ONLINE RESOURCES CORP
Form 10-Q
August 14, 2002

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

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)

DELAWARE
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

(I.
IDEN

7600 COLSHIRE DRIVE, McLEAN, VIRGINIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(703) 394-5100
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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 X NO

As of August 10, 2002 there were 13,573,224 shares of the issuer's common stock outstanding.

ONLINE RESOURCES CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ONLINE RESOURCES CORPORATION

UNAUDITED BALANCE SHEETS

	JUNE 30, 2002
ASSETS	

Current assets:		
Cash and cash equivalents	$	2,431,96
Investments		3,963,46
Accounts receivable (net of allowance of $208,000 and $35,000 at June 30, 2002 and December 31, 2001, respectively)		3,222,79
Deferred implementation costs		744,08
Prepaid expenses and other current assets		768,29
Total current assets		11,130,59
Property and equipment, net		7,355,23
Deferred implementation costs, less current portion		483,86
Debt issuance costs		806,71
Other assets		504,97
Total assets	$	20,281,37
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$	293,64
Accrued expenses and other current liabilities		1,211,99
Accrued compensation expenses		410,60
Deferred revenues		742,82
Current portion of capital lease obligations		298,05
Total current liabilities		2,957,11
Capital lease obligation, less current maturities		242,96
Deferred revenues, less current portion		386,28
Notes payable		12,000,00
Total liabilities		15,586,36
Commitments		
Series B redeemable convertible preferred stock; 100,000 shares designated, none issued at June 30, 2002 and December 31, 2001		
Series C redeemable convertible preferred stock; 287,000 shares designated, none issued at June 30, 2002 and December 31, 2001		
Stockholders' equity:		
Series A convertible preferred stock, $.01 par value; 1,000,000 shares authorized, none issued at June 30, 2002 and December 31, 2001		
Common stock, $.0001 par value; 35,000,000 shares authorized, 13,641,354 issued and 13,565,829 outstanding at June 30, 2002; and 13,293,238 issued and 13,248,390 outstanding at December 31, 2001, respectively		1,35
Additional paid-in capital		91,189,88
Accumulated deficit		(86,234,65
Deferred stock compensation		(43,80
Treasury stock, 75,525 shares and 44,848 shares at June 30, 2002 and December 31, 2001, respectively		(227,80
Receivable from the sale of common stock		
Accumulated other comprehensive income		10,03
Total stockholders' equity		4,695,00
Total liabilities and stockholders' equity	$	20,281,37

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SEE ACCOMPANYING NOTES TO UNAUDITED FINANCIAL STATEMENTS.

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ONLINE RESOURCES CORPORATION
UNAUDITED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30, 2002	2001	SIX M 2002
Revenues:			
Service fees	$7,406,502	$ 5,228,172	$14,264,76
Implementation and other revenues	472,475	780,031	1,441,59
Total revenues	7,878,977	6,008,203	15,706,35
Costs and expenses:			
Service costs	3,156,909	3,197,892	6,500,17
Implementation and other costs	516,815	361,616	1,107,30
Costs of revenues	3,673,724	3,559,508	7,607,47
Gross profit	4,205,253	2,448,695	8,098,88
General & administrative	1,680,522	1,852,144	3,386,08
Sales and marketing	1,309,175	1,549,754	2,572,69
Systems and development	1,068,531	1,468,389	2,269,77
Non-recurring charges	-	-	
Total expenses	4,058,228	4,870,287	8,228,55
Income (Loss) from operations	147,025	(2,421,592)	(129,67
Other (expenses) income:			
Interest income	33,266	194,892	80,28
Interest expense	(312,942)	(465,659)	(664,38
Other expense	(417)	-	(34,21
Debt conversion expense	-	-	(191,80
Total other expense	(280,093)	(270,767)	(810,11
Loss before extraordinary item	(133,068)	(2,692,359)	(939,79
Extraordinary item- gain from repurchase of debt	-	1,083,153	
Net loss	$ (133,068)	$(1,609,206)	$ (939,79

Net loss per share	$ (0.01)	$ (0.14)	$ (0.0
Shares used in calculation of net loss per share:			
Basic and diluted	13,557,195	11,680,377	13,418,59

SEE ACCOMPANYING NOTES TO UNAUDITED FINANCIAL STATEMENTS.

