	2004	2003	2002
Statement of Operations Data:			
Revenues:			
Account presentation services	7.1%	10.6%	16.4%
Payment services	66.9	54.8	47.2
Relationship management services	18.7	22.1	27.9
Professional services and other	7.3	12.5	8.5
	100.0	100.0	100.0
Costs and expenses:			
Costs of revenues	38.3	40.4	45.2
	61.7	59.6	54.8
Gross margin	61.7	59.6	54.8
General and administrative	23.5	22.5	21.8
Sales and marketing	17.5	16.7	16.6
Systems and development	9.0	10.0	13.4
	50.0	49.2	51.8
Total expenses	50.0	49.2	51.8
	11.7	10.4	3.0
Income from operations	11.7	10.4	3.0
Other income (expense), net	0.4	(1.9)	(3.6)
Debt conversion expense		(1.3)	(0.7)
	12.1	7.2	(1.3)
Income (loss) before income tax provision	12.1	7.2	(1.3)
Income tax provision	0.3		
	11.8%	7.2%	(1.3)%
Net income (loss)	11.8%	7.2%	(1.3)%

Although inflation has slowed in recent years, it is still a factor in our economy and we do not believe it will have a material impact on the results of operations.

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

Revenues

We generate revenue from account presentation services, payment services, relationship management services and professional services and other revenues. Revenues increased \$3.9 million, or 10%, to \$42.3 million for the year ended December 31, 2004, from \$38.4 million for the

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same period of 2003. This was attributable to a 34% increase in payment services, partially offset by decreases of 25%, 7% and 36% in account presentation services, relationship management services and professional services and other revenues, respectively. Excluding from 2003's revenue, a one time \$2.2 million termination fee received

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from Cal Fed in the first quarter of 2003, revenues increased \$6.1 million, or 17%, for the year ended December 31, 2004 compared to the year ended December 31, 2003.

	Year Ended December 31,		Change	
	2004	2003	Difference	%
Revenues (in millions):				
Account presentation services	\$ 3.0	\$ 4.1	\$ (1.1)	-25%
Payment services	28.3	21.0	7.3	34%
Relationship management services	7.9	8.5	(0.6)	-7%
Professional services and other	3.1	4.8	(1.7)	-36%
	<u> </u>	<u> </u>	<u> </u>	
Total revenues	\$ 42.3	\$ 38.4	\$ 3.9	10%
Users and transactions (000s): ³				
Account presentation users	485	416	69	17%
Payment services users	776	528	248	47%
All services users	1,125	841	284	34%
Payment transactions	37,123	24,825	12,298	50%
Average monthly revenue per user: ³				
Account presentation services	\$ 0.56	\$ 0.83	\$ (0.27)	-33%
Payment services ²	\$ 3.54	\$ 4.10	\$ (0.56)	-14%
Adoption rates: ³				
Account presentation services ¹	22.4%	16.8%	5.6%	33%
Payment services ²	8.2%	5.1%	3.1%	61%

Notes:

- 1 Represents the percentage of users subscribing to our account presentation services out of the total number of checking accounts enabled for account presentation services.
- 2 Represents the percentage of users subscribing to our payment services out of the total number of checking accounts enabled for payment services.
- 3 Excludes card division users.

Account Presentation Services. During 2004 account presentation services revenues decreased \$1.1 million to \$3.0 million, driven by the departures of Cal Fed and First Virginia in March and October 2003, respectively, and a decrease in the average monthly revenue per account presentation services user. Account presentation services revenues generated by our client base exclusive of Cal Fed and First Virginia decreased 7% versus 2003 even though the number of year-end account presentation services users increased by 17% compared to the prior year-end. This was the result of a 33% decrease in the average monthly revenue per account presentation services user. This decrease was attributable to the fact that we price our account presentation service largely using a monthly license fee pricing model in an effort to drive adoption of those services. This allows our financial institution clients to register an unlimited number of account presentation services users (as evidenced by the 33% increase in account presentation services adoption in 2004) to whom we can then attempt to up-sell our higher margin bill pay products and other services.

Payment Services. Payment services revenues increased to \$28.3 million in 2004 compared to \$21.0 million in the prior year. Even with the departures of Cal Fed and First Virginia during 2003, who together accounted for 4% of payment services revenues in 2003, payment services revenues increased 34%. This was driven by a 47% increase in the number of year-end payment services users and a 50% increase in the number of payment transactions processed during the year. The increases in year-end payment services users and the number of payment transactions processed were driven by two factors: an increase in financial institution clients using our payment services and an increase in payment services adoption. During the 2004 year, the number of financial institution clients using our payment services increased from

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633 clients to 716 clients. Additionally, we increased the adoption rate of our payment services from 5.1% at the end of 2003 to 8.2% at the end of 2004.

Relationship Management Services. Relationship management services revenues decreased from \$8.5 million in 2003 to \$7.9 million in 2004 as a result of the departures of Cal Fed and First Virginia in March and October 2003, respectively. Relationship management services revenues generated by our remaining client base, however, increased 4% compared to 2003, driven by an increase of 34% in the number of year-end users utilizing either account presentation or payment services. We expect relationship management services revenues growth to continue to flatten as more of our financial institution clients move to a monthly license fee pricing model similar to the one we use for account presentation services.

Professional Services and Other. Professional services and other revenues decreased \$1.7 million from \$4.8 million in 2003 to \$3.1 million in 2004. This decrease was the result of a \$2.2 million termination payment received from Cal Fed in 2003. We received \$0.8 million in termination payments during the year ended December 31, 2004, compared to \$2.8 million during the year ended December 31, 2003.

Costs and Expenses

	Year Ended December 31,		Change	
	2004 ¹	2003 ¹	Difference ¹	% Difference
Revenues	\$ 42.3	\$ 38.4	\$ 3.9	10%
Costs of revenues	16.2	15.5	0.7	5%
Gross profit	\$ 26.1	\$ 22.9	\$ 3.2	14%
Gross margin	62%	60%	2%	3%
Operating expenses				
General & administrative	\$ 9.9	\$ 8.6	\$ 1.3	15%
Sales & marketing	7.4	6.5	0.9	15%
Systems & development	3.8	3.8		-1%
Total operating expenses	21.1	18.9	2.2	12%
Income from operations	5.0	4.0	1.0	23%
Other expense, net		(1.2)	1.2	
Net income	\$ 5.0	\$ 2.8	\$ 2.2	80%
Diluted income per share	\$ 0.25	\$ 0.17	\$ 0.08	47%
Average monthly metrics per user: ³				
Recurring revenues ²	\$ 3.27	\$ 3.84	\$ (0.57)	-15%
Recurring costs of revenues ²	1.24	1.60	(0.36)	-23%
Recurring gross profit	\$ 2.03	\$ 2.24	\$ (0.21)	-9%
Recurring gross margin	62%	58%	4%	7%

Notes:

