ONLINE RESOURCES CORP
Form 10-Q
May 10, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

OR

o **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)

Delaware	**52-1623052**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	*(I.R.S. EMPLOYER IDENTIFICATION NO.)*

4795 Meadow Wood Lane **Chantilly, Virginia**	**20151**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	*(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 o No þ

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

Indicate by check mark 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 o No 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

As of April 30, 2011 there were 31,752,495 shares of the issuer s common stock outstanding.

ONLINE RESOURCES CORPORATION
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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)

	March 31, 2011	December 31, 2010
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,359	$ 29,127
Accounts receivable (net of allowance of $239 and 232, respectively)	20,473	20,410
Deferred tax asset, current portion	3,893	3,893
Deferred implementation costs, current portion	2,938	2,970
Prepaid expenses and other current assets	3,388	2,069
Total current assets	59,051	58,469
Property and equipment, net	23,876	25,145
Deferred tax asset, less current portion	25,490	22,536
Goodwill	181,516	181,516
Intangible assets	12,844	14,157
Deferred implementation costs, less current portion, and other assets	8,759	8,762
Total assets	$ 311,536	$ 310,585
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,194	$ 2,410
Accrued expenses	14,512	6,293
Notes payable, senior secured debt, current portion	32,750	27,188
Deferred revenues, current portion and other current liabilities	9,179	8,232
Total current liabilities	58,635	44,123
Notes payable, senior secured debt, less current portion		9,563
Deferred revenues, less current portion and other long-term liabilities	6,676	6,956
Total liabilities	65,311	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 March 31, 2011 and December 31, 2010 (redeemable on July 3, 2013 at	112,607	110,182

$135,815)		
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; 32,176 issued and 31,737 outstanding at March 31, 2011 and 31,856 and 31,429 outstanding at December 31, 2010	3	3
Additional paid-in capital	218,967	217,873
Accumulated deficit	(82,369)	(75,192)
Treasury stock, 440 shares at March 31, 2011 and 427 shares at December 31, 2010	(2,983)	(2,923)
Total stockholders equity	133,618	139,761
Total liabilities and stockholders equity	$ 311,536	$ 310,585

See accompanying notes to condensed consolidated unaudited financial statements.

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ONLINE RESOURCES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(Unaudited)	
Revenues:		
Account presentation services	$ 2,740	$ 2,381
Payment services	29,792	29,732
Relationship management services	1,814	2,098
Professional services and other	4,932	4,371
Total revenues	39,278	38,582
Costs and expenses:		
Service costs	20,631	18,501
Implementation and other costs	1,184	1,125
Costs of revenues	21,815	19,626
Gross profit	17,463	18,956
General and administrative	9,497	7,754
Reserve for potential legal liability	7,700	
Sales and marketing	5,103	4,912
Systems and development	2,646	2,573
Total expenses	24,946	15,239
Income (loss) from operations	(7,483)	3,717
Other income (expense):		
Interest income	32	7
Interest expense	(254)	(61)
Other income		(98)
Total other income (expense)	(222)	(152)
Income (loss) before income tax expense	(7,705)	3,565
Income tax (benefit) expense	(2,953)	1,386

Net (loss) income	(4,752)	2,179
Preferred stock accretion	2,425	2,336
Net loss available to common stockholders	$ (7,177)	$ (157)
Net loss available to common stockholders per share:		
Basic	$ (0.23)	$ (0.01)
Diluted	$ (0.23)	$ (0.01)
Shares used in calculation of net loss available to common stockholders per share:		
Basic	31,590	30,484
Diluted	31,590	30,484

See accompanying notes to condensed consolidated unaudited financial statements.

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ONLINE RESOURCES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2011	2010
	(Unaudited)	
Operating activities		
Net income (loss)	$ (4,752)	$ 2,179
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred tax expense (benefit)	(2,954)	2,391
Depreciation and amortization	4,295	4,659
Equity compensation expense	617	959
Amortization of debt issuance costs	54	98
Loss on disposal of assets	5	
Provision for losses on accounts receivable	26	6
Change in fair value of theoretical swap derivative	(52)	(398)
Changes in certain other assets and liabilities:		
Reserve for potential legal liability	7,700	
Changes in other assets and liabilities	(404)	(1,110)
Net cash provided by operating activities	4,535	8,784
Investing activities		
Purchases of property and equipment	(1,712)	(6,399)
Net cash used in investing activities	(1,712)	(6,399)
Financing activities		
Net proceeds from issuance of common stock	409	(239)
Repayment of 2007 Notes	(4,000)	(4,000)
Repayment of capital lease obligations		(9)
Net cash used in financing activities	(3,591)	(4,248)
Net decrease in cash and cash equivalents	(768)	(1,863)
Cash and cash equivalents at beginning of year	29,127	22,907
Cash and cash equivalents at end of period	$ 28,359	$ 21,044

See accompanying notes to condensed consolidated unaudited financial statements.

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ONLINE RESOURCES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Online Resources Corporation (the Company) provides outsourced, web- and phone-based financial technology services to financial institution, biller, card issuer and creditor clients to fulfill payment, banking and other financial services to their millions of consumer end-users. The Company s products and services enable its clients to provide their consumer end-users with the ability to perform various self-service functions including electronic bill payments and funds transfers, which utilize our unique, real-time debit architecture, ACH and other payment methods, as well as gain online access to their accounts, transaction histories and other information. The Company delivers its products and services to two primary vertical markets: Banking Services and e-Commerce Services.

