ONLINE RESOURCES CORP
Form 10-K
April 09, 2008

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

Form 10-K

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

For the fiscal year ended December 31, 2007

Commission file number 0-26123

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

Delaware *(State or other jurisdiction of incorporation or organization)*	**52-1623052** *(I.R.S. Employer Identification Number)*
4795 Meadow Wood Lane, Suite 300 **Chantilly, Virginia** *(Address of principal executive offices)*	**20151** *(Zip code)*

(703) 653-3100
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:

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

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

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

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

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

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

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

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

The aggregate market value of the registrant s voting and non-voting common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) computed by reference to $10.98 as of the last business day of the registrant s most recently completed second fiscal quarter was $290 million.

As of April 4, 2008, the registrant had 29,007,222 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held on May 21, 2008.

ONLINE RESOURCES CORPORATION

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

PART I

Item 1. *Business Overview*

Business Overview

Online Resources provides outsourced, web-based financial technology services branded to over 1,900 financial institution, biller, card issuer and creditor clients. With four business lines in two primary vertical markets, we serve over 12 million billable consumer and business end-users. End-users may access and view their accounts online and perform various web-based, self-service functions. They may also make electronic bill payments and funds transfers, utilizing our unique, real-time debit architecture, ACH and other payment methods. Our value-added relationship management services reinforce a favorable user experience and drive a profitable and competitive Internet channel for our clients. Further, we provide professional services, including software solutions, which enable various deployment options, a broad range of customization and other value-added services. Multi-year service contracts with our clients provide us with a recurring and predictable revenue stream that grows with increases in users and transactions. We currently derive approximately 13% of our revenues from account presentation and relationship management, 77% from payments and 10% from professional services, custom software solutions and other revenues.

We provide the following services for two primary vertical markets:

Banking Services: For more than 1,400 banks, credit unions and other depository financial institutions, we provide a fully integrated suite of web-based account presentation, payment, relationship management and professional services, giving clients a single point of accountability, an enhanced experience for their users, the marketing processes to drive Internet channel adoption, and innovative services that help them maintain their competitive position. We enable business and consumer end-users to consolidate information from multiple accounts and make bill payments to multiple billers or merchants, or virtually anyone, via their financial institution s web site. We also offer our electronic bill payment services to financial institutions on a stand-alone basis. Many of the bill payment services we offer use our patented payments gateway, which leverages the nation s real-time electronic funds transfer, also known as EFT, infrastructure. By debiting end-users accounts in real-time, we are able to improve the speed, cost and quality of payments, while eliminating the risk that bills will be paid against insufficient funds.

e-Commerce Services: For more than 400 billers, card issuers, processors, and other creditors, we provide web-based account presentation, payment, relationship management and professional services. We enable consumer and business end-users to manage their account or make a payment to a single card issuer, processor, creditor or biller. Specifically for billers, we provide a full suite of payment options, including consolidation of incoming payments made by credit cards, signature debit cards, ACH and PIN-less debit via multiple access points such as online, interactive voice response, or IVR, and call center customer service representatives. The suite also includes bill presentment, convenience payments, and flexible payment scheduling. We obtained these biller services and the industry s largest biller network as a result of our acquisitions of Princeton eCom Corporation, which we refer to as Princeton, in July 2006 and Internet Transaction Solutions, Inc., which we refer to as ITS, in August 2007. Specifically for card issuers, processors and creditors, we offer account presentation and self-service capabilities, as well as a web-based tool that improves collections of late and delinquent funds in a private, non-confrontational manner. In addition, for payment acquirers and very large online billers we provide payment services that enable real-time debits for a variety of web-originated consumer payments and fund transfers using our patented EFT payments gateway, which lowers transaction costs and increases the speed and certainty of payments.

We believe our domain expertise fulfills the large and growing need among both smaller financial services providers, who lack the internal resources to build and operate web-based financial services, and larger providers and billers, who choose to outsource niche solutions in order to use their internal resources elsewhere. We also believe that, because our business requires significant infrastructure along with a high degree of flexibility, real-time solutions, and the ability to integrate financial information and transaction processing with a low tolerance for error, there are significant barriers to entry for potential competitors.

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

Our Industry

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

Financial services providers also are 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. The Boston Consulting Group, a financial research and advisory firm, conducted a study in 2003 of the depository financial institution market. 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 growing majority of smaller financial institutions have 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 and outsource only niche services. By contrast, the majority of small to mid-sized providers, including the approximately 17,000 banks and credit unions in the U.S. with assets of less than $20 billion, prefer to outsource their web-based financial services initiatives to a technology services provider. These smaller providers understand that they need to provide an increasing level of web-based services, but frequently lack the capital, expertise, or information technology resources to develop and maintain these services in-house.

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

In the biller market, use of the web channel is being driven primarily by the high cost of processing paper bills and checks. According to the Federal Reserve, an estimated 33.1 billion paper checks were written in the United States in 2006 down from an estimated 37.6 billion in 2003. Approximately 60% of major billers today present electronic bills and an additional 30% of major billers have plans to do so, according to Tower Group, a financial services research advisory firm. Of an estimated 15.1 billion consumer bill payments that occurred in 2006, 32% were paid electronically compared to 23% in 2004 according to the US Postal Service. We believe increased consumer access to the Internet, and the continued cost to both the biller and the consumer of processing paper bills and checks, will continue to drive billers toward use of the web channel to provide and manage their payments.

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

- managing multiple technology vendors to provide account presentation, payments and other services;
- reconciling multiple payment methods and sources in increasingly shortened timeframes;
- understanding how to evaluate and enhance channel profitability; and
- maximizing the value of the channel by increasing adoption.

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

Our Solution

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

Our Technology Infrastructure. We connect to our clients, their core processors, their end-users and other financial services providers through our integrated communications, systems, processing and support capabilities. For our account presentation services, we employ both real-time and batch communications and processing to ensure reliable delivery of current financial information to end-users. For our payment services we use our patented process to ensure real-time funds availability and process payments through a real-time EFT gateway. This gateway consists of over 50 certified links to ATM networks and core processors, which in turn have real-time links to virtually all of the nation s consumer checking accounts. These key links were established on a one-by-one basis throughout our history and enable us to access end-user accounts to draw funds and pay bills as requested. This gateway infrastructure has improved the cost, speed and quality of our bill payment services for the banking and credit union community and we believe differentiates us from others in the marketplace. We believe this infrastructure is difficult to replicate and creates a significant barrier to entry for potential payment services competitors. In addition, we incorporate ACH and other payment methods in our services.

Since our acquisitions of Princeton in July 2006 and ITS in August 2007, we have linked our real-time EFT gateway to the nation s consumer checking accounts with the large networks of billers that had been established by Princeton and ITS of which we have subsequently expanded. The result is the industry s largest payments network linking financial institutions and billers. As billers and ITS move toward enabling real-time credits and we further integrate vertically, this network will enable faster payment delivery and posting for end-users, convenience fee revenue for banks and billers, and lower processing costs for us.

The following chart depicts this network:

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

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

Our Professional and Support Services. We provide professional services and custom software solutions that enable us to offer clients various deployment options and value-added web modules that require a high level of customization, such as account opening or lending. In addition, our clients can purchase one or more of a comprehensive set of support services to complement our account presentation, payments, relationship management and professional 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, billers and payment acquirers, and credit card issuers and processors. Our strategy for achieving our objectives is to:

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

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

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

Provide Additional Products and Services to Our Installed Client Base. We intend to continue to leverage our installed client base by expanding the range of new products and services available to our clients through internal development, partnerships and alliances. For example, in the credit card market, we have introduced a collections support product, developed by us, that allows credit card issuers to direct past due end-users to a website where they can set up payment plans and schedule payments.

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

Maintain and Leverage Technological Leadership. We have a history of introducing innovative web-based financial services products for our clients. For example, we developed and currently obtain real-time funds through a patented

EFT gateway with over 50 certified links to ATM networks and core processors. We were awarded additional patents covering the confidential use of payment information for targeted marketing that is integrated into our proprietary marketing processes. Our technology and integration expertise has further enabled us to be among the first to adopt an outsourced web-based account presentation capability, and we pioneered the integration of real-time payments and relationship marketing. Further, we have received recognition for innovation and excellence for specific products.

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

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

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

Our Services

We provide our bank, credit union, card issuer and creditor and biller clients with account presentation, payments, relationship management and professional services that they, in turn, offer to end-users branded under their own names.

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

Our bank and credit union clients select one of two primary service configurations: full service, consisting of our integrated suite of account presentation, bill payment, customer care, end-user marketing and other support services; or stand-alone bill payment services. Our card issuer and creditor clients use our account presentation services and/or collections payments services, and we are also offering other payments, relationship marketing and professional services to these clients,. Our biller clients use our payments services, and we offer relationship management, professional services and other payments services.

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

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

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

- view transaction histories and account balances;
- review and retrieve current and past statements;
- transfer funds and balances;
- initiate or schedule either one-time or recurring payments;
- access and maintain account information; and
- perform many self-service administrative functions.

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

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

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

For our biller clients, we provide a full suite of payment options, including consolidation of incoming payments made by credit cards, signature debit cards, ACH and PIN-less debit via multiple access points such as online, IVR, or call center customer service representatives. The suite also includes bill presentment, convenience payments, and flexible payment scheduling.

For our credit card clients, we offer the ability to schedule either one-time or recurring payments to the provider through our account presentation software. We do not currently process those payments, but have plans to do so in the future. These clients may also use our web-based collections support product that allows them to direct past due end-users to a specialized website where they can review their balances, set up payment plans and make payments.

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

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

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

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

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

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

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

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

- check imaging provided by AFS and its service bureaus, Bisys, Fiserv, FSI/ Vsoft, Empire Corporate, Intercept, Fidelity, Corporate One, Eascorp, MICR Resource Management (MRM), Synergy, Transdata and Mid-Atlantic; and

- electronic statement through BIT Statement, COWWW, BDI e-statement, Datamail, Digital Mailer, InfoImage, Reed Data, XDI and Bankware.

Sales and Marketing

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

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

Our sales team focuses on new client acquisition, either through direct contact with prospects or through our network of reseller relationships. Our target prospects are financial services providers and billers who are either looking to replace their current web services provider, have no existing capability, or are looking for outsourced capability for a niche product line.

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

Our Technology

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

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

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

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

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

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

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

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

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

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

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

For the processing of payments and eCommerce transactions initiated though many of our bank and credit union clients, we operate a unique, real-time EFT gateway, with over 50 certified links to ATM networks and core processors. This gateway, depicted below, allows us to use online debits to retrieve funds in real-time, perform settlement authentication and obtain limited supplemental financial information. By using an online payment network to link into a client s primary database for end-user accounts, we take advantage of established EFT gateway infrastructure. This includes all telecommunications and software links, security, settlements and other critical operating rules and processes. Using this real-time payments architecture, clients avoid the substantial additional costs necessary to expand their existing infrastructure. We also believe that our real-time architecture is more flexible and scalable than traditional batch systems.

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

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

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

We use the Mastercard RPPS network, the ACH network and other delivery channels to credit funds to our biller clients and other merchants and payment recipients.

We maintain comprehensive, proprietary biller and merchant warehouses for validation of remittance information, ensuring industry-leading accuracy in delivering payments. Our diverse biller and merchant base allows us to achieve extremely high levels of electronic payments, enhanced by tight technical integration with our biller clients.

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

Proprietary Rights

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

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

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

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

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

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

Competition

We are not aware of any other company that provides 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. These companies often purchase the services they do not provide from us or other companies so that they can offer a broader suite of services to their clients. As such we may both compete with, and provide services for, other companies that also serve our targeted client bases. For example, we compete with S1 and Fiserv in aspects of our business, but they are also our channel partners for the distribution of certain of our bill payment services.

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

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

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

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

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

Suppliers to these remote financial services providers potentially compete with us.

Many of our current and potential competitors have longer operating histories, greater name recognition, larger installed end-user bases and significantly greater financial, technical and marketing resources. Further, some of our more specialized competitors, such as CheckFree (a Fiserv company), have been part of continued industry consolidation where diversified financial technology providers have begun to position themselves as end-to-end providers and may increasingly direct their marketing initiatives toward our targeted client base. We believe our advantage in the financial services market will continue to stem from our significant experience and ability to offer a fully integrated end-to-end solution to our clients.

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

- trust and reliability;
- technical capabilities, scalability, and security;
- speed to market;
- end-user service;
- ability to interface with our clients and their technology; and
- operating effectiveness.

Government Regulation

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

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

In the future federal, state or foreign agencies may attempt to regulate our activities. For example, Congress could enact legislation to regulate providers of electronic commerce services as retail financial services providers or under another regulatory framework. The Federal Reserve Board may adopt new rules and regulations for electronic funds transfers that could lead to increased operating costs and could also reduce the convenience and functionality of our services, possibly resulting in reduced market acceptance. Because of the growth in the electronic commerce market, Congress has held hearings on whether to regulate providers of services and transactions in the electronic commerce market, and federal or state authorities could enact laws, rules or regulations affecting our business operations. We also may be subject to federal, state and foreign money transmitter laws, encryption and security export laws and regulations and state and foreign sales and use tax laws. If enacted or deemed applicable to us, such laws, rules or regulations could be imposed on our activities or our business thereby rendering our business or operations more costly, burdensome, less efficient or impossible, any of which could have a material adverse effect on our business, financial condition and operating results.

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

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

Employees

At December 31, 2007, we had 626 employees. None of our employees are represented by a collective bargaining arrangement. We believe our relationship with our employees is good.

Available Information

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

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

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

Risks Related to Our Business

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

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

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

A large portion of our revenues are derived from financial service providers, primarily banks, credit unions and credit card issuers. Unfavorable economic conditions adversely impacting those types of businesses 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, the business of some financial institutions has slowed, and may continue to slow, their capital and operating expenditures, including spending on web-based products and solutions, which can negatively impact sales of our online payments, account presentation, marketing and support services to new and existing clients. Decreases in, or reallocation of, capital and operating expenditures by our current and potential clients, unfavorable economic conditions and new or persisting competitive pressures could adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

We may not be able to expand or adapt our services and related products to meet the demands of our clients and their end-users quickly or at a reasonable cost. We have experienced, and expect to continue to experience, significant user and transaction growth. This growth has placed, and will continue to place, significant demands on our personnel, management and other resources. We will need to continue to expand and adapt our infrastructure, services and related products to accommodate additional clients and their end-users, increased transaction volumes and changing end-user requirements. This will require substantial financial, operational and management resources. If we are unable to scale our system and processes to support the variety and number of transactions and end-users that ultimately use our services, our business may be materially adversely affected.

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

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

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

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

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

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

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

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

We may have exposure to greater than anticipated tax liabilities.

We are subject to income taxes and other taxes in a variety of jurisdictions. The determination of our provision for income taxes and other tax liabilities requires significant judgment. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

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

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

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

As part of our pricing structure, we earn interest (float interest) in clearing accounts that hold funds collected from end-users until they are disbursed to receiving merchants or financial institutions. The float interest we earn on these clearing accounts is considered in our determination of the fee structure for clients and represents a portion of the payment for our services. Significant declines in interest rates will adversely affect our revenue and results of operations, 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 and trademarks covering certain aspects of our technology and our business, we cannot be sure of the level of protection that these patents and trademarks will provide. We may have to resort to litigation to enforce our intellectual property rights, to protect trade secrets or know-how, or to determine their scope, validity or enforceability. Enforcing or defending our proprietary technology is expensive, could cause diversion of our resources and may not prove successful.

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

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

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

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

Any claims, whether with or without merit, could:

- be expensive and time consuming to defend;

cause us to cease making, licensing or using products that incorporate the challenged intellectual property;

require us to redesign our products, if feasible;

divert management s attention and resources; and require us to pay royalties or enter into licensing agreements in order to obtain the right to use necessary technologies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our services require interaction with several privately operated financial networks. Each of these networks has its own evolving set of operating rules governing various aspects of the business we do with them, including transaction eligibility, data formatting, record keeping and processing and pricing methodology. For reasons of confidentiality, some of these networks also limit our access to their operating rules, making the task of compliance more difficult. Additionally, we can also be held accountable for compliance by our clients if they access these networks through us.

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

Government regulation could interfere with our business.

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

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

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

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

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

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

We are spending an increased amount of management time and external resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including but not limited to, the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq Global Select Market rules. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires management s annual review and evaluation of our internal control systems, and attestations of the effectiveness of these systems by our independent registered public accounting firm. We document and test our internal control systems and procedures and consider improvements that may be necessary in order for us to comply with the requirements of Section 404. This process requires us to hire outside advisory services and results in additional expenses for us. In addition, the evaluation and attestation processes required by Section 404 are conducted annually. In the event that our chief executive officer, chief financial officer or independent registered public accounting firm determines that our controls over financial reporting are not effective as defined under Section 404 in the future, investor perceptions of our Company may be adversely affected and could cause a decline in the market price of our stock.

