



FORM 10-Q

CYBERSOURCE CORP - CYBS

Filed: November 10, 2008 (period: September 30, 2008)

Quarterly report which provides a continuing view of a company's financial position

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008.

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: 000-26477

CYBERSOURCE CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

77-0472961
(I.R.S. Employer
Identification No.)

1295 CHARLESTON ROAD
MOUNTAIN VIEW, CALIFORNIA 94043
(Address of Principal Executive Offices) (Zip Code)

(650) 965-6000
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, If Changes Since Last Report)

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

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

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

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

As of October 23, 2008, there were 69,532,280 shares of common stock, par value \$0.001 per share, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CYBERSOURCE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	<u>September 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007 (1)</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 73,164	\$ 40,393
Accounts receivable, net	16,149	15,503
Prepaid expenses and other current assets	4,721	4,189
Deferred income taxes	<u>3,596</u>	<u>3,596</u>
Total current assets	97,630	63,681
Property and equipment, net	16,492	10,664
Intangible assets, net	136,811	158,316
Goodwill	290,246	291,456
Non-current deferred income taxes, net	9,773	9,773
Other non-current assets	2,540	2,341
Restricted cash	<u>1,543</u>	<u>1,516</u>
Total assets	<u>\$ 555,035</u>	<u>\$ 537,747</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,138	\$ 613
Funds due to merchants	13,169	11,399
Other accrued liabilities	17,426	14,297
Deferred revenue	4,393	3,772
Accrued restructuring	<u>677</u>	<u>904</u>
Total current liabilities	36,803	30,985
Deferred revenue, less current portion	987	493
Accrued restructuring, less current portion	665	860
Other non-current liabilities	1,099	—
Other non-current tax liabilities	<u>1,100</u>	<u>2,195</u>
Total liabilities	<u>40,654</u>	<u>34,533</u>
Stockholders' equity:		
Common stock	69	69
Additional paid-in capital	801,981	790,682
Accumulated other comprehensive loss	(832)	(5)
Accumulated deficit	<u>(286,837)</u>	<u>(287,532)</u>
Total stockholders' equity	<u>514,381</u>	<u>503,214</u>
Total liabilities and stockholders' equity	<u>\$ 555,035</u>	<u>\$ 537,747</u>

(1) Derived from the Company's audited consolidated financial statements as of December 31, 2007.

See notes to condensed consolidated financial statements.

CYBERSOURCE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Revenues	\$ 57,693	\$ 26,546	\$ 166,772	\$ 71,564
Cost of revenues	<u>28,119</u>	<u>15,057</u>	<u>81,505</u>	<u>39,390</u>
Gross profit	29,574	11,489	85,267	32,174
Operating expenses:				
Product development	5,826	3,134	16,936	8,617
Sales and marketing	17,466	4,800	51,023	13,998
General and administrative	<u>6,460</u>	<u>3,856</u>	<u>17,748</u>	<u>9,903</u>
Total operating expenses	<u>29,752</u>	<u>11,790</u>	<u>85,707</u>	<u>32,518</u>
Loss from operations	(178)	(301)	(440)	(344)
Other income, net	145	85	384	157
Interest income	<u>346</u>	<u>791</u>	<u>1,104</u>	<u>2,186</u>
Income before income taxes	313	575	1,048	1,999
Income tax provision	<u>106</u>	<u>228</u>	<u>353</u>	<u>756</u>
Net income	\$ 207	\$ 347	\$ 695	\$ 1,243
Basic net income per share	\$ —	\$ 0.01	\$ 0.01	\$ 0.04
Diluted net income per share	\$ —	\$ 0.01	\$ 0.01	\$ 0.03
Weighted average number of shares used in computing basic net income per share	<u>69,444</u>	<u>35,215</u>	<u>69,157</u>	<u>35,167</u>
Weighted average number of shares used in computing diluted net income per share	<u>72,250</u>	<u>37,029</u>	<u>72,033</u>	<u>37,352</u>

See notes to condensed consolidated financial statements.

CYBERSOURCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	Nine Months Ended September, 30	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 695	\$ 1,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization expense	21,505	101
Depreciation expense	4,597	1,318
Income from investment in joint venture	(161)	(142)
Stock-based compensation	7,170	4,689
Loss on disposal of property and equipment	—	8
Changes in operating assets and liabilities:		
Accounts receivable	(646)	(1,444)
Prepaid expenses and other current assets	(532)	(1,036)
Deferred income taxes	—	727
Other non-current assets	1,145	109
Accounts payable	525	2,744
Accrued liabilities	3,806	1,913
Funds due to merchants	1,770	—
Deferred revenue	1,115	135
Other non-current tax liabilities	(1,095)	—
Net cash provided by operating activities	39,894	10,365
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(10,425)	(3,543)
Purchases of short-term investments	—	(58,358)
Maturities of short-term investments	—	66,442
Net cash provided by (used in) investing activities	(10,425)	4,541
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	6,996	3,213
Repurchase of common stock	(2,867)	(5,032)
Net cash provided by (used in) financing activities	4,129	(1,819)
Effect of exchange rate changes on cash	(827)	167
Increase in cash and cash equivalents	32,771	13,254
Cash and cash equivalents at beginning of period	40,393	21,701
Cash and cash equivalents at end of period	\$ 73,164	\$ 34,955

See notes to condensed consolidated financial statements.

CYBERSOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of CyberSource Corporation and its wholly-owned subsidiaries (collectively, "CyberSource" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report filed on Form 10-K for the year ending December 31, 2007 with the Securities and Exchange Commission ("SEC") on March 11, 2008, SEC File No. 000-26477.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123R"). The Company recognized stock-based compensation expense of \$2.4 million and \$1.5 million during the three months ended September 30, 2008 and 2007, respectively, and \$7.2 million and \$4.7 million during the nine months ended September 30, 2008 and 2007, respectively.

Stock Options

Stock options to purchase the Company's common stock are granted at prices equal to the fair market value on the grant date. Options generally vest monthly over a four year period beginning from the grant date, and generally expire six to ten years from the grant date. Options granted to non-employee directors generally become vested nine to twelve months from the grant date. Nearly all outstanding stock options are non-qualified stock options.

A summary of the Company's stock option activity during the nine months ended September 30, 2008 is as follows:

	Shares	Weighted average exercise price per share	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding as of December 31, 2007	8,488,620	8.95		
Granted	1,756,450	13.42		
Exercised	(1,007,569)	6.83		
Forfeited	(167,690)	12.49		
Outstanding as of September 30, 2008	<u>9,069,811</u>	9.98	4.65	\$ 60,104,066
Vested and expected to vest as of September 30, 2008	8,274,155	9.82	4.63	\$ 56,554,175
Exercisable as of September 30, 2008	4,842,920	8.10	4.36	\$ 43,032,647

During the three and nine months ended September 30, 2008, the total intrinsic value of stock options exercised was approximately \$2.3 million and \$11.0 million, respectively. During the three and nine months ended September 30, 2007, the total intrinsic value of stock options exercised was approximately \$2.0 million and \$6.5 million, respectively. As of September 30, 2008, total unrecognized stock-based compensation expense related to non-vested stock options was approximately \$18.7 million, which is expected to be recognized over a weighted average period of approximately 2.71 years. During the three and nine months ended September 30, 2008, the total cash received from the exercise of stock options was approximately \$1.6 million and \$7.0 million, respectively. During the three and nine months ended September 30, 2007, the total cash received from the exercise of stock options was approximately \$1.1 million and \$3.2 million, respectively.

For stock options granted during the three and nine months ended September 30, 2008 and 2007, the Company determined the fair value at the grant date using the Black-Scholes option valuation model and the following weighted average assumptions which are evaluated and revised, as necessary, to reflect market conditions and the Company's experience:

CYBERSOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Risk-free interest rate	2.74%	4.63%	1.86% - 3.18%	4.47% - 4.74%
Dividend yield	—	—	—	—
Volatility	0.50	0.55	0.49 - 0.50	0.51 - 0.58
Expected life (years)	3.54	3.46	3.54	3.46

The expected life of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on historical volatility of the Company's stock over the expected life of the options. The risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon issues with an equivalent remaining expected life. The Company has not paid dividends in the past and does not expect to pay any dividends in the near future.

The weighted average fair value of options granted was \$6.50 and \$5.48 per share for options granted during the three months ended September 30, 2008 and 2007, respectively. The weighted average fair value of options granted was \$5.07 and \$5.49 per share for options granted during the nine months ended September 30, 2008 and 2007, respectively.

As of September 30, 2008, the Company had 100,000 restricted shares outstanding, none of which have vested.

Segment Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available that is evaluated by the chief operating decision maker or decision-making group to make decisions about how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer ("CEO"). The Company views its operations as one segment, commerce transaction services and manages the business based on the revenues of this segment.

Long-Lived Assets

Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") requires that the Company perform tests for impairment of its goodwill annually and between annual tests in certain circumstances. As of September 30, 2008, the Company had recorded goodwill in connection with its acquisition of Authorize.Net in November 2007, with a carrying value of approximately \$290.2 million. The Company evaluates the goodwill related to the Authorize.Net acquisition on an annual basis as of July 31 or when indicators of impairment may exist.

Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") requires that the Company perform tests for impairment of its intangible assets subject to amortization annually and more frequently whenever events or circumstances suggest that its intangible assets may be impaired. As of September 30, 2008, the Company had recorded intangible assets in connection with its acquisition of Authorize.Net with a carrying value of approximately \$136.8 million.

To evaluate potential impairment, SFAS 142 and SFAS 144 require the Company to assess whether the estimated fair value of its goodwill and intangible assets are greater than their respective carrying value at the time of the test. Accordingly, there could be significant judgment in determining the fair values attributable to goodwill and intangible assets, including the determination of reporting units, estimating future cash flows, determining appropriate discount rates and other assumptions. The Company did not recognize any goodwill or intangible asset impairment charges during the nine months ended September 30, 2008.

Income Taxes

Income taxes are calculated under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, the liability method is used in accounting for income taxes, which includes the effects of temporary differences between financial and taxable amounts of assets and liabilities as well as the effects of net operating loss and credit carryforwards to determine deferred tax assets and liabilities. Valuation allowances are established and adjusted when necessary to reduce deferred tax assets to the amounts expected to be realized on a more likely than not basis. Effective January 1, 2007, the Company adopted Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109.

Recent Pronouncements

In December 2007, the FASB issued SFAS 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, including goodwill, the liabilities assumed and any non-controlling interest in the acquiree. SFAS 141R also establishes disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the

CYBERSOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of adopting SFAS 141R will be dependent on the future business combinations that the Company may pursue after its effective date.

2. ACQUISITIONS

Authorize.Net

On November 1, 2007, the Company completed the acquisition of Authorize.Net Holdings, Inc. (“Authorize.Net”), a provider of products and services primarily for businesses that sell products and services online. The Company believes that CyberSource and Authorize.Net’s respective businesses complement each other and the acquisition will increase the scale and scope of the combined company, diversify the combined company’s service offerings, and create opportunities for cost reductions through integration savings.

The acquisition has been accounted for using the purchase method of accounting. The Company has allocated the purchase price to assets and liabilities based on management’s best estimates of the respective fair values with the excess cost over the net assets acquired allocated to goodwill. Goodwill of \$291.5 million and other intangible assets of \$162.4 million were recorded upon the close of the acquisition and the intangible assets are being amortized over their respective estimated useful lives of two to eleven years. During the nine months ended September 30, 2008, the carrying amount of goodwill was adjusted by approximately \$0.1 million to reflect the reversal of certain liabilities accrued prior to the close of the Authorize.Net acquisition and by approximately \$1.1 million to release certain FIN 48 tax reserves related to Authorize.Net which were assumed as part of the acquisition. As of September 30, 2008, the carrying amount of goodwill was \$290.2 million.