ONLINE RESOURCES CORPORATION

UNAUDITED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED J
	2002
OPERATING ACTIVITIES	
Net loss	$ (939,790)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Extraordinary item-gain on repurchase of debt	
Debt conversion expense	191,807
Depreciation	1,193,186
Amortization of debt issuance costs	126,579
Stock compensation expense	58,246
Provision for losses on accounts receivable	113,000
Realized gain on investments	(6,775)
Amortization of bond premium (discount)	249
Changes in assets and liabilities:	
Accounts receivable	(700,059)
Prepaid expenses and other current assets	27,573
Deferred implementation costs	398,894
Other assets	458,203
Accounts payable	(431,038)
Accrued expenses	269,390
Deferred revenues	(317,812)
Net cash provided by (used in) operating activities	441,653
INVESTING ACTIVITIES	
Purchase of available for sale securities	(2,303,226)
Sales of available for sale securities	3,914,323
Purchases of property and equipment	(1,735,293)
Net cash (used in) provided by investing activities	(124,196)
FINANCING ACTIVITIES	
Net proceeds from issuance of common stock	112,427
Repayment of capital lease obligations	(118,173)
Repurchase of notes payable	-
Payment of long-term debt costs	-

Net cash (used in) financing activities	(5,746)
Net increase (decrease) in cash and cash equivalents	311,711
Cash and cash equivalents at beginning of period	2,120,252
Cash and cash equivalents at end of period	$ 2,431,963

Supplemental information to statement of cash flows:

Cash paid for interest	519,580
Conversion of notes payable	1,000,000
Unrealized (loss) on investments	(15,339)

SEE ACCOMPANYING NOTES TO UNAUDITED FINANCIAL STATEMENTS.

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ONLINE RESOURCES CORPORATION
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Online Resources Corporation (the "Company") is a leading outsourcer of e-financial services with over 500 bank and credit union clients. The Company's comprehensive Quotien(SM) suite of services provides Internet banking, electronic bill presentment and payment, commercial cash management and other consumer and business e-financial applications. The Company supports its products with 24x7 customer care and targeted consumer marketing services, training services and other network and technical professional services, giving clients the benefit of a single, integrated solution with real-time banking transaction capabilities.

INTERIM FINANCIAL INFORMATION

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles 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 generally accepted accounting principles have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the 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 financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2001, included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on March 29, 2002. 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.

RECENT PRONOUNCEMENTS

In July 2001, the Securities and Exchange Commission issued staff announcement, D-98, Classification and Measurement of Redeemable Securities. The

Company adopted the announcement on January 1, 2002 and the adoption of this announcement did not have a significant effect on the earnings or the financial position of the Company.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". This statement applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations-Reporting the Effects of Disposal of a segment of a Business, for the disposal of segments of a business. This statement requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. The Company adopted this statement on January 1, 2002 and the adoption of this statement did not have a significant impact on its results of operations, financial position and cash flows.

The FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). SFAS No. 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Opinion 30 will now be used to classify those gains and losses. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. Provisions related to FASB Statement No. 13 are effective for transactions occurring after May 15, 2002 and all other provisions are effective for financial statements issued on or after May 15, 2002. The Company expects that the impact of adopting SFAS No.145 will result in reclassifying prior year extraordinary losses from extinguishment of debt so that they are reflected as part of ordinary income.

2. NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
Net loss	$ (133,068)	$ (1,609,206)	$ (939,790)	$ (4,971,171)
Weighted average number of common shares	13,557,195	11,680,377	13,418,599	11,663,703
Loss per share:				
Basic and diluted	$ (0.01)	$ (0.14)	$ (0.07)	$ (0.43)

Due to their antidilutive effects, shares underlying outstanding stock options, warrants and convertible subordinated notes to purchase shares of common stock were excluded from the computation of diluted earnings per share for all periods presented.