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

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

Risks Related to Acquisitions

We may face difficulties in integrating acquired businesses.

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

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

- the loss of key employees or end-users;
- the need to coordinate diverse organizations;
- difficulties in integrating administrative and other functions;
- the loss of key members of management following the acquisition; and
- the diversion of our management s attention from our day-to-day operations.

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Capital Structure

Our stock price is volatile.

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

actual or anticipated variations in quarterly operating results;

announcements of technological innovations;

new products or services offered by us or our competitors;

changes in financial estimates or ratings by securities analysts;

conditions or trends in the Internet and online commerce industries;

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

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

additions or departures of key personnel;

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

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

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

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

We have issued shares of our common and convertible preferred stock in connection with certain acquisitions and may issue additional shares of our common stock in connection with future acquisitions. For example, we issued shares of convertible preferred stock to a single investor group as a part of the financing for our acquisition of Princeton which are currently convertible into 4.6 million shares of common stock. We also have over 3.5 million shares of common stock that may be issued upon the exercise of stock options and or vesting of restricted stock, and over an additional 1.1 million shares reserved for the future issuance under our equity compensation plan and our employee stock purchase program. We cannot predict the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale will have on the market price of our common stock. Sales of substantial amounts of common stock (including shares issued upon the exercise of equity compensation grants), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

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

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

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

We may desire to expand our business through further strategic acquisitions and new markets when we identify desirable opportunities. We may need additional equity and debt financing for these purposes, but may not be able to obtain such financing on acceptable terms, or at all. Our existing debt financing limits our capacity to borrow additional funds and carries interest expense that burdens our cost structure. Failure to obtain additional financing could weaken our operations or prevent us from achieving our business objectives. Equity financings, as well as debt financing with convertible features or accompanying warrants, can be dilutive to our stockholders. Negative covenants associated with debt financings may also restrict the manner in which we would otherwise desire to operate our business.

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

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

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

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

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

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

We may have to pay cash or issue shares related to the price protection agreement granted to former ITS shareholders.

As part of the purchase consideration for ITS, we also agreed to provide the former shareholders of ITS with price protection related to the 2,216,552 shares issued to them for a period of one year from the date the shares were issued, which was August 10, 2007 (the Closing Date). Under the guarantee, if the volume weighted average price of our shares for the 10-day period ending two days before the six, nine and twelve month anniversary dates of the Closing Date is less than $11.15, these shareholders have the right to put their shares to us. We can pay cash for the difference or issue additional shares. If we elect to pay cash, we pay the difference between the volume weighted average price of our shares for the 10-day period ended August 8, 2007, or $11.63, less the price corresponding to the applicable anniversary dates. If we issue shares in lieu of a cash payment, we would issue shares with a value equal to the difference between $11.15 and the value corresponding to the applicable anniversary dates which could dilute current shareholders and may adversely affect prevailing market prices for our common stock. Cash used for price protection instead of advancing or improving our Company could adversely impact our business.

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

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

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

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

Item 2. *Properties*

We are headquartered in Chantilly, Virginia where we lease approximately 75,000 square feet of office space and have signed a new lease agreement for approximately 22,000 additional square feet that will be ready for conducting business the first quarter of 2008. The lease expires September 30, 2014. We also lease office space in Princeton, New Jersey, Parsippany, New Jersey, Woodland Hills, California, Pleasanton, California and Columbus, Ohio. Our Banking segment operates from our Chantilly, Virginia, Princeton, New Jersey, Woodland Hills, California and Pleasanton, California offices; our eCommerce segments operate from our Chantilly, Virginia, Princeton, New Jersey, Parsippany, New Jersey and Columbus, Ohio offices. We believe that all of our facilities are in good condition and are suitable and adequate to meet our operations. Additionally, we believe that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

Item 3. *Legal Proceedings*

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

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

No matters were submitted to a vote of stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of 2007.

PART II

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

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

	2007		2006	
Fiscal Quarter Ended	**High**	**Low**	**High**	**Low**
First Quarter	$ 11.47	$ 9.03	$ 13.65	$ 11.4
Second Quarter	12.43	10.21	13.89	9.17
Third Quarter	13.75	10.39	12.47	9.62
Fourth Quarter	13.39	7.86	13.09	9.49

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

On December 31, 2007, we had approximately 184 holders of record of common stock. This does not reflect persons or entities that hold their stock in nominee or street name through various brokerage firms.

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

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

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))**
Equity compensation plans approved by security holders	1,518,916	$ 4.54	928,856
	1,992,916	$ 4.70	

Equity compensation plans not approved by security holders

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

The selected consolidated financial data set forth below with respect to Online Resources Consolidated Statements of Operations for the fiscal years ended December 31, 2007, 2006 and 2005 and with respect to Online Resources Consolidated Balance Sheets at December 31, 2007 and 2006 are derived from the audited Consolidated Financial Statements of Online Resources Corporation, which are included in Item 8, *Consolidated Financial Statements and Supplementary Data* in this Annual Report on Form 10-K. Consolidated Statements of Operations data for the fiscal years ended December 31, 2004 and 2003 and Consolidated Balance Sheet data at December 31, 2005, 2004 and 2003 are derived from Consolidated Financial Statements of Online Resources not included herein. The selected consolidated financial data set forth below is qualified in its entirety by, and should be read in conjunction with, the Consolidated Financial Statements, the related Notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

	Year Ended December 31, (In thousands, except per share amounts)				
	2007	**2006**	**2005**	**2004**	**2003**
Statement of Operations Data:					
Revenues:					
Service fees	$ 121,364	$ 81,573	$ 52,383	$ 39,202	$ 33,607
Professional services and other	13,768	10,163	8,118	3,083	4,801
Total revenues	135,132	91,736	60,501	42,285	38,408
Cost of revenues	64,083	41,317	26,057	19,279	16,631
Gross profit	71,049	50,419	34,444	23,006	21,777
General and administrative	28,933	19,780	13,664	9,586	8,161
Sales and marketing	23,446	18,009	8,680	6,263	6,433
Systems and development	9,196	7,382	4,204	3,246	3,831
Total expenses	$ 61,575	$ 45,171	$ 26,548	$ 19,095	$ 18,425
Income from operations	$ 9,474	$ 5,248	$ 7,896	$ 3,911	$ 3,352
Other (expense) income	(11,231)	(3,992)	1,301	182	(1,234)
(Loss) income before income tax (benefit) provision	(1,757)	1,256	9,197	4,093	2,118
Income tax (benefit) provision	(12,703)	935	(13,466)	146	16
Net income	10,946	321	22,663	3,947	2,102
Preferred stock accretion	8,302	4,309			
Net income (loss) available to common stockholders	$ 2,644	$ (3,988)	$ 22,663	$ 3,947	$ 2,102
Net income (loss) available to common stockholders per share:					
Basic	$ 0.10	$ (0.16)	$ 0.97	$ 0.22	$ 0.14

Diluted	$	0.09	$	(0.16)	$	0.88	$	0.20	$	0.13
Shares used in calculation of net income (loss) to common stockholders per share:										
Basic		27,153		25,546		23,434		18,057		15,141
Diluted		29,150		25,546		25,880		20,128		16,686

	Year Ended December 31, (in thousands)				
	2007	2006	2005	2004	2003
Balance Sheet Data:					
Cash, cash equivalents and investments(1)	$ 22,362	$ 32,154	$ 55,864	$ 4,641	$ 13,038
Working capital	17,625	41,483	61,688	10,056	14,744
Total assets	340,717	286,591	115,596	44,533	26,735
Notes payable, less current portion	75,438	85,000			
Other long-term liabilities	6,508	9,565	5,229	1,998	314
Total liabilities	120,005	111,148	12,560	9,712	4,378
Redeemable convertible preferred stock	82,542	72,108			
Stockholders equity	138,170	103,335	103,036	34,771	22,309

(1) Includes a $9.1 million short-term investment in the Columbia Strategic Cash Portfolio fund in 2007, which is expected to liquidate within the next twelve months. For additional information, see Note 5, *Investments*, in the Notes to the consolidated Financial Statements.

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

CAUTIONARY NOTE

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

OVERVIEW

We provide outsourced, web-based financial technology services branded to over 1,900 financial institution, biller, card issuer and creditor clients. With four business lines in two primary vertical markets, we serve over 12 million billable consumer and business end-users. End-users may access and view their accounts online and perform various web-based self-service functions. They may also make electronic bill payments and funds transfers, utilizing our unique, real-time debit architecture, ACH and other payment methods. Our value-added relationship management services reinforce a favorable user experience and drive a profitable and competitive Internet channel for our clients. Further, we have professional services, including software solutions, which enable various deployment options, a broad range of customization and other value-added services. We currently operate in two business segments Banking and eCommerce. The operating results of the business segments exclude general corporate overhead expenses and intangible asset amortization.

Registered end-users using account presentation, bill payment or both, and the payment transactions executed by those end-users are the major drivers of our revenues. Since December 31, 2006, the number of users of our account presentation services increased 27%, and the number of users of our payment services increased 46%, for an overall 39% increase in users. For the year ended December 31, 2007, the number of payment transactions completed by banking and biller end-users increased by 74% over the prior year. The large increase in payment services users is the result of the ITS acquisition, which occurred in August 2007. The large increase in payment transactions is the result of the Princeton acquisition, which occurred in July 2006, in addition to the ITS acquisition. Exclusive of the users and payment transactions brought to us by the Princeton and ITS acquisitions, users increased by 29% and payment transactions increased by 15% for the year ended December 31, 2007 compared to the prior year.

The following table summarizes users and payment services transactions:

	Period Ended December 31,		Increase/ (Decrease)	
	2007	2006	Change	%
Account presentation users (000s):				
Banking segment	1,101	916	185	20%
eCommerce segment	3,066	2,375	691	29%
Enterprise	4,167	3,291	876	27%
Payment services users (000s):				
Banking segment	3,459	3,097	362	12%
eCommerce segment	4,890	2,626	2,264	86%
Enterprise	8,349	5,723	2,626	46%
Total users (000s):				
Banking segment	4,367	3,836	531	14%
eCommerce segment	7,956	5,001	2,955	59%
Enterprise	12,323	8,837	3,486	39%
Payment services transactions (000s):				
Banking segment	166,815	104,208	62,607	60%
eCommerce segment	34,109	11,144	22,965	206%
Enterprise	200,924	115,352	85,572	74%

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

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

Critical Accounting Policies and Estimates

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

Revenue Recognition Policy. We generate revenues from service fees, professional services and other supporting services as a financial technology services provider in the Banking and eCommerce markets.

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

We collect funds from end-users and aggregate them in clearing accounts, which are not included in our consolidated balance sheets, as we do not have ownership of these funds. For certain transactions, funds may remain in the clearing accounts until a payment check is deposited or other payment transmission is accepted by the receiving merchant. We earn interest on these funds for the period they remain in the clearing accounts. The collection of interest on these clearing accounts is considered in our determination of the fee structure for clients and represents a portion of the payment for our services. This interest totaled $10.3 million, $6.4 million and $1.8 million for the years ended December 31, 2007, 2006 and 2005, respectively and is classified as presentation service revenue in our consolidated statements of operations.

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

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

When we provide services to the customer through the delivery of software, revenues from the sale of software licenses, services and related support are recognized according to Statement of Position (SOP) No. 97-2, *Software*

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

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

Allowance for Doubtful Accounts. The provision for losses on accounts receivable and allowance for doubtful accounts are recognized based on our estimate, which considers our historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data and financial health of specific customers. During the year ended December 31, 2007, we wrote-off $6,000 of accounts receivable against the allowance for doubtful accounts and reduced the allowance by an additional $58,000 based on judgment related to projected data to reflect a balance of $84,000 at year end. This represents management s estimate of the probable losses in the accounts receivable balance at December 31, 2007. 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 2008.

Income Taxes. Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax net operating loss carryforwards. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when such amounts are expected to reverse or be utilized. The realization of deferred tax assets is contingent upon the generation of future taxable income during the carryforward period. Valuation allowances are provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized. Management believes that the Company will generate sufficient taxable income over the next five years to recover the $133.4 million net operating loss carryforwards. The net operating loss carryforwards expire from 2012-2026, therefore, management believes that it is more likely than not that they will recover net operating losses prior to their expiration.

Prior to December 31, 2005, we maintained a full valuation allowance on the deferred tax asset resulting primarily from our net operating loss carryforwards, since the likelihood of the realization of that asset had not become more likely than not as of those balance sheet dates. At December 31, 2005, we determined that our recent experience generating taxable income balanced against our history of losses, along with our projection of future taxable income, constituted significant positive evidence for partial realization of the deferred tax asset and, therefore, partial release of the valuation allowance against that asset. Therefore, in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109), we released a portion of our valuation allowance of $36 million creating a $13.7 million deferred tax asset as of December 31, 2005 and a $13.5 million benefit to our earnings for the year ended December 31, 2005.

During 2006 and 2007 we continued to generate taxable income. As a result of this positive earnings trend and projected taxable income over the next five years, the Company reversed $29.4 million which represents substantially all of our valuation allowance, except for $5.9 million needed against state net operating loss carryforwards. This reversal resulted in recognition of an income tax benefit totaling $13.7 million. The remaining $15.7 million was related to valuation allowances accrued in purchase accounting and therefore did not benefit earnings when reversed. In addition, the Company reversed $31.1 million of its gross deferred tax asset valuation allowance after electing to waive Princeton net operating losses that were deemed not realizable. The Company also reversed $1.9 million due to a balance sheet reclassification. Our estimates of future taxable income represent critical accounting estimates because such estimates are subject to change and a downward adjustment could have a significant impact on future earnings.

The Internal Revenue Code limits the utilization of net operating losses when ownership changes occur, as defined by Section 382 of the code. Based on our analysis, a sufficient amount of net operating losses are available to offset our taxable income for the year ended December 31, 2007.

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

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

Impairment of Goodwill, Intangible Assets and Long-Lived Assets. We evaluate the recoverability of our identifiable intangible assets, goodwill and other long-lived assets in accordance with SFAS No. 142 and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). Under these provisions, we assess the recoverability of these types of assets at least annually and when events or circumstances indicate a potential impairment. We use the fair value method to assess the recoverability of our goodwill within our two reporting units, Banking and eCommerce. We use the undiscounted cash flows method, when needed, to assess the recoverability of our identifiable intangible assets and other long-lived assets and the discounted cash flows method, at least annually, to assess the recoverability of our goodwill. We did not incur any impairment charges for the years ended December 31, 2007, 2006 or 2005. Future impairment assessments could result in impairment charges that would reduce the carrying values of these assets.

Theoretical Swap Derivative. During the third quarter of 2007, we changed how we define the embedded derivative feature associated with the Series A-1 Redeemable Convertible Preferred Stock (Series A-1 Preferred Stock) issued in conjunction with the Princeton acquisition on July 3, 2006. We bifurcated the fair market value of this feature in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). Previously, the embedded derivative was defined as the right to receive interest like returns on accrued, but unpaid dividends and was included in other long-term liabilities on the balance sheet at its fair value at the date of acquisition. The fair value was marked to market at the end of each reporting period by adjusting interest expense. We determined that the embedded derivative is more appropriately defined as the right to receive a fixed rate of return on the accrued, but unpaid dividends and the variable negotiated rate, which creates a theoretical swap between the fixed rate of return on the accrued, but unpaid dividends and the variable rate actually accrued on the unpaid dividends. This embedded derivative was reclassified from other long-term liabilities to Series A-1 Preferred Stock in the mezzanine section on the consolidated balance sheet and is marked to market at the end of each reporting period through earnings and an adjustment to other assets or other long-term liabilities in accordance with SFAS No. 133.

There is no active quoted market available for the fair value of the embedded derivative. Thus, management has to make substantial estimates about the future cash flows related to the liability, the estimated period which the Series A-1 Preferred Stock will be outstanding and the appropriate discount rates commensurate with the risks involved.

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

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

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

Recently Issued Pronouncements. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). The standard provides guidance for using fair value to measure assets and liabilities. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. Also, fair value measurements would be separately disclosed by level within the fair value hierarchy which gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances.

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 for financial assets and financial liabilities and 2008 for non financial assets and non financial liabilities and interim periods within those fiscal years. We elected to adopt the standard beginning on January 1, 2008. We are currently assessing the impact that SFAS No. 157 will have on our results of operations and financial position.

In January 2007, the FASB issued SFAS No. 159, *The Fair Value Options for Financial Assets and Financial Liabilities* (SFAS No. 159). This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. We are currently assessing the impact that SFAS No. 159 will have on its results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which will improve reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. The new standard will require the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This pronouncement is effective for financial statements issued subsequent to December 15, 2008. Early adoption is not permissible, therefore we will apply this standard to acquisitions made after January 1, 2009. Also see Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements contained in Part II, Item 8, of this Annual Report on Form 10-K, which discusses accounting policies.