The components of acquired intangible assets as of September 30, 2008 are as follows (in thousands):

	Gross	Accumulated Amortization	Net
Partner contracts and related relationships	\$ 86,100	\$ 2,013	\$ 84,087
Merchant contracts and related relationships	49,300	16,396	32,904
Existing technology	21,900	5,196	16,704
Trade name	3,900	1,764	2,136
Processor relationships	1,200	220	980
Total	<u>\$ 162,400</u>	<u>\$ 25,589</u>	<u>\$ 136,811</u>

Estimated future amortization expense for the intangible assets recorded on the Company’s September 30, 2008 balance sheet is as follows (in thousands):

	Amount
Remainder of 2008	\$ 7,169
2009	26,230
2010	21,777
2011	18,743
2012	12,903
Thereafter	49,989
Total	<u>\$ 136,811</u>

See the Company’s Form 10-K for the year ended December 31, 2007 for more information on the Authorize.Net acquisition.

3. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 207	\$ 347	\$ 695	\$ 1,243
Change in cumulative translation adjustment	(824)	68	(827)	167
Unrealized gain on short-term investments	—	14	—	22
Comprehensive income (loss)	<u>\$ (617)</u>	<u>\$ 429</u>	<u>\$ (132)</u>	<u>\$ 1,432</u>

CYBERSOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

4. FUNDS DUE TO MERCHANTS

At September 30, 2008, the Company was holding funds in the amount of approximately \$13.2 million due to merchants. The funds are included in cash and cash equivalents and funds due to merchants on the Company’s consolidated balance sheet. The Company typically holds certain funds related to certain electronic check transactions based on the contractual terms with the merchant, generally seven business days. The Company also holds certain funds related to certain credit card and automated clearing house transactions based on the contractual terms with the financial institution which processes the transactions, generally two to four business days.

In addition, the Company has \$0.5 million on deposit with a financial institution to cover any deficit account balance that could occur if the amount of transactions returned or charged back exceeds the balance on deposit with the financial institution. This amount is classified as restricted cash in the Company’s balance sheet. To date, the deposit has not been applied to offset any deficit balance. The deposit will be held continuously for as long as the Company utilizes certain processing services of the financial institution, and the amount of the deposit may increase as processing volume increases.

5. RESTRUCTURING CHARGES

As a result of the Company’s acquisition of Authorize.Net, the Company acquired certain restructuring accruals related to certain facilities that Authorize.Net had exited. In December 2007, the Company also exited certain redundant office space in Marlborough, Massachusetts and recorded a restructuring accrual of approximately \$0.1 million. This amount represents future lease obligations, net of projected sublease rental income. The Company also recorded approximately \$0.1 million of severance related to terminated employees. In March 2008, the Company consolidated certain office space in American Fork, Utah and as a result, recorded a restructuring accrual of approximately \$0.1 million. In September 2008, the Company recorded a restructuring accrual of approximately \$0.3 million as a result of assumption changes associated with its excess office space in Burlington, Massachusetts. The expense was included in general and administrative expenses for the nine months ended September 30, 2008.

In December 2007, the Company announced the closure of BidPay.com, Inc., a payment service provider for online auctions. As a result, the Company recorded a restructuring accrual of approximately \$0.1 million, representing severance payments related to terminated employees which were paid during the nine months ended September 30, 2008.

The following table summarizes the activity in the restructuring accrual for the nine months ended September 30, 2008 (in thousands):

	Balance at December 31, 2007	Adjustment to Restructuring Charge	Cash Payments	Balance at September 30, 2008
Severance and benefits	\$ 189	\$ —	\$ (189)	\$ —
Facilities related charges	1,575	470	(703)	1,342
	<u>\$ 1,764</u>	<u>\$ 470</u>	<u>\$ (892)</u>	<u>\$ 1,342</u>

The Company has lease obligations related to its exited facilities which extend through the year 2012.

6. LETTER OF CREDIT

As of September 30, 2008, the Company has an unsecured letter of credit in the amount of \$1.0 million per the terms of the operating lease related to the Burlington, Massachusetts office facility it acquired through the acquisition of Authorize.Net. The Company also has approximately \$1.0 million on deposit with the financial institution that issued the letter of credit to the Company. This amount is classified as restricted cash in the Company’s balance sheet.

7. LEGAL MATTERS

In July and August 2001, various class action lawsuits were filed in the United States District Court, Southern District of New York, against the Company, its Chairman and CEO, a former officer, and four brokerage firms that served as underwriters in its initial public offering. The actions were filed on behalf of persons who purchased the Company’s stock issued pursuant to or traceable to the initial public offering during the period from June 23, 1999 through December 6, 2000. The action alleges that the Company’s underwriters charged secret excessive commissions to certain of their customers in return for allocations of the Company’s stock in the offering. The two individual defendants are alleged to be liable because of their involvement in preparing and signing the registration statement for the offering, which allegedly failed to disclose the supposedly excessive commissions. On December 7, 2001, an amended complaint was filed in one of the actions to expand the purported class to persons who purchased the Company’s stock issued pursuant to or traceable to the follow-on public offering during the period from November

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

4, 1999 through December 6, 2000. The lawsuit filed against the Company is one of several hundred lawsuits filed against other companies based on substantially similar claims. On April 19, 2002, a consolidated amended complaint was filed to consolidate all of the complaints and claims into one case. The consolidated amended complaint alleges claims that are virtually identical to the amended complaint filed on December 7, 2001 and the original complaints. In October 2002, the claims against the Company's officer and a former officer that were named in the amended complaint were dismissed without prejudice. In July 2002, the Company, along with other issuer defendants in the case, filed a motion to dismiss the consolidated amended complaint with prejudice. On February 19, 2003, the court issued a written decision denying the motion to dismiss with respect to CyberSource and the individual defendants. On July 2, 2003, a committee of the Company's Board of Directors approved a proposed partial settlement with the plaintiffs in this matter. The settlement would have provided, among other things, a release of the Company and of the individual defendants for the alleged wrongful conduct in the Amended Complaint in exchange for a guarantee from the Company's insurers regarding recovery from the underwriter defendants and other consideration from the Company regarding its underwriters. While the partial settlement was pending approval, the plaintiffs continued to litigate against the underwriter defendants. The district court directed that the litigation proceed within a number of "focus cases" rather than in all of the 310 cases that have been consolidated. The Company's case is not one of these focus cases. On October 13, 2004, the district court certified the focus cases as class actions. The underwriter defendants appealed that ruling, and on December 5, 2006, the Court of Appeals for the Second Circuit reversed the district court's class certification decision. On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing. In light of the Second Circuit opinion, the Company informed the district court that the settlement could not be approved because the defined settlement class, like the litigation class, could not be certified. On June 25, 2007, the district court entered an order terminating the settlement agreement. On August 14, 2007, the plaintiffs filed their second consolidated amended class action complaints against the focus cases and on September 27, 2007, again moved for class certification. On November 12, 2007, certain of the defendants in the focus cases moved to dismiss the second consolidated amended class action complaints. On March 26, 2008, the district court denied the motions to dismiss except as to Section 11 claims raised by those plaintiffs who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. Briefing on the class certification motion was filed on April 22, 2008, and briefing on these motions was completed in May 2008. The Company cannot predict whether the Company will be able to renegotiate a settlement that complies with the Second Circuit's mandate. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter.

On August 11, 2004, the Company filed suit in the Northern District of California against Retail Decisions, Inc. ("ReD US") and Retail Decisions Plc ("ReD UK") (collectively, "ReD"), Case No. 3:04-CIV-03268, alleging that ReD infringes the Company's U.S. Patent No. 6,029,154 (the "'154 Patent"). The Company served ReD US with the complaint on August 12, 2004, and the Company served ReD UK with the complaint on August 13, 2004. On September 30, 2004, ReD responded to the Company's complaint. ReD filed a motion to stay the case for 90 days pending a determination by the U.S. Patent and Trademark Office ("PTO") as to whether it will grant ReD's request that the PTO re-examine the '154 Patent. ReD also filed a motion for a more definite statement by the Company with respect to its allegation that ReD is willfully infringing the '154 Patent. In addition, ReD UK filed a motion to dismiss the action against it on the ground that it is not subject to personal jurisdiction in the Northern District of California. On October 27, 2004, ReD filed a request for re-examination with the PTO, based on prior art ReD discovered that allegedly invalidates the Patent. On October 28, 2004, the Company filed an opposition to ReD's motion to stay the case for 90 days and an opposition to ReD's motion for a more definite statement with respect to willful infringement. Based on ReD UK's representation that ReD US is the sole entity that develops, operates, and distributes the eBitGuard service, the Company agreed to dismiss ReD UK while reserving the right to reinstitute action against ReD UK in the event the Company later discovers that ReD UK is subject to the court's personal jurisdiction. In return, ReD UK agreed that if the Company later establishes that personal jurisdiction existed, the Company could re-file against ReD UK in this action without prejudice to its damages claim. The Company also filed an amended complaint, removing ReD UK as a named defendant and restating the willful infringement claim. On November 16, 2004, the court granted ReD's motion to stay the proceedings pending the PTO's decision as to whether it will grant ReD's request for re-examination. On December 30, 2004, the PTO granted ReD's request for a re-examination. On January 19, 2005, ReD filed a motion to dismiss the case without prejudice or to extend the stay until completion of the re-examination process. On January 24, 2005, the court extended the stay pending the re-examination process, vacated ReD's motion to dismiss, and ordered quarterly updates as to the status of the re-examination process. On April 25, 2005, the parties filed a joint status report that was approved by the court. On June 20, 2005, the PTO issued a preliminary office action rejecting all of the claims of the '154 Patent based on one of the prior art references cited by ReD. On July 14, 2005, the Company met with the PTO examiner handling the re-examination to distinguish the prior art from the claims of the '154 Patent. On August 9, 2006, the PTO issued a final office action rejecting all of the claims of the '154 Patent. On September 7, 2006, the Company filed a response to the office action requesting certain amendments to the claims. On October 10, 2006, the PTO filed a response rejecting the amendments and extending the Company's deadline to file a notice of appeal. On October 30, 2006, the Company filed a notice of appeal. On December 22, 2006, the Company filed the appeal brief. On May 3, 2007, the PTO issued a "Notice of Intent to Issue Reexam Certificate," reversing its action of August 9, 2006. On August 5, 2008, the PTO issued the Ex Parte Reexamination Certificate. Accordingly, the patent has been re-validated. On April 25, 2008, litigation proceedings in the case were reinstated. Several motions have been filed by ReD and the Company since April 25, 2008, which are still pending before the Court. While there can be no assurances as to the outcome of the lawsuit, the Company does not presently believe that the lawsuit would have a material effect on its financial condition, results of operations, or cash flows.

CYBERSOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

On June 25, 2008, the Company filed suit in the Supreme Court of the State of New York against VeriSign, Inc. (“VeriSign”), Case No. 650207/2008, seeking declaratory judgment to order the release of \$1.725 million held in escrow (“Escrow Funds”) to CyberSource. The Escrow Funds constitute a portion of the purchase price paid by VeriSign to Lightbridge, Inc. for certain assets of Lightbridge related to Lightbridge’s Intelligent Network Systems business unit, including Lightbridge’s Prepay IN software, which was acquired by VeriSign in April 2005 pursuant to an Asset Purchase Agreement (“APA”). Lightbridge, Inc., which later became Lightbridge Holdings, Inc. and then Authorize.Net Holdings, Inc. (collectively “Lightbridge”), was acquired by the Company on November 1, 2007. On December 12, 2006, Lightbridge received a letter from VeriSign asserting that Lightbridge is obliged to indemnify VeriSign with respect to a lawsuit filed against VeriSign on November 30, 2006 by Freedom Wireless, Inc. (“Freedom Wireless”), in the Eastern District of Texas (Marshall Division), which alleged that VeriSign is infringing certain patents of Freedom Wireless. VeriSign asserts that Lightbridge’s obligation to indemnify it arises in connection with certain assets purchased by VeriSign under the APA. Lightbridge objected to VeriSign’s claim in a letter dated December 15, 2006 and asked for additional information. Lightbridge received no further correspondence from VeriSign. On March 14, 2008, the Company received a letter from VeriSign advising that it was engaged in settlement discussions with Freedom Wireless. On April 14, 2008, the Company sent a letter to VeriSign denying any indemnification obligations and demanding release of the Escrow Funds. Neither Lightbridge nor the Company was ever a party to the litigation by Freedom Wireless at any time. In May 2008, VeriSign entered into a settlement with Freedom Wireless. On June 9, 2008, the Company sent another letter demanding release of the Escrow Funds. On June 19, 2008, VeriSign responded to the Company’s letter of April 14, 2008 and reiterated its position on indemnification. The indemnification obligation under the Asset Purchase Agreement is limited to a maximum of \$5 million. The Company filed the suit asking the court to declare that VeriSign is not entitled to indemnification under the APA and to order the escrow agent to release the Escrow Funds to CyberSource. On August 15, 2008, VeriSign filed an answer and counterclaim. Each party has served the other party with discovery demands but responses have been postponed temporarily by mutual agreement of the parties. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter.