3. EQUITY

During the six months ended June 30, 2002, employees purchased 14,160 shares of common stock under the Company's employee stock purchase plan and exercised options for 64,599 shares of common stock under the Company's stock option plan with net proceeds to the Company of approximately $112,000. On March 27, 2002, $1.0 million of the 8% convertible subordinated notes (the "Convertible Notes") was converted at $3.39 per share of common stock (Note 4). This conversion resulted in an issuance of 295,031 shares of common stock. No cash proceeds were obtained from the conversion.

4. NOTES PAYABLE

On September 28, 2000, the Company completed the private placement of $20 million in Convertible Notes to a group of accredited investors and received proceeds of $18.7 million net of debt issuance costs of $1.3 million including commission of $917,200. The proceeds have been and will continue to be used for working capital. The Convertible Notes carry an 8% coupon and interest payment dates are April 1 and October 1, commencing April 1, 2001. The Convertible Notes were initially convertible at a price of $4.75 per share but are subject to an annual reset under certain circumstances. In no event can the conversion price be less than $4.00 per share. Subject to certain conditions, the Company may redeem all or part of the Convertible Notes prior to maturity. As of June 30, 2002, 4,210,526 shares were authorized and 3,000,000 issuable upon conversion of the Convertible Notes. Jefferies & Company, Inc., one of the underwriters of the private placement, also obtained 200,000 warrants that expire on September 30, 2005 that are exercisable at the same price as the conversion price under the Convertible Notes.

On May 22, 2001 and May 24, 2001, the Company paid $2.2 million to repurchase $3,000,000 and $500,000, respectively, of the Convertible Notes in privately negotiated transactions. After $289,000 of debt issuance costs was written off, the Company recognized an extraordinary gain of $1.1 million as a result of the transaction.

On September 28, 2001, November 2, 2001 and March 27, 2002, $2.5 million, $1.0 million and $1.0 million of the Convertible Notes were converted at $2.00, $3.05 and $3.39 per common share, respectively, instead of the $4.00 conversion price that otherwise existed under the Convertible Notes. These induced conversions resulted in the issuance of 1,250,000, 327,869 and 295,031 shares or 625,000, 77,869 and 45,031 additional shares, respectively, had the Convertible Notes been converted at the $4.00 per common share conversion price. The Company recognized $731,250, $175,205 and $141,848 non-cash debt conversion expense and wrote off $157,157, $51,970 and $49,959 of related debt issuance costs in September 2001, November

2001 and March 2002, respectively, in connection with the transactions. Accordingly, as of June 30, 2002, $12.0 million of the Convertible Notes remains outstanding and matures on September 30, 2005.

Interest expense related to the Convertible Notes for the three months ended June 30, 2002 and 2001 was $239,000 and $370,000, respectively. Interest expense related to the Convertible Notes for the six months ended June 30, 2002 and 2001 was $499,000 and $780,000, respectively. As of June 30, 2002 and 2001, accrued interest on notes payable totaled $239,000 and $330,000, respectively.

5. COMPONENTS OF COMPREHENSIVE INCOME

Comprehensive income includes the Company's net loss adjusted for changes, net of tax, of unrealized gains and (losses) on investments in marketable securities. Comprehensive income for the three and six months ended June 30, 2002 and 2001 is as follows:

	THREE MONTHS ENDED JUNE 30, 2002	THREE MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2001
Comprehensive income:				
Net loss	$ (133,068)	$(1,609,206)	$ (939,790)	$(4,971,171)
Unrealized gain (loss) on investments in marketable securities	11,215	(22,348)	(15,339)	12,578
Total comprehensive loss:	$ (121,853)	$(1,631,554)	$ (955,129)	$(4,958,593)

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

CAUTIONARY NOTE

The following management's discussion and analysis should be read in conjunction with the accompanying 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, including, but not limited to:

- Any statements that are not statements of historical fact;

- Forecasts of growth in business-to-business electronic commerce, and growth in the number of consumers using online banking and billpaying services;