INTERIM FINANCIAL INFORMATION

The accompanying condensed consolidated unaudited financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. In the opinion of management, the condensed consolidated unaudited financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair presentation of the results of the interim periods presented. These condensed consolidated unaudited financial statements should be read in conjunction with the consolidated audited financial statements for the year ended December 31, 2010, included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission (SEC) on March 15, 2011. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. Certain amounts from prior periods have been reclassified to conform to current period presentation.

NEW ACCOUNTING STANDARDS

In October 2009, the FASB changed its guidance for the accounting of multiple-deliverable revenue arrangements with customers. Current GAAP requires a vendor to use vendor-specific objective evidence or third-party evidence of selling price to separate deliverables in a multiple-deliverable arrangement. Multiple-deliverable arrangements will be separated in more circumstances with the updated guidance. The change in guidance establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific nor third-party evidence is available. The best estimate to use in determining a selling price is the price as if the item were sold on a stand alone basis. Changes also include eliminating the residual method of allocation and requiring that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates discounts in the arrangement proportionally to each deliverable based on each selling price. These changes became effective, prospectively, for the Company on January 1, 2011. Adoption of this guidance in the first quarter of 2011 did not materially impact the Company s consolidated financial statements.

2. SENIOR SECURED NOTES

The Company has an agreement with Bank of America which finances its senior secured notes (2007 Notes). The agreement also provides a $15 million revolver (Revolver) under which the Company can secure up to $5 million in letters of credit. Currently, there are no amounts outstanding under the Revolver, but available credit under the Revolver has been reduced by approximately $1.6 million as a result of letters of credit the bank has issued. The Company has made a principal payment of $4.0 million on the 2007 Notes in the three months ended March 31, 2011, reducing the outstanding principal from $36.8 million to $32.8 million. The Company will make periodic principal payments until the 2007 Notes are due in 2012 as noted in the table below.

The interest rate on both the Revolver and the 2007 Notes is the one-month London Interbank Offered Rate (LIBOR) plus 225 to 275 basis points based upon the ratio of the Company s funded indebtedness to its earnings before interest, taxes, depreciation and amortization (EBITDA, as defined in the 2007 Notes), and it is payable monthly. During the first three months of 2011, the margin remained constant at 225 basis points. The average interest rate was 2.51%. The 2007 Notes and the Revolver are secured by the assets of the Company.

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Maturities of long-term debt for each of the next 11 months are as follows (in thousands):

Year	Maturing Amounts
2011 (April 1, 2011-December 31, 2011)	$23,188
2012	$ 9,562

3. DERIVATIVE INSTRUMENTS

Theoretical Swap Derivative

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

The following table presents the fair value of the theoretical swap derivative instrument included within the condensed consolidated balance sheet at March 31, 2011 and December 31, 2010 (in thousands):

	March 31, 2011	December 31, 2010	Balance Sheet Location
Asset Derivatives:			
Theoretical swap (1)	$6,056	$ 6,004	Other assets

(1) See Note 10, Fair Value Measurements, for a description of how the derivatives shown above are valued.

The following table presents the amounts affecting the condensed consolidated statement of operations for the three months ended March 31, 2011 and March 31, 2010 (in thousands):

	Amount of gain recognized in income on derivative, pre tax	
	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Derivative Not Designated as Hedging Instrument:		
Theoretical Swap (1)	$ 52	$ 398

4. REDEEMABLE CONVERTIBLE PREFERRED STOCK

Series A-1 Redeemable Convertible Preferred Stock

Pursuant to the restated certificate of incorporation of the Company, 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. The Series A-1 Preferred

Stock has a redemption value of 115% of the face value of the stock, on or after seven years from the date of issuance, or July 3, 2013. The Company recognized $0.4 million for each of the three months ended March 31, 2011 and 2010, 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. For each of the three months ended March 31, 2011 and 2010, $1.5 million of preferred stock accretion was recognized in the condensed consolidated statements of operations, for the 8% per annum cumulative dividends. The right to receive the accrued, but unpaid dividends is based on a variable interest rate, and as such the difference between the fixed and variable rate of returns is a theoretical swap derivative. The Company bifurcates this feature and accretes it to the Series A-1 Preferred Stock over the life of the security. For the three months ended March 31, 2011 and 2010, $0.4 million and $0.3 million, of preferred stock accretion expense were recognized, for the theoretical swap derivative in the condensed consolidated statement of operations.

Finally, the cost to issue the Series A-1 Preferred Stock of $5.1 million is being accreted back to the redemption value of the Series A-1 Preferred Stock through July 2013, and generated an additional $0.2 million of preferred stock accretion for each of the three months ended March 31, 2011 and 2010 in the condensed consolidated statements of operations.