The Company is currently party to various legal proceedings and claims which arise in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, the Company does not believe that the outcome of any of these claims or any of the above mentioned legal matters will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

8. COMMON STOCK REPURCHASE PROGRAM

On January 24, 2007, the Board of Directors authorized management to use up to \$10.0 million over a twelve-month period beginning on January 30, 2007 to repurchase shares of the Company’s common stock. During the period beginning January 30, 2007 and ended January 29, 2008, the Company repurchased 420,800 shares at an average price of \$11.96 per share, including repurchase costs, all of which were repurchased prior to 2008.

On April 22, 2008, the Board of Directors authorized management to use up to \$10.0 million over a twelve-month period beginning on May 5, 2008 to repurchase shares of the Company’s common stock. During the period beginning May 5, 2008 and ended September 30, 2008, the Company repurchased 197,625 shares at an average price of \$14.51 per share, including repurchase costs, all of which were repurchased during the three months ended September 30, 2008.

All of the repurchased shares were cancelled and returned to the status of authorized, unissued shares.

9. GUARANTEES

From time to time, the Company enters into certain types of contracts that require the Company to indemnify parties against third-party claims on a contingent basis. These contracts primarily relate to: (i) licenses for software and services; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company’s use of the applicable premises; and (iii) certain agreements with the Company’s officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on its balance sheet as of September 30, 2008.

CYBERSOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

10. NET INCOME PER SHARE COMPUTATION

The components of basic and diluted net income per share are as follows (in thousands, except per share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
Basic net income per share computation:				
Net income	\$ 207	\$ 347	\$ 695	\$ 1,243
Weighted-average common shares outstanding	69,444	35,215	69,157	35,167
Basic net income per share attributable to common stockholders	\$ —	\$ 0.01	\$ 0.01	\$ 0.04
Diluted net income per share computation:				
Net income	\$ 207	\$ 347	\$ 695	\$ 1,243
Weighted-average common shares outstanding	69,444	35,215	69,157	35,167
Incremental shares attributable to the assumed exercise of outstanding options	2,806	1,814	2,876	2,185
Total diluted weighted average common shares	72,250	37,029	72,033	37,352
Diluted net income per share attributable to common stockholders	\$ —	\$ 0.01	\$ 0.01	\$ 0.03

The computation of diluted net income per share excluded approximately 423,000 and 1.3 million options to purchase shares of common stock for the three months ended September 30, 2008 and 2007, respectively, and approximately 440,000 and 500,000 options to purchase shares of common stock for the nine months ended September 30, 2008 and 2007, respectively, because the effect would have been antidilutive.

11. INCOME TAXES

As part of the process of preparing the unaudited condensed consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating the current tax liability under the most recent tax laws and assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the unaudited condensed consolidated balance sheets.

Income tax expense for the nine months ended September 30, 2008 was \$0.4 million, or 34% of pre-tax income, compared to \$0.8 million, or 38% of pre-tax income for the nine months ended September 30, 2007. The effective tax rate for the nine months ended September 30, 2008 differs from the U.S. federal statutory rate primarily due the favorable impact of lower foreign tax rates. The favorable impact was partially offset by the impact of state income taxes, primarily driven by recent legislative changes suspending the usage of California net operating loss carryforwards. The effective tax rate for the nine months ended September 30, 2007 differs from the U.S. federal statutory rate primarily due to foreign operation tax benefits.

The unrecognized tax benefits balances were \$1.1 million and \$2.2 million as of September 30, 2008 and December 31, 2007, respectively. The decrease of approximately \$1.1 million is due primarily to the lapse of applicable state statutes of limitations.

12. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

CYBERSOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of this statement did not have a material impact on the Company's consolidated results of operations and financial condition. Level 1 financial assets measured at fair value on a recurring basis consist of cash accounts of approximately \$26.4 million and money market funds (cash equivalents) of approximately \$46.8 million as of September 30, 2008. The Company has no Level 2 or Level 3 financial assets measured at fair value on a recurring basis as of September 30, 2008.

13. SUBSEQUENT EVENTS

On April 22, 2008, the Board of Directors authorized management to use up to \$10.0 million over a twelve-month period beginning on May 5, 2008 to repurchase shares of the Company's common stock. During the period beginning October 1, 2008 and ended November 10, 2008, the Company repurchased 507,300 shares at an average price of \$14.06 per share, including repurchase costs.

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

Statement Regarding Forward-Looking Statements

This Report on Form 10-Q contains 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") adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking, including statements regarding our expectations, objectives, anticipations, estimations, intentions, plans, hopes, beliefs or strategies regarding the future. Such forward-looking statements include, but are not limited to statements regarding dividend payments, changes in revenue and expense levels, sufficiency of cash resources and liquidity, realization of goodwill, impact of acquisitions, valuation determinations, the effect of competition, growth levels, fraud-prevention in connection with our services and platform, intellectual property protection, legal proceedings, and regulatory impact.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. These risks and uncertainties include, among others, those discussed in "Part II Item 1A. Risk Factors," of this Quarterly Report on Form 10-Q as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on March 11, 2008 (SEC File No. 000-26477).

OVERVIEW

CyberSource Corporation provides secure electronic payment and risk management solutions to organizations that process orders for goods and services over the Internet. CyberSource's payment solutions allow eCommerce merchants to accept a wide range of online payment options, from credit cards and electronic checks, to global payment options and emerging payment types. Our risk and compliance management tools address complexities common to online merchants such as credit card fraud, online tax requirements and export controls. Our reporting and management tools facilitate the automation of the flow of complex eCommerce processes, such as recurring billing and payment reconciliation. We partner with and connect to a large network of payment processors and other payment service providers to offer merchants a single source solution.

We primarily derive our revenues from monthly commerce transaction processing fees, global acquiring fees, and support service fees. Transaction and global acquiring revenues are recognized in the period in which the transactions occur and support service fees are recognized as the related services are provided and costs are incurred.

Authorize.Net Acquisition

On November 1, 2007, we completed the acquisition of Authorize.Net Holdings, Inc. ("Authorize.Net"), a provider of products and services primarily for businesses that sell products and services online. We believe that CyberSource and Authorize.Net's respective businesses complement each other and the acquisition will increase the scale and scope of the combined company, diversify the combined company's service offerings, and create opportunities for cost reductions through integration savings.

The acquisition has been accounted for using the purchase method of accounting. Under the purchase method of accounting, the total purchase price of \$542.8 million was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired is determined using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management.

CRITICAL ACCOUNTING POLICIES

Our financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. We believe that the following are the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations. A full discussion of the following accounting policies is included in our 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission and we refer the reader to that discussion. There were no material changes in the application of critical accounting policies during the nine months ended September 30, 2008.

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- Revenue Recognition
- Accounts Receivable
- Reserve for Merchant Losses
- Legal Contingencies
- Accounting for Income Taxes
- Stock-based Compensation
- Long-Lived Assets

RESULTS OF OPERATIONS

The following table sets forth certain items in our condensed consolidated statements of income expressed as a percentage of revenue for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	48.7	56.7	48.9	55.0
Gross profit	51.3	43.3	51.1	45.0
Operating expenses:				
Product development	10.1	11.8	10.2	12.1
Sales and marketing	30.3	18.1	30.6	19.6
General and administrative	11.2	14.5	10.6	13.8
Total operating expenses	51.6	44.4	51.4	45.5
Loss from operations	(0.3)	(1.1)	(0.3)	(0.5)
Interest and other income	0.9	3.3	0.9	3.3
Income before income taxes	0.6	2.2	0.6	2.8
Income tax provision	0.2	0.9	0.2	1.1
Net income	0.4%	1.3%	0.4%	1.7%

THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Revenues. Revenues were \$57.7 million for the three months ended September 30, 2008, as compared to \$26.5 million for the three months ended September 30, 2007, an increase of approximately \$31.1 million or 117.3%. Approximately 72% of the increase in revenues was attributable to Authorize.Net. Approximately 19% of the increase in revenues was from existing customers, primarily resulting from an increase in global acquiring services, as well as an increase in transaction volumes processed. The remaining increase in revenues was primarily from new customers that entered into contracts during the twelve months ended September 30, 2008. We processed approximately 469 million transactions during the three months ended September 30, 2008, as compared to approximately 287 million transactions processed during the three months ended September 30, 2007, an increase of approximately 63%. Approximately 62% of the increase in transaction volumes was attributable to Authorize.Net. Global acquiring revenues represented 34.9% of our revenues for the three months ended September 30, 2008, as compared to 45.1% for the three months ended September 30, 2007. Our global acquiring revenue may also include fees generated for gateway services as it is becoming more common to charge the customer a bundled price for global acquiring and gateway services.

Cost of Revenues. Cost of revenues consist primarily of costs incurred in the delivery of e-commerce transaction services, including personnel costs in our operations and customer support functions, processing and interchange fees paid relating to our global acquiring services, other third-party fees, depreciation of capital equipment used in our network infrastructure and costs related to the hosting of our servers at third-party hosting centers in the United States and the United Kingdom. Cost of revenues was \$28.1 million or 48.7% of revenues for the three months ended September 30, 2008, as compared to \$15.1 million or 56.7% of revenues for the three months ended September 30, 2007. The increase in absolute dollars is primarily due to higher processing fees paid to third parties such as the credit card issuing banks, payment processors and card associations related to our

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global acquiring services. These costs are variable and increase in absolute dollars as the related revenue increases and decrease as the related revenue decreases. In addition, cost of revenues for the three months ended September 30, 2008 includes Authorize.Net costs of revenues as well as approximately \$1.5 million of intangible asset amortization expense related to existing technology and processor relationships resulting from our acquisition of Authorize.Net. The decrease in cost of revenues as a percentage of revenues is due primarily to efficiencies resulting from the increase in transactions processed as well as the increase in revenue from our acquisition of Authorize.Net as well as from existing and new customers. Included in cost of revenues for the three months ended September 30, 2008 and 2007, is approximately \$0.4 million and \$0.2 million, respectively, of stock-based compensation expense.

Product Development. Product development expenses consist primarily of compensation and related costs of employees engaged in the research, design and development of new services, and to a lesser extent, facility costs and related overhead. Product development expenses were \$5.8 million for the three months ended September 30, 2008, as compared to \$3.1 million for the three months ended September 30, 2007, an increase of approximately \$2.7 million or 85.9%. The increase is primarily due to an increase in headcount resulting from our acquisition of Authorize.Net and related compensation expense which increased by approximately \$2.1 million. Stock-based compensation expense included in product development expenses was approximately \$0.5 million and \$0.3 million for the three months ended September 30, 2008 and 2007, respectively. As a percentage of revenue, product development expenses decreased to 10.1% in the three months ended September 30, 2008, as compared to 11.8% for the three months ended September 30, 2007. The decrease is primarily due to the increase in revenue from our acquisition of Authorize.Net as well as from existing and new customers, offset to a certain extent, by the increase in compensation expense due to the increase in headcount during the three months ended September 30, 2008. We expect product development expenses in the three months ended December 31, 2008 to be relatively consistent in absolute dollars and as a percentage of revenue as compared to the three months ended September 30, 2008.