1 In millions except for diluted income per share and per user metrics.

2 Calculation excludes revenues and costs associated with professional services and implementation activities.

3 Excludes card division users.

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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 service work. Costs of revenues increased by \$0.7 million, or 5%, to \$16.2 million for the year ended December 31, 2004, from \$15.5 million for the same period in 2003. This increase was primarily attributable to \$0.8 and \$0.1 million increases in bill payment processing costs and systems operations support costs, respectively, partially offset by \$0.2 and \$0.1 million decreases in

bank implementation costs and telecommunications costs, respectively. The increases in payment processing and systems operations support costs resulted from increases in the number of billable users and transactions and in the cost of supporting the systems on which our users conduct their transactions. The decrease in bank implementation costs is the result of lower cost per new client implementation, while the decrease in telecommunications costs is the result of cost reductions we received from our telecommunication vendors. Although total cost of revenues increased by 5% in 2004, the average monthly recurring cost of revenues per user decreased by 23% due to leveraging our relatively fixed costs of revenues over the number of customers using our services, which increased by 34%. Additionally, beginning in the third quarter of 2003, we began to offset payment costs with idle funds we recapture from bill payment transactions that have not been completed after 12 or 24 months from the authorization of the transactions. Our policy is to recover and recognize as assets, funds from checks that have been outstanding more than a year and are less than \$200 as an offset to payment processing costs. Checks greater than \$200 will be recognized as assets after they are outstanding for two years. The amount of funds recovered and recognized in 2004 and 2003 was \$1.0 and \$0.6 million, respectively, and excluding the impact of the increase of these offsets, bill payment processing costs would have increased by \$1.2 million, and costs of revenues would have increased by \$1.1 million.

Gross Profit. Gross profit increased to \$26.1 million for the year ended December 31, 2004 from \$22.9 million for the same period of 2003. Gross margin improved to 62% from 60% in the prior year, due to increased service fees leveraged over our relatively fixed cost of revenues and an increase in offsets to payment costs resulting from the recovery and recognition of idle funds. Excluding from revenue the one-time \$2.2 million termination fee received from Cal Fed in 2003, gross margin would have been 57% in 2003.

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 \$1.3 million, or 15%, to \$9.9 million in 2004, from \$8.6 million in 2003. The increase in general and administrative expenses was primarily attributable to increased depreciation expenses resulting from an increase in capital expenditures, increased fees related to Sarbanes-Oxley compliance, increased rent due to overlapping lease terms related to the move of our corporate headquarters and increased salary and benefits costs as a result of additional headcount and increased executive salaries.

Sales and Marketing. Sales and marketing expenses include salaries and commissions paid to sales and marketing personnel, consumer marketing costs, public relations costs, and other costs incurred in marketing our services and products. Sales and marketing expenses increased \$0.9 million, or 15%, to \$7.4 million in 2004, from \$6.4 million in 2003. The primary reasons for the increase in sales and marketing expenses was increased salary and benefits costs as a result of increased headcount, increased remuneration expenses to our reseller partners owing to higher user and transaction volumes and higher consumer marketing expenses.

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 remained unchanged at \$3.8 million in 2004. Although salaries and benefits costs and consulting costs increased compared to 2003, these increased costs were incurred working on capitalizable projects as defined by Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP No. 98-1). These projects included major enhancements to our applications infrastructure, development of new applications utilizing our patented pin-less debit gateway and development of new application programming interfaces that will create more alternatives for our billpay-only clients to access our platform. We capitalized \$2.7 million of development costs associated with software developed or obtained for internal use in 2004, compared to \$1.6 million in 2003.

Income from Operations. Income from operations increased \$1.0 million, or 23%, to \$5.0 million for the twelve months ended December 31, 2004 from \$4.0 million in 2003. The increase in income from

operations was due to an increase in service fee revenues leveraged over relatively fixed costs. Additionally, excluding the one-time \$2.2 million termination fee received from Cal Fed in 2003, income from operations would have increased \$3.2 million compared to 2003.

Other Expense, Net. Interest income increased \$68,000, or 86%, to \$147,000 for the twelve months ended December 31, 2004, from \$79,000 for the same period of 2003. The increase was due to higher average cash balances compared to 2003 and rising interest rates. Interest expense and debt repurchase/conversion expense decreased \$1.3 million to \$3,000 in 2004, as the result of lower interest expense and amortization of debt issuance costs due to the repurchase and conversion of the entire \$12.0 million of Convertible Notes in 2003.

Net Income Per Share. Net income was \$5.0 million for the year ended December 31, 2004, compared to \$2.8 million for the same period of 2003. Basic income per share was \$0.28 and \$0.18 for the years ended December 31, 2004 and 2003, respectively, while diluted income per share was \$0.25 and \$0.17 for the years ended December 31, 2004 and 2003, respectively.

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

Revenues

We generate revenues from account presentation services, payment services, relationship management services and professional services and other revenues. Revenues increased \$6.0 million, or 19%, to \$38.4 million for the year ended December 31, 2003, from \$32.4 million for the same period of 2002. This increase was attributable to 38% and 75% increases in payment services and professional services and other revenues, respectively, partially offset by 23% and 6% decreases in account presentation services and relationship management services revenues, respectively. Excluding from 2003's revenue a one time \$2.2 million termination fee received from Cal Fed in the first quarter of 2003, revenues increased \$3.8 million, or 12%, for the year ended December 31, 2003 compared to the year ended December 31, 2002.

	Year Ended December 31,		Change	
	2003	2002	Difference	%
Revenues (in millions):				
Account presentation services	\$ 4.1	\$ 5.3	\$ (1.2)	-23%
Payment services	21.0	15.3	5.7	38%
Relationship management services	8.5	9.0	(0.5)	-6%
Professional services and other	4.8	2.8	2.0	75%
Total revenues	\$ 38.4	\$ 32.4	\$ 6.0	19%
Users and transactions (000s):³				
Account presentation users	416	403	13	3%
Payment services users	528	327	201	61%
All services users	841	623	218	35%
Payment transactions	24,825	16,491	8,334	51%
Average monthly revenue per user:³				
Account presentation services	\$ 0.83	\$ 1.24	\$ (0.41)	-33%
Payment services	4.10	4.50	(0.40)	-9%
Adoption rates:³				
Account presentation services ¹	16.8%	11.2%	5.6%	50%
Payment services ²	5.1%	4.2%	0.9%	21%

Notes:

1 Represents the percentage of users subscribing to our account presentation services out of the total number of checking accounts enabled for account presentation services.

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

3 Excludes card division users.

Account Presentation Services. During 2003 account presentation services revenues decreased \$1.2 million to \$4.1 million, driven by the departures of Cal Fed and First Virginia in March and October 2003, respectively, and a decrease in the average monthly revenue per account presentation services user. Account presentation services revenues generated by our client base exclusive of Cal Fed and First Virginia remained flat versus 2002 even though the number of year-end account presentation services users increased by 3% compared to the prior year-end. This was the result of a 33% decrease in the average monthly revenue per account presentation services user. This decrease was attributable to our decision to move from a monthly user fee pricing model to a monthly license fee pricing model for account presentation services in an effort to drive adoption of those services. This allows our financial institution clients to register an unlimited number of account presentation services users (as evidenced by the 50% increase in account presentation services adoption in 2003) to whom we can then attempt to up-sell our higher margin bill pay products and other services.

