

ONLINE RESOURCES CORP  
Form 10-Q  
November 08, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011**

**OR**

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

**FOR THE TRANSITION PERIOD FROM            TO**

**COMMISSION FILE NUMBER 0-26123**

**ONLINE RESOURCES CORPORATION**

**(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)**

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**Delaware**  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

**52-1623052**  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

**4795 Meadow Wood Lane**

**Chantilly, Virginia**  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

**20151**  
(ZIP CODE)

**(703) 653-3100**

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

As of October 31, 2011 there were 32,078,200 shares of the issuer's common stock outstanding.

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**ONLINE RESOURCES CORPORATION**

**FORM 10-Q**

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**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.****ONLINE RESOURCES CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except par values)

|  | September 30,<br>2011 | December 31,<br>2010<br>(Unaudited) |
|--|-----------------------|-------------------------------------|
| <b>ASSETS</b>  |                       |                                     |
| Current assets:  |                       |                                     |
| Cash and cash equivalents  | \$ 25,092             | \$ 29,127                           |
| Accounts receivable (net of allowance of \$245 and \$232, respectively)  | 18,182                | 20,410                              |
| Deferred tax asset, current portion  | 3,893                 | 3,893                               |
| Deferred implementation costs, current portion   | 3,124                 | 2,970                               |
| Prepaid expenses and other current assets  | 2,646                 | 2,069                               |
| <br>   |                       |                                     |
| Total current assets   | 52,937                | 58,469                              |
| Property and equipment, net  | 22,279                | 25,145                              |
| Deferred tax asset, less current portion   | 25,115                | 22,536                              |
| Goodwill   | 181,516               | 181,516                             |
| Intangible assets  | 10,390                | 14,157                              |
| Deferred implementation costs, less current portion, and other assets  | 10,093                | 8,762                               |
| <br>   |                       |                                     |
| Total assets   | \$ 302,330            | \$ 310,585                          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                       |                                     |
| Current liabilities:   |                       |                                     |
| Accounts payable   | \$ 1,016              | \$ 2,410                            |
| Accrued expenses   | 15,444                | 6,293                               |
| Notes payable, senior secured debt, current portion  | 10,750                | 27,188                              |
| Deferred revenues, current portion and other current liabilities   | 9,202                 | 8,232                               |
| <br>   |                       |                                     |
| Total current liabilities  | 36,412                | 44,123                              |
| Notes payable, senior secured debt, less current portion   | 11,500                | 9,563                               |
| Deferred revenues, less current portion and other long-term liabilities  | 5,757                 | 6,956                               |
| <br>   |                       |                                     |
| Total liabilities  | 53,669                | 60,642                              |
| Commitments and contingencies  |                       |                                     |
| Redeemable convertible preferred stock:  |                       |                                     |
| Series A-1 convertible preferred stock, \$0.01 par value; 75 shares authorized and issued at September 30, 2011 and December 31, 2010 (redeemable on July 3, 2013 at \$135,815)      | 117,571               | 110,182                             |
| 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; 32,520 issued and 32,061 outstanding at September 30, 2011 and 31,856 issued and 31,429 outstanding at December 31, 2010 | 3                     | 3                                   |
| Additional paid-in capital   | 220,552               | 217,873                             |

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|  |                |                |
|--|----------------|----------------|
| Accumulated other comprehensive income (loss)  | (35)           |                |
| Accumulated deficit  | (86,384)       | (75,192)       |
| Treasury stock, 460 shares at September 30, 2011 and 427 shares at December 31, 2010 | (3,046)        | (2,923)        |
| <b>Total stockholders' equity</b>  | <b>131,090</b> | <b>139,761</b> |
| <br>   |                |                |
| Total liabilities and stockholders' equity   | \$ 302,330     | \$ 310,585     |

See accompanying notes to condensed consolidated unaudited financial statements.