5. REPORTABLE SEGMENTS

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

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

The results of operations from these reportable segments were as follows for the three months ended March 31, 2011 and 2010 (in thousands):

	Banking	eCommerce	Corporate(1)	Total
Three months ended March 31, 2011:				
Revenues	$ 21,020	$ 18,258	$	$ 39,278
Costs of revenues	11,536	10,279		21,815
Gross profit	9,484	7,979		17,463
Operating expenses	6,773	5,542	12,631	24,946
Income (loss) from operations	$ 2,711	$ 2,437	$ (12,631)	$ (7,483)
Three months ended March 31, 2010:				
Revenues	$ 23,347	$ 15,235	$	$ 38,582
Costs of revenues	11,303	8,323		19,626
Gross profit	12,044	6,912		18,956
Operating expenses	6,255	4,745	4,239	15,239
Income (loss) from operations	$ 5,789	$ 2,167	$ (4,239)	$ 3,717

(1) Corporate expenses are primarily comprised of corporate general and administrative expenses that are not considered in the measure of segment profit or loss used to evaluate the segments. Also included in corporate expenses for 2011 are costs related to the reserve for potential legal liability.

6. GOODWILL

Goodwill is not amortized and is tested at the reporting unit level at least annually or whenever events or circumstances indicate that goodwill might be impaired. The fair value of the Company s reporting units are measured under the income method by utilizing discounted cash flows. The estimates the Company uses in evaluating goodwill are consistent with the plans and estimates that the Company uses to manage its operations.

The Company did not experience any impairment of goodwill or other intangible assets for the three months ended March 31, 2011 or 2010. If market conditions weaken, the Company s revenue and cost forecasts may not be achieved and the Company may incur charges for goodwill impairment, which could be significant and could have a material negative effect on our results of operations. The Company s stock price ranged from $3.54 to $7.05 during the three months ended March 31, 2011. Were the stock

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price to decline below this range, it may require the Company to evaluate whether or not the decline in stock price indicated an impairment requiring reevaluation of the goodwill. The Company will continue to monitor its financial performance, stock price, and other factors in order to determine if there are any indicators of impairment.

7. STOCK BASED COMPENSATION

At March 31, 2011, the Company had three stock-based employee compensation plans. The compensation expense for stock-based compensation was $0.6 million and $1.0 million for the three months ended March 31, 2011 and 2010, respectively. A portion of the stock based compensation cost has been capitalized as part of software development costs and deferred costs. For the three months ended March 31, 2011 and 2010, less than $0.1 million were capitalized as part of software development costs.

Stock Options

There were no stock options issued for the the three months ended March 31, 2011 and 2010.

A summary of stock option activity under the 1989, 1999 and 2005 Plans as of March 31, 2011, 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, 2011	2,513	$5.41		
Granted		$		
Exercised	(144)	$3.01		
Forfeited or expired	(42)	$4.57		
Outstanding at March 31, 2011	2,327	$5.57	3.08	$915
Vested or expected to vest at March 31, 2011	2,321	$5.58	3.07	$914
Exercisable at March 31, 2011	1,901	$5.85	2.48	$872

The Company did not grant stock option awards during the three months ended March 31, 2011 or 2010. 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 three months ended March 31, 2011 and 2010 were less than $0.1 million.

As of March 31, 2011, there was $0.9 million of total unrecognized compensation cost related to stock options granted. This cost is expected to be recognized over a weighted average period of 2.5 years.

Cash received from option exercises under all share-based payment arrangements for the three months ended March 31, 2011 and 2010 were less than $0.1 million, net of shares repurchased for tax withholding purposes. The tax benefits related to the deductions from option exercises of the share-based payment arrangements will be recognized when those deductions, currently being carried forward as net operating losses, reduce taxes payable.

Restricted Stock Units

A summary of the Company s non-vested restricted stock units as of the three months ended March 31, 2011, and changes for the period 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, 2011	1,134	$ 4.88
Granted		$
Vested	(276)	$ 4.99
Forfeited	(61)	$ 8.5
Non-vested at March 31, 2011	797	$ 4.56

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 March 31, 2011, there was $2.1 million of total unrecognized compensation cost related to non-vested restricted stock units granted. This cost is expected to be recognized over a weighted average period of 2.2 years.

8. INCOME TAXES

The Company recorded an income tax benefit based on the estimated effective tax rate for the full year, adjusted for non-forecastable items recorded during the first quarter of 2011.

The Company s effective tax rate was 38.3% and 38.9% for the three months ended March 31, 2011 and 2010, respectively. The year over year change in the effective tax rate relates to permanent differences, state taxes and a stock based compensation adjustment of approximately $0.1 million relating to the difference between the expected deduction from stock based compensation which is based upon the fair value of the award at the date of issuance and the actual deduction taken which is based upon the fair value of the award at the time the award is exercised or vests.

The Company has determined that there have been no material changes in tax positions taken in the prior periods, tax positions taken in the current period, settlements with taxing authorities resulting from lapses in the statute of limitations and unrecognized tax benefits that if recognized would affect the effective tax rate and amount of interest and penalties recognized in the condensed consolidated statement of operations and the condensed consolidated balance sheets.

The tax return years since 2000 in the Company s major tax jurisdictions, both federal and various states, have not been audited and are not currently under audit. The Company does not have reason to expect any changes in the next twelve months regarding uncertain tax positions.