Sales and Marketing. Sales and marketing expenses consist primarily of compensation of sales and marketing personnel, commissions paid to outside sales agents, market research and advertising costs, and, to a lesser extent, facility costs and related overhead. Sales and marketing expenses were \$17.5 million for the three months ended September 30, 2008, as compared to \$4.8 million for the three months ended September 30, 2007, an increase of approximately \$12.7 million or 263.9%. The increase is primarily due to an increase in commissions paid to outside sales agents of approximately \$5.0 million, related to sales of Authorize.Net services, and an increase in headcount and related compensation expense which increased by approximately \$1.3 million. Also as a result of our acquisition of Authorize.Net, sales and marketing expenses for the three months ended September 30, 2008, include approximately \$5.7 million of intangible asset amortization expense related to the Authorize.Net trade name, partner contracts and related relationships as well as merchant contracts and related relationships. Stock-based compensation expense included in sales and marketing expenses was approximately \$0.5 million and \$0.3 million for the three months ended September 30, 2008 and 2007, respectively. As a percentage of revenue, sales and marketing expenses increased to 30.3% for the three months ended September 30, 2008, as compared to the 18.1% for the three months ended September 30, 2007. The increase is primarily due to the increase in commissions paid to outside sales agents, the increase in compensation expense due to the increase in headcount, and the increase in amortization expense, offset to a certain extent, by the increase in revenue resulting from our acquisition of Authorize.Net and from existing and new customers. We expect that sales and marketing expenses in the three months ended December 31, 2008 to be relatively consistently in absolute dollars and as a percentage of revenue as compared to the three months ended September 30, 2008.

General and Administrative. General and administrative expenses consist primarily of compensation for administrative personnel, fees for outside professional services and, to a lesser extent, facility costs and related overhead. General and administrative expenses were \$6.5 million for the three months ended September 30, 2008, as compared to \$3.9 million for the three months ended September 30, 2007, an increase of approximately \$2.6 million or 67.5%. The increase is primarily due to a \$1.7 million increase in compensation expense resulting from increased headcount in connection with our acquisition of Authorize.Net as well as an increase of approximately \$0.1 million in bad debt expense. In addition, during the three months ended September 30, 2008, we recorded a restructuring accrual related to our excess office space in Burlington, Massachusetts of approximately \$0.3 million. Stock-based compensation expense included in general and administrative expenses was approximately \$1.0 million and \$0.7 million for the three months ended September 30, 2008 and 2007, respectively. As a percentage of revenue, general and administrative expenses were 11.2% for the three months ended September 30, 2008, as compared to the 14.5% for the three months ended September 30, 2007. The decrease is primarily due to the increase in revenue from our acquisition of Authorize.Net as well as from existing and new customers, offset to a certain extent, by the increase in compensation related expense due to the increase in headcount during the three months ended September 30, 2008. We expect that general and administrative expenses in the three months ended December 31, 2008 will moderately decrease in absolute dollars and as a percentage of revenue due primarily to a decrease in restructuring charges and anticipated continued revenue growth.

Other Income, net. Other income, net consists primarily of joint venture income from CyberSource K.K. and other miscellaneous gains and losses. Other income, net was approximately \$145,000 for the three months ended September 30, 2008, as compared to \$85,000 for the three months ended September 30, 2007.

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Interest Income. Interest income consists of interest earnings on cash, cash equivalents and short-term investments and was \$0.3 million for the three months ended September 30, 2008 as compared to \$0.8 million for the three months ended September 30, 2007. The decrease is primarily due to lower investment yields. We expect interest income in the three months ended December 31, 2008 to be relatively consistent with the three months ended September 30, 2008 due to anticipated higher cash and cash equivalents balances, offset by lower investment yields.

Income Tax Provision. Income tax expense for the three months ended September 30, 2008 was approximately \$0.1 million on pre-tax income of \$0.3 million, as compared to \$0.2 million on pre-tax income of \$0.6 million for the three months ended September 30, 2007. The change in tax expense was primarily the result of the pre-tax income generated in the three months ended September 30, 2008 and the negative impact of stock-based compensation charges related to incentive stock options, which have significantly increased in the current year.

Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, by changes in the valuation of our deferred tax assets or liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities.

During the fourth quarter of 2007, we recorded a reduction in the valuation allowance related to a portion of our deferred tax assets that will more likely than not be realized, based on future projected taxable income. We intend to maintain the remaining valuation allowance until sufficient further positive evidence exists to support further reversals of the valuation allowance. Our income tax expense recorded in the future will be reduced to the extent of offsetting decreases in our valuation allowance.

NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Revenues. Revenues were \$166.8 million for the nine months ended September 30, 2008, as compared to \$71.6 million for the nine months ended September 30, 2007, an increase of approximately \$95.2 million or 133.0%. Approximately 67% of the increase in revenues was attributable to Authorize.Net. Approximately 27% of the increase in revenues was from existing customers, primarily resulting from an increase in global acquiring services, as well as an increase in transaction volumes processed. The remaining increase in revenues was primarily from new customers that entered into contracts during the twelve months ended September 30, 2008. We processed approximately 1.4 billion transactions during the nine months ended September 30, 2008, as compared to approximately 820 million transactions processed during the nine months ended September 30, 2007, an increase of approximately 66%. Approximately 60% of the increase in transaction volumes was attributable to Authorize.Net. Global acquiring revenues represented 34.1% of our revenues for the nine months ended September 30, 2008, as compared to 41.8% for the nine months ended September 30, 2007.

Cost of Revenues. Cost of revenues was \$81.5 million or 48.9% of revenues for the nine months ended September 30, 2008, as compared to \$39.4 million or 55.0% of revenues for the nine months ended September 30, 2007. The increase in absolute dollars is primarily due to higher processing fees paid to third parties such as the credit card issuing banks, payment processors and card associations related to our global acquiring services, which are variable costs that increase in absolute dollars as the related revenue increases and decrease as the related revenue decreases. In addition, cost of revenues for the nine months ended September 30, 2008 includes Authorize.Net costs of revenues as well as approximately \$4.4 million of intangible asset amortization expense related to existing technology and processor relationships resulting from our acquisition of Authorize.Net. The decrease in cost of revenues as a percentage of revenues is due primarily to efficiencies resulting from the increase in transactions processed as well as the increase in revenue from our acquisition of Authorize.Net as well as from existing and new customers. Included in cost of revenues for the nine months ended September 30, 2008 and 2007, is approximately \$1.2 million and \$0.6 million, respectively, of stock-based compensation expense.

Product Development. Product development expenses were \$16.9 million for the nine months ended September 30, 2008, as compared to \$8.6 million for the nine months ended September 30, 2007, an increase of approximately \$8.3 million or 96.5%. The increase is primarily due to an increase in headcount resulting from our acquisition of Authorize.Net and related compensation expense which increased by approximately \$7.2 million. Stock-based compensation expense included in product development expenses was approximately \$1.6 million and \$0.8 million for the nine months ended September 30, 2008 and 2007, respectively. As a percentage of revenue, product development expenses decreased to 10.2% for the nine months ended September 30, 2008, as compared to 12.1% for the nine months ended September 30, 2007. The decrease is primarily due to the increase in revenue from our acquisition of Authorize.Net as well as from existing and new customers, offset to a certain extent, by the increase in compensation expense due to the increase in headcount during the nine months ended September 30, 2008.

Sales and Marketing. Sales and marketing expenses were \$51.0 million for the nine months ended September 30, 2008, as compared to \$14.0 million for the nine months ended September 30, 2007, an increase of approximately \$37.0 million or 264.5%. The increase is primarily due to an increase in commissions paid to outside sales agents of approximately \$14.4 million, related to sales of Authorize.Net services, and an increase in headcount and related compensation expense which increased by

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approximately \$4.0 million. Also as a result of our acquisition of Authorize.Net, sales and marketing expenses for the nine months ended September 30, 2008 include approximately \$17.2 million of intangible asset amortization expense related to the Authorize.Net trade name, partner contracts and related relationships as well as merchant contracts and related relationships. Stock-based compensation expense included in sales and marketing expenses was approximately \$1.4 million and \$1.0 million for the nine months ended September 30, 2008 and 2007, respectively. As a percentage of revenue, sales and marketing expenses increased to 30.6% for the nine months ended September 30, 2008, as compared to 19.6% for the nine months ended September 30, 2007. The increase is primarily due to the increase in commissions paid to outside sales agents, the increase in compensation expense due to the increase in headcount, and the increase in amortization expense, offset to a certain extent, by the increase in revenue resulting from our acquisition of Authorize.Net and from existing and new customers.

General and Administrative. General and administrative expenses were \$17.7 million for the nine months ended September 30, 2008, as compared to \$9.9 million for the nine months ended September 30, 2007, an increase of approximately \$7.8 million or 79.2%. The increase is primarily due to an increase in headcount resulting from our acquisition of Authorize.Net and related compensation expense which increased by approximately \$4.7 million, an increase in bad debt expense of approximately \$0.5 million, an increase in fees for outside professional services which increased by approximately \$0.5 million, an increase of approximately \$0.5 million in restructuring charges, and an increase in depreciation expense of approximately \$0.5 million. Stock-based compensation expense included in general and administrative expenses was approximately \$3.0 million and \$2.3 million for the nine months ended September 30, 2008 and 2007, respectively. As a percentage of revenue, general and administrative expenses were 10.6% for the nine months ended September 30, 2008, as compared to the 13.8% for the nine months ended September 30, 2007. The decrease is primarily due to the increase in revenue from our acquisition of Authorize.Net as well as from existing and new customers, offset to a certain extent, by the increase in compensation related expense due to the increase in headcount during the nine months ended September 30, 2008.

Other Income, net. Other income, net for the nine months ended September 30, 2008 consists primarily of joint venture income from CyberSource K.K. of approximately \$0.2 million and other miscellaneous gains and losses totaling approximately \$0.2 million. Other income for the nine months ended September 30, 2007 consists primarily of joint venture income of approximately \$0.1 million and other miscellaneous income of approximately \$14,000.

Interest Income. Interest income was \$1.1 million for the nine months ended September 30, 2008, as compared to \$2.2 million for the nine months ended September 30, 2007. The decrease is primarily due to lower investment yields.

Income Tax Provision. We recorded a provision for income tax expense of \$0.4 million for the nine months ended September 30, 2008 as compared to \$0.8 million for the nine months ended September 30, 2007. The decrease is primarily due to lower pre-tax income for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents were \$73.2 million as of September 30, 2008 compared to \$40.4 million as of December 31, 2007, an increase of approximately \$32.8 million. The increase is primarily due to cash provided by operating activities of approximately \$39.9 million, which is net of bonuses paid under the company-wide bonus plan of approximately \$2.3 million, and proceeds from the issuance of the Company's common stock resulting from stock option exercises of approximately \$7.0 million, offset by capital expenditures of approximately \$10.4 million and cash used to repurchase our common stock of approximately \$2.9 million.

We believe that our cash and cash equivalents, which consist of only money market funds, as of September 30, 2008 will be sufficient to meet our working capital and capital requirements for at least the next twelve months. Our future capital requirements will depend on many factors including the level of investment we make in new businesses, new products or new technologies. We currently have no agreements or understandings with respect to any future investments or acquisitions. To the extent that our existing cash resources and future earnings are insufficient to fund our future activities, we may need to obtain additional equity or debt financing. Additional funds may not be available or, if available, we may not be able to obtain them on favorable terms.

The following is a table summarizing our significant commitments as of September 30, 2008, consisting of future minimum lease payments under all non-cancelable operating leases (in thousands):

<u>Contractual obligations</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1 – 3 years</u>	<u>3 – 5 years</u>
Operating leases	\$ 18,976	\$ 4,797	\$ 10,459	\$ 3,720
Total commitments	\$ 18,976	\$ 4,797	\$ 10,459	\$ 3,720

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We have excluded tax contingencies totaling approximately \$1.1 million from the table above as there is a high degree of uncertainty regarding the timing of future cash outflows and, as a result, we are not able to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities.

Recent Pronouncements

In December 2007, the FASB issued SFAS 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, including goodwill, the liabilities assumed and any non-controlling interest in the acquiree. SFAS 141R also establishes disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of adopting SFAS 141R will be dependent on the future business combinations that we may pursue after its effective date.

Factors That May Affect Future Results

A description of the risk factors associated with our business is included under "Risk Factors" in Item 1A of Part II of this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We provide our services to customers primarily in the United States and, to a lesser extent, in Europe and elsewhere throughout the world. As a result, our financial results could be affected by factors, such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The majority of sales are currently made in U.S. dollars or pounds sterling. A strengthening of the dollar or the pound sterling could make our products less competitive in foreign markets. Our interest income is sensitive to changes in the general level of U.S. interest rates.