Payment Services. Payment services revenues increased to \$21.0 million in 2003 compared to \$15.3 million in the prior year. Even with the departures of Cal Fed and First Virginia during 2003, payment services revenues increased 38%, driven by a 61% increase in the number of year-end payment services users and a 51% increase in the number of payment transactions processed during the year. The increases in year-end payment services users and the number of payment transactions processed were driven by two factors: an increase in financial institution clients using our payment services and an increase in payment services adoption. During 2003, the number of financial institution clients using our payment services increased from 534 clients to 633 clients. Additionally, we increased the adoption rate of our payment services from 4.2% at the end of 2002 to 5.1% at the end of 2003.

Relationship Management Services. Relationship management services revenues decreased from \$9.0 million in 2002 to \$8.5 million in 2003 as a result of the departures of Cal Fed and First Virginia in March and October 2003, respectively. Relationship management services revenues generated by our remaining client base, however, increased 20% compared to 2002, driven by an increase of 35% in the number of year-end users utilizing either account presentation or payment services.

Professional Services and Other. Professional services and other revenues increased \$2.0 million from \$2.8 million in 2002 to \$4.8 million in 2003. This increase was the result of a \$2.2 million termination payment received from Cal Fed. Including this payment, we received \$2.8 million in termination payments during the year ended December 31, 2003, compared to \$0.5 million during the year ended December 31, 2002. This increase in termination payments during 2003 resulting from the Cal Fed termination payment was offset by a decrease in implementation fee revenue resulting from lower average implementation fees per enabled bank.

Costs and Expenses

	Year Ended December 31,		Change	
	2003 ¹	2002 ¹	Difference ¹	% Difference
Revenues	\$ 38.4	\$ 32.4	\$ 6.0	19%
Costs of revenues	15.5	14.7	0.8	6%
Gross profit	\$ 22.9	\$ 17.7	\$ 5.2	29%
Gross margin	60%	55%	5%	9%
Operating expenses				
General & administrative	\$ 8.6	\$ 7.0	\$ 1.6	23%
Sales & marketing	6.5	5.4	1.1	20%
Systems & development	3.8	4.3	(0.5)	(12)%
Total operating expenses	18.9	16.7	2.2	13%
Income from operations	4.0	1.0	3.0	311%
Other expense, net	(1.2)	(1.4)	0.2	
Net income (loss)	\$ 2.8	\$ (0.4)	\$ 3.2	
Diluted income (loss) per share	\$ 0.17	\$ (0.03)	\$ 0.20	
Average monthly metrics per user: ³				
Recurring revenues ²	\$ 3.84	\$ 4.51	\$ (0.67)	(15)%
Recurring costs of revenues ²	1.60	2.02	(0.42)	(21)%
Recurring gross profit	\$ 2.24	\$ 2.49	\$ (0.25)	(10)%
Recurring gross margin	58%	55%	3%	6%

Notes:

1 In millions except for diluted income (loss) per share and per user metrics.

2 Calculation excludes revenues and costs associated with professional services and implementation activities.

3 Excludes card division users.

Costs of Revenues. Costs of revenues are the direct expenses associated with providing our services. These expenses include telecommunications, payment processing, systems operations, customer service, implementation and professional service work. Costs of revenues increased by \$0.8 million, or 6%, to \$15.5 million for the year ended December 31, 2003, from \$14.7 million for 2002. This increase was primarily attributable to a \$1.0 million increase in bill payment processing costs, a \$0.5 million increase in systems operations support costs and a \$0.3 million increase in telecommunications costs, offset by a \$0.8 million decrease in customer service costs. The increases in payment processing, systems operations support and telecommunications costs resulted from increases in the number of billable users and transactions and in the cost of supporting the systems on which our users conduct their transactions. The decrease in customer service costs was due to reductions in headcount resulting from technological efficiencies implemented over the past two years. Although total costs of revenues increased by 6% in 2003, the average monthly recurring costs of revenues per user decreased by 21% due to a 35% increase in the number of customers using our services. Additionally, beginning in the third quarter of 2003, we began to offset payment costs with idle funds we recapture from bill payment transactions that have not been completed after 12 or 24 months from the authorization of the transactions. The amount of funds recovered and recognized in 2003 was \$0.6 million, and excluding the impact of these offsets, bill payment processing costs would have increased by \$1.6 million, and costs of revenues would have increased by \$1.4 million.

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Gross Profit. Gross profit increased to \$22.9 million for the year ended December 31, 2003 from \$17.7 million for the same period of 2002. Gross margin improved to 60% from 55% in the prior year, due

to increased service fees leveraged over our relatively fixed cost of revenues and the \$2.2 million termination fee received from Cal Fed. Gross profit also improved as a result of improved efficiency from technology development and cost control initiatives.

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 \$1.6 million, or 23%, to \$8.6 million in 2003, from \$7.0 million in 2002. The increase in general and administrative expenses was primarily attributable to increased salary and benefits costs, including the implementation of a profit sharing plan in 2003, and increased depreciation expenses.

Sales and Marketing. Sales and marketing expenses include salaries and commissions paid to sales and marketing personnel, consumer marketing costs, public relations costs, and other costs incurred in marketing our services and products. Sales and marketing expenses increased \$1.1 million, or 20%, to \$6.5 million in 2003, from \$5.4 million in 2002. The primary reason for the increase in sales and marketing expenses was increased salary and benefits costs, including the implementation of a profit sharing plan in 2003.

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 decreased \$0.5 million, or 12%, to \$3.8 million in 2003, from \$4.3 million in 2002. The decrease in our systems and development expenses was due to an increase in work associated with capitalizable projects as defined by SOP No. 98-1. These projects included major enhancements to our applications infrastructure and development of our *Money HQ*SM product. We capitalized \$1.6 million of development costs associated with software developed or obtained for internal use in 2003, compared to \$1.1 million in 2002. The decrease in expenses related to this shift in work was partially offset by an increase in salary and benefits costs, including the implementation of a profit sharing plan in 2003.

Income from Operations. Income from operations increased \$3.0 million, or 311%, to \$4.0 million for the year ended December 31, 2003 from \$1.0 million in 2002. The significant increase in income from operations was primarily due to increases in service fee revenues leveraged over relatively fixed costs and the \$2.2 million termination fee received from Cal Fed in 2003.