9. NET LOSS AVAILABLE TO COMMON STOCKHOLDERS PER SHARE

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

	Three Months Ended March 31,	
	2011	**2010**
Net income (loss)	$ (4,752)	$ 2,179
Preferred stock accretion	2,425	2,336
Net loss available to common shareholders	$ (7,177)	$ (157)
Weighted average shares outstanding used in calculation of net loss available to common stockholders per share:		
Basic	31,590	30,484
Dilutive stock options		
Diluted	31,590	30,484
Net loss available to common stockholders per share:		
Basic	$ (0.23)	$ (0.01)
Diluted	$ (0.23)	$ (0.01)

Approximately 7,160,374 and 7,549,882 shares of common stock equivalents, including preferred stock, for the three months ended March 31, 2011 and 2010, respectively, were excluded from the calculation of diluted earnings per share because of their anti-dilutive effect.

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10. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, the standard specifies that the fair value should be the exit price, or price received to sell the asset or liability as opposed to the entry price, or price paid to acquire an asset or assume a liability.

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

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

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

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

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

	Fair Value Measurements at March 31, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets (in thousands):				
Merrill Lynch Institutional Fund (2)	$ 9,176	$	$	$ 9,176
Theoretical swap derivative(1)			6,056	6,056
	$ 9,176	$	$ 6,056	$ 15,232

	Fair Value Measurements at December 31, 2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets (in thousands):				

Merrill Lynch Institutional Fund(2)	$ 12,162	$	$		$ 12,162
Theoretical swap derivative(1)				6,004	6,004
	$ 12,162	$	$	6,004	$ 18,166

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

(2) The Merrill Lynch Institutional Fund is recorded in cash and cash equivalents on the condensed consolidated balance sheet.

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The following tables are summaries of the Company s financial assets that use Level 3 inputs to measure fair value (in thousands):

	Theoretical Swap Derivative
Balance as of January 1, 2011	$ 6,004
Realized and unrealized gain(1)	52
Balance as of March 31, 2011	$ 6,056

	Theoretical Swap Derivative
Balance as of January 1, 2010	$ 4,668
Realized and unrealized gain(1)	398
Balance as of March 31, 2010	5,066

(1) The realized and unrealized gains are included as interest expense in the condensed consolidated statements of operations for the three months ended March 31, 2011 and March 31, 2010.

11. COMMITMENTS & CONTINGENCIES

On April 22, 2011, a civil jury in the Circuit Court of Fairfax County, Virginia returned a verdict in the employment-related lawsuit filed against the Company by its former chairman and chief executive officer, Matthew P. Lawlor. The jury found in his favor on some, but not all, of his claims and awarded him a portion of the total damages he had requested. The verdict remains subject to post trial motions, including motions to have the jury verdict set aside. The outcome of these motions will determine if and when an appeal will be required.

The Company has accrued $7.7 million to reflect the jury award, statutory interest and an estimate of additional expenses which may be recoverable by Mr. Lawlor if this verdict ultimately results in a final, non-appealable judgment in favor of Mr. Lawlor. This amount is shown as Reserve for potential legal liability in the condensed consolidated statement of operations. To the extent a final, non-appealable judgment upholds Mr. Lawlor s claims arising under the Company s stock-based equity incentive plans, other plan participants may refer to that judgment in asserting claims similar to Mr. Lawlor s against the Company. If those claims were pursued, the Company believes it could incur costs of defense, settlement or damages.

Online Resources Corporation is currently the defendant in a civil action, *Kent D. Stuckey v. Online Resources Corporation, U.S. District Court for Southern Dist. Ohio, Eastern Div., Case No. 2:08-CV-1188.* This lawsuit was filed on December 19, 2008 by Mr. Stuckey, the former Chief Executive Officer and Chairman of Internet Transaction Solutions, Inc. (ITS), a company that Online Resources acquired in August 2007. The plaintiff has purported to bring this suit in a representative capacity on behalf of all former ITS stockholders. Plaintiff s primary allegation is that the stockholders of ITS were damaged as a result of the failure of Online Resources to register the shares that were received in the acquisition of ITS. Online Resources has disputed all the claims made by the plaintiff, and believes no material exposure will result from the claims asserted.

Online Resources Corporation is currently a defendant in a civil action, *Leon Stambler v. Intuit Inc., et al., Civil Action No. 2:10-C-181, Eastern Dist. Texas, Marshall Div.* This lawsuit was originally filed on May 28, 2010 and an amended complaint was filed on September 27, 2010. There are twenty-six other named defendants in this action asserting claims of infringement, by each defendant, of the plaintiff s patents relating to certain aspects of online financial transactions. The plaintiff continues to proceed with discovery in the case. Online Resources disputes all the claims made by the plaintiff at this juncture, and does not anticipate any material liability from this lawsuit.

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ITEM 2. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OPERATIONS***

CAUTIONARY NOTE

The following management s discussion and analysis should be read in conjunction with the accompanying condensed consolidated unaudited financial statements and notes thereto. This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), including, but not limited to:

Any statements that are not statements of historical fact;

Statements regarding trends in our revenues, expense levels, and liquidity and capital resources;

Statements about the sufficiency of the proceeds from the sale of securities and cash balances to meet currently planned working capital and capital expenditure requirements for at least the next twelve months; and

Other statements identified or qualified by words such as likely , will , suggest , may , would , could , sh expects , anticipates , estimates , plans , projects , believes , seeks , intends and other similar words t forward-looking statements.

