ONLINE RESOURCES CORP
Form 10-Q
August 09, 2004

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, 2004

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	52-1623052
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
7600 COLSHIRE DRIVE, McLEAN, VIRGINIA	22102
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES [X]   NO [ ]

As of July 28, 2004 there were 18,109,174 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

BALANCE SHEETS

	JUNE 30, 2004	DECEMBER 31, 2003
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,556,885	$ 7,650,057
Investments	6,765,054	5,983,869
Accounts receivable (net of allowance of approximately $81,000 and $67,000 at June 30, 2004 and December 31, 2003, respectively)	4,321,992	3,935,513
Deferred implementation costs	436,305	493,689
Prepaid expenses and other current assets	1,129,995	910,631
Total current assets	21,210,231	18,973,759
Property and equipment, net	7,801,345	7,344,170
Deferred implementation costs, less current portion	414,928	416,518
Other assets	89,220	117,512
Total assets	$ 29,515,724	$ 26,851,959
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 915,771	$ 646,531
Accrued expenses and other current liabilities	804,978	660,473
Accrued compensation	1,093,587	1,526,926
Deferred revenues	1,019,606	585,804
Current portion of capital lease obligations	27,517	97,031
Total current liabilities	3,861,459	3,516,765
Capital lease obligations, less current portion		10,521
Deferred revenues, less current portion	269,080	302,535
Other long term liabilities	64,500	51,219
Total liabilities	4,195,039	3,881,040
Commitments and contingencies		

Stockholders equity:		
Series A convertible preferred stock, \$.01 par value; 1,000,000 shares authorized, none issued at June 30, 2004 and December 31, 2003		
Series B junior participating preferred stock, \$0.01 par value; 297,500 shares authorized, none issued at June 30, 2004 and December 31, 2003		
Common stock, \$.0001 par value; 35,000,000 shares authorized, 18,161,306 issued and 18,085,781 outstanding at June 30, 2004; and 17,887,727 issued and 17,812,202 outstanding at December 31, 2003	1,809	1,781
Additional paid-in capital	106,869,649	106,128,290
Accumulated deficit	(81,316,550)	(82,936,679)
Treasury stock, 75,525 shares at June 30, 2004 and December 31, 2003	(227,800)	(227,800)
Accumulated other comprehensive (loss) income	(6,423)	5,327
Total stockholders equity	25,320,685	22,970,919
Total liabilities and stockholders equity	\$ 29,515,724	\$ 26,851,959

See accompanying notes to unaudited financial statements.

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ONLINE RESOURCES CORPORATION
STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	**2003**	**2004**	**2003**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
Revenues:				
Banking services	$ 776,257	$ 943,312	$ 1,561,514	$ 2,251,223
Payment services	6,791,058	4,888,242	13,127,048	9,463,035
Consumer contact services	1,933,118	1,977,316	3,864,346	4,392,812
Professional services and other	568,025	608,540	1,282,917	3,320,338
Total revenues	10,068,458	8,417,410	19,835,825	19,427,408
Costs and expenses:				
Service costs	3,617,067	3,375,671	7,559,530	6,866,900
Implementation and other costs	327,108	384,754	668,144	744,014
Total costs of revenues	3,944,175	3,760,425	8,227,674	7,610,914
Gross profit	6,124,283	4,656,985	11,608,151	11,816,494
General and administrative	2,276,431	1,900,645	4,554,058	4,212,291
Sales and marketing	1,784,021	1,480,936	3,650,569	3,025,589
Systems and development	878,779	955,750	1,814,146	1,846,404
Total expenses	4,939,231	4,337,331	10,018,773	9,084,284
Income from operations	1,185,052	319,654	1,589,378	2,732,210
Other income (expense):				
Interest income	26,388	13,857	52,791	36,581
Interest expense	(1,422)	(273,047)	(4,040)	(585,155)
Debt repurchase expense		(181,179)		(181,179)
Total other income (expense)	24,966	(440,369)	48,751	(729,753)
Income (loss) before income taxes	1,210,018	(120,715)	1,638,129	2,002,457
Income tax provision	9,000	27,500	18,000	27,500