Results of Operations

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

	Year Ended December 31,					
	2007		**2006**		**2005**	
	Dollars	**%**	**Dollars**	**%**	**Dollars**	**%**
Revenues:						
Banking	$ 100,119	74%	$ 77,106	84%	$ 52,445	87%
eCommerce	35,013	26%	14,630	16%	8,056	13%
Total	$ 135,132	100%	$ 91,736	100%	$ 60,501	100%

37

	Dollars	Margin	Dollars	Margin	Dollars	Margin
Gross profit:						
Banking	$ 58,952	59%	$ 46,756	61%	$ 31,052	59%
eCommerce	14,075	40%	4,843	33%	3,674	46%
Unallocated(1)	(1,978)		(1,180)		(282)	
Total	$ 71,049	53%	$ 50,419	55%	$ 34,444	57%

	Dollars	%	Dollars	%	Dollars	%
Operating expenses:						
Banking	$ 24,158	39%	$ 24,047	53%	$ 17,563	66%
eCommerce	15,018	24%	8,995	20%	2,942	11%
Unallocated(1)	22,399	37%	12,129	27%	6,043	23%
Total	$ 61,575	100%	$ 45,171	100%	$ 26,548	100%

	Dollars	Margin	Dollars	Margin	Dollars	Margin
Income from operations:						
Banking	$ 34,794	35%	$ 22,709	29%	$ 13,489	26%
eCommerce	(943)	−3%	(4,152)	−28%	732	9%
Unallocated(1)	(24,377)		(13,309)		(6,325)	
Total	$ 9,474	7%	$ 5,248	6%	$ 7,896	13%

(1) Unallocated expenses are comprised of intangible asset acquired technology amortization in costs of revenues and general and administrative expense of $14.9 million, intangible asset customer list amortization of $7.3 million and $0.2 million of technology development expense that are not included in the measure of segment profit or loss used internally to evaluate the segments for the twelve months ended December 31, 2007.

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

Revenues

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

	Years Ended December 31, 2007	Years Ended December 31, 2006	Change Difference	Change %
Revenues (in thousands):				
Account presentation services	$ 8,998	$ 8,051	$ 947	12%
Payment services	104,228	65,501	38,728	59%
Relationship management services	8,138	8,022	116	1%
Professional services and other	13,768	10,162	3,605	35%
Total revenues	$ 135,132	$ 91,736	$ 43,396	47%
Payment metrics:				
Payment services clients(1)	902	877	25	3%
Payment transactions (000s)(1)	66,766	58,151	8,615	15%
Adoption rates:				
Account presentation services Banking(1)(2)	32.8%	26.5%	6.3%	24%
Payment services Banking(1)(3)	11.8%	10.4%	1.4%	13%

Notes:

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

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

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

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

Payment Services. Payment services revenue is driven by both the Banking and eCommerce segments. Payment services revenues increased to $104.2 million for the year ended December 31, 2007 from $65.5 million in the prior year. While approximately 58% and 21% of the increase was related to the addition of new revenues from the acquisitions of Princeton and ITS, respectively, the remaining 21% was driven by growth in our existing business in the form of a 38% increase in the number of period-end payment services users and a 15% increase in the number of payment transactions processed during the period. The increases in period-end payment services users and the number of payment transactions processed by our existing business resulted from two factors: an increase in financial services provider clients using our payment services and an increase in payment services adoption by our payment services clients end-users. Compared to December 31, 2006, the number of financial services provider clients using our payment services increased from 877 to 902. Additionally, the adoption rate of our payment services increased from 10.4% at December 31, 2006 to 11.8% at December 31, 2007.

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

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

Costs and Expenses

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

Notes:

(1) In thousands except for per share amounts.

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

Gross Profit. Gross profit increased $20.6 million for the year ended December 31, 2007 to $71.0 million, and gross margin percentage decreased from 55% in 2006 to 53% in 2007. Princeton and ITS accounted for 62% and 16%, respectively, of the increase in gross profit, exclusive of the Princeton amortization related to purchased technology. The total decrease in gross margin is the result of increased amortization of intangible assets purchased as part of the July 2006 Princeton acquisition, the addition of the lower margin ITS in August 2007 and increased amortization of software development projects.

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

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

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

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

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

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

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

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

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

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

Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

Revenues

We generate revenues from account presentation services, payment services, relationship management services and professional services and other revenues. Revenues increased $31.2 million, or 52%, to $91.7 million for the year ended December 31, 2006, from $60.5 million for the same period of 2005. Approximately 70% of the increase was attributable to the addition of revenues from Princeton, which was acquired on July 3, 2006, while the remaining 30% of the increase was attributable to organic growth relative to 2006.

	Years Ended December 31,		Change	
	2006	**2005**	**Difference**	**%**
Revenues (in thousands):				
Account presentation services	$ 8,051	$ 8,826	$ (775)	9%
Payment services	65,500	35,841	29,659	83%
Relationship management services	8,022	7,716	306	4%
Professional services and other	10,163	8,118	2,045	25%
Total revenues	$ 91,736	$ 60,501	$ 31,235	52%
Payment metrics:				
Payment services clients(1)	877	790	87	11%
Payment transactions (000s)(1)	58,151	46,212	11,939	26%

Adoption rates:					
Account presentation services	Banking(1)(2)	26.5%	22.9%	3.6%	16%
Payment services	Banking(1)(3)	10.4%	9.2%	1.2%	13%

Notes:

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

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

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

Account Presentation Services. Both the Banking and eCommerce segments contribute to account presentation services revenues, which decreased $0.8 million to $8.0 million. The loss of three of our largest clients, who were acquired by other financial institutions and subsequently migrated off our platform in the first half of 2005, is the primary reason for the decrease, with account presentation services revenue generated by the remaining client base increasing by 7% compared to 2005. None of this growth was due to the acquisition of Princeton. The low rate of growth is the result of our decision to fix price the account presentation service to our clients, especially our banking clients, in an effort to drive adoption of those services. This allows our financial services provider clients to register an unlimited number of account presentation services users (as evidenced by the 16% increase in banking account presentation services adoption since December 31, 2005) to whom we can then attempt to up-sell our higher margin bill pay products and other services.

Payment Services. Primarily composed of revenues from the Banking segment prior to the acquisition of Princeton, payment services revenue is now driven by both the Banking and eCommerce segments. Payment services revenues increased to $65.5 million for the year ended December 31, 2006 from $35.9 million in the prior year. While approximately 70% of the increase was related to the addition of new revenues from Princeton, the remaining 30% was driven by growth in our existing business in the form of a 25% increase in the number of period-end payment services users and a 26% increase in the number of payment transactions processed during the period. The increases in period-end payment services users and the number of payment transactions processed by our existing business resulted from two factors: an increase in financial services provider clients using our payment services and an increase in payment services adoption by our payment services clients end-users. Compared to December 31, 2005, the number of financial services provider clients using our payment services increased from 790 to 877. Additionally, we increased the adoption rate of our payment services from 9.2% at December 31, 2005 to 10.4% at December 31, 2006.

Relationship Management Services. Primarily composed of revenues from the Banking segment, relationship management services revenues increased slightly by $0.3 million. This was the result of a 34% increase in the number of period-end Banking segment end-users utilizing either account presentation or payment services compared to 2005, exclusive of acquired Princeton users since they do not currently contribute to relationship management services revenues.

Professional Services and Other. Both the Banking and eCommerce segments contribute to professional services and other revenues, which increased by $2.1 million to $10.2 million in 2006 as a result of the acquisitions of Integrated Data Systems in June 2005 and Princeton in July 2006. The additional revenues brought by these acquisitions in 2006 were partially offset by lower one-time termination fee revenues, which were higher than normal in 2005.

Costs and Expenses

	Years Ended December 31,		Change	
	2006(1)	**2005(1)**	**Difference(1)**	**%**
Revenues	$ 91,736	$ 60,501	$ 31,235	52%
Costs of revenues	41,317	26,057	15,260	59%
Gross profit	50,419	34,444	15,975	46%
Gross margin	55%	57%	−2%	−4%
Operating expenses				
General and administrative	19,780	13,664	6,116	45%
Sales and marketing	18,009	8,680	9,329	107%
Systems and development	7,382	4,204	3,178	76%
Total operating expenses	45,171	26,548	18,623	70%
Income from operations	5,248	7,896	(2,648)	−34%
Other (expense) income				
Interest income	1,961	1,303	658	50%
Interest expense	(5,953)	(2)	(5,951)	n/a
Total other (expense) income	(3,992)	1,301	(5,293)	n/a
Income before tax provision (benefit)	1,256	9,197	(7,941)	−86%
Income tax provision (benefit)	935	(13,466)	14,401	n/a
Net income	321	22,663	(22,342)	−99%
Preferred stock accretion	4,309		4,309	n/a
Net (loss) income available to common stockholders	$ (3,988)	$ 22,663	$ (26,651)	n/a
Net (loss) income available to common stockholders per share:				
Basic	$ (0.16)	$ 0.97	$ (1.13)	n/a
Diluted	$ (0.16)	$ 0.88	$ (1.04)	n/a
Shares used in calculation of net (loss) income available to common stockholders per share:				
Basic	25,546	23,434	2,112	9%
Diluted	25,546	25,880	(334)	−1%

Notes:

(1) In thousands except for per share amounts.

Costs of Revenues. Costs of revenues encompass the direct expenses associated with providing our services. These expenses include telecommunications, payment processing, systems operations, customer service, implementation and professional services work. Costs of revenues increased by $15.2 million to $41.3 million for the year ended December 31, 2006, from $26.1 million for the same period in 2005. Sixty percent (60%) of this increase is the result of additional costs of revenues associated with Princeton, which was acquired in July 2006, in addition to increased amortization of intangible assets purchased as part of the acquisition totaling $0.8 million, headcount increases in professional services, increases in volume-related payment processing and systems operations costs, increased amortization of software development costs capitalized in accordance with SOP No. 98-1 and the expensing of equity compensation pursuant to SFAS No. 123(R), which we adopted January 1, 2006.

Gross Profit. Gross profit increased $16.0 million for the year ended December 31, 2006 to $50.4 million, and gross margin decreased from 57% in 2005 to 55% in 2006. Princeton accounted for 78% of the increase in gross profit. The decrease in gross margin is the result of increased amortization of intangible assets purchased as part of the July 2006 Princeton acquisition and the expensing of equity compensation pursuant to SFAS No. 123(R), which we adopted January 1, 2006.

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 $6.2 million, or 45%, to $19.8 million for the year ended December 31, 2006, from $13.6 million in the same period of 2005. Forty-two percent (42%) of this increase is the result of additional costs associated with Princeton in addition to increased salary and benefit costs as a result of increased headcount and increased depreciation expense and the expensing of equity compensation pursuant to SFAS No. 123(R), which we adopted January 1, 2006.

Sales and Marketing. Sales and marketing expenses include salaries and commissions paid to sales and marketing personnel, corporate marketing costs and other costs incurred in marketing our services and products. Sales and marketing expenses increased $9.3 million, or 107%, to $18.0 million for the year ended December 31, 2006, from $8.7 million in 2005. Thirty-five percent (35%) of this increase is the result of additional costs associated with Princeton in addition to increased amortization of intangible assets purchased as part of the acquisition totaling $3.6 million, increased salary and benefits costs as a result of the expansion of our sales, client services and product groups, increased partnership commission to our reseller partners owing to higher user and transaction volumes in 2006 and the expensing of equity compensation pursuant to SFAS No. 123(R), which we adopted January 1, 2006.

Systems and Development. Systems and development expenses include salaries, consulting fees and all other expenses incurred in supporting the research and development of new services and products and new technology to enhance existing products. Systems and development expenses increased $3.2 million, or 76%, to $7.4 million for the year ended December 31, 2006, from $4.2 million in 2005. Sixty percent (60%) of this increase is the result of additional costs associated with Princeton in addition to an increase in salaries and benefits due to increased headcount, partially offset by an increase in the amount of costs capitalized in accordance with SOP No. 98-1. As a result of the increased product development, we capitalized $5.1 million of development costs associated with software developed or obtained for internal use during the year ended December 31, 2006, compared to $3.6 million in 2005.

Income from Operations. Income from operations decreased $2.7 million, or 34%, to 5.2 million for the year ended December 31, 2006. The decrease was due to increased amortization of intangible assets purchased as part of the July 2006 Princeton acquisition totaling $4.4 million and the expensing of equity compensation in 2006 pursuant to SFAS No. 123(R), which we adopted January 1, 2006.

Other (Expense) Income, Net. Other (expense) income decreased $5.3 million due to interest expense and debt issuance costs incurred in connection with $85 million in senior secured notes issued on July 3, 2006 and interest expense incurred in connection with the accrued liquidation preference (the Escalation Accrual) on the Series A-1 Preferred Stock issued on July 3, 2006. The senior secured notes carry an interest rate equal to 700 basis points above the one-month LIBOR.

Income Tax Provision (Benefit). Our income tax provision for the year ended December 31, 2006 was $0.9 million compared to a $13.5 million benefit for the year ended December 31, 2005. Prior to December 31, 2005, we maintained a full valuation allowance on the deferred tax asset resulting from our net operating loss carry-forwards, since the likelihood of the realization of that asset had not become more likely than not as of balance sheet dates prior to December 31, 2005. At December 31, 2005, we determined that our recent experience generating taxable income balanced against our history of losses, along with our projection of future taxable income, constituted significant positive evidence for partial realization of the deferred tax asset and, therefore, partial release of the valuation allowance against that asset. Therefore, in accordance with SFAS No. 109, we now report on a fully taxed basis even though we are still utilizing our net operating loss carry-forwards and are not paying taxes.

Preferred Stock Accretion. The Series A-1 Preferred Stock was issued on July 3, 2006 and was recorded at its fair value at inception, net of its issuance costs of $5.1 million and the fair market value of the embedded derivative that represents interest on unpaid accrued dividends. The Series A-1 Preferred Stock has a liquidation preference that increases at a rate of 8% per annum of the original issuance price (preferred dividend) and is subject to put and call rights following the seventh anniversary of its issuance for an amount equal to 115% of the original issuance price plus the preferred dividend. The carrying value of the Series A-1 Preferred Stock is accreted to its estimated redemption amount.

Net (Loss) Income Available to Common Stockholders. Net (loss) income available to common stockholders decreased $26.7 million to a loss of $4.0 million for the year ended December 31, 2006, compared to a net income of $22.7 million for the year ended December 31, 2005. Basic and diluted net loss available to common stockholders per share was $0.16 for the year ended December 31, 2006, compared to basic and diluted net income available to common stockholders per share of $0.97 and $0.88 for the year ended December 31, 2005, respectively. Basic shares outstanding increased by 9% as a result of shares issued in connection with the exercise of company-issued stock options and our employees participation in our employee stock purchase plan, in addition to shares issued as part of a follow-on offering in April 2005. Diluted shares outstanding decreased by 1% as result of the anti-dilutive effect of stock options on the fully diluted earnings per share calculation for the year ended December 31, 2006.

Liquidity and Capital Resources

Since inception, we have primarily financed our operations through cash generated from operations, 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 cash equivalents were $13.2 million and $31.2 million on of December 31, 2007 and 2006, respectively. The $18.0 million decrease in cash and cash equivalents resulted from capital expenditures of $16.4 million, $12.2 million in cash used to partially fund the acquisition of ITS, $10.2 million in cash and cash equivalents reclassified to short-term investments and $3.2 million in cash used to re-finance our long-term debt, partially offset by cash provided by operating activities of $18.2 million, proceeds from the sale of short-term investments of $1.9 million and $4.0 million in cash proceeds from the issuance of common stock in connection to the exercise of Company-issued stock options by our employees and our employees participation in our employee stock purchase plan.

Net cash provided by operating activities was $18.2 million for the year ended December 31, 2007. This represented a $1.2 million increase in cash provided by operating activities compared to the prior period, which was the result of increased service fees revenues received in 2007 versus 2006.

Net cash used in investing activities for the year ended December 31, 2007 was $36.9 million, which was the result of purchases of property and equipment of $16.4 million, $12.2 million used to partially fund the acquisition of ITS, $10.2 million re-classified from cash and cash equivalents to short-term investments, net of $1.9 million in cash provided by the sale of short-term investments.

Net cash provided by financing activities was $0.7 million for the year ended December 31, 2007, which was primarily the result of cash provided by the exercise of company-issued stock options and our employees participation in our employee stock purchase plan of $4.0 million partially offset by $3.2 million of costs incurred related to our refinancing.

In December 2007, the Company reclassified $10.2 million of investments in the Columbia Strategic Cash Portfolio (the Fund) from cash and cash equivalents to short-term investments. The Fund was short-term and highly liquid in nature prior to the fourth quarter of 2007 and was classified as a cash equivalent. During the fourth quarter of 2007, the Fund was closed by the Fund administrator to future investment, partially due to the subprime credit market crisis, and began liquidating the Fund in an orderly manner. The Funds were then converted to a net asset value basis and marked-to-market daily. The Company will remain in the Fund through the liquidation period. The Fund is expected to substantially liquidate over the next twelve months and as such the Fund was appropriately classified in short-term investments at fair value in the consolidated balance sheet at December 31, 2007. The Company adjusted the fund to its estimated fair value at December 31, 2007 and recognized an unrealized loss of $0.1 million related to this investment. There may be further decreases in the value of the Fund based on changes in market values of the securities held in the

Fund. To the extent the Company determines there is a further decline in fair value, the Company may recognize additional unrealized losses in future periods.