- 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", "should", "expects", "anticipates", "estimates", "plans", "projects", "believes", "seek", "intend" and other similar words that signify 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 in the section "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002. These risks include, among others, the following:

- our history of losses and possibility of future losses;
- possible fluctuations of our quarterly financial results;
- our potential need for additional capital to stay in business;
- our dependence on the marketing efforts of third parties;
- our dependence on our financial institution clients to market our services;
- the potential uncertainty of our co-marketing efforts and the risk that such efforts may not be successful;
- the possibility that we may not be able to expand to meet increased demand for our services and related products;
- the potential adverse impact as a result of loss of a material client or restructure of our agreement with a material customer;
- our potential inability to compete with larger, more established businesses offering similar products or services;
- the possibility of a failure to successfully implement a system upgrade or conversion;
- our inability to attract and retain skilled personnel;
- possible security breaches or system failures disrupting our business and the liability associated with these disruptions;
- the lack of success in promoting our services for broad use and acceptance by consumers and the possibility of the development of defective new products;
- the potential obsolescence of our technology or the offering of new, more efficient means of conducting Internet banking and bill payment;
- reduction or elimination of the fees we charge for some services due to the consumer demand for low-cost or free online financial services;
- the potential impact of the consolidation of the banking and financial services industry;
- interference with our business from the adoption of government regulations;
- the potential of litigation;
- control of the management and affairs of the Company by our executives and directors;
- our volatile stock price;

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

- the possibility that we fail to meet listing standards for continued listing on The NASDAQ National Market;

- the possibility of discouraging a takeover as a result of the adoption of a Stockholder Rights Plan; and

- the possibility of terrorism and further acts of violence.

OVERVIEW

Online Resources Corporation is a leading outsourcer of e-financial services with over 500 bank and credit union clients. Our comprehensive Quotien(SM) suite provides Internet banking, electronic bill presentment and payment, commercial cash management, and other consumer and business e-financial applications. We support our services with 24x7 customer care and targeted consumer marketing services, training services and other network and technical professional services giving clients the

benefit of a single, integrated solution and real-time banking transaction capabilities. We back our services with an end to end service guaranty that we believe is unique to our industry. We process approximately 85 million transactions annually, including $4.0 billion in consumer bill payments.

We primarily derive revenue from long-term service contracts with our financial institution clients, who pay us recurring fees based primarily on the number of their billable customers enrolled and transaction volumes, as well as an up-front implementation fees. Our financial institution clients typically subsidize some or all of our fees when reselling our services to their customers, as they derive significant potential benefits including account retention, delivery and paper cost savings, account consolidation and cross-selling of other products through the use of our services. As a network-based service provider, we have made substantial up-front investments in infrastructure. We believe our financial performance and operating leverage will be based primarily on increasing retail customer subscriptions and transaction volumes over a relatively fixed cost base.

Our current sources of revenue are from service fees, implementation fees and other revenues.

- Service fees. Our primary source of revenues is derived from recurring monthly fees by providing services which include banking and bill payment, customer service, consumer marketing, information reporting, and administrative services, to financial institution clients, typically based on the number of billable customers. These services are priced on a monthly per billable customer basis, and in some cases, on a transaction basis. We recognize these revenues as services are provided.

- Implementation and other revenues. We generate revenue from implementation of our fully integrated services to our financial institution clients. Implementation fees are paid on a one-time basis at signing. We recognize nonrefundable implementation fees for all contracts over the contract term as the services are provided, which typically range from one to five years. We also derive revenue from sales of related enabling products and software, including cash management, Quicken and customer service software.

We expect that our primary source of revenue growth will come from service fees as a result of continued growth of billable customers.

Historically, the majority of our resources have been directed to creating and upgrading our proprietary system. Our proprietary system enables us to provide a broad range of services to our financial institution clients including Internet banking, bill paying, and access to complementary financial services supported by our customer call center, targeted consumer marketing services and other support services. While investment to date has been significant, we believe the infrastructure we have built will enable us to support our anticipated growth over the next several years with only nominal incremental cost for additional retail customers.