Other Expense, Net. Interest income decreased \$48,000, or 38%, to \$79,000 in 2003, from \$127,000 for 2002. The decrease was due to lower interest rates. Interest and other expense decreased \$0.4 million, or 33%, to \$0.8 million in 2003, as compared to \$1.3 million in 2002, as the result of lower interest expense and amortization of debt issuance costs due to the repurchase and conversion of the convertible notes in 2003. The conversion of \$1.0 million of convertible notes in March 2002 resulted in a non-cash debt conversion expense of \$0.2 million attributable to the issuance of 45,031 incremental shares of common stock. The repurchase of \$3.9 million of convertible notes in June 2003 and the conversion of \$8.1 million of convertible notes in October and November 2003 resulted in a non-cash debt conversion expense of \$0.5 million attributable to the issuance of 2,001,314 incremental shares of common stock.

Net Income (Loss) Per Share. Net income was \$2.8 million for the year ended December 31, 2003, compared to a loss of \$0.4 million for 2002. Basic income (loss) per share was \$0.18 and \$(0.03) for the years ended December 31, 2003 and 2002, respectively, while diluted income (loss) per share was \$0.17 and \$(0.03) for the years ended December 31, 2003 and 2002, respectively.

Liquidity and Capital Resources

Since inception, we have primarily financed our operations through private placements and public offerings of our common and preferred stock and the issuance of debt. We have also entered into various capital lease financing agreements. Cash and investments in available for sale securities were \$6.3 million and \$13.6 million as of December 31, 2004 and 2003, respectively. The \$7.3 million decrease in cash and investments in available for sale securities results from \$9.1 million in capital expenditures and \$8.2 million

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in cash used in the acquisition of Incurrent. These cash expenditures were partially offset by \$8.9 million in cash generated by operating activities and \$1.1 million in cash generated by financing activities.

Net cash provided by operating activities was \$8.9 million for the year ended December 31, 2004 as compared to \$7.0 million during the year ended December 31, 2003. Of the \$8.9 million in cash generated by operating activities in 2004, 91% was recurring in nature, while 60% of the \$7.0 million in cash generated by operating activities in 2003 was recurring in nature.

Net cash used in investing activities for the year ended December 31, 2004 was \$12.6 million, which was the result of \$9.1 million in capital expenditures and \$8.2 million used in the acquisition of Incurrent, partially offset by a net increase of \$4.7 million in securities available-for-sale. Of the \$9.1 million in capital expenditures, approximately \$4.7 million was related to the move of our corporate headquarters (\$1.7 of which was reimbursed by the landlord in January 2005 and recorded as a lease incentive obligation as of December 31, 2004), approximately \$2.7 million was related to the cost of software developed for internal use and \$1.7 was related to recurring capital expenditures for property and equipment. On December 22, 2004, we issued 1,000,014 of our shares of common stock to the Incurrent shareholders. We also paid to, and for the benefit of, the Incurrent shareholders, approximately \$7.9 million in cash and incurred approximately \$0.3 million in transaction costs. For the year ended December 31, 2003, net cash used in investing activities was \$4.2 million, of which approximately \$1.5 million was used in the net purchase of securities available-for-sale and \$2.7 million was used for capital expenditures.

Net cash provided by financing activities was \$1.2 million in the year ended December 31, 2004 as compared to \$2.5 million in the year ended December 31, 2003. During 2004 we generated \$1.3 million in cash through the exercise of company-issued stock options and our employees' participation in our employee stock purchase plan. Additionally, we used \$0.1 million in the repayment of capital lease obligations. During 2003 we generated \$6.6 million in cash \$4.4 million through a private stock placement in June 2003, and \$2.2 million through the exercise of company-issued stock options and our employees' participation in our employee stock purchase plan. The Company used \$3.9 million of the June 2003 private stock placement to repurchase \$3.9 million in Convertible Notes. Additionally, the Company used \$0.2 million in the repayment of capital lease obligations.

Our material commitments under operating and capital leases and purchase obligations are as follows:

	<u>Total</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Thereafter</u>
Capital lease obligations	\$ 10,573	\$ 10,573	\$	\$	\$
Operating lease	19,153,323	2,200,753	2,420,520	1,946,223	12,585,827
Purchase obligations	880,000	410,000	350,000	120,000	
Total obligations	<u>\$ 20,043,896</u>	<u>\$ 2,621,326</u>	<u>\$ 2,770,520</u>	<u>\$ 2,066,223</u>	<u>\$ 12,585,827</u>

On May 21, 2004, we executed a ten-year lease covering 74,000 square feet of office and data center space. The rent commencement date of the new lease was October 1, 2004, and the total obligation related to the lease is \$17.3 million. We also executed an amendment to the lease related to our pre-existing facility that allows us to occupy a portion of the facility from October 1, 2004 through July 31, 2007. The total obligation related to the amendment is \$1.0 million. Finally, through the acquisition of Incurrent in December 2004, we succeeded to the lease related to Incurrent's office space in Parsippany, New Jersey, which runs through January 2007. The total obligation related to that lease is \$0.9 million.

Future capital requirements will depend upon many factors, including the timing of research and product development efforts and the expansion of our marketing effort. We expect to continue to expend significant amounts on expansion of facility infrastructure, ongoing research and development, computer and related equipment, and personnel.

We currently believe that cash on hand, investments and the cash we expect to generate from operations will be sufficient to meet our current anticipated cash requirements for at least the next twelve

months. We expect to have additional cash requirements in the first two quarters of 2005 related to the build-out of and move of our data center to our new office facilities in the first quarter of 2005. Also, we expect to have additional cash requirements over the next two to three years because of efforts we are undertaking to upgrade and rewrite certain of our infrastructure applications. We forecast that all incremental expenses related to this undertaking can be financed out of cash provided by operating activities.

There can be no assurance that additional capital beyond the amounts currently forecasted by us will not be required or that any such required additional capital will be available on reasonable terms, if at all, at such time as required. We intend to invest our cash in excess of current operating requirements in marketable government, corporate and mortgage-backed securities.

Critical Accounting Policies

The policies discussed below are considered by management to be critical to an understanding of our annual audited 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 forecast, and the best estimates routinely require adjustment.

The December 31, 2004 consolidated balance sheet reflects the acquisition of Incurrent, which we completed on December 22, 2004. The consolidated statement of operations for the year ended December 31, 2004, however, does not include any results for Incurrent, as these results were deemed immaterial to our results for the year.

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. Our provision for losses on accounts receivable was approximately \$67,000 on revenues of \$42.3 million. At December 31, 2004 the allowance for doubtful accounts was \$152,315, inclusive of approximately \$85,000, which resulted from our acquisition of Incurrent. This represents management's estimate of the probable losses in the accounts receivable balance at December 31, 2004. 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 2004. We wrote off approximately \$14,000 of bad debt in 2004.

Property and equipment, including leasehold improvements, are recorded at cost. Software and hardware consisting of central processing systems and terminals represent the majority of the property and equipment and are potentially subject to technological changes and obsolescence. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which are generally three to five years. Equipment recorded under capital leases is amortized over the estimated useful life of the asset.