On October 1, 2007, the Company executed a seven-year lease covering approximately 22,000 additional square feet of office and data center space at the Company s headquarters in Chantilly, VA. The Company was given a four-month deferral of rent payments on the additional space while the space was converted to useable space. The Company recognized rental expense of $0.1 million for the additional space during 2007. The Company also amended its lease for its facilities in Princeton, NJ in March 2007. In conjunction with the lease amendment, the Company received a lease incentive of approximately $0.4 million related to the Company s construction of a disaster recovery site at its Princeton facilities. The benefit of this lease incentive has been deferred as part of a lease incentive obligation, recorded as a reduction to lease expense and recognized ratably over the term of the lease.

On August 10, 2007, pursuant to the terms of the Agreement and Plan of Merger dated July 26, 2007, as thereafter amended and restated, and along with our wholly-owned subsidiary, ITS Acquisition Sub, LLC, we completed the merger (the Merger) under which we acquired all of the outstanding stock of Internet Transaction Solutions, Inc. (ITS), a Delaware corporation, for total consideration of approximately $48.1 million including transaction related costs of $0.3 million. We agreed to issue 2,216,552 shares of our common stock to the stockholders and preferred rights holders of ITS in partial payment of the purchase price. These shares have been valued at $24.7 million, and the balance of the purchase price, approximately $20.3 million, was paid in cash. Of the $20.3 million paid in cash, $3.6 million has been escrowed to cover indemnification claims, if any, that may arise in our favor within one year from the closing of the Merger.

As part of the purchase consideration for ITS, we also agreed to provide the former shareholders of ITS with price protection related to the 2,216,552 shares issued to them for a period of one year from the date the shares were issued, which was August 10, 2007 (the Closing Date). Under the guarantee, if the volume weighted average price of our shares for the 10-day period ending two days before the six, nine and twelve month anniversary dates of the Closing Date is less than $11.15, these shareholders have the right to put their shares to us. We can pay cash for the difference or issue additional shares. If we elect to pay cash, we pay the difference between the volume weighted average price of our shares for the 10-day period ended August 8, 2007, or $11.63, less the price corresponding to the applicable anniversary dates. If we issue shares in lieu of a cash payment, we would issue shares with a value equal to the difference between $11.15 and the value corresponding to the applicable anniversary dates. Additionally, on any trading day that the closing price of our shares is 20% or more below $11.15, we have the right to restore the shareholders to a total value per share equal to the issuance price. We can choose to repurchase the shares with cash or give the shareholders additional shares. Any repurchase of shares or issuance of additional value by us, whether at the request of the shareholders or at our option, relieves us of any future price protection obligations.

These rights represent a stand-alone derivative which was included as part of the consideration issued for the acquisition. Using a trinomial tree model, we determined that the value of this option was $2.8 million as of the Closing Date and created a liability on our balance sheet for this amount. The liability will be marked to market each period to reflect changes in the value of the option driven by share price, share price volatility and time to maturity. At December 31, 2007, the value of the option, using the same valuation model, was determined to be $2.4 million. The derivative will be marked to market until it is exercised or expires. During the year ended December 31, 2007, the liability associated with this derivative decreased $0.4 million which is recognized as a reduction of interest expense. The liability will generally increase should our share price decline, and will decrease with the passage of time.

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

The preliminary purchase price allocations to identifiable intangible asset, principally customer lists, and goodwill were $21.2 million and $33.1 million, respectively. The identifiable intangible asset will be amortized over its useful life of ten years based on an accelerated amortization schedule that approximates the pattern in which economic benefit of the intangible asset is consumed or otherwise used up.

On February 21, 2007, we entered into an agreement with Bank of America to refinance our existing debt with $85 million in term loans (2007 Notes). The agreement also provides a $15 million revolver (Revolver) under which we can secure up to $5 million in letters of credit. Currently, there are no amounts outstanding under the Revolver, but available credit under the Revolver has been reduced by approximately $1.8 million as a result of letters of credit which the bank has issued. Interest on both the Revolver and the 2007 Notes is one-month LIBOR plus 225 to 275 basis points based upon the ratio of our funded indebtedness to our EBITDA, and is payable monthly. The interest rate at December 31, 2007 was 7.57%. The 2007 Notes and the Revolver are secured by our assets. We incurred $1.5 million in financing costs in conjunction with the transaction, and these costs have been deferred and are being amortized using the effective interest rate method over the term of the term loans. In addition, we incur a commitment fee of 0.5% on any unused portion of the Revolver. We received a waiver agreement from the lender, Bank of America, waiving the acknowledged event of default for failing to timely submit consolidated financial statements.

We issued $85 million of senior secured notes (the 2006 Notes) on July 3, 2006. Interest on the 2006 Notes was one-month LIBOR plus 700 basis points, and it was payable quarterly. The 2006 Notes were refinanced with the issuance of the 2007 Notes. We paid a $1.7 million pre-payment penalty and wrote-off $3.9 million in deferred financing costs in conjunction with the transaction.

On March 30, 2007, we entered into an interest rate cap agreement (2007 Hedge) that protects the cash flows on designated one-month LIBOR-based interest payments beginning on April 3, 2007 through July 31, 2009. The 2007 Hedge limits the exposure to LIBOR interest rate increases in excess of 5.5%. The 2007 Hedge has a notional value of $70.0 million through September 28, 2007, $65.0 million through June 30, 2008 and $42.5 million through July 31, 2009. Approximately, 76%, or $65 million, of our $85.0 million 2007 Notes had its interest payments perfectly hedged against increases in variable-rate interest payments above 5.5% by the 2007 Hedge.

We entered into an interest rate cap agreement (2006 Hedge) on June 30, 2006 that protected cash flows on designated one-month LIBOR-based payments beginning on July 3, 2006 through July 1, 2008. The 2006 Hedge limited the exposure to interest rate increases in excess of 5.5%. Approximately 82%, or $70.0 million, of our 2006 Notes had its interest payments perfectly hedged against increases in variable-rate interest payments over 5.5% by the 2006 Hedge up until the 2006 Notes were refinanced on February 21, 2007. On February 21, 2007, the 2006 Hedge was de-designated and was sold on April 3, 2007. The 2006 Hedge was replaced by the 2007 Hedge in order to be hedged against the 2007 Notes.

We issued $75 million of redeemable convertible preferred stock on July 3, 2006. An amount equal to 8% per annum of the original purchase price of the redeemable convertible preferred stock plus interest thereon accrues quarterly as an increase to the stockholders liquidation preference. Additionally, the redeemable convertible preferred stock is subject to put and call rights following the seventh anniversary of its issuance for an amount equal to 115% of the original issuance price plus the preferred dividend.

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

		Year Ended December 31,					
	Total	**2008**	**2009**	**2010**	**2011**	**2012**	**Thereafter**
Capital lease obligations	$ 92	$ 37	$ 36	$ 19	$	$	$
Operating leases	34,874	4,557	4,661	4,726	4,804	4,504	11,622
Purchase obligations	730	730					
Notes payable	85,000	9,562	15,937	17,000	32,938	9,563	

Total obligations	$ 120,840	$ 15,030	$ 20,634	$ 21,745	$ 37,742	$ 14,067	$ 11,622

Based on the one-month LIBOR at December 31, 2007, the estimated interest payments related to the Notes payable are $6.3 million, $5.3 million, $4.0 million, $2.4 million and $0.1 million in 2008, 2009, 2010, 2011 and 2012, respectively.

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

We currently believe that cash on hand, investments and the cash we expect to generate from operations will be sufficient to meet our current anticipated cash requirements for at least the next twelve months. Additionally, we completed the acquisition of ITS for $48.1 million, including transaction costs of $0.3 million, on August 10, 2007. We forecast that we will not need additional capital as a result of the ITS acquisition as ITS is forecasted to be accretive cash flows.

There can be no assurance that additional capital beyond the amounts currently forecasted by us will not be required or that any such required additional capital will be available on reasonable terms, if at all, at such time as required.

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

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

We are exposed to the impact of interest rate changes as they affect our term loans. The interest rate charged on our term loans varies based on LIBOR and, consequently, our interest expense could fluctuate with changes in the LIBOR rate through the maturity date of the term loans. We have entered into an interest rate cap agreement that effectively limited our exposure to interest rate fluctuations on $65 million of the $85 million in term loans outstanding at December 31, 2007. The remaining $20 million is not subject to any interest rate cap agreements. If LIBOR increased by one percent as of December 31, 2007, we would have incurred an additional $0.2 million of interest expense associated with the $20 million in term loans outstanding at December 31, 2007 that were not subject to any interest rate cap agreements.

We earn interest (float interest) in clearing accounts that hold funds collected from end-users until they are disbursed to receiving merchants or financial institutions. The float interest we earn on these clearing accounts is considered in our determination of the fee structure for clients and represents a portion of the payment for our services. As such, the float interest earned is classified as payment services revenue in our consolidated statements of operations. This float interest revenue is exposed to changes in the general level of U.S. interest rates as it relates to the balances of these clearing accounts. The float interest totaled $10.3 million, $6.4 million and $1.8 million for the years ended December 31, 2007, 2006 and 2005, respectively.

In December 2007, the Company reclassified $10.2 million of investments in the Columbia Strategic Cash Portfolio (the Fund) from cash and cash equivalents to short-term investments. The Fund was short-term and highly liquid in nature prior to the fourth quarter of 2007 and was classified as a cash equivalent. During the fourth quarter of 2007, the Fund was closed by the Fund administrator to future investment, partially due to the subprime credit market crisis, and began liquidating the Fund in an orderly manner. The Funds were then converted to a net asset value basis and marked to market daily. The Company will remain in the Fund through the liquidation period. The Fund is expected to substantially liquidate over the next twelve months and as such the Fund was appropriately classified in short-term investments at fair value in the consolidated balance sheet at December 31, 2007. The Company adjusted the fund to its estimated fair value at December 31, 2007 and recognized an unrealized loss of $0.1 million related to this investment.

There may be further decreases in the value of the Fund based on changes in market values of the securities held in the Fund. To the extent the Company determines there is a further decline in fair value, the Company may recognize additional unrealized losses in future periods.

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Online Resources Corporation:

We have audited Online Resources Corporation s (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting (Item 9A(c)). Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

Online Resources Corporation acquired Internet Transaction Services, Inc. during 2007, and management excluded from its assessment of the effectiveness of Online Resources Corporation s internal control over financial reporting as of December 31, 2007, Internet Transaction Services Inc. s internal control over financial reporting associated with total assets of $15.2 million, excluding goodwill and intangible assets recorded at the time of acquisition which were included in management s assessment and our audit, and total revenues of $8.1 million included in the consolidated financial statements of Online Resources Corporation as of and for the year ended December 31, 2007. Our audit of internal control over financial reporting of Online Resources Corporation also excluded an evaluation of the internal control over financial reporting of Internet Transaction Services, Inc.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. Management identified and included in its assessment material weaknesses related to ineffective monitoring activities in the financial close process and inadequate policies and procedures for the accounting for income taxes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Online Resources Corporation as of December 31, 2007, and the related consolidated statements of operations, stockholders equity and cash flows, for the year then ended. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 consolidated financial statements, and this report does not affect our report dated April 8, 2008, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

McLean, Virginia
April 8, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders Online Resources Corporation:

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

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Online Resources Corporation s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 8, 2008 expressed an adverse opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

McLean, Virginia
April 8, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of Online Resources Corporation:

We have audited the accompanying consolidated balance sheets of Online Resources Corporation as of December 31, 2006, and the related consolidated statements of operations, cash flows, and stockholders equity for the years ended December 31, 2006 and 2005. Our audits also included the financial statement schedule listed in the accompanying index in Item 15. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Online Resources Corporation at December 31, 2006, and the consolidated results of its operations and its cash flows for the years ended December 31, 2006 and 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule when considered in relation to the basic financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in 2006 the Company adopted the provisions of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, pursuant to which the Company recorded a cumulative adjustment to accumulated deficit as of January 1, 2006 to correct prior period errors in recording certain revenue. In addition, as discussed in Note 2, on January 1, 2006 the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) *Share Based Payment* and changed its method of accounting for share based payments using the modified prospective transition method.

/s/ Ernst & Young LLP

McLean, Virginia
March 15, 2007

ONLINE RESOURCES CORPORATION

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

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,227	$ 31,189
Restricted cash	1,535	3,919
Consumer deposits receivable	8,279	
Short-term investments	9,135	965
Accounts receivable (net of allowance of $84 and $148, respectively)	16,546	14,291
Deferred implementation costs	1,459	1,598
Deferred tax asset, current portion	902	2,561
Prepaid expenses and other current assets:	4,601	3,543
Total current assets	55,684	58,066
Property and equipment, net	26,852	19,110
Deferred tax asset, less current portion	32,914	11,635
Deferred implementation costs, less current portion	1,628	1,015
Goodwill	184,300	168,085
Intangible assets	36,924	25,128
Other assets	2,415	3,552
Total assets	$ 340,717	$ 286,591
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,001	$ 2,332
Consumer deposits payable	10,555	
Accrued expenses	5,494	3,996
Accrued compensation	2,019	2,306
Notes payable, senior secured debt, current portion	9,562	
Deferred revenues, current portion	5,673	4,919
Interest payable	72	2,688
Other current liabilities	2,683	342
Total current liabilities	38,059	16,583
Notes payable, senior secured debt, less current portion	75,438	85,000
Deferred revenues, less current portion	3,916	3,374
Other long-term liabilities	2,592	6,191

Total liabilities	120,005	111,148
Commitments and contingencies		
Redeemable convertible preferred stock:		
Series A-1 convertible preferred stock, $0.01 par value; 75 shares authorized and issued at December 31, 2007 (Redeemable on July 3, 2013 at $135,815)	82,542	72,108
Stockholders equity:		
Series B junior participating preferred stock, $0.01 par value; 297.5 shares authorized; none issued		
Common stock, $0.0001 par value; 70,000 shares authorized; 28,895 issued and 28,819 outstanding at December 31, 2007 and 25,865 issued and 25,789 outstanding at December 31, 2006	3	3
Additional paid-in capital	198,333	166,355
Accumulated deficit	(59,744)	(62,388)
Treasury stock, 76 shares	(228)	(228)
Accumulated other comprehensive loss	(194)	(407)
Total stockholders equity	138,170	103,335
Total liabilities and stockholders equity	$ 340,717	$ 286,591

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

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

	Year Ended December 31, 2007	2006	2005
Revenues:			
Account presentation services	$ 8,998	$ 8,051	$ 8,826
Payment services	104,228	65,500	35,841
Relationship management services	8,138	8,022	7,716
Professional services and other	13,768	10,163	8,118
Total revenues	135,132	91,736	60,501
Costs and expenses:			
Service costs	57,456	34,623	21,386
Implementation and other costs	6,627	6,694	4,671
Costs of revenues	64,083	41,317	26,057
Gross profit	71,049	50,419	34,444
General and administrative	28,933	19,780	13,664
Sales and marketing	23,446	18,009	8,680
Systems and development	9,196	7,382	4,204
Total expenses	61,575	45,171	26,548
Income from operations	9,474	5,248	7,896
Other (expense) income:			
Interest income	1,242	1,961	1,303
Interest expense	(6,731)	(5,506)	(5)
Other (expense) income	(117)	(447)	3
Loss on extinguishment of debt	(5,625)		
Total other (expense) income	(11,231)	(3,992)	1,301
Income (loss) before income taxes	(1,757)	1,256	9,197
Income tax (benefit) provision	(12,703)	935	(13,466)
Net income	10,946	321	22,663
Preferred stock accretion	8,302	4,309	
Net income (loss) available to common stockholders	$ 2,644	$ (3,988)	$ 22,663

Net income (loss) available to common stockholders per share:

Basic	$	0.10	$	(0.16)	$	0.97
Diluted	$	0.09	$	(0.16)	$	0.88
Shares used in calculation of net income (loss) available to common stockholders per share:						
Basic		27,153		25,546		23,434
Diluted		29,150		25,546		25,880

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2004	19,265	$ 2	$ 114,648	$ (79,651)	$ (228)	$	$ 34,771
Comprehensive income:							
Net income				22,663			22,663
Comprehensive income							22,663
Exercise of common stock options	516		2,992				2,992
Tax benefit from the exercise of employee stock options			47				47
Issuance of common stock	131		339				339
Issuance of common stock in connection with follow-on offering, net of costs	5,120	1	40,224				40,225
Issuance of common stock in connection with IDS acquisition	181		1,999				1,999
Balance at December 31, 2005	25,213	3	160,249	(56,988)	(228)		103,036
Adjustment under SAB No. 108 (Note 2)				(1,412)			(1,412)
Comprehensive loss:							
Net income				321			321
Unrealized loss on hedging instrument						(407)	(407)
Comprehensive loss							(86)
Preferred stock accretion				(4,309)			(4,309)
Equity compensation cost			2,512				2,512
Exercise of common stock options	541		3,288				3,288
Issuance of common stock	35		306				306