Net income (loss)	$ 1,201,018	$ (148,215)	$ 1,620,129	$ 1,974,957
Net income (loss) per share:				
Basic	$ 0.07	$ (0.01)	$ 0.09	$ 0.14
Diluted	$ 0.06	$ (0.01)	$ 0.08	$ 0.13
Shares used in calculation of net income (loss) per share:				
Basic	18,004,254	14,108,920	17,943,659	13,909,443
Diluted	20,029,657	14,108,920	20,084,646	14,846,817

See accompanying notes to unaudited financial statements.

ONLINE RESOURCES CORPORATION
STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30,	
	2004	**2003**
	(unaudited)	**(unaudited)**
OPERATING ACTIVITIES		
Net income	$ 1,620,129	$ 1,974,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Debt repurchase expense		181,179
Depreciation	1,908,349	1,463,493
Loss on the disposal of assets	35,350	
Amortization of debt issuance costs		114,177
Provision for losses on accounts receivable	14,275	(10,000)
Net realized gain on investments		(6,631)
Amortization of bond (discount) premium	(14,245)	5,040
Changes in assets and liabilities:		
Accounts receivable	(400,754)	(483,746)
Prepaid expenses and other current assets	(219,364)	(384,676)
Deferred implementation costs	58,974	2,472
Other assets	28,292	(112,522)
Accounts payable	269,240	(238,299)
Accrued expenses	(288,834)	86,760
Deferred revenues	400,347	(5,449)
Other long term liabilities	13,281	
Net cash provided by operating activities	3,425,040	2,586,755
INVESTING ACTIVITIES		
Purchase of available for sale securities	(6,090,145)	(7,015,442)
Sales of available for sale securities	5,311,455	9,084,515
Purchases of property and equipment	(2,400,874)	(1,112,552)
Net cash (used in) provided by investing activities	(3,179,564)	956,521
FINANCING ACTIVITIES		
Net proceeds from issuance of common stock	741,387	4,929,241
Repayment of capital lease obligations	(80,035)	(108,822)
Purchase of notes payable		(3,900,000)
Net cash provided by financing activities	661,352	920,419

Net increase in cash and cash equivalents	906,828	4,463,695
Cash and cash equivalents at beginning of period	7,650,057	2,290,950
Cash and cash equivalents at end of period	$ 8,556,885	$ 6,754,645
Supplemental information to statement of cash flows:		
Cash paid for interest	4,030	492,968
Net unrealized loss on investments	(11,750)	(10,678)

See accompanying notes to unaudited financial statements.

ONLINE RESOURCES CORPORATION
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Online Resources Corporation, a Delaware corporation, (the Company) is a leading outsourcer of Internet banking, payment and customer contact services to financial institution clients nationwide. The Company offers services, branded in the clients name, that integrate seamlessly into a single-vendor, end-to-end solution, supported by 24x7 customer care, targeted consumer marketing, training and other network and technical professional products and services. The Company operates in one business segment.

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 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 financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2003 included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on March 12, 2004. 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.

2. STOCK BASED COMPENSATION

The Company accounts for stock option grants using the intrinsic value method in accordance with Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* for stock-based compensation and furnishes the pro forma disclosures required under SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. In electing to continue to follow APB No. 25 for expense recognition purposes, the Company has provided below the expanded disclosures required under SFAS No. 148 for stock-based compensation granted, including, if materially different from reported results, disclosure of pro forma net earnings or losses and earnings or losses per share had compensation expense relating to grants been measured under the fair value recognition provisions of SFAS No. 123.