All of our cash equivalents are presented at fair value on our consolidated balance sheets. We generally invest our excess cash in money market funds. Due to the nature of our cash equivalents, which are money market funds, we have concluded that there is no material market risk exposure.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on the evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Our management, including the CEO and the CFO, does not expect that our disclosure controls or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. We confirm that our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and that our CEO and CFO have concluded that our disclosure controls and procedures are effective at that reasonable assurance level.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ending September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For legal proceedings, see Note 7 – Legal Matters in the Notes to the Condensed Consolidated Financial Statements appearing in Item 1, Part I to this Quarterly Report, which is incorporated by reference into this Item 1, Part II.

ITEM 1A. RISK FACTORS

Set forth below are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. There have been no material changes to the Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 other than as follows: “Our Revenue and Customer Relationships Could be Impacted if We Were to Lose Bank Sponsorship” provides additional information about the risk, “Loss of Key Personnel Could Have a Material Adverse Effect on the Business and Results of Operations of the Combined Company” reflects the departure of a certain officer, and “If We Lose Key Management Personnel, We May Not be Able to Successfully Manage Our Business and Achieve Our Objectives” reflects employment agreements with certain officers and the departure of one such officer. In addition, some risk factors below update the relevant date cited although the risk remains materially unchanged. As a matter of practice, however, we choose to fully restate the Risk Factors in our Quarterly Reports on Form 10-Q. The occurrence of any of the developments or risks identified below may make the occurrence of one or more of the other risk factors below more likely to occur.

The Expected Fluctuations of Our Quarterly Results Could Cause Our Stock Price to Fluctuate or Decline

We expect that our quarterly operating results will fluctuate significantly in the future based upon a number of factors, many of which are not within our control. We base our operating expenses on anticipated market growth and our operating expenses are relatively fixed in the short term. As a result, if our revenues are lower than we expect, our quarterly operating results may not meet the expectations of public market analysts or investors, which could cause the market price of our common stock to decline.

Our quarterly results may fluctuate in the future as a result of many factors, including the following:

- changes in the size and number of transactions processed on behalf of customers as a result of seasonality, success of each customer’s business, general economic conditions or regulatory requirements restricting our customers;
- our ability to attract new customers and to retain our existing customers;
- customer acceptance of new products and services we may offer, including our global acquiring business;
- the success of our integration of Authorize.Net;
- customer acceptance of our pricing model;
- customer acceptance of our software and our professional services offerings;
- the success of our sales and marketing programs;
- an interruption with one or more of our processors, other financial institutions and technology service providers;
- seasonality of the retail sector;
- changes in accounting rules and regulations;
- changes in federal, state, and local income tax laws;
- war or other international conflicts; and
- weakness in the general U.S. economy and the lack of available capital for our customers and potential future customers.

Other factors that may affect our quarterly results are set forth elsewhere in this section. As a result of these factors, our revenues are not predictable with any significant degree of certainty.

Due to the uncertainty surrounding our revenues and expenses, we believe that quarter-to-quarter comparisons of our historical operating results should not be relied upon as an indicator of our future performance.

We May Pursue Strategic Acquisitions and Our Business Could be Materially and Adversely Affected if We Fail to Adequately Integrate Acquired Businesses

As part of our future business strategy, we may pursue strategic acquisitions of complementary businesses or technologies that would provide additional product or service offerings, additional industry expertise, a broader client base or an expanded geographic presence. For example, on November 1, 2007, we completed the acquisition of Authorize.Net. If we do not successfully integrate a strategic acquisition, or if the benefits of the transaction do not meet the expectations of financial or industry analysts, the market price of our common stock may decline. Any future acquisition could result in the use of significant amounts of cash, dilutive issuances of equity securities, or the incurrence of debt or amortization expenses related to goodwill and other intangible assets, any of which could materially adversely affect our business, operating results and financial condition. In addition, acquisitions involve numerous risks, including:

- difficulties in assimilating the operations, technologies, products and personnel of an acquired company;

- risks of entering markets in which we have either no or limited prior experiences;
- the diversion of management's attention from other business concerns; and

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- the potential loss of key employees of an acquired company.

The size and scope of the Authorize.Net acquisition increases both the scope and consequence of these ongoing integration risks. Even if the acquisition is successfully integrated, we may not receive all of the expected benefits of the transaction.

We May Fail to Realize all of the Anticipated Benefits of the Authorize.Net Merger, Which Could Adversely Affect the Value of Our Common Stock After the Merger

The Authorize.Net merger involves the integration of two former companies that have previously operated independently. We anticipate that the merger will create opportunities to achieve cost savings and revenue synergies, to share technological developments and to achieve other synergistic benefits.

The success of the Authorize.Net merger will depend, in part, on our ability to achieve the anticipated cost synergies and other strategic benefits from combining the businesses of the two former companies. We expect the combined company to benefit from operational synergies resulting from the consolidation of capabilities and elimination of redundancies, as well as greater efficiencies from increased scale and market integration. However, to realize these anticipated benefits, we must successfully combine the businesses of the two former companies. If we are not able to achieve these objectives, the anticipated cost synergies and other strategic benefits of the merger may not be realized fully or at all or may take longer to realize than expected. We may fail to realize some or all of the anticipated benefits of the transaction in the amounts and times projected for a number of reasons, including that the integration may take longer than anticipated, be more costly than anticipated or have unanticipated adverse results relating to the two former companies' existing businesses.

Potential Customer, Merchant and Employee Uncertainty Related to the Authorize.Net Merger Could Harm the Combined Company

The potential customers of the combined company may, in response to the Authorize.Net merger, determine not to purchase services from us. Any such determinations not to purchase by our customers could seriously harm our business. Similarly, our employees may experience uncertainty about their future role following the combination. This may adversely affect our ability to attract and retain key management, marketing, sales, customer support and technical personnel, which could harm us. Furthermore, certain former Authorize.Net resellers may deem us to be a competitor because we offer merchant acquiring services that may overlap with services offered by certain resellers.

If We are Not Successful in Integrating the Authorize.Net Business and Organization, the Anticipated Benefits of the Merger May Not be Realized

Achieving the anticipated benefits of the Authorize.Net merger will depend, in part, on the integration of technology, operations and personnel of the two former companies. We cannot assure you that the integration will be successful or that the anticipated benefits of the merger will be fully realized. The challenges involved in this integration include the following:

- persuading the employees that the two former companies' business cultures are compatible and retaining the combined company's key personnel;
- maintaining the dedication of management resources to integration activities without diverting attention from the day-to-day business of the combined company;
- maintaining management's ability to focus on anticipating, responding to or utilizing changing technologies in the electronic payment industry;
- maintaining former Authorize.Net's key reseller relationships;
- demonstrating to customers that the merger has not resulted in adverse changes to the ability of the combined company to address the needs of customers of the loss of attention or business focus;
- integrating the Utah and Washington offices of Authorize.Net into our corporate structure;
- keeping existing independent sales organization channels intact; and
- keeping and retaining key former Authorize.Net employees.

It is not certain that the two companies can be successfully integrated in a timely manner or at all or that any of the anticipated benefits will be realized. In addition, we cannot assure you that there will not be substantial unanticipated costs associated with the integration process, that integration activities will not result in a decrease in revenues, a decrease in the value of our common stock, or that there will not be other material adverse effects from our integration efforts.

If we are unable to successfully integrate Authorize.Net, or if the benefits of the merger do not meet the expectations of financial or industry analysts, the market price of our common stock may decline.

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Loss of Key Personnel Could Have a Material Adverse Effect on the Business and Results of Operations of the Combined Company

Our success will depend in part upon our ability to retain key employees of both legacy CyberSource and legacy Authorize.Net. Competition for qualified personnel can be very intense. In addition, key employees may depart because of issues relating to the uncertainty or difficulty of integration or a desire not to remain with the combined company. Accordingly, no assurance can be given that we will be able to retain key employees. For example, on November 6, 2008, Roy Banks, the former General Manager of Authorize.Net, notified the Company of his pending resignation as President of Authorize.Net LLC, effective November 14, 2008. Loss of key personnel could have a material adverse effect on our business and results of operations.

We Could Incur Chargeback or Merchant Fraud Losses

We have potential liability for certain transactions processed through our global acquiring services if the payments associated with such transactions are rejected, refused, or returned for reasons such as consumer fraud or billing disputes. For instance, if a billing dispute between a merchant and payer is not ultimately resolved in favor of the merchant, the disputed transaction may be charged back to the merchant's bank and credited to the payer's account. If the charged back amount cannot be recovered from the merchant's account, or if the merchant refuses or is financially unable to reimburse its bank for the charged back amount, we may bear the loss for the amount of the refund paid to the payer's bank. We could also incur fraud losses as a result of merchant fraud. Merchant fraud occurs when a merchant, rather than a customer, intentionally uses a stolen or counterfeit card, card number, or other bank account number to process a false sales transaction, or knowingly fails to deliver merchandise or services in an otherwise valid transaction. We may be responsible for any losses for certain transactions if we are unable to collect from the merchant.

We have established systems and procedures designed to detect and reduce the impact of consumer fraud and merchant fraud, but we cannot assure you that these measures are or will be effective. To date, we have not incurred any significant losses relating to charged back transactions. During the three months ended September 30, 2008, our global acquiring revenue represented approximately 34.9% of our total revenue. Our global acquiring revenue may also include fees generated for gateway services as it is becoming more common to charge the customer a bundled price for transaction services provided. To the extent our global acquiring revenue grows, our potential liability for such chargebacks or merchant fraud increases.

Our Revenue and Customer Relationships Could be Impacted if We Were to Lose Bank Sponsorship

The card associations require a bank sponsor that ultimately assumes chargeback or merchant fraud losses if we were financially unable to assume such losses. If our current bank sponsor were to terminate our agreement, and we are not able to obtain another bank sponsor in a timely manner, we would be unable to provide global acquiring services, either whole or in part, which could impact our future revenue and customer relationships. The current agreement with our bank sponsor for U.S. acquiring, Harris Bank, N.A., renews automatically in March of each year and requires at least 180 days written notice prior to the expiration of any annual term if either party wishes to exercise its right not to renew the agreement. As of the date of this report, we have not received any notice of non-renewal from Harris Bank, N.A. Accordingly, this agreement will renew automatically again in March 2009 and remain in effect through March 2010, unless the parties mutually agree to terminate the agreement prior to any such expiration or either party exercises its right to terminate the agreement prior to any such expiration based on a material breach by the other party as set forth in the agreement.

We Face Uncertainties Related to the Effectiveness of Internal Controls

Public companies in the United States are required to review their internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will achieve its stated goal under all potential future conditions, regardless of how remote.

Although our management has determined that our internal controls were effective as of the end of our most recent fiscal year, there can be no assurance that the integration of Authorize.Net and its internal control systems and procedures, will not result in or lead to a future material weakness in our internal controls, or that we or our independent registered public accounting firm will not identify a material weakness in our internal controls in the future. A material weakness in internal controls over financial reporting would require management and the Company's independent public accounting firm to evaluate our internal controls as ineffective. If internal controls over financial reporting are not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and stock price.

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Failure to Manage Future Growth Effectively May Have a Material Adverse Effect on Our Financial Condition and Results of Operations

In the event that we experience rapid growth in our operations, a significant strain may be placed upon management, administrative, operational and financial infrastructure. Our success will depend in part upon the ability of our executive officers to manage growth effectively. Our ability to grow also depends upon our ability to successfully hire, train, supervise, and manage new employees, obtain financing for our capital needs, expand our systems effectively, allocate our human resources optimally, maintain clear lines of communication between our transactional and management functions and our finance and accounting functions, and manage the pressures on our management and administrative, operational and financial infrastructure. There can be no assurance that we will be able to accurately anticipate and respond to the changing demands we will face as we integrate and continue to expand our operations, and we may not be able to manage growth effectively or to achieve growth at all. Any failure to manage the future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Charges to Earnings Resulting From the Application of the Purchase Method of Accounting Might Adversely Affect the Market Value of Our Common Stock

In accordance with United States generally accepted accounting principles (“GAAP”), the Authorize.Net merger was accounted for using the purchase method of accounting, which will result in charges to earnings that could have an adverse impact on the market value of our common stock. Under the purchase method of accounting, the total estimated purchase price was allocated to Authorize.Net’s net tangible assets, identifiable intangible assets or expense for research and development based on their fair values as of November 1, 2007. Any excess of the purchase price over those fair values will be recorded as goodwill. We will incur additional amortization expense based on the identifiable amortizable intangible assets acquired pursuant to the merger agreement and their relative useful lives. Additionally, to the extent the value of goodwill or identifiable intangible assets or other long-lived assets may become impaired, we will be required to incur material charges relating to the impairment. These amortization and potential impairment charges could have a material impact on our results of operations.