Balance at December 31, 2006	25,789		3		166,355		(62,388)		(228)		(407)		103,335
Comprehensive income:													
Net income							10,946						10,946
Net unrealized gain on hedging instrument, net of taxes of $60											213		213
Comprehensive income													11,159
Preferred stock accretion							(8,302)						(8,302)
Equity compensation cost					3,296								3,296
Exercise of common stock options	771				3,767								3,767
Issuance of common stock	42				202								202
Issuance of common stock in connection with ITS acquisition	2,217				24,713								24,713
Balance at December 31, 2007	28,819	$	3	$	198,333	$	(59,744)	$	(228)	$	(194)	$	138,170

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2007	**2006**	**2005**
Operating activities			
Net income	$ 10,946	$ 321	$ 22,663
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred tax benefit	(13,380)	(531)	(13,665)
Depreciation and amortization	19,811	12,772	5,856
Equity compensation expense	3,198	2,512	
Write off and amortization of debt issuance costs	4,330	445	
Loss on disposal of assets	180	1	104
(Benefit) provision for losses on accounts receivable	(12)	(21)	2
Loss on investments	117		
Change in fair value of stock price protection	(355)		
Change in fair value of theoretical swap derivative	(1,145)		
Loss on cash flow hedge derivative security	350		
Amortization of bond discount			(1)
Loss on preferred stock derivative security		158	
Changes in operating assets and liabilities, net of acquisitions:			
Restricted cash	2,292	(1,699)	(569)
Consumer deposit receivable	(3,297)		
Consumer deposit payable	5,285		
Accounts receivable	(2,169)	(1,486)	1,327
Prepaid expenses and other assets	(1,769)	646	1,453
Deferred implementation costs	(474)	(1,484)	(249)
Accounts payable	(3,247)	58	(565)
Accrued expenses and other liabilities	(1,118)	(275)	511
Interest payable	(2,616)	2,688	
Deferred revenues	1,296	2,905	1,578
Net cash provided by operating activities	18,225	17,010	18,445
Investing activities			
Purchases of property and equipment	(16,360)	(9,823)	(7,481)
Purchase of short-term investments	(10,167)	(965)	
Sale of short-term investments	1,880		
Purchases of available-for-sale securities			(3,100)
Sales of available-for-sale securities			4,400
Acquisition of Internet Transactions Solutions, Inc., net of cash acquired	(12,220)		
Acquisition of Princeton, net of cash acquired		(184,362)	
Acquisition of Integrated Data Systems, Inc., net of cash acquired			(3,317)

Net cash used in investing activities	(36,867)	(195,150)	(9,498)
Financing activities			
Net proceeds from issuance of common stock	3,998	3,486	3,378
Net proceeds from issuance of common stock in follow-on offering			40,224
Net proceeds from issuance of redeemable convertible preferred stock		69,912	
Purchase of cash flow derivative	(121)	(455)	
Sale of cash flow derivative	22		
Debt issuance costs on refinancing of long-term debt	(1,479)		
Prepayment penalty on repayment of 2006 notes	(1,700)		
Proceeds from issuance of 2007 notes	85,000		
Repayment of 2006 notes	(85,000)		
Net proceeds from issuance of 2006 notes		80,549	
Repayment of capital lease obligations	(40)	(27)	(27)
Net cash provided by financing activities	680	153,465	43,575
Net (decrease) increase in cash and cash equivalents	(17,962)	(24,675)	52,522
Cash and cash equivalents at beginning of year	31,189	55,864	3,342
Cash and cash equivalents at end of year	$ 13,227	$ 31,189	$ 55,864

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

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

SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS:

	Year Ended December 31,		
	2007	2006	2005
Cash paid for interest	$ 10,091	$ 2,665	$ 4
Income taxes paid	$ 464	$ 77	$ 282
Net unrealized gain (loss) on hedge and investments	$ 137	$ (407)	$

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:

On August 10, 2007, the Company acquired all the outstanding shares of Internet Transaction Solutions, Inc. (ITS) for an aggregate amount of $48.1 million including transaction costs. For additional information, see Note 3, *Acquisitions,* in the Notes to the Consolidated Financial Statements.

The following represents the fair value of assets acquired, net of liabilities assumed at the acquisition date, August 10, 2007 (unaudited):

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

Aggregate purchase price	$ 48,139

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

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:

	Year Ended December 31,		
	2007	2006	2005
Common stock issued in connection with ITS acquisition	$ 24,713	$	$
Common stock issued in connection with IDS earnout and acquisition	$	$ 119	$ 1,999
Issuance of equity award liabilities	$	$ (11)	$

See accompanying notes to consolidated financial statements.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Online Resources Corporation (the Company) provides outsourced, web-based financial technology services to financial institution, biller, card issuer and creditor clients. The Company serves billable consumer and business end-users within four business lines in two primary vertical markets. 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 the Company s unique, real-time debit architecture, ACH and other payment methods. The Company s value-added relationship management services reinforce a favorable user experience and drive a profitable and competitive Internet channel for its clients. Further, the Company provides professional services, including software solutions, which enable various deployment options, a broad range of customization and other value-added services. The Company currently operates in two business segments Banking and eCommerce.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in Application of Accounting Policy

Theoretical Swap Derivative During 2007, the Company changed how it defines the embedded derivative associated with the Series A-1 Redeemable Convertible Preferred Stock (Series A-1 Preferred Stock) issued in conjunction with the Princeton acquisition on July 3, 2006. At the time of acquisition, the embedded derivative was defined as the right to receive interest like returns on accrued, but unpaid dividends, and was included in other long-term liabilities on the balance sheet at its fair value at the date of acquisition. The fair value of the embedded derivative was marked to market at the end of each reporting period by adjusting interest expense. During 2007, the Company determined that it was more appropriate to define the embedded derivative as the difference between the right to receive a fixed rate of return on the accrued, but unpaid dividends and the variable negotiated rate, which creates a theoretical swap between the fixed rate of return on the accrued, but unpaid dividends and the variable rate actually accrued on the unpaid dividends. This embedded derivative was reclassified from other long-term liabilities to Series A-1 Preferred Stock in the mezzanine section on the consolidated balance sheet. The theoretical swap had no value at the date of issuance and this embedded derivative is marked to market at each period through earnings, with the fair value of the theoretical swap recognized as an other asset or other long-term liability at each balance sheet date.

Shown below is the cumulative impact of the change in definition for the periods prior to January 1, 2007 (in thousands):

Increase to other assets	$ 229
Increase to Series A-1 Preferred Stock	$ 1,928
Decrease to other long-term liabilities	$ (2,289)
Decrease to preferred stock accretion	$ (204)
Decrease to interest expense	$ (461)

Change in Method of Recognition of Revenue and Deferred Costs During 2007, the Company changed the manner in which it recognizes revenue and costs associated with up-front implementation fees received to install a new client on its system and new-user setup fees received to create payment delivery instructions for the end-users of its clients. The

Company defers these fees upon receipt along with the costs incurred in providing these services and has historically recognized the revenues and costs related to these fees on a straight-line basis over the client s remaining contract term. In accordance with Emerging Issues Task Force (EITF) No. 00-21 *Revenue Arrangements with Multiple Deliverables* (EITF No. 00-21), the implementation fees, new user set-up fees, and service revenues are considered a single unit of accounting. Therefore, both the service revenues and the implementation and new user fees are required to be accounted for in a consistent manner. As the service revenues are recognized on a proportionate performance basis, the Company has changed its methodology for recognition of the implementation and new user fees to the proportionate

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

performance method. The Company further determined that the implementation costs should be charged to expense proportionally and over the same period that associated service fees are recognized as revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements* (SAB No. 104). The cumulative impact of the change in recognition method of revenue and costs in for the periods prior to January 1, 2007 was as follows (in thousands):

Decrease to revenue	$ (161)
Decrease to cost of revenue	$ (109)
Decrease to net income	$ (52)

The Company assessed the cumulative impact these changes would have on the statement of operations for the twelve months ended December 31, 2007 and the balance sheet at December 31, 2007 and determined that the changes would not have a material impact on the current or prior interim or annual consolidated financial statements. Consequently, the changes were made effective July 1, 2007.

Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Restricted Cash

The Company s restricted cash consists of funds from unclaimed bill payment checks, which the Company will either return to the initiator of the bill payment or surrender the funds to the appropriate state escheat funds.

Consumer Deposit Receivable and Payables

Consumer deposits receivable is comprised of in-transit customer payment transactions, related to the Company s ITS operations, that have not been received by the Company. Consumer deposits payable is comprised of cash held, related to ITS operations, that will be remitted to customers for collections made on their behalf.

Short-term Investments

In December 2007, the Company reclassified $10.2 million of investments in the Columbia Strategic Cash Portfolio (the Fund) from cash and cash equivalents to short-term investments. The Fund was short-term and highly liquid in nature prior to the fourth quarter of 2007 and was classified as a cash equivalent. During the fourth quarter of 2007, the Fund was closed by the Fund administrator to future investment, partially due to the subprime

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

credit market crisis, and began liquidating the Fund in an orderly manner. The Funds were then converted to a net asset value basis and marked to market daily. The Company will remain in the Fund through the liquidation period. The Fund is expected to substantially liquidate over the next twelve months and as such, the Fund was appropriately classified in short-term investments at fair value in the consolidated balance sheet at December 31, 2007. The Company adjusted the fund to its estimated fair value at December 31, 2007 and recognized an unrealized loss of $0.1 million related to this investment for the year ended December 31, 2007. Through March 31, 2008, the Company has received $3.1 million of proceeds from the liquidation of this instrument.

There may be further decreases in the value of the Fund based on changes in market values of the securities held in the Fund. To the extent the Company determines there is a further decline in fair value, the Company may recognize additional unrealized losses in future periods.

Fair Value of Financial Instruments

At December 31, 2007 and 2006, the carrying values of the following financial instruments: cash and cash equivalents, restricted cash, consumer deposits receivable, short-term investments, accounts receivable, accounts payable, consumer deposits payable, accrued expenses, notes payable and other liabilities approximate their fair values based on the liquidity of these financial instruments or based on their short-term nature. The carrying values of the Company s notes payable approximate fair value due to the variable interest rate which resets every month based upon interest benchmarks and a premium that varies based upon financial metrics. Additionally, the Company has a cash flow hedge related to the interest. See fair value of cash flow hedge in Note 10, *Financial Instruments.*

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk at December 31, 2007 and 2006 consist primarily of cash and cash equivalents and restricted cash and short-term investments. The Company has cash in financial institutions that is insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000 per institution. At December 31, 2007 and 2006, the Company had cash and cash equivalents, restricted cash and short-term investment accounts in excess of the FDIC insured limits.

A customer that accounts for a significant percentage of sales relative to the Company s total sales could potentially subject the Company to concentrations of credit risk. A December 31, 2007 and 2006, no one client or reseller partner accounted for more than 3% of our revenues.

Revenue Recognition

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

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

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

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Implementation and new user registration fees, in accordance with EITF No. 00-21, are considered a single unit of accounting with the service fees associated with the contract. As such, implementation and new user registration fees are recognized consistently the way service fees are recorded, on a proportionate performance basis. For additional information on the change in accounting policy for revenue recognition related to implementation and new user registration fees, see the *Change in Application of Accounting Policy* section included in this note.

The Company collects funds from end-users and aggregates them in clearing accounts, which are not included in its consolidated balance sheets, as the Company does not have ownership of these funds. For certain transactions, funds may remain in the clearing accounts until a payment check is deposited or other payment transmission is accepted by the receiving merchant. The Company earns interest on these funds for the period they remain in the clearing accounts. The collection of interest on these clearing accounts is considered in the Company s determination of its fee structure for clients and represents a portion of the payment for services performed by the Company. The interest totaled $10.3 million, $6.4 million and $1.8 million for the years ended December 31, 2007, 2006 and 2005, respectively, and is classified as payment services revenue in the Company s consolidated statements of operations.

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

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

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

The percentage-of-completion is measured based on the percentage of labor effort incurred to date to estimated total labor effort to complete delivery of the software license. Changes in estimates to complete and

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

revisions in overall profit estimates on these contracts are charged to the Company s consolidated statements of operations in the period in which they are determined. The Company records any estimated losses on contracts immediately upon determination. Revenues related to support services are recognized on a straight-line basis over the term of the support agreement.

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

Deferred Income Taxes

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

Allowance for Doubtful Accounts

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

Property and Equipment

Property and equipment, including leasehold improvements, are recorded at cost. Depreciation is calculated using the straight-line method over the assets estimated useful lives. See the table below for depreciable lives for each asset grouping. Depreciation expense was $6.4 million, $5.3 million and $3.9 million for the years ended December 31, 2007, 2006, and 2005, respectively, and is included as cost of revenues and general and administrative expenses in the consolidated Statements of Operations. See Note 6, *Property and Equipment and Capitalized Software Costs,* for additional information.

Asset Group	**Depreciable Life**
Central processing systems and terminals	3-5 years
Office furniture and equipment	5 years
Central processing systems and terminals under capital leases	shorter life of 3-5 years or lease term
Office furniture and equipment under capital leases	shorter life of 5 years or lease term

Leasehold improvements	generally remaining lease term (1)

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

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capitalized Software Costs

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

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

Amortization of capitalized computer software costs was $4.0 million, $2.5 million and $1.6 million for the years ended December 31, 2007, 2006 and 2005, respectively. See Note 6, *Property and Equipment and Capitalized Software Costs,* for additional information.

Goodwill

With the acquisitions of ITS on August 10, 2007, Princeton eCom Corporation (Princeton) on July 3, 2006, Integrated Data Systems, Inc. (IDS) on June 27, 2005, and Incurrent Solutions, Inc. (Incurrent) on December 22, 2004, the Company recorded goodwill and intangible assets in accordance with SFAS No. 141, *Business Combinations* (SFAS No. 141). In accordance with SFAS No. 142, *Goodwill and Intangible Assets* (SFAS No. 142), goodwill is not amortized and is tested at the reporting unit level at least annually or whenever events or circumstances indicate that goodwill might be impaired. The Company has elected to test for goodwill impairment annually as of October 1. There was no impairment of goodwill based on the Company s goodwill testing as of October 1, 2007, 2006 and 2005.

Impairment of Long-Lived Assets and Intangible Assets

In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), the Company periodically evaluates the recoverability of long-lived assets, including deferred implementation costs, property and equipment and intangible assets, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets include customer lists, non-compete agreements, purchased technology, patents and trademarks, which are amortized over their useful lives of five to eleven years based on a schedule that approximates the pattern in which economic benefits of the intangible assets are consumed or otherwise used up. Other intangible assets represent long-lived assets and are assessed for potential impairment whenever significant events or changes occur that might impact recovery of recorded costs. There were no indicators of impairment for a particular asset group during the three years ended December 31, 2007.

Theoretical Swap Derivative

The Company bifurcated the fair market value of the embedded derivative associated with the Series A-1 Preferred Stock issued in conjunction with the Princeton acquisition on July 3, 2006 in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). The Company determined that the embedded derivative is defined as the right to receive a fixed rate of return on the accrued, but unpaid dividends and the variable negotiated rate, which creates a theoretical swap between the fixed rate of return on the accrued, but unpaid dividends and the variable rate actually accrued on the

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

unpaid dividends. This embedded derivative is marked to market at the end of each reporting period through earnings and an adjustment to other assets or other long-term liabilities in accordance with SFAS No. 133. There is no active quoted market available for the fair value of the embedded derivative. Thus, management has to make substantial estimates about the future cash flows related to the asset, the estimated period which the Series A-1 Preferred Stock will be outstanding and the appropriate discount rates commensurate with the risks involved. For additional information in regards to a change in accounting policy for this embedded derivative, see the *Changes in Application of Accounting Policy* section at the beginning of this note.

Accounting Policy for Derivative Instruments

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

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

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

Reclassification

Certain amounts reported in prior periods have been reclassified to conform to the 2007 presentation.