FINANCIAL CONDITION

Since our founding, we have incurred high costs to create our infrastructure, while generating low revenues that have been increasing in amount over the past several years. As a result, we have historically experienced large operating losses and negative cash flow. At June 30, 2002, we had an accumulated deficit of $86.2 million and net property and equipment of $7.4 million. We have funded our operations primarily through the issuance of equity and debt securities. Ongoing working capital requirements will primarily consist of personnel costs related to enhancing and maintaining our system. As a result of our improving revenues and gross margins, the amount of our losses has been decreasing but changes in our customer base, pricing or other factors could alter this trend.

As of June 30, 2002, we had $2.4 million in cash and cash equivalents and $4.0 million in investments as compared to $2.1 million in cash and cash equivalents and $5.6 million in investments as of December 31, 2001. The decrease in cash and investments results primarily from cash used for capital expenditures in the amount of $1.7 million. Total liabilities decreased from $17.2 million as of December 31, 2001 to $15.6 million as of June 30, 2002 primarily as a result of the conversion of $1.0 million of the 8% convertible subordinated notes (the "Convertible Notes"). Accordingly, as of June 30, 2002, $12.0 million of the Convertible Notes remains outstanding and matures on September 30, 2005.

Even though our financial trends have been favorable and indicate the potential for our operations becoming profitable, we have not yet attained positive net income. Therefore, until we reach and sustain positive net income our prospects for success remain unproven.

The Company previously announced that its largest client, California Federal Bank (Cal Fed), would be bringing the Internet banking portion of the Company's services in-house in mid to late 2002, but that Cal Fed extended the bill payment portion of its contract with the Company through 2005.

Cal Fed has recently announced its acquisition by Citigroup, subject to regulatory and shareholder approval. The Company has received no definitive notification from Cal Fed as to the impact of the acquisition. However, the acquisition may result in the migration of expected bill payment services to Citigroup's own bill payment platform.

The Company derives approximately $900,000 in quarterly revenue from the banking and customer care portion of its services to Cal Fed and approximately $300,000 in quarterly revenue from the bill payment portion of its services. When Cal Fed migrates off of Online Resources' platform, whether partially as earlier anticipated or entirely, both revenue growth and margins may be affected. The impact of any Cal Fed conversion will depend on its timing and scope, as well as on the conversion of new clients with existing customer bases to Online Resources.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
Statement of Operations Data:				
Revenues:				
Service fees	94.0%	87.0%	90.8%	87.8%
Implementation and other Revenues	6.0	13.0	9.2	12.2
Total revenues	100.0	100.0	100.0	100.0
Expenses:				
Cost of revenues	46.6	59.2	48.4	62.3
Gross margin	53.4	40.8	51.6	37.7
General and administrative	21.3	30.8	21.5	31.1
Sales and marketing	16.6	25.8	16.4	26.5
Systems and development	13.6	24.5	14.5	25.7
Non-recurring charges	-	-	-	1.8
Total Income expenses	51.5	81.1	52.4	85.1
Income (Loss) from operations	1.9	(40.3)	(0.8)	(47.4)
Other (expenses)	(3.6)	(4.5)	(5.2)	(5.0)
Extraordinary item	-	18.0	-	9.4
Debt conversion expense	-	-	-	-
Net loss	(1.7)%	(26.8)%	(6.0)%	(43.0)%

THREE MONTHS ENDED JUNE 30, 2002 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2001.

Revenues. We derive revenues from service fees, implementation fees and other revenues. Revenues grew $1.9 million, or 31%, to $7.9 million for the three months ended June 30, 2002 as compared to $6.0 million for the same period in 2001. This growth was primarily attributable to a 41% increase in service fees which were largely recurring and driven by an increase of 49% in the number of billable customers and an increase of 71% in the number of transactions partially offset by lower service fees per user measured for the periods ended June 30, 2002 and 2001. Implementation and other revenues decreased $308,000, or 39%, to $472,000 for the three months ended June 30, 2002 as compared to $780,000 for the same period in 2001 mainly as a result of a decrease of $164,000 in non-recurring cancellation fees and a decrease of $138,000 in recognized deferred implementation revenues.