We capitalize the cost of computer software developed or obtained for internal use in accordance with 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 a period of three years upon being placed in service. We periodically evaluate the assets for recoverability when events or circumstances indicate a potential impairment.

We generate revenues from service fees, professional services, and other supporting services. Service fees are primarily composed of three business lines, account presentation services, payment services and relationship management services. Revenues from service fees include new user registration fees, account

access fees, transaction fees, customer service fees and relationship marketing support fees. Revenues from service fees are recognized over the term of the contract as the services are provided.

Professional services revenues consist of implementation fees associated with the linking of our financial institution clients to our QuotienSM e-financial suite through various networks, web development and hosting fees, training fees and communication services. In accordance with Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB No. 101), which we adopted effective January 1, 2000, implementation fees and related direct implementation costs are recognized on a straight-line basis over the contract term as the services are provided, which typically range from one to five years (generally three years). Prior to 2000, we recognized nonrefundable implementation fees as revenue under the percentage of completion method as certain milestone output measures were completed. Due to the adoption of SAB No. 101, revenue that was previously recognized under our prior revenue recognition policy will be recognized under our revised revenue recognition policy through periods up to 2004 because some contract periods extend through 2004. During the years ended December 31, 2004, 2003 and 2002, we recognized revenue of \$6,000, \$37,000, and \$275,000, respectively, and related direct incremental costs that were included in the cumulative effect adjustment at January 1, 2000. Revenues from web development, web hosting and training are recognized over the term of the contract as the services are provided.

Other revenues consist of service fees associated with enhanced third-party solutions and termination fees. Service fees for enhanced third-party solutions include fully integrated bill payment and account retrieval 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.

In December 2002, Emerging Issues Task Force Issue (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF No. 00-21), was released effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. EITF No. 00-21 establishes new requirements for determining whether an arrangement involving multiple deliverables contains more than one unit of accounting. We adopted EITF No. 00-21 and there has been no material impact on the financial position or results of operations from the adoption of EITF No. 00-21.

We have a full valuation allowance on our deferred tax asset resulting from our net operating loss carryforwards since the likelihood of the realization of that asset cannot be determined. Our history of losses and relatively limited experience generating taxable income constitute significant negative evidence about the realization of the deferred tax asset. Our projection of future taxable income does not provide positive evidence of equal or greater significance to overcome the negative evidence. Therefore, in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* (SFAS No. 109), we recognize a full valuation allowance on our net deferred tax assets until sufficient positive evidence exists that it is more likely than not that the benefit will be realized.

In the third quarter of 2003, we adopted a policy to recognize as assets the amounts underlying bill payment checks drawn upon our escrow accounts that have been outstanding for at least a year after reviewing legal analysis from outside counsel to ensure that there is a basis for making a claim of ownership to such funds. Our policy is to recognize checks that have been outstanding more than a year and are less than \$200 as an offset to payment processing costs after taking a 5% reserve on the assets. Checks greater than \$200 will be recognized as assets after they are outstanding for two years with no reserve on the assets. During the years ended December 31, 2004 and 2003, we recognized \$1.0 and \$0.6 million, respectively, in assets as an offset to payment processing costs incurred during those years and have a \$39,000 reserve at December 31, 2004.

Also see Note 2, Summary of Significant Accounting Policies, which discusses accounting policies.

BUSINESS

Overview

Online Resources provides outsourced, Internet financial technology services, branded to over 700 financial services provider clients nationwide. We have over 3 million active consumer and business end-users of our services from our continuing client base. An estimated 34 million additional members or customers of our clients are eligible to register for the services we provide. 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. Additionally, we believe our value-added relationship management services reinforce a favorable user experience and drive a profitable and competitive Internet channel for our clients. Multi-year service contracts with these clients provide us with a recurring and predictable revenue stream that grows with increases in users and transactions. We currently derive 15% from account presentation, 60% from payments, 15% from relationship management and 10% from professional services and other revenues.

We provide the following specialized product offerings for three vertical financial services markets – banks and credit unions, credit card issuers and payment acquirers:

Our *Quotien*SM product line is designed for banks, credit unions and other depository financial institutions. We provide a fully integrated suite of web-based banking and payment services, giving clients a single point of accountability, an enhanced experience for their users and the marketing processes to drive Internet channel adoption. We also offer our electronic bill payment services on a stand-alone basis. Our bill payment service uses 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 unavailable funds. We process over \$10 billion in bill payments annually.

Our *Incurrent*SM product line is designed for credit card issuers and processors. Cardholders may access their account information, view transactions, set up payments and perform other self-service functions. Additionally, we offer card issuers a low-cost, web-based inquiry service, which allows cardholders to clearly identify merchants in disputed card transactions. We also offer a web-based tool that improves collections of late and delinquent funds in a private, non-confrontational manner. Incurrent Solutions, Inc. (Incurrent), which we acquired in December 2004, developed our credit card services. We plan to adapt and offer our payment and relationship management services to credit card issuers and processors as well.

Our *CertnFunds*SM product line has been recently introduced and is designed for e-commerce providers, primarily payment acquirers and large online billers. These services, which enable real-time debit for a variety of web-originated consumer payments and fund transfers, use our patented EFT payments gateway. This gateway has operated for over 10 years as the backbone for our bank and credit union bill payment business. By routing their web-originated consumer payments through our CertnFunds platform, payment acquirers and billers can lower their transaction costs, and increase the speed and certainty of collections.

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, who choose to outsource niche portfolios 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 an operations facility in Parsippany, New Jersey and a data center facility in McLean, Virginia. 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 small businesses, driven in part by the 24 hours a day, seven days a week access to financial services providers that it makes available. Offering services through this channel allows financial services providers 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 the January 21, 2004 Online Banking Report, Jupiter Media Metrix, 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 31.4 million in 2003 to 54.6 million in 2007.

Financial services providers are also increasing access to their services through the Internet in order to increase 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. A study of the depository financial institution market was conducted in 2003 by the financial research and advisory firm, Boston Consulting Group. It concluded 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.

This further supported the conclusions published in Bank of America's 2002 control group study, in which it reported 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 have eliminated their monthly end-user fees for online bill payment and launched aggressive marketing campaigns to promote adoption of the online channel. A rapidly growing segment of smaller financial institutions has also eliminated online bill payment fees and responded with similar marketing campaigns. This represents a positive trend for us 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. By contrast, the majority of small to mid-sized providers, including the approximately 18,000 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, card issuers are reducing operating costs while increasing cardholder loyalty as greater numbers of cardholders use the web to manage their credit card accounts. FiSite Research, a market research firm, reports that 53% of online consumers are using the Internet to manage their credit card accounts while almost one-third of these consumers use the Internet to pay their credit card bills. Moreover, FiSite reports that almost two-thirds of those managing their credit card accounts online rate this experience as very to extremely satisfying. Such high satisfaction suggests increasing consumer adoption and usage of the online channel to manage credit card accounts. Additionally, large credit card

issuers are often outsourcing web-based services for smaller niche card offerings in order to devote their internal IT resources to their core offerings.