These forward-looking statements represent our best judgment as of the date of the Quarterly Report on Form 10-Q, and we caution readers not to place undue reliance on such statements. Actual performance and results of operations may differ materially from those projected or suggested in the forward-looking statements due to certain risks and uncertainties, including but not limited to, the risks and uncertainties described or discussed below and elsewhere in this report, particularly in the section Risk Factors in Item 1A of Part II, as well as in the section Risk Factors in our Annual Report on Form 10-K filed with the SEC on March 15, 2011. These risks include, among others, the following:

our history of prior losses and the lack of certainty of maintaining consistent profitability;

our dependence on the marketing assistance of third parties to market our services;

the possibility that we may not be able to expand to meet increased demand for our services and related products;

the potential adverse impact that client departures may have on our financial results;

our inability to attract and retain qualified management and technical personnel and our dependence on our executive officers and key employees;

potential security breaches or system failures disrupting our business and the liability associated with these disruptions;

the failure to properly develop, market or sell new products;

the potential impact of the consolidation of the banking and financial services industry;

the potential effects of adoption of government rules or regulations on our business;

our need to maintain satisfactory ratings from federal depository institution regulators;

exposure to increased compliance costs and risks associated with new and increasing and new regulation of corporate governance and disclosure standards;

the liquidation preference rights and redemption rights associated with our outstanding shares of preferred stock;

the voting rights of our preferred stock restricting our right to take certain actions;

the potential losses we may incur from the impairment of the goodwill we have obtained from our acquisitions;

our inability to obtain additional financing to grow our business;

the concentration of our clients in a small number of industries, including the financial services industry, and changes within those industries reducing demand for our products and services;

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the failure to retain existing end-users or changes in their continued use of our services adversely affecting our operating results;

demand for low-cost or free online financial services and competition placing significant pressure on our pricing structure and revenues;

exposure to greater than anticipated tax liabilities;

our quarterly financial results being subject to fluctuations and having a material adverse effect on the price of our stock;

our limited ability to protect our proprietary technology and other rights;

the need to redesign our products, pay royalties or enter into license agreements with third parties as a result of our infringement, or alleged infringement, of proprietary rights of third parties;

the potential obsolescence of our technology or the offering of new, more efficient means of conducting account presentation and payments services negatively impacting our business;

errors and bugs existing in our internally developed software and systems as well as third-party products;

the disruption of our business and the diversion of management s attention resulting from breach of contract or product liability suits;

difficulties in integrating acquired businesses;

our having limited knowledge of, or experience with, the industries served and products provided by our acquired businesses;

the increase in the size of our operations and the risks described herein from acquisitions or otherwise;

the liabilities or obligations that were not or will not be adequately disclosed from acquisitions we have made and may make;

the claims that may arise from acquired companies giving us limited warranties and indemnities in connection with their businesses;

the effect on the trading price of our stock from the sale of the 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;

the significant amount of debt which will have to repay;

the adverse effect to the market price of our common stock from future offerings of debt and preferred stock which would be senior to our common stock upon liquidation; and

the acceleration of repayment of borrowed funds if a default under the terms of our credit agreement arises.

OVERVIEW

We provide outsourced, web- and phone-based financial technology services to financial institution, biller, card issuer and creditor clients to fulfill payment, banking and other financial services to their millions of consumer end-users. Our products and services enable our clients to provide their consumer end-users with the ability to perform various self-service functions including electronic bill payments and funds transfers, which utilize our unique, real-time debit architecture, ACH and other payment methods, as well as gain online access to their accounts, transaction histories and other information. We deliver our products and services to two primary vertical markets: Banking Services and e-Commerce Services.

Banking Services: For banks, credit unions and other depository financial institutions, we provide electronic bill payment and online banking services. Our electronic bill payment services provide clients a cost effective solution to process transactions for their consumer end-users. Our online banking products include an integrated suite of web-based account presentation and payment services, as well as supporting call center, consumer marketing and professional services. These solutions give clients an enhanced experience for their users, the marketing processes to drive Internet channel adoption, and innovative products and services that help them maintain their competitive position.

The bill payment services we offer to our Banking clients use our proprietary payments gateway, which leverages real-time electronic funds transfer, also known as EFT, infrastructure and technology. By debiting end-users accounts in real-time, we are able to improve the speed, cost and certainty of payments, while eliminating the risk that bills will be paid against insufficient funds.

e-Commerce Services: For billers, card issuers and credit providers, we provide web- and phone-based payment, account presentation and web-collections services, along with supporting professional services. Our services include a full suite of payment options that can be made available to consumers, including acceptance of payments made by credit card, signature debit card, ACH and PIN-less debit through multiple channels including online, interactive voice response, or IVR, and call center customer service representatives. These options also include flexible payment scheduling, convenience payments, bill presentment and other advanced payment and collection services.

We currently derive approximately 80% of our revenues from payments and 20% from internet banking, account presentation and other services. These other services include customer care and consumer marketing services to support consumers and assist our clients in delivering a favorable user experience. It also includes professional services, including internet banking software solutions that enable various customization and deployment options.

We believe our domain expertise fulfills a significant 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 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 highly reliable transaction processing, we provide valuable service offerings in defensible market segments.