Net Income (Loss) Available to Common Stockholders Per Share

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

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accumulated Comprehensive Income (Loss)

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

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), using the modified-prospective transition method. Under that transition method, compensation cost recognized in 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Pursuant to SFAS No. 123(R), the Company chose to apply the with-and-without approach for the ordering recognition of excess tax benefits for share based awards and other benefits in accordance with Emerging Issues Task Force Topic No. D-32, *Intraperiod Tax Allocation of the Tax Effect of Pretax Income from Continuing Operations.*

Prior to January 1, 2006, the Company accounted for its equity compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related interpretations, as permitted by SFAS No. 123. No stock-based employee compensation cost was recognized in the consolidated statements of operations for 2005, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

If compensation expense for stock options had been determined based on the fair value at the grant dates for awards under the Company s equity compensation plans, the Company s net income and net income per share would have been reduced to the pro forma amounts indicated as follows:

	Twelve Months Ended December 31, 2005 (In thousands, except per share amounts)	
Net income, as reported	$	22,663
Adjustment to net income for:		
Pro forma stock-based compensation expense		(2,783)
Pro forma net income	$	19,880
Basic net income per share:		
As reported	$	0.97

Pro forma	$	0.85
Diluted net income per share:		
As reported	$	0.88
Pro forma	$	0.77

See Note 15, *Equity Compensation Plans,* for a description of the Company s equity compensation plans and the details of the Company s stock compensation expense.

Recently Issued Pronouncements

In September 2006, the Financial Accounting Standards Board issued, SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). The standard provides guidance for using fair value to measure assets and

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liabilities. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. Also, fair value measurements would be separately disclosed by level within the fair value hierarchy which gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances.

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 for financial assets and financial liabilities and 2008 for nonfinancial assets and nonfinancial liabilities and interim periods within those fiscal years. The Company elected to adopt the standard on January 1, 2008. Based on an analysis the Company performed, it was determined that adopting the new standard will not have a material impact on the Company s financial position and results of operations.

In January 2007, the FASB issued SFAS No. 159, *The Fair Value Options for Financial Assets and Financial Liabilities* (SFAS No. 159). This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. We are currently assessing the impact that SFAS No. 159 will have on its results of operations and financial position.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations*, which will improve reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. The new standard will require the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This pronouncement is effective for financial statements issued subsequent to December 15, 2008. Early adoption is not permissible, therefore the Company will apply this standard to acquisitions made after January 1, 2009.

3. ACQUISITIONS

Internet Transaction Solutions, Inc.

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

$3.6 million has been escrowed to cover indemnification claims, if any, that may arise in favor of the Company within one year from the closing of the merger with ITS.

As part of the purchase consideration for ITS, the Company also agreed to provide the former shareholders of ITS with price protection related to the 2,216,552 shares issued to them for a period of one year from the date the shares were issued, which was August 10, 2007 (the Closing Date). Under the guarantee, if the volume weighted average price of the Company s shares for the 10-day period ending two

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

days before the six, nine and twelve month anniversary dates of the Closing Date is less than $11.15, these shareholders have the right to put their shares to us. We can pay cash for the difference or issue additional shares. If we elect to pay cash, we pay the difference between the volume weighted average price of our shares for the 10-day period ended August 8, 2007, or $11.63, less the price corresponding to the applicable anniversary dates. If we issue shares in lieu of a cash payment, we would issue shares with a value equal the difference between $11.15 and the value corresponding to the applicable anniversary dates. Additionally, on any trading day that the closing price of the Company s shares is 20% or more below $11.15, the Company has the right to restore the shareholders to a total value per share equal to the issuance price. The Company can choose to repurchase the shares with cash or give the shareholders additional shares. Any repurchase of shares or issuance of additional value by the Company, whether at the request of the shareholders or at the Company s option, relieves the Company of any future price protection obligations.

These rights represent a stand-alone derivative which was included as part of the consideration issued for the acquisition. Using a trinomial tree model, the Company determined that the value of this option was $2.8 million as of the Closing Date and recorded this amount in other current liabilities on the consolidated balance sheet. The liability will be marked to market each period to reflect changes in the value of the option driven by share price, share price volatility and time to maturity. At December 31, 2007, the value of the option, using the same valuation model, was determined to be $2.4 million. The derivative will be marked to market until it is exercised or expires. During the year ended December 31, 2007, the liability associated with this derivative decreased $0.4 million which is recognized as a reduction of interest expense. The liability will generally increase if the Company s share price declines, and will also decrease due to the passage of time.

ITS is a leading provider of electronic payment solutions to receivable management companies and utilities. ITS solutions enable consumers to process bill payments through the Web, telephone (integrated voice response) or a customer service representative, resulting in significant cost savings, faster collections, and improved service for its biller customers. ITS services are primarily utilized by receivable management companies and utilities billers. ITS generates revenue from billpay transaction fees, which are either paid by the end-user or the client biller. The Company operates the ITS business segment within its eCommerce segment. The acquisition has been accounted for using the purchase method of accounting. The purchase price allocation and the tax effect of the acquisition is preliminary. The purchase price was allocated to the estimated fair value of the assets acquired and liabilities assumed. The estimated fair value of the tangible assets acquired and liabilities assumed approximated the historical basis. ITS had significant intangible assets related to its customer list and employee base. An identified value was assigned to the customer list, and the identified value assigned to the employee base was included within goodwill. No other significant intangible assets were identified or included in goodwill.

The preliminary purchase price allocations to identifiable intangible asset and goodwill were $21.2 million and $33.1 million, respectively. The identifiable intangible asset will be amortized over its useful life of ten years based on an accelerated amortization schedule that approximates the pattern in which economic benefit of the intangible asset is consumed or otherwise used up.

The results of operations for ITS are included within the eCommerce segment in the consolidated statements of operations beginning August 11, 2007. The financial information in the table below summarizes the results of operations of the Company and ITS on a pro forma basis, as though the companies had been combined as of the beginning of the periods presented.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

This pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition actually taken place as of the beginning of the periods presented (in thousands except per share amounts).

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

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

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

Stock price guarantee		2,783
Transaction costs		337
Aggregate purchase price	$	48,139

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

Princeton

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

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The finalized purchase price allocations to identifiable intangible assets and goodwill were $27.7 million and $151.2 million, respectively. The identifiable intangible assets will be amortized over their useful lives of 6-11 years based on an accelerated amortization schedule that approximates the pattern in which economic benefits of the intangible assets are consumed or otherwise used up.

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

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Assuming the acquisition had taken place on January 1, 2005, the Company s pro forma results for the years ended December 31, 2006 and 2005 would have been (in thousands except per share amounts):

	Unaudited Pro forma Information For the Year Ended December 31	
	2006	2005
Revenues	$ 111,924	$ 92,587
Net (loss) income	$ (8,640)	$ 159
Net loss available to common stockholders	$ (17,267)	$ (8,477)
Net loss available to common stockholders per share:		
Basic	$ (0.68)	$ (0.36)
Diluted	$ (0.68)	$ (0.36)

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

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

Current liabilities	(3,915)
Long-term liabilities	(503)
Total liabilities assumed	(4,418)
Net assets acquired	$ 190,362

4. REPORTABLE SEGMENTS

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

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The segment s account presentation, payment, relationship management and professional services are distributed to these clients through the Internet.

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

The results of operations from these reportable segments were as follows for the three years ended December 31, 2007 (in thousands):

	Banking	eCommerce	Unallocated Expenses(1)	Total
Year ended December 31, 2007:				
Revenues:				
Account presentaion services	$ 2,936	$ 6,062	$	$ 8,998
Payment services	80,334	23,894		104,228
Relationship management services	8,033	106		8,138
Professional services and other	8,816	4,951		13,768
Total revenues	100,119	35,013		135,132
Costs of revenues	41,167	20,938	1,978	64,083
Gross profit	58,952	14,075	(1,978)	71,049
Operating expenses	24,158	15,018	22,399	61,575
Income (loss) from operations	$ 34,794	$ (943)	$ (24,377)	$ 9,474
Year ended December 31, 2006:				
Revenues:				
Account presentaion services	$ 2,751	$ 5,300	$	$ 8,051
Payment services	59,277	6,224		65,501
Relationship management services	7,988	34		8,022
Professional services and other	7,090	3,072		10,162
Total revenues	77,106	14,630		91,736
Costs of revenues	30,350	9,787	1,180	41,317
Gross profit	46,756	4,843	(1,180)	50,419

Operating expenses		24,047		8,995		12,129		45,171
Income (loss) from operations	$	22,709	$	(4,152)	$	(13,309)	$	5,248

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Banking	eCommerce	Unallocated Expenses(1)	Total
Year ended December 31, 2005:				
Revenues:				
Account presentaion services	$ 2,939	$ 5,887	$	$ 8,826
Payment services	35,765	76		35,841
Relationship management services	7,716			7,716
Professional services and other	6,025	2,093		8,118
Total revenues	52,445	8,056		60,501
Costs of revenues	21,393	4,382	282	26,057
Gross profit	31,052	3,674	(282)	34,444
Operating expenses	17,563	2,942	6,043	26,548
Income (loss) from operations	$ 13,489	$ 732	$ (6,325)	$ 7,896

(1) Unallocated expenses are comprised of intangible asset acquired technology amortization in costs of revenues and general and administrative expense of $14.9 million, intangible asset customer list amortization of $7.3 million and $0.2 million of technology development expense that are not included in the measure of segment profit or loss used internally to evaluate the segments for the twelve months ended December 31, 2007.

5. INVESTMENTS

In December 2007, the Company reclassified $10.2 million of investments in the Columbia Strategic Cash Portfolio (the Fund) from cash and cash equivalents to short-term investments. The Fund was short-term and highly liquid in nature prior to the fourth quarter of 2007 and was classified as a cash equivalent. During the fourth quarter of 2007, the Fund was closed by the Fund administrator to future investment, partially due to the subprime credit market crisis, and began liquidating the Fund in an orderly manner. The Funds were then converted to a net asset value basis and marked to market daily. The Company will remain in the Fund through the liquidation period. The Fund is expected to substantially liquidate over the next twelve months and as such the Fund was appropriately classified in short-term investments at fair value in the consolidated balance sheet at December 31, 2007. The Company adjusted the fund to its estimated fair value at December 31, 2007 and recognized an unrealized loss of $0.1 million related to this investment.

There may be further decreases in the value of the Fund based on changes in market values of the securities held in the Fund. To the extent the Company determines there is a further decline in fair value, the Company may recognize additional unrealized losses in future periods.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. PROPERTY AND EQUIPMENT AND CAPITALIZED SOFTWARE COSTS

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

	December 31, 2007	December 31, 2006
Central processing systems and terminals	$ 30,900	$ 25,752
Office furniture and equipment	3,057	2,903
Central processing systems and terminals under capital leases	1,476	1,197
Office furniture and equipment under capital leases	237	572
Internal use software	20,552	14,862
Leasehold improvements	6,048	2,425
Total	62,270	47,711
Less accumulated depreciation and amortization	(26,717)	(21,957)
Less accumulated amortization of internal use software	(8,374)	(5,462)
Less accumulated depreciation on assets held under capital leases	(327)	(1,182)
	$ 26,852	$ 19,110

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill consists of the following (in thousands):

	Banking Segment	eCommerce Segment	Total
Balance at December 31, 2005	$ 4,736	$ 11,587	$ 16,323
Goodwill acquired (Princeton eCom acquisition)	86,302	65,105	151,407
Adjustments	378	(23)	355
Balance at December 31, 2006	91,416	76,669	168,085
Goodwill acquired (ITS acquisition)		33,123	33,123
Adjustments(1)	(9,638)	(7,270)	(16,908)
Balance at December 31, 2007	$ 81,778	$ 102,522	$ 184,300

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

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible assets consist of the following (in thousands):

	December 31, 2007	December 31, 2006
Gross carrying amount:		
Purchased technology	$ 11,171	$ 11,183
Customer lists	40,483	19,263
Patents and Trademarks	244	222
Non-compete agreements	33	33
Total gross carrying amount	51,931	30,701
Accumulated amortization:		
Less accumulated amortization of purchased technology	(3,440)	(1,475)
Less accumulated amortization of customer lists	(11,380)	(3,931)
Less accumulated amortization of patents and trademarks	(171)	(157)
Less accumulated amortization of non-compete	(16)	(10)
Total accumulated amortization	(15,007)	(5,573)
Total intangible assets	$ 36,924	$ 25,128

Amortization expense related to intangible assets was $9.4 million, $5.0 million and $0.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

All intangible assets are amortized over their useful lives of five to eleven years based on a schedule that approximates the pattern in which economic benefits of the intangible assets are consumed or otherwise used up. Amortization expense is expected to approximate $9.4 million, $7.6 million, $5.9 million, $4.8 million and $3.3 million for the years ended December 31, 2008, 2009, 2010, 2011 and 2012.

8. COMMITMENTS

The Company leases office space under operating leases expiring in 2010, 2013 and 2014. All but one of the leases provide for escalating rent over the respective lease term. Rent expense is recognized on a straight-line basis over the period of the lease. Rent expense under the operating leases for the years ended December 31, 2007, 2006, and 2005, was $5.6 million, $3.7 million and $2.1 million, respectively.

On May 21, 2004, the Company executed a ten-year lease covering approximately 75,000 square feet of office and data center space at the Company s headquarters in Chantilly, VA. The rent commencement date of the new lease was October 1, 2004, and the Company received a lease incentive of approximately $1.7 million in connection with the lease. The Company amortized $0.2 million of the lease incentive in 2007 and 2006, respectively. The remaining balance of the incentive at December 31, 2007 is $1.2 million.

On October 1, 2007, the Company executed a seven-year lease covering approximately 22,000 additional square feet of office and data center space at the Company s headquarters in Chantilly, VA. The Company was given a four-month deferral of rent payments on the additional space while the space was converted to useable space. The Company recognized rental expense of $0.1 million for the additional space during 2007. The Company also amended its lease for its facilities in Princeton, NJ in March 2007. In conjunction with the lease amendment, the Company received a lease incentive of approximately $0.4 million related to the Company s construction of a disaster recovery site at its Princeton facilities. The benefit of this lease incentive has been deferred as part of a lease incentive obligation, recorded as a reduction to lease expense and recognized ratably over the term of the lease.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Operating	Capital
2008	$ 4,557	$ 45
2009	4,661	40
2010	4,726	20
2011	4,804	
2012	4,504	
Thereafter	11,622	
Total minimum lease payments	$ 34,874	105
Less amount representing interest		(13)
Present value of minimum lease payments		92
Less current portion		(37)
Long-term portion of minimum lease payments		$ 55

9. INCOME TAXES

The Company incurred a current tax liability for federal income taxes resulting from alternative minimum tax (AMT), of approximately $0.2 million for both years ended December 31, 2007 and 2006. As a result of the AMT paid, the Company has approximately $0.6 million in AMT credits that can be used to offset regular income taxes when paid in the future. In addition, the Company incurred a current state tax liability of $0.1 million and a negligible amount primarily related to minimum state taxes for the years ended December 31, 2007 and 2006, respectively, this amount was accrued in 2007. A deferred benefit of $13.4 million was accrued during 2007 primarily related to the release of valuation allowance. During 2006, deferred expense of $0.9 million was recognized.

At December 31, 2007, the Company has federal net operating loss carryforwards of approximately $117.4 million that expire at varying dates from 2012 to 2026, excluding approximately $16 million related to the exercise of stock options. The benefit of the stock compensation deductions will be recognized in shareholders equity when the net operating losses are realized and reduce income taxes payable.

Pursuant to the acquisition of Princeton in July 2006, the Company acquired a net deferred tax asset of $19.9 million representing the acquisition of Princeton s net operating loss carryforwards and the inclusion of non-deductible intangible asset amortization. This amount has been adjusted from the initial estimate of $48.9 million due to certain elections made in the company s tax return after the initial purchase accounting was reflected in the 2006 financial statements. The net deferred tax asset was offset with a valuation allowance that was also accrued in purchase accounting. The valuation allowance was adjusted accordingly. As of December 31, 2007, approximately $5.6 million of valuation allowance remains that was accrued in purchase accounting and will not benefit tax expense should the deferred tax asset become more likely than not realizable.

The timing and manner in which the Company may utilize the net operating loss carryforwards in subsequent tax years will be limited to the Company s ability to generate future taxable income and, potentially, by the application of the ownership change rules under Section 382 of the Internal Revenue Code. The Company expects to utilize approximately $7.7 million of federal net operating loss carryforwards for the year ended December 31, 2007. While Section 382 limitations apply to the company, the limitations alone are not expected to result in the expiration of tax benefits should the company produce taxable income sufficient to utilize the loss carryforwards.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2007, the Company has a recent history of operating profits. As a result of this positive earnings trend and projected taxable income over the next five years, the Company reversed approximately $29.4 million of its gross deferred tax asset valuation allowance, having determined that it was more likely than not that this portion of the deferred tax asset would be realized. This reversal resulted in recognition of an income tax benefit totaling $13.7 million. The remaining $15.7 million was related to valuation allowances accrued in purchase accounting and therefore did not benefit earnings when reversed. In addition, the Company reversed $31.1 million of its gross deferred tax asset valuation allowance after electing to waive Princeton net operating losses that were deemed not realizable. The Company also reversed $1.9 million due to a balance sheet reclassification. Our estimates of future taxable income represent critical accounting estimates because such estimates are subject to change and a downward adjustment could have a significant impact on future earnings. Furthermore, the Company continues to evaluate its net deferred tax asset valuation allowance, including the effects of the ITS acquisition, in regards to the likelihood of realization of the deferred tax assets.