Although the majority of financial services providers offer varying degrees of web-based services, and continue to look to technology to further improve operations and overall results, they are facing new obstacles created by technology adoption, including:

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

providing integrated end-user support to an increasingly sophisticated client base;

understanding how to evaluate and enhance channel profitability; and

maximizing the value of the channel by increasing adoption.

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

Our Solution

We provide proprietary account presentation, payments and relationship management services that enable our clients to maintain a competitive and profitable web-based channel. As an outsourcer, we bring economies of scale and technical expertise to our clients who would otherwise lack the resources to compete in the rapidly changing, complex financial services industry. We believe our services provide our clients with a cost-effective means to retain and expand their end-user base, deliver their services more efficiently and strengthen their end-user relationships, while competing successfully against offerings from other financial services providers. We provide our services through:

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 in order to draw funds to 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 is a significant differentiator for us in our marketplace. We believe this infrastructure is difficult to replicate and creates a significant barrier to entry for potential payment services competitors.

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 the research and development required to provide highly competitive web-based services.

Our Integrated Marketing Process. 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 bank and credit union end-users. This proprietary process not only provides, in our opinion, a superior end-user experience, it also creates new sales 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 makes them more profitable for our clients. For example, the success of our proprietary process is evident in our ability to cause the users of our account presentation services to add bill payments to their services at approximately twice the estimated average industry rate.

Our Support Services. Our clients can purchase one or more of a comprehensive set of support services to complement our account presentation and payments services. These services include our web site design and hosting, 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, credit card issuers and payment acquirers. Our strategy for achieving our objectives is to:

Grow Our Client Base. 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 required to develop and manage the technology infrastructure required to provide web-based services. With our recent acquisition of Incurrent Solutions, we have 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. We believe that both our depository and credit card financial services providers can benefit from our flexible, cost-effective technology, and we intend to continue to market and sell our services to them under long-term recurring revenue contracts. As of December 31, 2004, we had 723 financial services provider clients, up 14% from December 31, 2003.

Increase Adoption Rates. Our clients typically pay us either usage or license fees based on their number of end-users and 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 rates for our services. At December 31, 2004, 22.4% of the 2.1 million checking accounts and 14.9% of the 13.3 million estimated active credit card accounts eligible to use our account presentation services were enrolled to do so. Additionally, 8.2% of the 9.5 million checking accounts eligible for payments services were using these services.

Extend Target Markets. We believe that many of our services have application in new markets. We continue to look for opportunities to offer both our payments and funds transfer services and our value-added relationship management services to new market segments. For example, our recently introduced *CertnFunds*sm product line extends the payments services we offer to banks and credit unions through our EFT payments gateway to e-commerce providers such as payment acquirers and large online billers. We will continue to pursue opportunities, either through acquisition or product extension, to enter related markets well suited for our proprietary services and technologies.

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 May 2003, we introduced *Money HQ*sm, a product that integrates account aggregation, bill presentment and money movement capabilities across multiple financial institutions. In the credit card market, we have recently introduced a collections support product that allows credit card issuers to direct past due end-users to a website where they can set up payment plans and schedule payments. We also introduced a service that provides a profile of recognizable merchant names, logos, business descriptions, customer service contact information, and customer service policies to help resolve cardholders' transaction issues. Additionally, we intend to adapt and offer our payment and relationship management services to the credit card market.

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.

We believe the scope and integration of our technology-based services give us a competitive advantage and with 75 personnel working on research and development, we intend to continue 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 revenue grows, and as 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 financial services provider clients with account presentation, payments and relationship management services that they, in turn, offer to end-users branded under their own names. Banks and credit unions providers can purchase established service offerings in all three of our service lines. Established account presentation services are available for credit card providers, along with a new collections support service in the payments line and a new transaction dispute resolution service in the relationship management line. We are also now offering new payments services for payment acquirers and billers, with the first service being real-time account debit for online bill payment. The following chart depicts the services we now offer and plan to offer for the three 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 credit card clients use us for account presentation services, and we are offering our new payments and relationship marketing services to these clients and other card providers, either with or without account presentation services. We recently introduced real-time payment services for payment acquirers and billers.

Our clients typically enter into long-term recurring revenue contracts with us. 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. In the credit card market, account presentation services are also typically offered to end-users free-of-charge, while usage based convenience fees may apply to certain payments services. Payment acquirers and billers also often charge convenience fees to their end-users for certain payment services.

Account Presentation Services. We currently offer account presentation services to banking and credit card markets. 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 banking clients a number of complementary services. We can provide these clients with either of two business banking services, a full cash management service for larger end-users and a basic business offering for small business end-users. Our web design and hosting capabilities give clients an integrated, outsourced solution for their informational web site. *Money HQ*sm allows end-users to obtain account information from multiple financial institutions, see their 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 access to check images, check reorder, Quicken® interface, statement presentation and other functionality that enhances our solution.

Payments Services. For our banking 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 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. 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.

Our remittance service is an attractive add-on service for banking providers 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 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. We have also recently introduced a new collections support product for

credit card providers that allows them to direct past due end-users to a specialized website where they can review their balances, calculate and set up payment plans and make or schedule payments.

We have recently introduced our first service targeted toward billers and payment acquirers. Our real-time account debit allows billers and acquirers to accept payments from their customers at their web sites, and receive those funds immediately. This represents a significant advantage over other methods of payment, which can take one to three days to deliver the funds, especially in the case of past due or other high-risk payments.

Relationship Management Services. Our relationship management services consist of the customer care services we maintain for our bank and credit union 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 our more than 50 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 and services, either our own or those offered by our clients. We use an integrated consumer management process as a significant service differentiator that is unique in the industry. It allows our traditionally small to mid-size financial institution 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. This process combines data, technology and multiple consumer contacts to acquire and retain, and sell multiple services to, customers of our financial institution clients. Using this process, we help drive consumers through the online banking lifecycle, which ultimately makes these consumers more profitable for our clients. The success of our proprietary process is evident in our rate of up-selling account presentation customers to payments services at a rate that is approximately double the industry average.

We have recently introduced a new relationship management service targeted towards the credit card market. This service provides a profile of recognizable merchant names, logos, business descriptions, customer service contact information, and customer service policies to help resolve cardholders' transaction issues. Often a cardholder does not recognize the merchant or transaction presented on their monthly statement. This service employs a patent-pending process to associate merchant information on the statement with detailed merchant information not available in the credit card billing process. Whether accessed directly by the cardholder or by a consumer service representative in a call center, providing clearer and more relevant information about the merchant increases the likelihood that the cardholder will recall the merchant and the transaction, the inquiry resolution effort will be greatly reduced, and disputes processing paperwork or chargebacks will be eliminated in many cases.