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.

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. At March 31, 2011 in comparison to December 31, 2010, the number of users of our account presentation services remained constant and the number of users of our payment services increased 3%, for an overall 2% increase in users.

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. We invested approximately $1.7 million for the three months ended March 31, 2011, and $5.9 million and $6.2 million for the years ended December 31, 2010 and 2009, respectively. These investments were made to create new products, enhance the functionality of existing products and improve our infrastructure. Product enhancements allow us to remain competitive, retain existing clients and attract new clients. New products allow us to increase revenue and attract new clients. Infrastructure investments allow us to leverage ongoing advances in technology to improve our operating efficiency and capture cost savings.

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.

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Registered end-users using account presentation, payment services or both, and the payment transactions executed by those end-users are the major drivers of our revenues. Since March 31, 2010, the number of account presentation services users increased by 11%, and the number of payment services users increased 12%, for an overall 12% increase in users. The increase in account presentation services users is due to new clients as well as increased users with existing clients.

Results of Operations The following table presents the summarized results of operations for our two reportable segments, Banking and eCommerce (dollars in thousands):

	Three Months Ended March 31,			
	2011		2010	
	Dollars	**%**	**Dollars**	**%**
Revenues:				
Banking	$ 21,020	54%	$ 23,347	61%
eCommerce	18,258	46%	15,235	39%
Total	$ 39,278	100%	$ 38,582	100%
	Dollars	**Margin**	**Dollars**	**Margin**
Gross profit:				
Banking	$ 9,484	45%	$ 12,044	52%
eCommerce	7,979	44%	6,912	45%
Total	$ 17,463	44%	$ 18,956	49%
	Dollars	**%**	**Dollars**	**%**
Operating expenses:				
Banking	$ 6,773	27%	$ 6,255	41%
eCommerce	5,542	22%	4,745	31%
Corporate(1)	12,631	51%	4,239	28%
Total	$ 24,946	100%	$ 15,239	100%
	Dollars	**Margin**	**Dollars**	**Margin**
Income (loss) from operations:				
Banking	$ 2,711	13%	$ 5,789	25%
eCommerce	2,437	13%	2,167	14%
Corporate(1)	(12,631)		(4,239)	
Total	$ (7,483)	-19%	$ 3,717	10%

(1) Corporate expenses are primarily comprised of corporate general and administrative expenses that are not considered in the measure of segment profit or loss used to evaluate the segments. Also included in corporate expense for 2011 are costs related to the reserve for potential legal liability.

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THREE MONTHS ENDED MARCH 31, 2011 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2010

Revenues

We generate revenues from account presentation, payment, relationship management and professional services and other revenues.

	Three Months Ended March 31,		Change	
	2011(1)	2010(1)	Difference(1)	%
Revenues:				
Account presentation services	$ 2,740	$ 2,381	$ 359	15%
Payment services	29,792	29,732	60	%
Relationship management services	1,814	2,098	(284)	-14%
Professional services and other	4,932	4,371	561	13%
Total revenues	$ 39,278	$ 38,582	$ 696	2%
Payment metrics:				
Banking payment transactions	37,983	35,855	2,128	6%
Biller payment transactions	22,068	16,812	5,256	31%

(1) In thousands

Account Presentation Services. Both the Banking and eCommerce segments contribute to account presentation services revenues, which increased 15%, or $0.4 million, to $2.7 million. The increase is due to approximately $0.5 million increase in hosting fees and $0.1 million decrease in license fees.

Payment Services. Both the Banking and eCommerce segments contribute to payment services revenues, which remained approximately the same for the three months ended.

Relationship Management Services. Primarily composed of revenues from the Banking segment, relationship management services revenues decreased by $0.3 million in the first quarter of 2011, or 14%. Revenues decreased primarily as a result of decreased license and user fees.

Professional Services and Other. Both the Banking and eCommerce segments contribute to professional services and other revenues, which increased $0.6 million, or 13%. The increase is due to a $0.3 million increase in professional service fees, a $0.3 million increase in ancillary service and license fees and a $0.1 million increase in implementation fees for core products offset by a $0.1 million decrease in cancellation fees.

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Costs and Expenses

	Three Months Ended March 31,		Change	
	2011(1)	2010(1)	Difference(1)	%
Revenues	$ 39,278	$ 38,582	$ 696	2%
Costs of revenues	21,815	19,626	2,189	11%
Gross profit	17,463	18,956	(1,493)	-8%
Gross margin	44%	49%		
Operating expenses				
General and administrative	9,497	7,754	1,743	22%
Reserve for potential legal liability	7,700		7,700	100%
Sales and marketing	5,103	4,912	191	4%
Systems and development	2,646	2,573	73	3%
Total operating expenses	24,946	15,239	9,707	64%
Income (loss) from operations	(7,483)	3,717	(11,200)	-301%
Other income (expense)				
Interest income	32	7	25	357%
Interest and other expense	(254)	(159)	95	60%
Total other income (expense)	(222)	(152)	70	46%
Income (loss) before tax provision	(7,705)	3,565	(11,270)	-316%
Income tax provision	(2,953)	1,386	(4,339)	-313%
Net income (loss)	(4,752)	2,179	(6,931)	318%
Preferred stock accretion	2,425	2,336	89	4%
Net loss available to common stockholders	$ (7,177)	$ (157)	$ (7,020)	4,471%
Net loss available to common stockholders per share:				
Basic	$ (0.23)	$ (0.01)	$ (0.22)	96%
Diluted	$ (0.23)	$ (0.01)	$ (0.22)	96%
Shares used in calculation of net loss available to common stockholders per share:				
Basic	31,590	30,484	1,106	4%
Diluted	31,590	30,484	1,106	4%

(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 $2.2 million for the three months ended March 31, 2011, compared to the same period in 2010. This increase is due to rising interchange fees and connectivity costs of $1.7 million and increased amortization of deferred costs of $0.5million.