We currently estimate that we will incur approximately \$29 million of incremental annual amortization expense during the year ended December 31, 2008. Changes in earnings per share, including as a result of this incremental expense, could adversely affect the trading price of our common stock.

Our Stock Price May Fluctuate Substantially Due to Factors Outside Our Control

The market price for our common stock may be affected by a number of factors outside our control, including the following:

- the announcement of new products, services or enhancements by our competitors;
- quarterly variations in our competitors’ results of operations;
- changes in earnings estimates or recommendations by securities analysts;
- developments in our industry; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

These factors and fluctuations, as well as general economic, political and market conditions may materially and adversely affect the market price of our common stock.

The Intense Competition in Our Industry Could Reduce or Eliminate the Demand for Our Products and Services

The market for our products and services is intensely competitive and subject to rapid technological change. We expect competition to intensify in the future. We face competition from merchant acquirers, independent sales organizations, and payment processors such as Chase Paymentech Solutions, First Data Corporation, and Royal Bank of Scotland. We also face competition from transaction service providers such as PayPal and Retail Decisions as well as eCommerce providers such as Bertelsmann Financial Services, Digital River, and GSI Commerce Inc. Further, other companies, including financial services and credit companies may enter the market and provide competing services.

Many of our competitors have longer operating histories, substantially greater financial, technical, marketing or other resources, or greater name recognition than we do. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Competition could seriously impede our ability to sell additional products and services on terms favorable to us. Our current and potential competitors may develop and market new technologies that render our existing or future products and services obsolete, unmarketable or less competitive. Our current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with other solution providers, thereby increasing their ability to address the needs of our existing or prospective customers. Our current and potential competitors may establish or strengthen cooperative relationships with our current or future channel partners, thereby limiting our

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ability to sell products and services through these channels. We expect that competitive pressures may result in the reduction of our prices or our market share or both, which could materially and adversely affect our business, results of operations or financial condition.

Potential System Failures and Lack of Capacity Issues Could Negatively Affect Demand for Our Services

Our ability to deliver services to our merchants depends on the uninterrupted operation of our commerce transaction processing systems. Our systems and operations are vulnerable to damage or interruption from:

- “denial of service” attacks;
- computer viruses;
- war, earthquake, fire, flood and other manmade or natural disasters; and
- power loss, telecommunications or data network failure, operator negligence, improper operation by employees, physical and electronic break-ins and similar events.

Despite the fact that we have implemented redundant servers in third-party hosting centers located in San Jose, California; Seattle, Washington; Denver, Colorado; Phoenix, Arizona; London, England; and Tokyo, Japan, we may still experience service interruptions for the reasons listed above and a variety of other reasons. If our redundant servers are not available, we may not have sufficient business interruption insurance to compensate us for resulting losses. We have experienced periodic interruptions, affecting all or a portion of our systems, which we believe will continue to occur from time to time. For example, on November 12, 1999, our services were unavailable for approximately ten hours due to an internal system problem. We have also subsequently experienced service interruptions and performance issues. Any interruption in our systems that impairs our ability to efficiently and timely provide services could damage our reputation and reduce demand for our services.

Our success also depends on our ability to grow, or scale, our commerce transaction systems to accommodate increases in the volume of traffic on our systems, especially during peak periods of demand. We may not be able to anticipate increases in the use of our systems or successfully expand the capacity of our network infrastructure. Our inability to expand our systems to handle increased traffic could result in system disruptions, slower response times and other difficulties in providing services to our merchant customers, which could materially harm our business.

A Breach of Our eCommerce Security Measures Could Reduce Demand for Our Services

A requirement of the continued growth of e-Commerce is the secure transmission of confidential information over public networks. We rely on public key cryptography, an encryption method that utilizes two keys, a public and a private key, for encoding and decoding data, and digital certificate technology, or identity verification, to provide the security and authentication necessary for secure transmission of confidential information. A party who is able to circumvent security measures could misappropriate proprietary information or interrupt our operations. Any compromise or elimination of security could reduce demand for our services.

We may be required to expend significant capital and other resources to protect against security breaches and to address any problems they may cause. Concerns over the security of the Internet and other online transactions and the privacy of users may also inhibit the growth of the Internet and other online services generally, and the Web in particular, especially as a means of conducting commercial transactions. Because our activities involve the storage and transmission of proprietary information, such as credit card numbers, security breaches could damage our reputation and expose us to a risk of loss, fines, or litigation and other liabilities. Our security measures may not prevent security breaches, and failure to prevent security breaches may disrupt our operations.

If We Are Not Able to Fully Utilize Relationships with Our Sales Alliances, We May Experience Lower Revenue Growth and Higher Operating Costs

Our future growth will depend in part on the success of our relationships with existing and future sales alliances that market our products and services to their merchant accounts. If these relationships are not successful or do not develop as quickly as we anticipate, our revenue growth may be adversely affected. Accordingly, we may have to increase our sales and marketing expenses in an attempt to secure additional merchant accounts.

Our Market is Subject to Rapid Technological Change and to Compete We Must Continually Enhance Our Systems to Comply with Evolving Standards

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our products and services and the underlying network infrastructure. The Internet and the e-Commerce industries are characterized by rapid technological change, changes in user requirements and preferences, frequent new product and service introductions embodying new technologies, and the emergence of new industry standards and practices that could render our technology and systems

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obsolete. Our success will depend, in part, on our ability to both internally develop and license leading technologies to enhance our existing products and services and develop new products and services. We must continue to address the increasingly sophisticated and varied needs of our merchants, and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The development of proprietary technology involves significant technical and business risks. We may fail to develop new technologies effectively or to adapt our proprietary technology and systems to merchant requirements or emerging industry standards. If we are unable to adapt to changing market conditions, merchant requirements or emerging industry standards, our business would be materially harmed.

The Demand for Our Products and Services Could Be Negatively Affected by a Reduced Growth of e-Commerce or Delays in the Development of the Internet Infrastructure

Sales of goods and services over the Internet do not currently represent a significant portion of overall sales of goods and services. We depend on the growing use and acceptance of the Internet as an effective medium of commerce by merchants and customers in the United States and internationally. The sale of goods and services over the Internet has gained acceptance more slowly outside of the United States. We cannot be certain that acceptance and use of the Internet will continue to develop or that a sufficiently broad base of merchants and consumers will adopt, and continue to use, the Internet as a medium of commerce.

The increase in the significance of the Internet as a commercial marketplace may occur more slowly than anticipated for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies and performance improvements. If the number of Internet users, or the use of Internet resources by existing users, continues to grow, it may overwhelm the existing Internet infrastructure. Delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity could also have a detrimental effect. These factors could result in slower response times or adversely affect usage of the Internet, resulting in lower numbers of commerce transactions and lower demand for our products and services.

Our International Business Exposes Us to Additional Foreign Risks

Products and services provided to merchants outside the United States accounted for 6.6% and 9.7% of our revenues in the nine months ended September 30, 2008 and 2007, respectively. In March 2000, we entered into a joint venture agreement with Japanese partners Marubeni Corporation and Trans-Cosmos, Inc. and established CyberSource K.K. to provide commerce transaction services to the Japanese market. Conducting business outside of the United States is subject to additional risks that may affect our ability to sell our products and services and result in reduced revenues, including:

- changes in regulatory requirements;
- reduced protection of intellectual property rights;
- the burden of complying with a variety of foreign laws; and
- war, political or economic instability or constraints on international trade.

In addition, some software contains encryption technology that renders it subject to export restrictions and we may become liable to the extent we violate these restrictions. We might not successfully market, sell or distribute our products and services in local markets and we cannot be certain that one or more of these factors will not materially adversely affect our future international operations, and consequently, our business, financial condition and operating results.

Also, sales of our products and services conducted through our subsidiary in the United Kingdom are primarily denominated in Pounds Sterling. We may experience fluctuations in revenues or operating expenses due to fluctuations in the value of the Pounds Sterling relative to the U.S. Dollar. We do not currently enter into transactions with the specific purpose to hedge against currency exchange fluctuations.

Changes in Accounting Standards Regarding Stock Option Plans Will Reduce Our Profitability and Could Limit the Desirability of Granting Stock Options, Which Could Harm Our Ability to Attract and Retain Employees

We have included employee stock-based compensation costs in our results of operations for the three and nine months ended September 30, 2008 and 2007, as discussed in Note 1 in the Notes to Condensed Consolidated Financial Statements. The full impact is dependent upon, among other things, the outcome of our current assessment of different long-term incentive strategies involving stock awards in order to continue to attract and retain employees, the total number of stock awards granted and the tax benefit that we may or may not receive from stock-based expenses. In addition, new regulations implemented by The Nasdaq Stock Market requiring stockholder approval for all stock option plans could make it more difficult for us to grant options to employees in the future. To the extent that new regulations make it more difficult or expensive to grant stock options to employees, we may incur increased compensation costs, change our equity compensation strategy or find it difficult to attract, retain and motivate employees, each of which could materially and adversely affect our business.

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If We Lose Key Management Personnel, We May Not be Able to Successfully Manage Our Business and Achieve Our Objectives

We believe our future success will depend upon our ability to retain our key management personnel, including William S. McKiernan, our Chief Executive Officer, and other key members of management because of their experience and knowledge regarding the development, special opportunities and challenges of our business. While we have employment contracts with Scott Cruickshank, our President and Chief Operating Officer, and Roy Banks, our President of Authorize.Net LLC, none of our current key employees are subject to legal obligations that enable us to retain them for a specific period of time. We may not be successful in attracting and retaining key employees in the future. For example, on November 6, 2008, Mr. Banks submitted a resignation notice, effective November 14, 2008.

We May Not Be Able to Adequately Protect Our Proprietary Technology and May Be Infringing Upon Third-Party Intellectual Property Rights

Our success depends upon our proprietary technology. We rely on a combination of patent, copyright, trademark and trade secret rights, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights.

As part of our confidentiality procedures, we enter into non-disclosure agreements with our employees, contractors, vendors and potential customers and alliances. Despite these precautions, third parties could copy or otherwise obtain and use our technology without authorization, or develop similar technology independently. Effective protection of intellectual property rights may be unavailable or limited in foreign countries. We cannot assure you that the protection of our proprietary rights will be adequate or that our competitors will not independently develop similar technology, duplicate our products and services or design around any patents or other intellectual property rights we hold.

We also cannot assure you that third parties will not claim that the technology employed in providing our current or future products and services infringe upon their rights. We have not conducted any search to determine whether any of our products and services or technologies may be infringing upon patent rights of third parties. As the number of products and services in our market increases and functionalities increasingly overlap, companies such as ours may become increasingly subject to infringement claims. In addition, these claims also might require us to enter into royalty or license agreements. Any infringement claims, with or without merit, could absorb significant management time and lead to costly litigation. If required to do so, we may not be able to obtain royalty or license agreements, or obtain them on terms acceptable to us.

We May Become Subject to Government Regulation and Legal Uncertainties That Would Adversely Affect Our Financial Results

We are not currently subject to direct regulation by any domestic or foreign governmental agency, other than regulations applicable to businesses generally, export control laws and laws or regulations directly applicable to e-Commerce. However, due to the increasing usage of the Internet, it is possible that a number of laws and regulations may be applicable or may be adopted in the future with respect to conducting business over the Internet covering issues such as:

- taxes;
- user privacy;
- pricing;
- content;
- right to access personal data;
- copyrights;
- distribution; and
- characteristics and quality of products and services.