Professional Services. Our professional services 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, embedded in our web-based financial services platforms are a limited number of service capabilities and content that are provided or controlled outside of our platform by third parties. These include:

fully integrated bill payment and account retrieval through Intuit's Quicken®;

check ordering available through Harland, Deluxe, Clarke American or Liberty;

inter-institution funds transfer and account aggregation provided by CashEdge;

check imaging provided by AFS, Bisys, Fiserv, FSI/ Vsoft, Empire, Intercept, and Mid-Atlantic; and

electronic statement through BIT Statement.

Sales and Marketing

We seek to retain and expand our financial services provider client base, and to help our clients drive end-user adoption rates for our web-based services. Our client services function consists of 16 account managers who support and cross-sell our services to existing clients, a 13 person sales team focusing on new prospects, and a 13 person marketing department supporting both our sales efforts and those of our clients.

Our account managers focus primarily on helping our existing clients maximize the benefit of their web-based channel. They do this by introducing our extensive relationship management capabilities and supporting our clients' own marketing programs. The account management 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 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 prospects. It also supports account management through marketing campaigns and events targeted at existing financial services provider 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 and processing to optimize reliability, scalability 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; and

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

Our systems architecture is designed to provide end-user access into one of two common databases. The first, for our bank and credit union clients, is integrated with our account presentation and payments services as well as our proprietary support services software. This integrated system also supports our payments offerings for payment acquirers and billers. The second database is integrated with our account presentation services for credit card clients. 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 middleware and integration capabilities.

We typically link to our clients or their core processors through the use of high-speed telecommunication circuits to facilitate the nightly download of account and transaction detail. We then use these same circuits to access the client or core processor databases when an end-user logs in to our

systems, to retrieve updated information. This approach allows us to deliver responsive, high performing and reliable services through the use of a local data warehouse, while ensuring presentation of the most current information and providing enhanced functionality through real-time use of our communications gateways.

For the processing of payments, 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 debit 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 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 improve the cost, speed and quality of the bill payment services we provide to our 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 payment acquirers and billers. Other applications, such as the funding of stored value cards and 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.

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 SAS70 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 their 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.

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 offers a complete suite of account presentation, payments and relationship management services. However, a number of companies offer portions of the services provided by us and compete directly with us to provide such services. For example, companies such as Digital Insight, FundsXpress and S1 Corporation compete with our account presentation capabilities. These companies may in turn use bill payment providers, such as CheckFree, Princeton eCom, iPay and Metavante, to compete with our full service offering. These bill payment providers also compete with our stand-alone bill payment services. There are also other software providers such as Intelidata, Corillian and Sybase Financial Fusion that market their software to large financial institutions that may seek to penetrate our targeted regional and community banking market.

Other competitors that serve primarily smaller depository financial institutions, such as Jack Henry, Fidelity Information Services, Metavante, Certegy, Fiserv and other core banking processors, have large distribution channels that bundle broader services and products for their clients. These competitors also have developed or acquired account presentation capabilities of their own. Metavante, Jack Henry and Certegy have also acquired or developed bill payment services.

There are also Internet financial services providers who target non-banking firms, who may target our depository financial institution market. These potential competitors support 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, while currently targeting bill payment services to large financial institutions, 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 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:

industry trust and reliability;

technical capabilities, scalability, and security;

speed to market;

end-user service;

ability to interface with financial services providers 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. 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.

We are also subject to encryption and security export laws and regulations that, depending on future developments, could render our business or operations more costly, less efficient or impossible.

Federal, state or foreign agencies may attempt to regulate our activities. Congress could enact legislation that would require us to comply with consumer privacy, data, record keeping, processing and other requirements. 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.

The market we currently target, depository financial institutions and credit card institutions, is subject to extensive and complex federal and state regulation. Our current and prospective clients, which consist of financial institutions such as commercial banks, credit unions, brokerage firms, credit card issuers, consumer finance companies, other loan originators, insurers and other providers of retail financial services, operate in markets that are subject to extensive and complex federal and state regulations and oversight.

Although we are not generally subject to such regulations, our services and related products 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, privacy and information security regulations, laws against unfair or deceptive practices, the Electronic Signatures in Global and National Commerce Act, the USA Patriot Act of 2001 and other state and local laws and regulations. Because many of these regulations were promulgated before the development of our system, the application of such regulations to our system must be determined on a case-by-case basis. We do not make representations to clients regarding the applicable regulatory requirements, but instead rely on each such client making its own assessment of the applicable regulatory provisions in deciding whether to become a client. 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. We cannot predict the impact that any such regulations could have on our business.

We currently offer services on the web. It is possible that further laws and regulations may be enacted with respect to the web, covering issues such as user privacy, pricing, content, characteristics and quality of services and products.

Employees

At December 31, 2004, we had 335 employees. None of our employees are represented by a collective bargaining arrangement. We believe our relationship with our employees is good.

MANAGEMENT

Directors and Executive Officers

The following table presents information about each of our executive officers and directors as of March 15, 2005:

Name	Age	Position
Matthew P. Lawlor	57	Chairman of the Board and Chief Executive Officer
Raymond T. Crosier	50	President and Chief Operating Officer
Catherine A. Graham	44	Executive Vice President, Chief Financial Officer and Secretary
Edward E. Furash	70	Director
Michael H. Heath	63	Director
David A. O Connor	70	Director
Ervin R. Shames	64	Director
Joseph J. Spalluto	45	Director
William H. Washecka	57	Director
Barry D. Wessler	61	Director

Matthew P. Lawlor is a co-founder of Online Resources and has served as chairman and chief executive officer since March 1989. He formerly served with Chemical Bank (now JP Morgan Chase), where he headed a regional consumer branch division and the bank's international equity investment company. He also founded a venture development firm and served in the White House Office of Management and Budget. Mr. Lawlor is active in industry affairs and formerly chaired the eFinancial Enablers Council, a group of senior Internet executives whose firms serve the banking industry. Mr. Lawlor has a BS in mechanical engineering from the University of Pennsylvania and a MBA from Harvard University.

Raymond T. Crosier joined Online Resources in January 1996 and initially served as senior vice president of client services. In January 2001 he was elected president and chief operating officer. Prior to joining us, Mr. Crosier spent 19 years with TeleCheck International, a check verification and guarantee firm, where he served in various management positions including as vice president of sales and customer service. Mr. Crosier received a BA in Psychology from the University of Virginia.

Catherine A. Graham joined Online Resources in March 2002 and serves as executive vice president, chief financial officer and secretary. From 1998 until joining us, Ms. Graham served as chief financial officer of VIA NET.WORKS, Inc., a publicly held, international Internet service provider. Previously, she served in senior financial positions with Yurie Systems, a telecommunications equipment manufacturer, and other public companies, as well as with several commercial banks. Ms. Graham received a BA in Economics from the University of Maryland and a MBA from Loyola College.

Michael H. Heath has been a director since March 1989 and since 1991 has been the president of Convention Guides, a publisher of city guidebooks. He served as president of Online Resources from January 1995 to October 1997. Mr. Heath also served as president of MediaNews, which owned the Denver Post and the Houston Post, and held several senior management positions with Chemical Bank. Mr. Heath received his BA from Williams College and a MBA from Harvard University.