Cost of Revenues. Cost of revenues primarily includes telecommunications, payment processing, systems operations, customer service, implementation and related products. Cost of revenues increased $114,000, or 3%, to $3.7 million for the three months ended June 30, 2002 as compared to $3.6 million for the same period in 2001. This increase primarily reflects the net impact of a $209,000 decrease in customer service support costs offset by a $176,000 increase in implementation expenses. The average monthly cost per user decreased 33% to $1.99 for the three months ended June 30, 2002 as compared to $2.97 for the same period in 2001 as a result of increased end user adoption of our services leveraged over a relatively fixed cost base.

Gross Profit. Gross profit increased to $4.2 million from $2.4 million for the three months ended June 30, 2002 and 2001, respectively. Gross margin for the same periods improved to 53% from 41% mainly due to increased service fees from billable customer growth that was leveraged over our relatively fixed costs of revenue. Gross margin for services fees also improved as a result of improved efficiency from technology development and cost control initiatives.

General and Administrative. General and administrative expenses are comprised primarily of salaries for executive, administrative and financial personnel, consulting expenses and facilities costs such as office leases, insurance, and depreciation.

General and administrative expenses decreased $172,000, or 9%, to $1.7 million as compared to $1.9 million for the three months ended June 30, 2002 and 2001, respectively. General and administrative expenses as a percentage of revenue decreased to 21% as compared to 31% for the three months ended June 30, 2002 and 2001, respectively. This decrease was a result of increased revenues combined with cost control initiatives implemented during the later half of 2001 resulting in a $162,000 decrease in salaries and benefits expense during the period.

Sales and Marketing. Sales and marketing expenses consist of salaries and commissions paid to sales and marketing personnel, consumer marketing costs, public relations costs, and other costs incurred in marketing our services and products. Sales and marketing expenses decreased $241,000, or 15%, to $1.3 million for the three months ended June 30, 2002 as compared to $1.5 million for the same period in 2001. The principal reason for the decrease in sales and marketing expenses was a reduction in staffs as a result of consolidating certain client service responsibilities.

Systems and Development. Systems and development expenses include salaries of personnel in the systems and development department, consulting fees and all other expenses incurred in supporting the research and development of new services and products, and new technology to enhance existing products. Systems and development expenses decreased $400,000, or 27%, to $1.1 million for the three months ended June 30, 2002 as compared to $1.5 million for the same period in 2001. The decrease in our systems and development expenses was mainly due to a reduction in consulting costs incurred for the quarter ended June 30, 2002.

Income (Loss) from Operations. For the quarter ending June 30, 2002 the Company recorded income from operations in the amount of $147,000. For the same period in the prior year a loss from operations was reported of $2.4 million. Loss from operations significantly decreased between the two periods, primarily as a result of increases in services fees and gross profit driven by growth in our customer base, decreases in various expenditures and savings derived from our cost-cutting initiatives and our leveraging of technology.

Other Income and Expenses. Interest income decreased $162,000, or 82%, to $33,000 for the three months ended June 30, 2002 as compared to $195,000 for the same period in 2001, primarily due to a decrease in average cash and investment balances and lower interest rates. Interest and other expenses decreased $152,000, or 32%, to $313,000 for the three months ended June 30, 2002 as compared to $466,000 for the same period in 2001 as the result of a decrease in Convertible Notes outstanding in connection with the repurchases and conversions of Convertible Notes.

Net Loss and loss Per Share. Net loss was $133,000 compared to $1.6 million for the three months ended June 30, 2002 and 2001, respectively. For the three months ended June 30, 2002 and 2001 the basic and diluted loss per share were $(0.01) and $(0.14), respectively, as a result of the various factors noted above.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2001.