Gross Profit. Gross profit decreased $1.5 million for the three months ended March 31, 2011 and gross margin as a percentage of revenues decreased by 5% to 44%. The gross profit decrease is due to increases in costs of revenues which outpaced revenue increases.

General and Administrative. General and administrative expenses primarily consist of salaries for executive, administrative and financial personnel, consulting expenses and facilities costs such as office leases, insurance and depreciation. General and administrative expenses increased $1.7 million, or 22%, to $9.5 million for the three months ended March 31, 2011 due to approximately $1.7 million increase in legal fees.

Reserve for potential legal liability. In 2011, the Company accrued $7.7 million to reflect a jury award, statutory interest and estimate of legal fees which may be recoverable by the Company s former Chairman and Chief Executive Officer, Matthew P. Lawlor, related to a lawsuit he filed against the Company.

Sales and Marketing. Sales and marketing expenses include salaries and commissions paid to sales and client services personnel and other costs incurred in selling our services and products. Sales and marketing expenses increased $0.2 million, or 4%, to $5.1 million for the three months ended March 31, 2011. The reasons for the increase are increased salaries of approximately $0.1 million and increased consulting fees of approximately $0.1 million.

Systems and Development. Systems and development expenses include salaries, consulting fees and all other expenses incurred in supporting the research and development of new services and products and new technology to enhance existing products. Systems and development expenses increased by $0.1 million, or 3%, to $2.6 million for the three months ended March 31, 2011. The increase is due to additional training costs.

Income from Operations. Income from operations decreased $11.2 million to $(7.5) million for the three months ended March 31, 2011. The decrease is due to increased costs of revenue, general and administrative costs and reserve for potential legal liability.

Interest Income. Interest income remained constant for the three months ended March 31, 2011 compared to the same period in the prior year.

Interest and Other Expense. Interest and other expense increased by $0.1 million for the three months ended March 31, 2011 due to reduced interest expense on the 2007 Notes of approximately $0.2 million and a decrease in the mark-to-market adjustment to the theoretical swap derivative of approximately $0.3 million.

Income Tax Provision. We recognized tax benefit for the three months ended March 31, 2011, as a result of $7.7 million of loss before income tax benefits generated during the first quarter of 2011. Our effective tax rate for the period was 38.3%. The difference between our effective tax rate and the federal statutory rate is primarily due to permanent differences, state taxes and a stock based compensation adjustment of approximately $0.1 million relating to the difference between the expected deduction from stock based compensation which is based upon the fair value of the award at the date of issuance and the actual deduction taken which is based upon the fair value of the award at the time the award is exercised or vests.

Preferred Stock Accretion. The accretion related to the Series A-1 Preferred Stock issued on July 3, 2006 increased slightly, or 4%, due to compounding of dividends.

Net Loss Available to Common Stockholders. Net loss available to common stockholders decreased $7.0 million to net loss of $7.2 million for the three months ended March 31, 2011, compared to net loss of $0.2 million for the three months ended March 31, 2010. Basic and diluted net loss available to common stockholders per share was $0.23 for the three months ended March 31, 2011, compared to a net loss available to common stockholders of $0.01 for the three months ended March 31, 2010. Basic and diluted shares outstanding increased by 4% primarily as a result of shares issued in connection with the exercise of stock options, issuance of restricted stock units and our employees participation in the employee stock purchase plan.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $4.5 million for the three months ended March 31, 2011. This represented a $4.2 million decrease in cash provided by operating activities compared to the same prior year period, which was primarily the result of a decrease in net income of $6.9 million, the impact of the reserve for potential legal liability, net of deferred tax benefit of $3.0 million and a decrease in depreciation and amortization of $0.4 million offset by changes in certain other assets and liabilities of $0.4 million.

Net cash used by investing activities for the three months ended March 31, 2011 was $1.7 million, which was the result of capital expenditures.

Net cash used by financing activities was $3.6 million for the three months ended March 31, 2011, which was primarily the result of a principal payment on our 2007 Notes of $4.0 million offset by $0.4 million in net proceeds from the issuance of common stock.

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

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

The Company s current cash balance and projected cash flows are not sufficient to repay both the $32.8 million in 2007 Notes due in 2012 and the Series A-1 Preferred Stock redemption value of 115% of the face value of the stock plus accrued dividends and escalation accrual putable on or after July 3, 2013 and the reserve for potential legal liability should it become payable . If we are unable to obtain additional financing or renegotiate our existing debt facility and preferred security, there can be no assurance that we will be able to make the necessary payments.