Edward E. Furash has been a director since July 2003 and since 1998 has been the chairman of Monument Financial Group, LLC, a boutique merchant banking firm specializing in financial services companies. He is co-founder and former chairman and chief executive officer of Treasury Bank, N.A., an Internet-based financial institution. He is also the founder of Furash & Company, a management consulting firm to the financial services industry. He serves on the board of advisors of the American Association of Bank Directors, and is a director of both Pennsylvania Business Bank and City First, a

community development bank. Mr. Furash has a BA from Harvard University and a MBA from the University of Pennsylvania.

David A. O Connor has been director since April 1996 and is an EFT industry consultant. During 1997 and 1998, he was vice chairman of Honor Technologies (now Star Network), one of the largest ATM networks, and president and chief executive officer of the MOST network, which later merged with Honor. He was also president of CashFlow, Inc., an electronic banking subsidiary of Sovran Financial Services (now Bank of America) and an early shared ATM network. Mr. O Connor is active in industry affairs and previously served as chairman of the Electronic Funds Transfer Association. Mr. O Connor holds a BS from American University.

Ervin R. Shames has been a director since January 2000 and is currently a visiting lecturer in consumer marketing at the University of Virginia's Darden School of Business. From 1993 to 1995, Mr. Shames served as president and chief executive officer of Borden, Inc., a consumer marketing company. Previously, he served as president of both General Foods USA and Kraft USA. He also served as chairman, president and chief executive officer of Stride Rite Corporation. Mr. Shames is currently serving on the boards of directors of Select Comfort Corporation and Choice Hotels. Mr. Shames holds a BS/BA from the University of Florida and a MBA from Harvard University.

Joseph J. Spalluto has been a director since May 1995 and is since 1981 has been a managing director of corporate finance for Keefe Bruyette & Woods, Inc., an investment banking firm specializing in the financial services industry. Mr. Spalluto received a BA from Amherst College and a JD from the University of Connecticut School of Law.

William H. Washecka has been a director since February 2004 and since November, 2004, has served as chief financial officer of Prestwick Pharmaceuticals, which specializes in therapies for central nervous system disorders. From 2001 until 2002, Mr. Washecka served as chief financial officer for USInternetworking, Inc., an enterprise and e-commerce software service provider. Previously, Mr. Washecka was a partner with Ernst & Young LLP, which he joined in 1972. Mr. Washecka serves on the board of directors of Visual Networks, Inc. and Audible, Inc. He has a BS in accounting from Bernard Baruch College of New York and completed the Kellogg Executive Management Program. Mr. Washecka is a certified public accountant.

Barry D. Wessler has been a director since May 2000 and since 1995 has been a computer and communications consultant. Previously, Dr. Wessler co-founded GTE Telenet, an early packet switch service company (now Sprint Data). He also served as president of Plexsys International, a cellular telephone infrastructure manufacturer, and NetExpress, an international facsimile network company. In the 1960's, while at the Advanced Research Projects Agency, Dr. Wessler directed research for ARPANet, the forerunner of the Internet. Dr. Wessler has a BSEE and MSEE from MIT and a Ph.D. in Computer Science from the University of Utah.

Committees of the Board

The Board of Directors has Audit, Compensation, Corporate Governance and Corporate Finance Committees.

Our Audit Committee reviews the engagement of our independent accountants, reviews annual financial statements, considers matters relating to accounting policy and internal controls and reviews the scope of annual audits. The Audit Committee has three independent members, Michael H. Heath (Chairman), Barry D. Wessler and William H. Washecka.

Our Compensation Committee reviews, approves and makes recommendations regarding our compensation policies, practices and procedures to ensure that legal and fiduciary responsibilities of the Board of Directors are carried out and that such policies, practices and procedures contribute to our success. For example, the Compensation Committee recommends the compensation arrangements for senior management and directors. The Compensation Committee has three independent members, Ervin R. Shames (Chairman), David A. O Connor and Edward E. Furash.

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Our Corporate Governance Committee recommends candidates for nomination by the Board for election as directors. The committee also reviews and recommends to the Board the role and composition of other Board committees and corporate governance practices. The Corporate Governance Committee has three independent members, David A. O Connor (Chairman), Joseph J. Spalluto and Edward E. Furash.

Our Corporate Finance Committee advises the Board of Directors on mergers and acquisitions and capital formation. The Corporate Finance Committee has three members, Joseph J. Spalluto (Chairman), Edward E. Furash and Ervin R. Shames.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table contains information about the beneficial ownership of our common stock before and after this offering for:

each of our directors;

each of our named executive officers;

all directors and executive officers as a group;

each stockholder known by us to own beneficially more than 5% of our common stock; and

each selling stockholder.

The percentage of ownership beneficially owned prior to this offering in the following table is based on 19,417,266 shares of common stock outstanding on March 3, 2005. The percentage of ownership beneficially owned after the offering assumes our issuance of 4,100,000 in the offering and does not include the exercise of the underwriters' over-allotment option.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Except as indicated by footnote and subject to community property laws where applicable, to our knowledge the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options and warrants held by that person that are exercisable as of March 3, 2005, or will become exercisable within 60 days thereafter are deemed outstanding, while such shares are not deemed outstanding for purposes of computing percentage ownership of any other person.

Except as noted below, the address of each person listed on the table is c/o Online Resources Corporation, 4795 Meadow Wood Lane, Suite 300, Chantilly, Virginia 20151.

Name and Address**	Shares Beneficially Owned Prior to Offering(1)		Shares to be Sold in Offering	Shares Beneficially Owned After Offering	
	Number	Percent		Number	Number
Bruce Bent Associates, Inc.(2) 303 Evernia Street, Suite 301 West Palm Beach, FL 33401	974,762	5.0%		974,762	4.1%
Century Capital Management LLC(3) 100 Federal Street Boston, MA 02110	1,005,252	5.2%		1,005,252	4.3%
Federated Investors, Inc.(4) 1001 Liberty Avenue Pittsburgh, PA 15222	2,782,118	14.3%		2,782,118	11.8%
Jon D. Gruber(5) 50 Osgood Place, Penthouse San Francisco, CA 94133	989,879	5.1%		989,879	4.2%
The Hodson Trust	121,918	*	51,744	70,174	*
NJTC Venture Fund	31,016	*	26,327	4,689	*
Associates Investors LLC	2,147	*	1,822	325	*
Matthew P. Lawlor(6)	1,858,870	9.4%	300,000	1,558,870	6.5%
Edward E. Furash(7)	10,512	*		10,512	*
Michael H. Heath(8)	79,184	*		79,184	*
David A. O Connor(9)	77,947	*		77,947	*
Ervin R. Shames(10)	59,796	*		59,796	*
Joseph J. Spalluto(11)	68,095	*		68,095	*

William H. Washecka(12)

5,808

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