Revenues. We derive revenues from service fees, implementation fees and other revenues. Revenues grew $4.1 million, or 35%, to $15.7 million for the six months ended June 30, 2002 as compared to $11.6 million for the same period in 2001. This growth was primarily attributable to a 40% increase in service fees which were largely recurring and driven by an increase of 49% in the number of billable customers and an increase of 71% in the number of transactions partially offset by lower service fees per user measured for the periods ended June 30, 2002 and 2001. Additionally, implementation and other revenues remained relatively flat at $1.4 million for the six months ended June 30, 2002 and 2001, respectively.

Cost of Revenues. Cost of revenues primarily includes telecommunications, payment processing, systems operations, customer service, implementation and related products. Cost of revenues increased $400,000, or 5%, to $7.6 million for the six months ended June 30, 2002 as compared to $7.2 million for the same period in 2001. This increase primarily reflected an increase in telecommunication charges and higher implementation expenses partially offset by a decrease in customer service support costs.

Gross Profit. Gross profit increased to $8.1 million from $4.4 million for the six months ended June 30, 2002 and 2001, respectively. Gross margin for the same periods improved to 52% from 38% mainly due to increased service fees from billable customer growth that was leveraged over our relatively fixed costs of revenue. Gross margin for services fees also improved as a

result of improved efficiency from technology development and cost control initiatives.

General and Administrative. General and administrative expenses are comprised primarily of salaries for executive, administrative and financial personnel, consulting expenses and facilities costs such as office leases, insurance, and depreciation. General and administrative expenses decreased $211,000, or 5%, to $3.4 million as compared to $3.6 million for the six months ended June 30, 2002 and 2001, respectively. General and administrative expenses as a percentage of revenue decreased to 22% as compared to 31% for the six months ended June 30, 2002 and 2001, respectively. This decrease was a result of increased revenues combined with improved operational efficiencies and cost control initiatives.

Sales and Marketing. Sales and marketing expenses consist of salaries and commissions paid to sales and marketing personnel, consumer marketing costs, public relations costs, and other costs incurred in marketing our services and products. Sales and marketing expenses decreased $488,000, or 15%, to $2.6 million for the six months ended June 30, 2002 as compared to $3.1 million for the same period in 2001. The principal reason for the decrease in sales and marketing expenses was a reduction in staffs as a result of consolidating certain client service responsibilities.

Systems and Development. Systems and development expenses include salaries of personnel in the systems and development department, consulting fees and all other expenses incurred in supporting the research and development of new services and products, and new technology to enhance existing products. Systems and development expenses decreased $701,000, or 23%, to $2.3 million for the six months ended June 30, 2002 as compared to $3.0 million for the same period in 2001. The decrease in our systems and development expenses was mainly due to a 12% reduction in payroll related costs of approximately $259,000 and a 64% reduction in consulting costs of approximately $450,000 for the six months ended June 30, 2002.

Loss from Operations. Loss from operations decreased $5.3 million, or 97%, to $130,000 as compared to $5.5 million for the six months ended June 30, 2002 and 2001, respectively. Loss from operations significantly decreased between the two periods, primarily as a result of increases in services fees and gross profit driven by growth in our customer base, decreases in various expenditures and savings derived from our cost-cutting initiatives and our leveraging of technology.

Other Income and Expenses. Interest income decreased $319,000, or 79%, to $80,000 for the six months ended June 30, 2002 as compared to $399,000 for the same period in 2001, primarily due to a decrease in average cash and investment balances and lower interest rates. Interest and other expenses decreased $281,000, or 28%, to $699,000 for the six months ended June 30, 2002 as compared to $980,000 for the same period in 2001 as the result of a decrease in Convertible Notes outstanding in connection with the repurchases and conversions of Convertible Notes. The induced conversion of $1.0 million Convertible Notes on March 27, 2002 resulted in a non-cash debt conversion expense of $192,000 that was attributable to the issuance of 45,031 incremental shares of common stock issued to holders in conformance with accounting rules for induced conversions of convertible debt.

Net Loss and Loss Per Share. Net loss was $940,000 compared to a loss of $4.9 million for the six months ended June 30, 2002 and 2001, respectively. For the six months ended June 30, 2002 and 2001 the basic and diluted loss per share were $(0.07) and $(0.43), respectively, as a result of the various factors noted above.