## ONLINE RESOURCES CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

|  | Three Months Ended<br>September 30, |                     | Nine Months Ended<br>September 30, |                     |
|--|-------------------------------------|---------------------|------------------------------------|---------------------|
|  | 2011<br>(Unaudited)                 | 2010<br>(Unaudited) | 2011<br>(Unaudited)                | 2010<br>(Unaudited) |
| <b>Revenues:</b>   |                                     |                     |                                    |                     |
| Account presentation services  | \$ 2,918                            | \$ 2,237            | \$ 8,378                           | \$ 6,676            |
| Payment services   | 28,082                              | 27,699              | 85,948                             | 85,576              |
| Relationship management services   | 1,664                               | 2,358               | 5,195                              | 6,498               |
| Professional services and other  | 5,747                               | 4,501               | 16,497                             | 12,986              |
| <b>Total revenues</b>  | <b>38,411</b>                       | <b>36,795</b>       | <b>116,018</b>                     | <b>111,736</b>      |
| <b>Costs and expenses:</b>   |                                     |                     |                                    |                     |
| Service costs  | 19,920                              | 18,334              | 60,257                             | 55,045              |
| Implementation and other costs   | 1,274                               | 1,060               | 3,703                              | 3,361               |
| <b>Costs of revenues</b>   | <b>21,194</b>                       | <b>19,394</b>       | <b>63,960</b>                      | <b>58,406</b>       |
| <b>Gross profit</b>  | <b>17,217</b>                       | <b>17,401</b>       | <b>52,058</b>                      | <b>53,330</b>       |
| General and administrative   | 7,966                               | 7,399               | 27,127                             | 23,427              |
| Reserve for potential legal liability  |                                     |                     | 7,700                              |                     |
| Sales and marketing  | 4,760                               | 4,900               | 15,165                             | 14,657              |
| Systems and development  | 2,605                               | 2,277               | 7,951                              | 7,403               |
| <b>Total expenses</b>  | <b>15,331</b>                       | <b>14,576</b>       | <b>57,943</b>                      | <b>45,487</b>       |
| <b>Income (loss) from operations</b>   | <b>1,886</b>                        | <b>2,825</b>        | <b>(5,885)</b>                     | <b>7,843</b>        |
| <b>Other income (expense):</b>   |                                     |                     |                                    |                     |
| Interest income  | 21                                  | 18                  | 77                                 | 39                  |
| Interest (expense) income  | (308)                               | 286                 | (376)                              | 450                 |
| Other expense  | (2)                                 |                     | (2)                                | (99)                |
| <b>Total other income (expense)</b>  | <b>(289)</b>                        | <b>304</b>          | <b>(301)</b>                       | <b>390</b>          |
| <b>Income (loss) before income tax provision (benefit)</b>                         | <b>1,597</b>                        | <b>3,129</b>        | <b>(6,186)</b>                     | <b>8,233</b>        |
| Income tax provision (benefit)   | 771                                 | 1,427               | (2,383)                            | 3,282               |
| <b>Net income (loss)</b>   | <b>826</b>                          | <b>1,702</b>        | <b>(3,803)</b>                     | <b>4,951</b>        |
| Preferred stock accretion  | 2,501                               | 2,413               | 7,389                              | 7,124               |
| <b>Net loss available to common stockholders</b>                                   | <b>\$ (1,675)</b>                   | <b>\$ (711)</b>     | <b>\$ (11,192)</b>                 | <b>\$ (2,173)</b>   |
| <b>Net loss available to common stockholders per share:</b>                        |                                     |                     |                                    |                     |
| Basic  | \$ (0.05)                           | \$ (0.02)           | \$ (0.35)                          | \$ (0.07)           |
| Diluted  | \$ (0.05)                           | \$ (0.02)           | \$ (0.35)                          | \$ (0.07)           |
| Shares used in calculation of net loss available to common stockholders per share: |                                     |                     |                                    |                     |

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|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 32,032 | 31,148 | 31,815 | 30,850 |
| Diluted | 32,032 | 31,148 | 31,815 | 30,850 |

See accompanying notes to condensed consolidated unaudited financial statements.

**ONLINE RESOURCES CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

|  | <b>Nine Months Ended<br/>September 30,<br/>2011      2010<br/>(Unaudited)</b> |          |
|--|---|----------|
| <b>Operating activities</b>  |   |          |
| Net (loss) income  | \$ (3,803)  | \$ 4,951 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |   |          |
| Deferred tax (benefit) expense   | (2,579)   | 3,899    |
| Depreciation and amortization  | 12,274  | 13,983   |
| Equity compensation expense  | 1,785   | 2,095    |
| Write off and amortization of debt issuance costs  | &nb   |          |