For example, we believe that our fraud screen service may require us to comply with the Fair Credit Reporting Act (the "Act"). As a precaution, we have implemented processes that we believe will enable us to comply with the Act if we were deemed a consumer reporting agency. Complying with the Act requires us to provide information about personal data stored by us. Failure to comply with the Act could result in claims being made against us by individual consumers and the Federal Trade Commission.

Furthermore, the growth and development of the market for e-Commerce may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. The adoption of additional laws or regulations may decrease the growth of the Internet or other online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business.

The applicability of existing laws governing issues such as property ownership, copyrights, encryption and other intellectual property issues, taxation, libel, export or import matters and personal privacy to the Internet is uncertain. The vast majority of laws were adopted prior to the broad commercial use of the Internet and related technologies. As a result, they do not contemplate or address the unique issues of the Internet and related technologies. Changes to these laws intended to address these

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issues, including some recently proposed changes in the United States regarding taxation and encryption and in the European Union regarding contract formation and privacy, could create uncertainty in the Internet marketplace and impose additional costs and other burdens. These uncertainties, costs and burdens could reduce demand for our products and services or increase the cost of doing business due to increased litigation costs or increased service delivery costs.

The Anti-Takeover Provisions in Our Certificate of Incorporation Could Adversely Affect the Rights of the Holders of Our Common Stock

Anti-takeover provisions of Delaware law and our Certificate of Incorporation may make a change in control more difficult to finalize, even if a change in control would be beneficial to the stockholders. These provisions may allow our Board of Directors to prevent changes in our management and controlling interests. Under Delaware law, our Board of Directors may adopt additional anti-takeover measures in the future.

One anti-takeover provision that we have is the ability of our Board of Directors to determine the terms of preferred stock and issue preferred stock without the approval of the holders of the common stock. Our Certificate of Incorporation allows the issuance of up to 5,610,969 shares of preferred stock. As of September 30, 2008, there are no shares of preferred stock outstanding. However, because the rights and preferences of any series of preferred stock may be set by our Board of Directors in its sole discretion without approval of the holders of the common stock, the rights and preferences of this preferred stock may be superior to those of the common stock. Accordingly, the rights of the holders of common stock may be adversely affected.

Our Fraud Detection Services and Marketing Agreement With Visa U.S.A. Can Be Terminated

In July 2001, we entered into an agreement with Visa U.S.A. to jointly develop and promote the CyberSource Advanced Fraud Screen Service Enhanced by Visa for use in the United States. Under the terms of the agreement, Visa agreed to promote and market the new product to its member financial institutions and Internet merchants. The agreement expires in July 2009, but can be terminated by either party with ninety days prior written notice. Thereafter, the agreement renews automatically for additional periods of one year, unless terminated by either party.

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

On April 22, 2008, the Board of Directors adopted a common stock repurchase program that authorized management to use up to \$10.0 million over a twelve-month period beginning on May 5, 2008 to repurchase additional shares of our common stock. Pursuant to the program, during the period from July 1, 2008 through September 30, 2008, we repurchased 197,625 shares at an average price of \$14.51 per share, including commissions and related repurchase costs. All of the repurchased shares were cancelled and returned to the status of authorized, unissued shares.

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased</u>	<u>Average Price Paid per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Program</u>	<u>Maximum Dollar Value of Shares Yet to Be Purchased Under the Program at the End of the Period (000's)</u>
July 1, 2008 to July 31, 2008	172,900	\$ 14.45	172,900	\$ 7,501
August 1, 2008 to August 31, 2008	—	—	—	—
September 1, 2008 to September 30, 2008	24,725	14.89	24,725	7,133
Total	197,625	\$ 14.51	197,625	\$ 7,133

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

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ITEM 5. OTHER INFORMATION

In accordance with Section 10A(i)(2) of the Exchange Act and Section 202 of the Sarbanes-Oxley Act of 2002, we are responsible for disclosing the non-audit services approved in the third quarter of fiscal year 2008 by the Audit Committee (“Audit Committee”) of the Board of Directors to be performed by Ernst & Young, our independent auditors. Non-audit services are defined in the law as services other than those provided in connection with an audit or a review of our financial statements. The non-audit services approved by the Audit Committee in the third quarter are each considered by us to be audit-related services which are closely related to the financial audit process. Each of the services has been pre-approved by the Audit Committee and its chairman has been given the authority to pre-approve additional services pursuant to limited authority delegated by the Audit Committee.

ITEM 6. EXHIBITS

(a) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.1(1)	Agreement and Plan of Reorganization, dated June 17, 2007, by and among CyberSource Corporation, Authorize.Net Holdings, Inc., Congress Acquisition-Sub, Inc. and Congress Acquisition Sub 1, LLC.
3.1(2)	Second Amended and Restated Certificate of Incorporation of CyberSource Corporation.
3.2	CyberSource Corporation’s Bylaws, as amended.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Incorporated by reference to the same numbered exhibit previously filed with the Company’s Current Report on Form 8-K filed on June 19, 2007.
- (2) Incorporated by reference to the same numbered exhibit previously filed with the Company’s Registration Statement on Form S-1 (Registration No. 333-77545).

BYLAWS
OF
CYBERSOURCE CORPORATION,
a Delaware corporation

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**BYLAWS OF
CYBERSOURCE CORPORATION**

ARTICLE I

OFFICES

Section 1. Registered Office. The address of the registered office of the corporation is Corporation Service Company, 2711 Centreville Road, Suite 400, in the City of Wilmington, County of New Castle, State of Delaware 19808. The location of the registered office may be changed from time to time to another location within the State of Delaware by resolution of the Board of Directors

Section 2. Other Offices. The corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings. Meetings of stockholders shall be held at any place within or outside the State of Delaware designated either by the Board of Directors or the president (if not contrary to any action taken by the Board of Directors). In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation in the City of Mountain View, State of California.

Section 2. Annual Meeting. The annual meeting of stockholders of the corporation for the purpose of electing directors and for the transaction of such other proper business as may come before such meetings, shall be held on the second Monday in March (or the next business day if such date is a holiday), at 10:00 a.m., or at such other time and place as the Board of Directors shall determine by resolution.

Section 3. Special Meeting. A special meeting of the stockholders may be called for any purpose or purposes at any time by the Board of Directors, or by the chairman of the board, or by the president, the chief executive officer or by one or more stockholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting, but such special meetings may not be called by any other person or persons.

If a special meeting is called by any person or persons other than the Board-of Directors, the chairman of the board, the president or the chief executive officer, the request shall be in writing, specifying the time of such meeting (such time to be not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request) and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president, or the secretary of the corporation. The officer receiving the request shall cause notice to be given promptly to the stockholders entitled to vote, in accordance with the provisions of Sections 4 and 5 of this Article 11, that a meeting will be held at the time requested by the person or persons calling the meeting.

Section 4. Notice of Stockholders' Meetings. All notices of meetings of stockholders shall specify the place, date and hour of the meeting. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, otherwise properly brought before the meeting by or at the direction of the Board of Directors or otherwise properly brought before the meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, not less than forty-five (45) days nor more than seventy-five (75) days prior to the date on which the corporation first mailed its proxy materials for the previous year's annual meeting of stockholders (or the date on which the corporation mails its proxy materials for the current year if during the prior year the corporation did not hold an annual

meeting or if the date of the annual meeting was changed more than 30 days from the prior year). A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder, and (iv) any material interest of the stockholder in such business. Notice of a special meeting of stockholders shall include the purpose or purposes for which the meeting was called and business transacted at any special meeting shall be limited to the purposes stated in the notice. Unless otherwise provided by law, the certificate of incorporation or these bylaws, the written notice of any annual or special meeting of stockholders shall be given to each stockholder of record entitled to vote not less than ten (10) nor more than sixty (60) days before the date of the meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation.

If action is proposed to be taken at any meeting for approval of an amendment of the certificate of incorporation, pursuant to Section 242 of the Delaware Corporation Law, the notice shall set forth such amendment in full or a brief summary of the changes to be effected thereby, as the directors shall deem advisable.

If action is proposed to be taken at any meeting for approval of an agreement relating to any merger or consolidation, pursuant to Section 251 -of the Delaware Corporation Law, the notice shall be mailed to each stockholder at least twenty (20) days prior to the date of the meeting. The notice shall contain a copy of the agreement or a brief summary thereof, as the directors shall deem advisable.

An affidavit of the secretary or an assistant secretary or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Section 5. List of Stockholders Entitled to Vote. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 6. Quorum. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting of stockholders shall constitute a quorum for the transaction of business. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 7. Adjourned Meeting; Notice. Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at that meeting, except as provided in Section 6 of this Article II.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than thirty (30) days from the date set for the original meeting, in which case the Board of Directors shall set a new record date. When a new record date is fixed in accordance with the preceding sentence, notice of any such adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Section 4 of this Article II. At any adjourned meeting at which a quorum is present or represented the corporation may transact any business which might have been transacted at the original meeting.

Section 8. Voting. Unless otherwise provided in the certificate of incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power upon the matter in question held by such stockholder, but no proxy shall be voted on or after three years from its date, unless the proxy provides for a longer period.

Shares of its own capital stock belonging to the corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by such corporation, shall not be entitled to vote nor be counted for quorum purposes. Shares of the corporation which have been called for redemption shall not be entitled to vote and shall not be deemed to be outstanding shares for purposes of determining the total number of shares entitled to vote on any matter on and after the date on which written notice of redemption has been sent to holders thereof and a sum sufficient to redeem such shares has been irrevocably deposited or set aside to pay the redemption price to the holders of the shares upon surrender of certificates therefor.

Any holder of shares entitled to vote on any matter may vote a part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, vote them against the proposal, but, if the stockholder fails to specify the number of shares which the stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares that the stockholder is entitled to vote.

At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. All other elections and questions shall, unless otherwise provided by law, the certificate of incorporation or these bylaws, be decided by the vote of the holders of shares of stock having a majority of the votes which could be cast by the holders of all shares of stock entitled to vote thereon which are present in person or represented by proxy at the meeting.

Section 9. Waiver of Notice or Consent by Absent Stockholders. The transaction of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid, as though transacted at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to a holding of the meeting, or an approval of the minutes. Such waiver, consent or approval need not specify either the business to be transacted or the purpose of any annual or special meeting of stockholders, unless so provided by the certificate of incorporation or these bylaws. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of and presence at that meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by law to be included in the notice of the meeting but not so included if that objection is expressly made at the meeting.

Section 10. Stockholder Action by Written Consent Without a Meeting. Any action which may be taken at an annual or special meeting of stockholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted. All such consents shall be delivered to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded.

Any stockholder giving a written consent, or the stockholder's proxy holder, or a transferee of the shares or a personal representative of the stockholder or their respective proxy holders, may revoke the consent by a writing received by the secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been delivered to the corporation. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days after the date of the earliest dated consent delivered to the corporation, a written consent or consents signed by a sufficient number of holders to take action are delivered to the corporation in the manner prescribed in the first paragraph of this Section.

Section 11. Record Date for Stockholder Notice, Voting, and Giving Consents. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date:

(a) In the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, not be more than sixty (60) nor less than ten (10) days before the date of such meeting;

(b) In the case of determination of stockholders entitled to express consent to corporate action in writing without a meeting, shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors; and

(c) In the case of other action, shall not be more than sixty (60) days prior to such other action.

If no record date is fixed by the Board of Directors:

(a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held;

(b) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting when no prior action of the Board of Directors is required by law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation in accordance with applicable law, or if prior action by the Board of Directors is required by law, shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action; and

(c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 12. Proxies. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the corporation.

Section 13. Inspectors of Election. The corporation shall, in advance of any meeting of stockholders, appoint one (1) or more inspectors to act at the meeting and make a written report thereof. The corporation may designate one (1) or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the chairman of the meeting may appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of such inspector's duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such his or her ability.

These inspectors shall:

(a) Ascertain the number of shares outstanding and the voting power of each;

(b) Determine the shares represented at the meeting and the validity of proxies and ballots;

-
- (c) Count all votes and ballots;
 - (d) Determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors;
 - (e) Certify the determination of the number of shares represented at the meeting, and the count of all votes and ballots; and
 - (f) Do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties.