ITEM 3. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

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

We are exposed to the impact of interest rate changes as they affect our outstanding senior secured notes, or 2007 Notes. The interest rate on our 2007 Notes varies based on LIBOR and, consequently, our interest expense could fluctuate with changes in the LIBOR rate through the maturity date of the senior secured note.

We earn 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 condensed 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 $0.1 million and $0.1 million for the three months ended March 31, 2011 and 2010, respectively. If there was a change in interest rates of one percent as of March 31, 2011, revenues associated with float interest would have increased by approximately $0.5 million for the three months ended March 31, 2011.

ITEM 4. ***CONTROLS AND PROCEDURES***

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

(a) As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including the interim Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, the CEO and CFO have concluded that our disclosure controls and procedures were effective as of March 31, 2011 to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms and is accumulated and communicated to our management including our CEO and CFO as appropriate to allow timely decisions regarding disclosures.

(b) There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) identified in connection with the evaluation of such internal control that occurred during the quarter ended March 31, 2011 (as required by Exchange Act Rules 13a-15(d) and 15d-15(d)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. ***LEGAL PROCEEDINGS***

On April 22, 2011, a civil jury in the Circuit Court of Fairfax County, Virginia returned a verdict in the employment-related lawsuit filed against us by our former chairman and chief executive officer, Matthew P. Lawlor. The jury rejected Mr. Lawlor s claim that he had been wrongfully terminated but found in his favor on other claims. Mr. Lawlor was awarded damages of $5.3 million plus pre-judgment interest from the date of his February 2010 separation from the us.

The verdict remains subject to post trial motions, including motions to have the jury verdict set aside. The outcome of these motions will determine if and when an appeal will be required. If some or all of this verdict is ultimately upheld, Mr. Lawlor may be able to recover a portion of his legal fees.

Other than the foregoing, there has been no material development in any material legal proceedings. From time to time, however, we are named as a defendant in legal actions arising from our normal business activities. Although we cannot accurately predict the amount of our liability, if any, that could arise with respect to legal actions currently pending against us, we do not expect that any such liability will have a material adverse effect on our consolidated financial position, operating results or cash flows. We believe that we have obtained adequate insurance coverage, rights to indemnification, or where appropriate, have established reserves in connection with these legal proceedings.

ITEM 1A. ***RISK FACTORS***

There have been no material changes to risk factors as previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2011 except for the following:

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If we are unable to obtain additional financing or renegotiate our existing debt facility and preferred security, it could have a material adverse effect on our business. The Company s current cash balance and projected cash flows are not sufficient to repay both the $32.8 million in 2007 Notes due in 2012 and the Series A-1 Preferred Stock redemption value of 115% of the face value of the stock plus accrued dividends and escalation accrual putable on or after July 3, 2013. If we are unable to obtain additional financing or renegotiate our existing debt facility and preferred security, there can be no assurance that we will be able to make the necessary payments.

If we are unable to have set aside or reverse a recent jury verdict obtained against us by our former chairman and chief executive officer, our financial conditions may be adversely affected and we may be required to seek additional financing to satisfy our need for available funds.

In April 2011, Matthew P. Lawlor, our former chairman and chief executive officer, obtained a jury verdict against us on several of the claims contained in his employment-related lawsuit against the Company. Mr. Lawlor was awarded $5.3 million in damages plus pre-judgment interest. As a result of this judgment, we have recorded an aggregate reserve of $7.7 million. This reserve includes an estimate of additional expenses. We intend to move the court to set aside the jury verdict. If unsuccessful, we plan to appeal the verdict. If we are unable to have the judgment set aside or reversed on appeal, the judgment may become payable at a time when we have insufficient working capital or available funds. In that case, we may be required to seek additional funds that may not be available on commercially reasonable terms or at all. Under such circumstances, our financial condition could be adversely affected.

To the extent a final, non-appealable judgment upholds Mr. Lawlor s claims arising under our stock-based incentive equity plans, other plan participants may have a basis to also assert claims against us under the plans. If those claims were pursued, we believe we could incur additional costs of defense, settlement or damages.

ITEM 2. *UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS*

None

ITEM 3. *DEFAULTS UPON SENIOR SECURITIES*

None

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDER*

None

ITEM 5. *OTHER INFORMATION*

None

ITEM 6. *EXHIBITS*

Exhibit 31.1	Rule 13a-14a Certification of Chief Executive Officer
Exhibit 31.2	Rule 13a-14a Certification of Chief Financial Officer
Exhibit 32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections(a) and(b) of Section 1350, Chapter 63 of Title 18, United States Code)

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 Form 10-K for the year ended December 31, 2008 filed on March 3, 2009)

3.3 Certificate of Designation of shares of Series A-1 Convertible Preferred Stock (incorporated by reference from our Form 8-K filed on July 3, 2006)

3.4 Certificate of Correction to Certificate of Designation for the shares of Series A-1 Convertible Preferred Stock (incorporated by reference from our Form 8-K filed on September 14, 2006)

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SIGNATURES

Pursuant to the requirements 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.

Date: May 10, 2011

ONLINE RESOURCES CORPORATION

By: /s/ Joseph L. Cowan
Joseph L. Cowan
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2011

ONLINE RESOURCES CORPORATION

By: /s/ Catherine A. Graham
Catherine A. Graham
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

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