The weighted-average fair values at date of grant for options granted during the three months ended June 30, 2004 and 2003 were $4.87 and $2.72, respectively, and during the six months ended June 30, 2004 and 2003 were $4.79 and $2.43, respectively, and were estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	**2003**	**2004**	**2003**
Dividend yield				

Expected volatility	86.2%	92.0%	87.0%	92.0%
Risk-free interest rate	4.00%	2.63%	3.30%	2.69%
Expected life in years	5.4	5.0	5.5	5.3

A reconciliation of the Company s net income to pro forma net income (loss) and the related basic and diluted pro forma net income (loss) per share amounts for the three and six months ended June 30, 2004 and 2003 is provided below. For purposes of pro forma disclosure, stock-based compensation expense is recognized in accordance with the provisions of SFAS No. 123. Further, pro forma stock-based compensation expense is amortized to expense on a straight-line basis over the vesting period.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	**2003**	**2004**	**2003**
Net income (loss)	$1,201,018	$(148,215)	$1,620,129	$1,974,957
Adjustment to net income (loss) for:				
Pro forma stock-based compensation expense	(426,425)	(454,979)	(930,832)	(987,845)
Pro forma net income (loss)	$ 774,593	$(603,194)	$ 689,297	$ 987,112
Basic net income (loss) per share:				
As reported	$ 0.07	$ (0.01)	$ 0.09	$ 0.14
Pro forma	$ 0.04	$ (0.04)	$ 0.04	$ 0.07
Diluted net income (loss) per share:				
As reported	$ 0.06	$ (0.01)	$ 0.08	$ 0.13
Pro forma	$ 0.04	$ (0.04)	$ 0.03	$ 0.07

3. REVENUE RECOGNITION

The Company generates revenues from service fees, professional services and other supporting services. Service fees are primarily composed of three business lines, Internet banking services, payment services and consumer contact services. Revenues from service fees include new user registration fees, account access fees, transaction fees, customer service fees and relationship marketing support fees. Revenue from service fees are recognized over the term of the contract as the services are provided.

Professional services revenues consist of implementation fees associated with the linking of the Company s financial institution clients to the Company s Quotient^{SM} e-financial suite through various networks, web development and hosting fees, training fees and communication services. In accordance with Staff Accounting Bulletin No. 101 *Revenue Recognition in Financial Statements* (SAB 101), as superseded by SAB 104, which the Company adopted effective January 1, 2000, implementation fees and related direct implementation costs are recognized on a straight line basis over the contract term as the services are provided, which typically range from one to five years (generally three years). Prior to 2000, the Company recognized nonrefundable implementation fees as revenue under the percentage of completion method as certain milestone output measures were completed. Due to the adoption of SAB 101, revenue that was previously recognized under the Company s prior revenue recognition policy will be recognized under the Company s revised revenue recognition policy through periods up to 2004 because some contract periods extend through 2004. During the 3 months ended June 30, 2004 and 2003, the Company recognized revenue of $1,808 and $11,219, respectively, and during the six months ended June 30, 2004 and 2003, the Company recognized revenue of $4,208 and $24,679, respectively, and related direct incremental costs that were included in the cumulative effect adjustment at January 1, 2000. Revenue from web development, web hosting and training are recognized over the term of the contract as the services are provided.

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

4. MAJOR CUSTOMER

One of the Company s financial institution clients, California Federal Bank or Cal Fed, accounted for approximately $3.3 million, or 17% of the Company s total revenues, for the six months ended June 30, 2003, but no revenue was generated from Cal Fed for the quarter ended June 30, 2003 or the six months ended June 30, 2004. During 2002, Citigroup acquired Cal Fed and converted the Cal Fed customers to the Citigroup banking and bill payment platform in the first quarter of 2003. The $3.3 million received from Cal Fed in the first quarter of 2003 was a combination of service and termination fee revenue. No other customer accounts for more than 10% of the Company s revenue.

5. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Net income (loss)	$ 1,201,018	$ (148,215)	$ 1,620,129	$ 1,974,957
Shares used in calculation of net income (loss) per share:				
Basic	18,004,254	14,108,920	17,943,659	13,909,443
Dilutive warrants	79,778		83,515	
Dilutive stock options	1,945,625		2,057,472	937,374
Diluted	20,029,657	14,108,920	20,084,646	14,846,817
Net income (loss) per share:				
Basic	$ 0.07	$ (0.01)	$ 0.09	0.14
Diluted	0.06	(0.01)	0.08	$ 0.13

Due to their anti-dilutive effects, outstanding shares from the conversion of stock options and warrants to purchase shares of common stock were excluded from the computation of diluted earnings per share for the three months ended June 30, 2003.

6. NOTES PAYABLE

On September 28, 2000, the Company completed the private placement of $20 million in convertible subordinated notes (the Convertible Notes) to a group of accredited investors. The Company received proceeds of $18.7 million net of debt issuance costs of $1.3 million including commission of $917,200. The Convertible Notes carried an 8% coupon. Interest payment dates were April 1 and October 1, commencing April 1, 2001. The Convertible Notes were initially convertible at a price of $4.75 per share but were subject to an annual reset under certain circumstances. In no event could the price be less than $4.00 per share. Subject to certain conditions, the Company was able to redeem all or part of the Convertible Notes prior to maturity. Jefferies & Company, Inc., one of the underwriters of the 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.

During 2001, the Company repurchased $3.5 million and induced the conversion of $3.5 million of the Convertible Notes. During 2002, the Company induced the conversion of $1.0 million of the Convertible Notes.

On May 30, 2003 and June 9, 2003, the Company repurchased $1.9 million and $2.0 million, respectively, of the Convertible Notes at par. This removed 975,000 shares from possible future issuance in conjunction with conversion of the repurchased Convertible Notes. For the quarter ended June 30, 2003, the Company wrote off $181,179 of related debt issuance costs in connection with the transaction. Noteholders converted the remaining $8.1 million of the

Convertible Notes in the fourth quarter of 2003.

Interest expense and amortization of the debt issuance costs related to the Convertible Notes for the three and six months ended June 30, 2003 were $268,045 and $571,733, respectively.

7. COMMITMENTS

On May 21, 2004, the Company executed a ten year lease covering 74,000 square feet of office and data center space, replacing the majority of its current facility. The commencement date of the new lease is October 1, 2004, and the total obligation related to the lease is $17.9 million. The Company also executed an amendment to the lease related to its current facility that extends the lease through September 30, 2004. In addition, the Company will continue to occupy a portion of the current facility after September 30, 2004, and the amendment stipulates that the lease on that space will expire on July 31, 2007. The total obligation related to the amendment is $1.3 million.

8. COMPONENTS OF COMPREHENSIVE INCOME

Comprehensive income includes the Company s net income adjusted for changes, net of tax, of unrealized losses on investments in marketable securities. Comprehensive income for the three and six months ended June 30, 2004 and 2003 is as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Comprehensive income (loss):				
Net income (loss)	$1,201,018	$(148,215)	$1,620,129	$1,974,957
Unrealized loss on investments in marketable securities	(14,053)	(403)	(11,750)	(10,678)
Total comprehensive income (loss)	$1,186,965	$(148,618)	$1,608,379	$1,964,279

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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 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 in this document that are not statements of historical fact may be considered forward-looking;

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 anticipates , estimates , plans , projects , believes , seek , intend and other similar words that signify forwar 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 12, 2004. These risks include, among others, the following:

our history of prior losses and lack of certainty as to our continuing profitability;

possible fluctuations of our quarterly financial results;

our potential need for additional capital to accelerate revenue and profit growth;

our customer base may not continue to increase;

our dependence on the marketing efforts of third parties;

our dependence on our financial institution clients to market our services;

the possibility that we may not be able to expand to meet increased demand for our services and related products;
the potential adverse impact that a loss of a material client or restructure of our agreement with a material customer may have on our financial results;

our potential inability to compete with larger, more established businesses offering similar products or services;