As of December 31, 2007, the Company continues to carry a valuation allowance of $5.9 million against certain deferred tax assets that are not more likely than not realizable. Should it become more likely than not that these deferred tax assets become realizable, $5.6 million of the $5.9 million will not benefit tax expense.

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

	December 31,	
	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	$ 48,006	$ 87,848
Deferred wages	2,552	1,450
Deferred revenue	739	1,719
Deferred rent	1,056	947
Fixed assets	825	
Other credits	647	
Other deferred tax assets	186	286
Total deferred tax assets	54,011	92,250
Deferred liabilities:		
Acquired intangible assets	(14,312)	(9,692)
Depreciation		(141)
Total deferred tax liabilities	(14,312)	(9,833)
Valuation allowance for net deferred tax assets	(5,883)	(68,221)
Net deferred tax assets	$ 33,816	$ 14,196

The Internal Revenue Code limits the utilization of net operating losses when ownership changes occur, as defined by Section 382 of the code. Based on the Company s analysis, a sufficient amount of net operating losses are available to offset the Company s taxable income for the year ended December 31, 2007. In addition, the Company has recognized a deferred tax asset at December 31, 2007 with respect to a substantial portion of its net operating losses. The net deferred tax asset represents the amount of tax benefit that the Company currently believes it will, more likely than not, have taxable income against which to apply that benefit, likely within the next five years. A valuation allowance of $5.9 million has been determined to be appropriate at December 31, 2007 related to the remaining portion of the state net operating losses. This allowance relates to net operating losses applicable to certain net operating losses state tax for which the potential utilization remains uncertain.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Previously, the Company recognized a deferred tax asset at December 31, 2005 with respect to a portion of its net operating losses. This deferred tax asset represented the amount of tax benefit that the Company believed it would, more likely than not, have taxable income against which to apply that benefit over the following three years. A valuation allowance of $16.4 million was established at December 31, 2005 for the remaining portion of the net deferred tax assets, given the length of time prior to the potential utilization and the uncertainty of having sufficient taxable income in future periods.

The following is a summary of the items that caused the income tax expense to differ from taxes computed using the statutory federal income tax rate for the years ended December 31, 2007, 2006 and 2005 (in thousands):

	Year Ended December 31, 2007	2006	2005
Tax expense at statutory Federal rate	$ (597)	$ 427	$ 3,127
Effect of:			
State income tax, net	(401)	113	380
Other Permanent differences	(267)	392	34
Alternative minimum tax			187
Return to provision adjustment	256		
Increase (decrease) in valuation allowance	(11,694)	3	(17,194)
Income tax (benefit) expense	$ (12,703)	$ 935	$ (13,466)
Income tax expense consists of the following (in thousands):			
Current Expense			
Federal	$ 402	$	$ 186
State	275	3	10
	677	3	196
Deferred Expense			
Federal	(12,497)	761	(14,228)
State	(883)	171	566
	(13,380)	932	(13,662)
Income tax (benefit) expense	$ (12,703)	$ 935	$ (13,466)

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

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

The Company estimates that it is reasonably possible that no reduction in unrecognized tax benefit may occur in the next twelve months due primarily to the expiration of the statute of limitations in various state

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and local jurisdictions. The Company does not currently estimate any additional material reasonably possible uncertain tax positions occurring within the next twelve month time frame.

10. FINANCIAL INSTRUMENTS

Derivatives Instruments and Hedging Activities

Cash Flow Hedging Strategy

On March 30, 2007, the Company entered into an interest rate cap agreement (2007 Hedge) that protects the cash flows on designated one-month LIBOR-based interest payments beginning on April 3, 2007 through July 31, 2009. The 2007 Hedge limits the exposure to interest rate increases in excess of 5.5%. The 2007 Hedge has a notional value of $70.0 million through September 28, 2007, $65.0 million through June 30, 2008 and $42.5 million through July 31, 2009. Approximately 76%, or $65 million, of the Company s $85.0 million 2007 Notes had its interest payments perfectly hedged against increases in variable-rate interest payments above 5.5% by the 2007 Hedge.

The Company entered into an interest rate cap agreement (2006 Hedge) on June 30, 2006 that protected cash flows on designated one-month LIBOR-based payments beginning on July 3, 2006 through July 1, 2008. The 2006 Hedge limited the exposure to interest rate increases in excess of 5.5%. The 2006 Hedge had a notional value of $75.0 million through January 1, 2007, $70.0 million through July 1, 2007 and $65.0 million through July 1, 2008. Approximately, 82%, or $70.0 million, of the Company s 2006 Notes had its interest payments perfectly hedged against increases in variable-rate interest payments over 5.5% by the 2006 Hedge up until the 2006 Notes were refinanced on February 21, 2007. The 2006 Hedge was de-designated on February 21, 2007 and was sold on April 3, 2007. The 2006 Hedge was replaced by the 2007 Hedge in order to hedge against the 2007 Notes.

During the year ended December 31, 2007, the Company recorded unrealized losses of $0.1 million as part of the comprehensive loss recorded in stockholders equity to reflect the change in the fair value of the 2006 Hedge through February 21, 2007, the date of de-designation for the interest rate cap, and the 2007 Hedge through December 31, 2007. During the year ended December 31, 2006, the Company recorded $0.4 million as part of the comprehensive loss recorded in stockholders equity to reflect the change in the fair value of the 2006 Hedge. During the year ended December 31, 2007, the Company recorded realized losses of $0.3 million with the maturation of the 2007 and 2006 Hedge s caplets. As additional interest rate caplets mature, the portions of the changes in fair value that are associated with the cost of the maturing caplet will be recognized as interest expense. There is no published exchange information containing the price of the Company s interest rate cap instruments. Thus, the fair value of the interest rate caps are based on estimated fair value quotes from a broker and market maker in derivative instruments. Their estimates are based upon the December 31, 2007 LIBOR forward curve, which implies that the caplets had minimal intrinsic value at December 31, 2007. The fair value of the 2007 and 2006 Hedge at December 31, 2007 was $0.3 million.

At December 31, 2007, the Company expects to reclassify approximately $0.2 million of net losses from derivative instruments from accumulated other comprehensive loss to operations (i.e., as interest expense) during the next twelve months due to actual payments of variable interest associated with the floating rate debt.

Theoretical Swap Derivative

The Company bifurcated the fair market value of the embedded derivative associated with the Series A-1 Preferred Stock issued in conjunction with the Princeton acquisition on July 3, 2006 in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). The Company determined that the embedded derivative is defined as the right to receive a fixed rate of return on the accrued, but unpaid dividends and the variable negotiated rate, which creates a theoretical swap between the fixed rate of return on the accrued, but unpaid dividends and the variable rate actually accrued on the

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

unpaid dividends. This embedded derivative is marked to market at the end of each reporting period through earnings and an adjustment to other assets or other long-term liabilities in accordance with SFAS No. 133. There is no active quoted market available for the fair value of the embedded derivative. Thus, management has to make substantial estimates about the future cash flows related to the asset, the estimated period which the Series A-1 Preferred Stock will be outstanding and the appropriate discount rates commensurate with the risks involved. For additional information in regards to a change in accounting policy for this embedded derivative, see the *Changes in Application of Accounting Policy* section in Note 2 for additional information.

Series A-1 Preferred Stock

The Company s Series A-1 Preferred Stock is carried at its fair value at inception adjusted for accretion of unpaid dividends and interest accruing thereon, the 115% redemption price, the original fair value of the bifurcated embedded derivative, and the amortized portion of its original issuance costs, which approximates its redemption value. At December 31, 2007 its carrying value was $82.5 million. See Note 12, *Convertible Preferred Stock,* for a detailed explanation of the Series A-1 Preferred Stock.

ITS Price Protection

As part of the purchase consideration for ITS, the Company also agreed to provide the former shareholders of ITS with price protection related to the 2,216,552 shares issued to them for a period of one year from the date the shares were issued, which was August 10, 2007 (the Closing Date). Under the guarantee, if the volume weighted average price of the Company s shares for the 10-day period ending two days before the six, nine and twelve month anniversary dates of the Closing Date is less than $11.15, these shareholders have the right to put their shares to us.

This purchase price protection represents a stand-alone derivative which was included as part of the consideration issued for the acquisition. Using a trinomial tree model, the Company determined that the value of this option was $2.8 million as of the Effective Date and recorded this amount in other current liabilities on the consolidated balance sheet. The liability will be marked to market each period to reflect changes in the value of the option driven by share price, share price volatility and time to maturity. At December 31, 2007, the value of the option, using the same valuation model, was determined to be $2.4 million. The derivative will be marked to market until it is exercised or expires. During the year ended December 31, 2007, the liability associated with this derivative decreased $0.4 million which is recognized as a reduction of interest expense. The liability will generally increase if the Company s share price declines, and will also decrease due to the passage of time.

11. SENIOR SECURED NOTES

The Company issued $85 million of senior secured notes (the 2006 Notes) on July 3, 2006. Interest on the 2006 Notes was one-month LIBOR plus 700 basis points, and it was payable quarterly. On February 21, 2007, the Company entered into an agreement with Bank of America to refinance its existing debt with $85 million in term loans (2007 Notes). These notes begin to mature in June 2008 and mature every quarter thereafter through February 2012. The Company paid a $1.7 million pre-payment penalty and wrote-off $3.9 million in deferred financing costs in conjunction with the transaction.

The new agreement provides a $15 million revolver (Revolver) under which the Company can secure up to $5 million in letters of credit. Currently, there are no amounts outstanding under the Revolver, but available credit under the Revolver has been reduced by approximately $1.8 million as a result of letters of credit the bank has issued. Interest on both the Revolver and the 2007 Notes is one-month LIBOR plus 225 to 275 basis points based upon the ratio of the Company s funded indebtedness to its earnings before interest, taxes, depreciation and amortization (EBITDA,   as defined in the 2007 Notes), and is payable monthly. Currently, the margin is 275 basis points and the interest rate was 7.57% at December 31, 2007. The 2007 Notes and the Revolver are secured by the assets of the Company. The Company incurred $1.5 million in deferred financing costs in conjunction with the credit facility and these costs are being amortized using the

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

effective interest rate method over the term of the term loans. In addition, the Company incurs a commitment fee of 0.5% on any unused portion of the Revolver. As of December 31, 2007, approximately $56,500 in commitment fees were paid. The fair value of the 2007 Notes approximates the carrying value at December 31, 2007. The Company received a waiver agreement from the lender, Bank of America, waiving the acknowledged event of default for failing to timely submit consolidated financial statements.

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

Year	Maturing Amounts (In thousands)
2008	$ 9,562
2009	$ 15,937
2010	$ 17,000
2011	$ 32,938
2012	$ 9,563

12. REDEEMABLE CONVERTIBLE PREFERRED STOCK

Series A-1 Redeemable Convertible Preferred Stock

Pursuant to the restated certificate of incorporation, the Board of Directors has the authority, without further action by the stockholders, to issue up to 3,000,000 shares of preferred stock in one or more series. Of these 3,000,000 shares of preferred stock, 75,000 shares have been designated Series A-1.

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

Subject to certain exceptions related to the amendment of the restated certificate of incorporation, the issuance of additional securities or debt or the payment of dividends, the Series A-1 Preferred Stock votes together as a single class and on an as converted basis with the common stock. The value of the liquidation preference of the Series A-1 Preferred Stock increases at a rate of 8% per annum of the original issuance price with an interest factor thereon based upon the iMoneyNet First Tier Institutional Average (the Cumulative Amount). This 8% per annum increase is convertible into shares of common stock, subject to the conversion limit noted above; however the Corporation has the right to pay the 8% per annum increase in cash in lieu of conversion into common stock. The Series A-1 Preferred Stock has a right to participate in dividends with common stock, on an as if converted basis, when the cumulative total of common dividends paid, or proposed, exceeds the Cumulative Amount as described above. Shares of Series A-1

Preferred Stock are subject to put and call rights following the seventh anniversary of their issuance for an amount equal to 115% of the original issuance price plus the 8% per annum increase with the interest factor thereon. The Corporation can require the conversion of the Series A-1 Preferred Stock prior to the seventh anniversary if the 30 day weighted closing price per share of the Corporation s common stock is at least 165% of the initial conversion price.

As discussed above, the Series A-1 Preferred Stock redemption value is 115% of the face value of the stock, on or after seven (7) years from the date of issuance. EITF Topic D-98, *Classification and Measurement of Redeemable Securities*, requires the Company to account for the securities by accreting to its expected redemption value over the period from the date of issuance to the first expected redemption date. For the years

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ended December 31, 2007 and 2006, the Company recognized $1.5 million and $0.8 million, respectively, of preferred stock accretion in the consolidated statements of operations, to adjust for the redemption value at maturity.

Additionally, the Series A-1 Preferred Stock has a feature that grants holders the right to receive interest-like returns on accrued, but unpaid, dividends that accumulate at 8% per annum. Given that the right to receive accrued, but unpaid dividends is based on a variable interest rate, the Company defined the embedded derivative as the theoretical swap between the fixed and variable rates of return. The Company bifurcated this feature at the date of issuance, at which time the value was determined to be zero. Additionally, the value of the theoretical fixed interest-like return on the accrued, but unpaid, dividends will be accreted to the Series A-1 Preferred Stock over the life of the security. For the years ended December 31, 2007 and 2006, $0.1 million and $0.2 million, respectively, of preferred stock accretion was recognized for the value of this embedded derivative in the consolidated statement of operations. See Note 2, *Summary of Significant Accounting Policies*, for change in definition of the embedded derivative and impact of the change in fair value of the bifurcated feature.

An additional $6.0 million and $3.0 million of preferred stock accretion, in the consolidated statements of operations, was recognized during the year ended December 31, 2007 and 2006, respectively, for the 8% per annum cumulative dividends. Finally, the cost to issue the Series A-1 Preferred Stock of $5.1 million is accreted, over a seven year period or through July 2013, back to the redemption value of the Series A-1 Preferred Stock and generated an additional $0.7 million and $0.4 million of preferred stock accretion, in the consolidated statements of operations, for the year ended December 31, 2007 and 2006.

Series B Preferred Stock

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

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

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

	Year Ended December 31,		
	2007	**2006**	**2005**
Net income (loss) available to stockholders	$ 2,644	$ (3,988)	$ 22,663
Weighted average shares outstanding used in calculation of net income (loss) per share:			
Basic	27,153	25,546	23,434
Dilutive options	1,997		2,446
Diluted	29,150	25,546	25,880

Net income (loss) available to common stockholders per share:						
Basic	$	0.10	$	(0.16)	$	0.97
Diluted	$	0.09	$	(0.16)	$	0.88

Due to their anti-dilutive effects, outstanding shares from the conversion of the Convertible Preferred Stock, stock options and restricted stock units to purchase 6,690,160, 3,921,330 and 2,597,068 shares of common stock at December 31, 2007, 2006 and 2005, respectively, were excluded from the computation of diluted net income available to common stockholders per share.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. EMPLOYEE BENEFIT PLANS

Employee Savings and Retirement Plan

The Company has a 401(k) plan that allows eligible employees to contribute up to but not exceed limits set by law. The Company has total discretion about whether to make an employer contribution to the plan and the amount of the employer contribution. In fiscal 2007, the Company matched employee contributions to the 401(k) plan at a rate of fifty percent on the first six percent of the employee s contributions to the plan, up to an annual limitation of $1,500 per employee. Expense related to the 401(k) employee contribution match were $0.5 million and $0.3 million, respectively, for the years ended December 31, 2007 and 2006. The Company chose not to match employee contributions for the year ended December 31, 2005. The Company incurred $18,594, $13,135 and $9,389 for administrative expenses of its 401(k) plan for the years ended December 31, 2007, 2006 and 2005, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan for all eligible employees to purchase shares of common stock at 95% of the fair market value on the last day of each three-month offering period. Employees may authorize the Company to withhold up to 10% of their compensation during any offering period, subject to certain limitations. The employee stock purchase plan authorizes up to 400,000 shares to be granted. During the years ended December 31, 2007 and 2006, 17,770 and 17,286 shares were issued under the plan at an average price of $11.17 and $10.77 per share, respectively. At December 31, 2007, 163,018 shares were reserved for future issuance.

15. EQUITY COMPENSATION PLANS

At December 31, 2007, the Company had three stock-based employee compensation plans, which are described more fully below. The compensation expense for share-based compensation was $3.2 million and $2.5 million for the years ended December 31, 2007 and 2006, respectively. No share-based compensation expense was recognized for the year ended December 31, 2005. Prior to January 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of APB No. 25, and related interpretations, as permitted by SFAS No. 123. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), using the modified-prospective transition method. Under that transition method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R).

A portion of the stock based compensation cost has been capitalized as part of software development costs in accordance with SOP No. 98-1 and SFAS No. 86. For the years ended December 31, 2007 and 2006, approximately $98,000 and $185,000, respectively, was capitalized.