LIQUIDITY AND CAPITAL RESOURCES

Cash and investments in available for sale securities decreased $1.3 million to $6.4 million from $7.7 million as of June 30, 2002 and December 31, 2001, respectively, primarily as a result of capital expenditures of $1.7 million partially offset by $442,000 in cash provided by operating activities.

Net cash provided by operating activities was $442,000 for the six months ended June 30, 2002. The increase resulted primarily from our normal business operations for the six months ended June 30, 2002. However, we reduced cash compensation for salaried staff in 2002, yielding approximately $350,000 in expense savings during the six months ended June 30, 2002 and we expect similar savings for the remainder of the year. Additionally, there have been no accruals for anticipated 2002 bonuses as any 2002 bonuses will be taken in the form of stock options.

Net cash used by investing activities for the six months ended June 30, 2002 was $124,000, which reflected the net reduction of $1.6 million in available for sale securities offset in part by capital expenditures of $1.7 million.

Net cash used in financing activities was $6,000 for the six months ended June 30, 2002 relating primarily to proceeds of $112,000 from issuance of common stock offset by capital lease payments of $118,000. At June 30, 2002, we had cash and cash equivalents of $2.4 million, investments in available for sale securities of $4.0 million, working capital of $8.2 million, long-term obligations of $12.6 million and stockholder equity of $4.7 million.

We currently believe that cash, cash equivalents and investment balances will be sufficient to meet our current anticipated operating requirements for at least the next twelve months. However, there can be no assurance that additional capital beyond the amounts currently forecasted by us will not be required or that any such required additional capital will be available on reasonable terms, if at all, at such time as required. We intend to invest our cash in excess of current operating requirements in marketable government, corporate and mortgage-backed securities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We invest primarily in marketable government, corporate, and mortgage-backed debt securities. We do not have operations subject to risks of foreign currency fluctuations, nor do we use derivative financial instruments in our operations or investment portfolio. We have classified all of our investments as available-for-sale financial instruments. The following table provides information about our available-for-sale investments that are sensitive to changes in interest rates.

	JUNE 30, 2002		
	BOOK VALUE	FAIR VALUE	INTERE
U.S. government treasury obligations..........	$ 3,228,210	$ 3,237,120	1.8
Commercial bonds.......	725,219	726,340	2.8
Total investments............	$ 3,953,429	$ 3,963,460	

The long-term debts on June 30, 2002 are comprised of convertible subordinated notes with an 8% fixed interest rate and capital lease obligations with interest rates ranging from 4% to 13%. We do not believe a fluctuation of 100 basis points in the prime rate would have a material adverse effect on us.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not a party to any pending material litigation nor are we aware of any pending or threatened litigation that would have a material adverse effect on the Company, our business or results of operation.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

We held our annual meeting of stockholders on May 21, 2002, at which time the stockholders voted on the following proposals:

(1) Election of three directors for three year terms each:

Name of Candidate	For	Withheld
George M. Middlemas	10,082,244	4,455
David A. O'Connor	10,082,244	4,455
Joseph J. Spalluto	10,082,244	4,455

There were no abstentions and no broker non-votes.

(2) Ratification of appointment of Ernst & Young LLP as auditors.

The vote was 10,083,901 for, 1,200 against, and there were 1,598 abstentions. There were no broker non-votes.

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibits None

(B) Reports on Form 8-K - None

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.

ONLINE RESOURCES CORPORATION

Date: August 14, 2002 By: /s/ Matthew P. Lawlor

Matthew P. Lawlor
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2002 By: /s/ Catherine A. Graham

Catherine A. Graham
Chief Financial Officer and Executive Vice President
(Principal Financial Officer)

CERTIFICATION UNDER SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Online Resources Corporation.

By: /s/ Matthew P. Lawlor

Matthew P. Lawlor
Chairman and Chief Executive Officer

Date: August 14, 2002

By: /s/ Catherine A. Graham

Catherine A. Graham
Chief Financial Officer and Executive Vice President

Date: August 14, 2002