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

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

the possibility of the development of defective new products;

reduction or elimination of the fees we charge for some services due to the consumer demand for low-cost or free online financial services;

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

interference with our business from the adoption of government regulations;

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

the potential of litigation;

the potential 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 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

We are a leading outsourcer of Internet banking, payment and customer contact services to financial institution clients nationwide. Our services, branded in the clients name, integrate seamlessly into a single-vendor, end-to-end solution, supported by 24x7 customer care, targeted consumer marketing, training and other network and technical professional products and services. Our Annual Report on Form 10-K discusses the critical accounting policies considered by management to be critical for an understanding of our financial statements.

Registered customers using Internet banking, bill payment or both, are the major driver of our revenue. Since the second quarter of 2003, the number of customers using our banking services increased by 13% and the number of customers using our payment services increased 49%, for an overall 34% increase in customers. This resulted in a 20% increase in revenue. While we have seen some reduction in average monthly recurring revenue per user, due largely to our decision to fix price the banking service to our clients, this has been more than offset by a decline in the average monthly recurring cost per user. Although the average monthly recurring revenue per user decreased by 16% compared to the second quarter of 2003, the average monthly recurring gross margin per user increased to 62% as a result of an 26% decrease in the average monthly recurring cost of revenues per user.

We have long-term service contracts with our financial institution clients. The majority of our revenue is recurring, though these contracts also provide for implementation, set-up and other non-recurring fees. Internet banking services revenue is based either on a monthly license fee allowing our financial institution client to register an unlimited number of customers, or on a monthly fee for each registered customer. Payment services revenue is based on either a monthly fee for each customer enrolled, a fee per executed transaction, or a combination of the two. Our financial institution clients pay all of our fees and then determine if or how they want to pass these costs on to their customers. They typically provide Internet banking services to customers 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. However, approximately 70% of our financial institution clients charge their customers for providing payment services.

As a network-based service provider, we have made substantial up-front investments in infrastructure, particularly for our proprietary systems. While we continue to incur ongoing development and maintenance costs, we believe the infrastructure we have built provides us with significant operating leverage. In 2003 we began an effort to upgrade and rewrite certain of our applications infrastructure that will continue into 2006. We expect that this effort will require incremental capital expenditures, primarily for additional development labor, of between $3.0 million and $5.0 million over that period.

We continue to automate processes and develop applications that allow us to make only small increases in labor and other operating costs relative to increases in customers and transactions. We believe our financial and operating performance will be based primarily on our ability to leverage additional users and transactions over this relatively fixed cost base.

FINANCIAL CONDITION

While we have achieved net income profitability for the past four quarters and expect our profitability to be sustainable, we have historically experienced operating losses and negative cash flow due to the initial costs of developing our infrastructure and the early revenues typical of an emerging market segment. As a result, at June 30, 2004 we had an accumulated deficit of $81.3 million. We have funded our operations primarily through the issuance of equity and debt securities. Our ongoing working capital requirements consist primarily of personnel costs related to providing our services and operating, enhancing and maintaining our systems.

Cash and investments in securities available for sale were $15.3 and $13.6 million as of June 30, 2004 and December 31, 2003, respectively. The $1.7 million increase in cash and investments resulted primarily from cash provided by operating and financing activities of $3.4 and 0.7 million, respectively, partially offset by cash used for capital expenditures of $2.4 million. Total liabilities increased slightly from $3.9 million as of December 31, 2003 to $4.2 million as of June 30, 2004, primarily as a result of an increase of $0.5 million in deferred revenue.

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,	
	2004	**2003**	**2004**	**2003**
Statement of Operations Data:				
Revenues:				
Banking services	7.7%	11.2%	7.9%	11.6%
Payment services	67.5	58.1	66.2	48.7
Consumer contact services	19.2	23.5	19.5	22.6
Profess				