At the beginning of each year, the Management Development and Compensation (MD&C) Committee of the Board of Directors approves a bonus plan for the Company s management. These plans grant a combination of cash and restricted stock units that vest based upon the attainment of approved corporate goals. On July 31, 2007, the Company estimated it was improbable the shares of the original plan would vest. At that time, the MD&C Committee approved the cancellation of the 2007 bonus plan and the creation of a new 2007 bonus plan based on corporate goals established for the second half of 2007. In canceling the original 2007 bonus plan, the Company cancelled 153,683 unvested restricted stock units related to that plan and will recognize $1.0 million in total incremental compensation cost as a result of the modification.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On December 31, 2007, the MD&C Committee of the Board of Directors approved a plan to accelerate the vesting of certain stock options and restricted stock units granted to an employee who was retiring. The vesting of the stock options and restricted stock units was accelerated on December 31, 2007. As a result of this acceleration, 20,088 shares were accelerated, and the incremental equity compensation expense that was recognized during the year ended December 31, 2007 was $155,000.

During 2006, the Company cancelled the contractual life of 12,500 fully vested options and 49,500 vested options held by three employees and made a concurrent grant of 5,283 options and 9,387 non-vested shares to those three employees. As a result of the modification, the Company measured the total compensation cost related to the replacement awards as of the date of cancellation, equal to the portion of the grant-date fair value of the original award for which the requisite service period is expected to be rendered at that date plus the incremental cost resulting from the cancellation and replacement of the award. The total incremental cost was $28,000.

Restricted Stock and Option Plans

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

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

In May 2005, the stockholders approved the 2005 Restricted Stock and Option Plan (the 2005 Plan), which permits the granting of restricted stock units and awards, stock appreciation rights, incentive stock options and non-statutory stock options to employees, directors and consultants. The aggregate number of new shares that can be granted under the 2005 Plan is 1,700,000. The vesting period of the options and restricted stock is determined by the Board of Directors and is generally one to three years. Outstanding options expire no later than ten years from the date the award is granted.

Stock Options

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

	Year Ended December 31,		
	2007	**2006**	**2005**
Dividend yield			

Expected volatility	56%	65%	74%
Risk-free interest rate	4.62%	4.57%	3.87%
Expected life in years	5.3	5.2	5.1

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

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

A summary of option activity under the 1989, 1999 and 2005 Plans as of December 31, 2007, and changes in the period then ended is presented below (in thousands, except exercise price and remaining contract term data):

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	3,796	$ 5.36		
Granted	185	$ 10.01		
Exercised	(771)	$ 4.87		
Forfeited or expired	(194)	$ 11.30		
Outstanding at December 31, 2007	3,016	$ 5.39	3.9	$ 20,013
Vested or expected to vest at December 31, 2007	2,973	$ 5.37	3.9	$ 19,788
Exercisable at December 31, 2007	2,269	$ 5.00	3.7	$ 16,016

The weighted-average grant-date fair value of options granted during the years ended December 31, 2007, 2006 and 2005 was $5.44, $6.60 and $6.52 per share, respectively. In the table above, the total intrinsic value is calculated as the difference between the market price of the Company s stock on the last trading day of the quarter and the exercise price of the options. For options exercised, intrinsic value is calculated as the difference between the market price on the date of exercise and the grant price. The intrinsic value of options exercised in the years ended December 31, 2007, 2006 and 2005 was $4.8 million, $3.3 million and $2.2 million, respectively.

As of December 31, 2007, there was $1.9 million of total unrecognized compensation cost related to stock options granted under the 1999 and 2005 Plans. That cost is expected to be recognized over a weighted average period of 1.4 years.

Cash received from option exercises under all share-based payment arrangements for the years ended December 31, 2007, 2006 and 2005 was $3.8 million, $3.3 million and $3.0 million, respectively. There was no tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements since the Company currently recognizes a full valuation allowance against that benefit.

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Stock Units

A summary of the Company s non-vested restricted stock units as of December 31, 2007, and changes for the year then ended, is presented below (in thousands, except grant-date fair value data):

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2007	126	$ 11.07
Granted	572	$ 10.20
Vested	(25)	$ 11.01
Forfeited	(177)	$ 10.19
Non-vested at December 31, 2007	496	$ 10.39

The fair value of non-vested units is determined based on the opening trading price of the Company s shares on the grant date. As of December 31, 2007, there was $1.7 million of total unrecognized compensation cost related to non-vested restricted stock units granted under the 2005 Plan. That cost is expected to be recognized over a weighted average period of 1.5 years.

16. SUMMARIZED QUARTERLY DATA (UNAUDITED)

The following financial information reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Summarized quarterly data for the years 2007 and 2006 is as follows (in thousands, except per share amounts):

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

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

ONLINE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quarter Ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Total revenues	$ 16,717	$ 17,359	$ 28,266	$ 29,394
Gross profit	$ 9,056	$ 9,768	$ 15,317	$ 16,278
Net income (loss)	$ 757	$ 1,397	$ (1,271)	$ (563)
Net income (loss) available to common stockholders	$ 757	$ 1,397	$ (3,429)	$ (2,713)
Net income (loss) available to common stockholders per share:				
Basic	$ 0.03	$ 0.05	$ (0.13)	$ (0.11)
Diluted	$ 0.03	$ 0.05	$ (0.13)	$ (0.11)

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

On March 19, 2007, Ernst & Young LLP (E&Y) informed the Audit Committee of the Company that they had resigned as the Company s certifying accountant. E&Y s report on the financial statements for the prior year did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principle. During the prior year and through March 19, 2007, there were no disagreements with E&Y on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of E&Y, would have caused E&Y to make reference to the disagreements in connection with its reports on the Company s financial statements for such years. During the prior year and through March 19, 2007, there were no reportable events as defined in Regulation S-K Item 304(a)(1)(v) except as previously reported with respect to the evaluation of the effectiveness of its internal controls over financial reporting as of December 31, 2006 as follows:

(1) In the Company s Form 10-K for the year ended December 31, 2006 which was filed on March 16, 2007, the Company disclosed that it needed to correct certain errors primarily related to its acquisition of Princeton eCom Corp. and the integration of that company s accounting systems and processes. In particular, the Company concluded that it had not properly accounted for the shares of Series A-1 Convertible Preferred Stock it issued in conjunction with the acquisition. The Company also determined that it had improperly assigned values to certain assets acquired and liabilities assumed, and misstated other asset values due to cut-off date issues within Princeton eCom s financial statement close process and errors in allocating professional services employee time by an operating unit. Management concluded that its staffing, systems and processes it had in place following the Princeton eCom acquisition were not sufficient to support the expanded magnitude and complexity of accounting requirements for the combined companies. E&Y has concluded in its report on internal control over financial reporting for the year ended December 31, 2006, that management s assessments that the Company did not maintain effective control over financial reporting as of such dates were fairly stated in all material respects based upon the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company has authorized E&Y to respond fully to the inquiries of any successor accountant concerning the subject matter of the above disclosures.

On March 28, 2007, the Audit Committee of the Company engaged KPMG LLP as the Company s principal accountant to audit its financial statements. During the prior year and through March 28, 2007, neither the Company nor anyone on its behalf consulted with KPMG LLP regarding the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the registrant s financial statements; or with respect to any reportable events as defined in Regulation S-K Item 304(a)(1)(v). No disagreements with KPMG LLP on accounting and financial disclosure have occurred since their engagement.

Item 9A. ***Controls and Procedures***

(a) Effectiveness of Disclosure Controls and Procedures

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including Online Resources Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 of the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2007 in timely alerting them of material information relating to Online Resources that is required to be disclosed by Online

Resources in the reports it files or submits under the Securities Exchange Act of 1934 because of a material weakness in internal control over financial reporting described below.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in Online Resources internal control over financial reporting that occurred during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, Online Resources internal control over financial reporting. Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

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

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

Management s assessment of the effectiveness of internal control over financial reporting does not include the internal controls of Internet Transactions Solutions, Inc., which the Company acquired on August 10, 2007. Operating results of the acquired company from the date of acquisition are included in the 2007 consolidated financial statements of Online Resources Corporation. The acquired company constituted $15.2 million and $3.3 million of total and net assets, respectively, as of December 31, 2007, excluding goodwill and customer list intangible assets recorded at the time of acquisition which were included in management s assessment. It also contributed $8.1 million of revenues for the year ended December 31, 2007.

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

Management of the Company conducted an evaluation of the effectiveness of the Company s internal control over financial reporting as of December 31, 2007 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on this evaluation, management has concluded that the Company s internal control over financial reporting was not effective as of December 31, 2007 because of the material weaknesses described below.

A material weakness is a control deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement to the annual or interim financial statements could occur and not be prevented or detected on a timely basis.

As of December 31, 2007, management identified the following material weaknesses in internal control over financial reporting:

The Company s monitoring activities are not effective at identifying, on a timely basis, deficiencies in the operation of controls in the financial statement close process. Specifically, the Company s procedures for the supervisory review of the performance by Company personnel of manual controls associated with account analysis and the verification of the accuracy of electronic spreadsheets that support financial reporting were ineffective. This material weakness resulted in deficiencies in the operation of controls not being detected timely and in multiple errors in the Company s preliminary 2007 financial statements, including errors in revenue, interest expense, and share based compensation.

The Company had not established policies and procedures to effectively oversee information received from third-party tax accounting service provider due to a lack of personnel with sufficient expertise in income tax accounting. Specifically, the Company s policies and procedures were not sufficient to ensure the completeness and accuracy of the information provided by the service provider, the proper recording of such information in the Company s financial statements and that appropriate evidence of the operation of related controls was maintained. This resulted in errors in the tax accounts and disclosures in the Company s preliminary financial statements.

KPMG LLP, our independent registered public accounting firm, that audited the 2007 financial statements included in this annual report has issued an audit report on our internal control over financial reporting in which they expressed an adverse opinion on the effectiveness of our internal control over financial reporting as of December 31, 2007.

(d) REMEDIATION MEASURES FOR MATERIAL WEAKNESS

During 2007 Management took a number of actions to remediate the disclosed material weakness identified as part of the 2006 evaluation including:

Providing additional training to non-financial project managers related to requirements for capitalizing internal use software development labor and properly deferring implementation and professional services costs;

Strengthening procedures surrounding non-routine transactions and establishing specific review requirements and timelines;

Increasing and improving staffing in its finance and accounting function, including hiring two staff members with experience in both technical accounting and statutory reporting;

Reassessing the capability of its outside advisors and making changes as appropriate; and

Beginning implementation of new management information and accounting systems designed to automate certain existing manual processes and improve the accuracy of information.

Management s 2007 evaluation specifically considered the results of our 2006 assessment, and concluded that we had remediated a number of the previously identified significant deficiencies, that contributed to the material weakness disclosed in 2006. However, further improvements are still needed. Management will continue to take steps to remediate the material weakness described above. Specifically:

Management believes that additional staffing and capability increases are needed to keep up with its growth and increasing complexity, so it intends to create and fill additional positions during 2008,

With additional staffing and capabilities, requisite US GAAP training, including specific training related to accounting for income taxes, will be provided, processes will be upgraded and review of work product will be expanded in 2008, and

System installations and upgrades are planned through 2008 and into 2009 including the implementation of an ERP system which went live in January 2008.

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

None.

PART III

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

The information required by this item is incorporated by reference to the sections and subsections entitled Management , Executive Compensation , Code of Ethics , Audit Committee , Audit Committee Financial Experts a Section 16(a) Beneficial Ownership Reporting Compliance contained in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference to the section entitled Executive Compensation and Transactions contained in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

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

The information required by this item is incorporated by reference to the section entitled Security Ownership of Certain Beneficial Owners and Management contained in Part II, Item 5, *Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities* and in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

Item 13. *Certain Relationships and Related Transactions*

The information required by this item is incorporated by reference to the section entitled Certain Relationships and Related Transactions contained in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated by reference to the section entitled Principal Accountant Fees and Services contained in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A.

PART IV

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

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

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Stockholders Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

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

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

(3) *List of Exhibits.*

2.1	Agreement and Plan of Merger dated May 5, 2006 among the Company, its acquisition subsidiary and Princeton (filed as Ex. 2.1 to our Form 8-K filed on May 5, 2006)
2.2	Agreement and Plan of Merger dated July 26, 2007 among the Company, its acquisition subsidiary and Internet Transaction Solutions, Inc. (filed as Ex. 99-1 to our Form 8-K filed on August 1, 2007)
3.1	Form of Amended and Restated Certificate of Incorporation of the Company (incorporated by reference from our registration statement on Form S-1; Registration No. 333-74777)
3.2	Form of Amended and Restated Bylaws of the Company (incorporated by reference from our registration statement on Form S-1; Registration No. 333-74777)
3.3	Certificate of Designation of shares of Series B Junior Participating Preferred Stock (filed as Exhibit 3.3 to our Form 10-K for the year ended December 31, 2002 filed on March 31, 2003)
3.4	Certificate of Designation of shares of Series A-1 Convertible Preferred Stock (filed as Exhibit 3.1 to our Form 8-K filed on July 3, 2006)
3.5	Certificate of Correction to Certificate of Designation for the shares of Series A-1 Convertible Preferred Stock (filed as Ex. 3.2 to our Form 8-K filed on September 14, 2006)
4.1	Specimen of Common stock Certificate of the Company (incorporated by reference from our registration statement on Form S-1; Registration No. 333-74777)
4.5	Investor Rights Agreement dated July 3, 2006, by and among the Company and the holders of its shares of Series A-1 Convertible Preferred Stock (filed as Ex. 4.3 to our Form S-3/A filed on November 14, 2006

10.1	Lease Agreement for premises at 7600 Colshire Drive, McLean, Virginia (incorporated by reference from our registration statement on Form S-1; Registration No. 333-74777)
10.2	Online Resources & Communications Corporation 1989 Stock Option Plan (incorporated by reference from our registration statement on Form S-1; Registration No. 333-74777)
10.3	1999 Stock Option Plan (incorporated by reference from our registration statement on Form S-1; Registration No. 333-40674)
10.4	Employee Stock Purchase Plan (incorporated by reference from our registration statement on Form S-8; Registration No. 333-40674)
10.5	Lease Agreement to premises at 4796 Meadow Wood Lane, Chantilly, Virginia (filed as an exhibit to our form 10-Q for the quarter ended September 30, 2004 filed on November 5, 2004)

10.6	2005 Restricted Stock and Option Plan (filed with our Definitive Proxy Statement on April 5, 2005)
10.7	Equity Purchase Agreement by and among the Company and the purchasers of its Series A-1 Convertible Preferred Stock (filed as Ex. 10.1 to our Form 8-K filed on July 3, 2006)
10.8	Credit Agreement with Bank of America dated February 21, 2007 and filed as Exhibit 99.1 to the Company s Form 8-K on February 26, 2007
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm
23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
31.1	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended
31.2	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended
32.	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Schedule II Valuation and Qualifying Accounts:

(in thousands)

Classification	**Balance at Beginning of Period**	**Additions**	**Deductions**	**Balance at End of Period**
Allowance for doubtful accounts:				
Year ended December 31, 2005	$ 152	$ 10	$ 8(1)	$ 154
Year ended December 31, 2006	$ 154	$ 42	$ 48(1)	$ 148
Year ended December 31, 2007	$ 148	$	$ 64(1)	$ 84
Allowance for deferred tax asset:				
Year ended December 31, 2005	$ 39,305	$	$ 22,862(2)	$ 16,443
Year ended December 31, 2006	$ 16,443	$ 56,889(3)	$ 5,111	$ 68,221
Year ended December 31, 2007	$ 68,221	$	$ 62,338(4)	$ 5,883

Notes:

(1) Uncollectable accounts written off.

(2) Release of valuation allowance.

(3) 2006 allowance for deferred tax asset balances have been revised to reflect the Company s acquisition of Princeton eCom Corporation (Princeton) and other items (which had no impact on the net deferred tax asset).

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ONLINE RESOURCES CORPORATION

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

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

Signature	Title	Date
/s/ MATTHEW P. LAWLOR Matthew P. Lawlor	Chairman and Chief Executive Officer (Principal Executive Officer)	April 8, 2008
/s/ CATHERINE A. GRAHAM Catherine A. Graham	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	April 8, 2008
/s/ WILLIAM J. NEWMAN, III William J. Newman, III	Vice President, Finance (Principal Accounting Officer)	April 8, 2008
/s/ WILLIAM H. WASHECKA William H. Washecka	Director	April 8, 2008
/s/ JOSEPH J. SPALLUTO Joseph J. Spalluto	Director	April 8, 2008
/s/ STEPHEN S. COLE Stephen S. Cole	Director	April 8, 2008
/s/ ERVIN R. SHAMES Ervin R. Shames	Director	April 8, 2008
/s/ MICHAEL E. LEITNER	Director	April 8, 2008

Michael E. Leitner		
/s/ BARRY D. WESSLER	Director	April 8, 2008
Barry D. Wessler		
/s/ MICHAEL H. HEATH	Director	April 8, 2008
Michael H. Heath		