ARTICLE III

DIRECTORS

Section 1. Powers. The business of the corporation shall be managed by or under the direction of its Board of Directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these bylaws directed or required to be exercised or done by the stockholders. Without prejudice to these general powers, and subject to the same limitations, the directors shall have the power to:

(a) Select and remove all officers, agents, and employees of the corporation; prescribe any powers and duties for them that are consistent with law, with the certificate of incorporation, and with these bylaws; fix their compensation; and require from them security for faithful service.

(b) Change the principal executive office or the principal business office from one location to another; cause the corporation to be qualified to do business in any state, territory, dependency, or country and conduct business within or without the State of Delaware; and designate any place within or without the State of Delaware for the holding of any stockholders' meeting, or meetings, including annual meetings.

(c) Adopt, make, and use a corporate seal; prescribe the forms of certificates of stock; and alter the form of the seal and certificates.

(d) Authorize the issuance of shares of stock of the corporation on any lawful terms, for such consideration as permitted by law.

(e) Borrow money and incur indebtedness on behalf of the corporation, and cause to be executed and delivered for the corporation's purposes, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, and other evidence of debt and securities.

Section 2. Number and Qualification of Directors. The number of directors of the corporation shall not be less than four (4) nor more than seven (7) until changed by amendment of the Certificate of Incorporation or by a bylaw amending this Article III, Section 2 duly adopted by the vote or written consent of holders of a majority of the outstanding shares or by the Board of Directors. The exact number of directors shall be fixed from time to time, within the limits specified in the Certificate of Incorporation or in this Article III, Section 2, by a bylaw or amendment thereof duly adopted by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of the holders of a majority of the outstanding shares entitled to vote, or by the Board of Directors. Subject to the foregoing provisions for changing the number of directors, the number of directors of the corporation has been fixed at six (6). Directors need not be stockholders.

Section 3. Election and Term of Office of Directors. Directors shall be elected at each annual meeting of the stockholders, but if any such annual meeting is not held, or the directors are not elected thereat, the directors may be elected at any special meeting of the stockholders held for that purpose. All directors shall hold office until the expiration of the term for which elected and until their respective successors are elected, except in the case of death, resignation or removal of any director.

Section 4. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the remaining members of the Board of Directors, although such majority is less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the expiration of the term for which elected and until their successors are duly elected and shall qualify, unless sooner displaced.

A vacancy or vacancies in the Board of Directors shall be deemed to exist in the event of the death, resignation, or removal of any director, or if the authorized number of directors is increased, or if the stockholders fail, at any meeting of stockholders at which any director or directors are elected, to elect the number of directors to be voted for at that meeting. Any director may resign at any time upon giving written notice to the corporation. Any such resignation shall take effect on the date of receipt of that notice or at such later date as specified in the resignation, and, unless otherwise specified in the resignation, acceptance of the resignation shall not be necessary to make it effective. The entire Board of Directors or any individual director may be removed from office, prior to the expiration of their or his term of office only in the manner and within the limitations provided by the General Corporation Law of Delaware

Section 5. Place of Meetings. Meetings of the Board of Directors may be held at any place within or outside the State of Delaware that has been designated in the notice of the meeting or, if not so stated or if there is no notice, by resolution of the board or by the chairman of the board or by the president (if not contrary to any action taken by the Board of Directors). In the absence of such a designation, meetings shall be held at the principal executive office of the corporation.

Section 6. Annual Meeting. Immediately following each annual meeting of stockholders, the Board of Directors shall hold a regular meeting for the purpose of organization, any desired election of officers, and the transaction of other business. Notice of this meeting shall not be required.

Section 7. Other Regular Meetings. Other regular meetings of the Board of Directors shall be held without call at such time as shall from time to time be fixed by resolution of the Board of Directors. Such regular meetings may be held without notice.

Section 8. Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the chairman of the board or the president or any vice president or secretary or any two directors. [Notice of the time and place of special meetings shall be delivered personally or by telephone or facsimile to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. In case the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. In case the notice is delivered personally, or by telephone, facsimile or telegram, it shall be delivered personally, or by telephone, facsimile or to the telegraph company, at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director.] The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. Quorum. At all meetings of the Board of Directors a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as provided by the provisions of Section 144 of the General Corporation Law of Delaware (as to approval of contracts or transactions in which a director has a financial interest), Section 141(c) of the General Corporation Law of Delaware (as to appointment of committees), the certificate of incorporation, these bylaws, or other applicable law. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

Section 10. Waiver of Notice. Notice of a meeting need not be given to any director who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, either before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to said director. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the Board of Directors.

Section 11. Action Without Meeting. Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the board or of such committee, as the case may be, shall individually or collectively consent thereto in writing or by electronic transmission to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the Board of Directors. Such writing or writings or electronic transmission or transmissions shall be filed with the minutes of the proceedings of the board or committee. For purposes of these bylaws, “electronic transmission” means any form of communication, not directly involving the physical transmission of paper that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Section 12. Telephonic Meetings. Members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting thereof by means of, conference telephone or similar communication equipment, so long as all persons participating in the meeting can hear one another, and all such persons shall be deemed to be present in person at the meeting.

Section 13. Fees and Compensation of Directors. Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement of expenses, as may be fixed or determined by resolution of the Board of Directors. This Section 13 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for those services.

ARTICLE IV

COMMITTEES

Section 1. Committees of Directors. The Board of Directors may, by resolution adopted by a majority of the whole Board of Directors, designate one or more committees, each consisting of one or more directors, to serve at the pleasure of the board. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

Any committee, to the extent provided in the resolution of the board, shall have and may exercise all the powers and authority of the board in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation, adopting an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation’s property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the bylaws of the corporation; and, unless the resolution or the certificate of incorporation expressly so provide, it shall not have the power or authority to declare a dividend to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

Section 2. Meetings and Action of Committees. Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the Board of Directors and its members, except that the time of regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee; special meetings of committees may also be called by resolution of the Board of Directors; and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

Section 1. Officers. The officers of the corporation shall be a chief executive officer, a president, a secretary and a chief financial officer. The corporation may also have, at the discretion of the Board of Directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article V. Any number of offices may be held by the same person.

Section 2. Election of Officers. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be chosen by the Board of Directors, and each shall serve at the pleasure of the board, subject to the rights, if any, of an officer under any contract of employment.

Section 3. Subordinate Officers. The Board of Directors may appoint, and may empower the chief executive officer to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as the Board of Directors (or the chief executive officer as empowered by the Board of Directors) may, from time to time, determine.

Section 4. Removal and Resignation of Officers. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the Board of Directors, at any regular or special meeting of the board, or, except in case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

Section 5. Vacancies in Offices. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

Section 6. Chairman of the Board. The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the Board of Directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors or prescribed by the bylaws. If there is no chief executive officer, the chairman of the board shall be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 4 of this Article V.

Section 7. President. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the chairman of the board if there be such an officer, the president shall, subject to the control of the Board of Directors and the Chief Executive Officer have the general powers and duties of Management usually vested in the office of chief operating officer, and shall have such other powers and duties as may be prescribed by the Board of Directors or the Chief Executive Officer, and shall report directly to the Chief Executive Officer.

Section 8. Vice Presidents. The vice presidents, in the order of their seniority, may assume and perform the duties of the president in the absence or disability of the president or whenever the office of the president is vacant. The vice presidents shall perform such other duties and have such other powers as the Board of Directors or the president may designate from time to time.

Section 9. Secretary. The secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board of Directors may direct, a book of minutes of all meetings and actions of the directors, committees of directors, and stockholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice given, the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board of Directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors required by the bylaws or by law to be given, and he shall keep the seal of the corporation if one be adopted, in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by the bylaws.

Section 10. Chief Financial Officer. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board of Directors. He shall disburse the funds of the corporation as may be ordered by the Board of Directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or the bylaws.

Section 11. Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the chairman of the board, if there is such an officer, the chief executive officer of the corporation, shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and the officers of the corporation and shall report directly to the Board of Directors. All other officers, officials, employees and agents shall report directly or indirectly to the chief executive officer. The chief executive officer shall see that all orders and resolutions of the Board of Directors are carried into effect.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND OTHER AGENTS

Section 1. Right to Indemnification. The corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended (but, in the case of any such amendment, only to the extent such amendment permits the corporation to provide broader indemnification rights than such law permitted the corporation to provide prior to such amendment) any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding") by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person. The corporation shall be required to indemnify a person in connection with a proceeding initiated by such person only if the proceeding was authorized by the Board of Directors of the corporation.

Section 2. Prepayment of Expenses. The corporation shall pay the expenses incurred in defending any proceeding in advance of its final disposition, provided, however, that the payment of expenses incurred by a director or officer in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this Article or otherwise. The corporation shall be required to pay or advance expenses in connection with a proceeding initiated by such person only if the proceeding was authorized by the Board of Directors of the corporation.

Section 3. Claims. If a claim for indemnification or payment of expenses under this Article is not paid in full within sixty days (60) after a written claim therefor has been received by the corporation, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

Section 4. Non-Exclusivity of Rights. The rights conferred on any person by this Article VI shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the certificate of incorporation, these bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

Section 5. Indemnification of Employees and Agents of the Corporation. The corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the corporation to the fullest extent of the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation.

Section 6. Other Indemnification. The corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or non-profit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, enterprise or non-profit enterprise.

Section 7. Amendment or Repeal. Any repeal or modification of the foregoing provisions of this Article VI shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

ARTICLE VII

RECORDS AND REPORTS

Section 1. Form of Records. Any records maintained by the corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs, or any other information storage device, provided that the records so kept can be converted into clearly legible form within a reasonable time. The corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

Section 2. Inspection by Stockholders. Any stockholder, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of stockholders, and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or other such writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

Section 3. Inspection by Directors. Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his position as a director.

ARTICLE VIII

GENERAL CORPORATE MATTERS

Section 1. Certificates for Shares. The shares of the corporation may be represented by certificates or uncertificated, as provided under the Delaware General Corporation Law. Every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by, the chairman or vice chairman of the board, if any, the president or vice president, and by chief financial officer or an assistant treasurer, or the secretary or an assistant secretary, of the corporation, certifying the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, the certificate may, nevertheless, be issued by the corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 2. Lost Certificates. Except as provided in this Section 2, no new certificates for shares shall be issued to replace an old certificate unless the latter is surrendered to the corporation and canceled at the same time. The Board of Directors may, in case any share certificate or certificate for any other security is lost, stolen, or destroyed, authorize the issuance of a replacement certificate on such terms and conditions as the board may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft, or destruction of the certificate or the issuance of the replacement certificate.

Section 3. Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

Section 4. Representation of Shares of Other Corporations. The chairman of the board, the president, or any vice president, or any other person authorized by resolution of the Board of Directors or by any of the foregoing designated officers, is authorized to vote on behalf of the corporation any and all shares of any other corporation or corporations, foreign or domestic, standing in the name of the corporation. The authority granted to these officers to vote or represent on behalf of the corporation any and all shares held by the corporation in any other corporation or corporations may be exercised by any of these officers in person or by any person authorized to do so by a proxy duly executed by these officers.

Section 5. Construction and Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX

AMENDMENTS

Section 1. Amendment by Stockholders. New bylaws may be adopted or these bylaws may be amended or repealed by the vote or written assent of stockholders entitled to exercise a majority of the voting power of the corporation, except as otherwise provided by law or by the certificate of incorporation.

Section 2. Amendment by Directors. Subject to the rights of the stockholders as provided in Section 1 of this Article IX, to adopt, amend, or repeal bylaws, bylaws may be adopted, amended, or repealed by the Board of Directors.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William S. McKiernan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CyberSource Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

/s/ William S. McKiernan
William S. McKiernan
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven D. Pellizzer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CyberSource Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008

/s/ Steven D. Pellizzer
Steven D. Pellizzer
Chief Financial Officer
(Principal Financial Officer)

CYBERSOURCE CORPORATION**Certification Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the periodic report of CyberSource Corporation (the "Company") on Form 10-Q for the period ended September 30, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, William S. McKiernan, the Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: November 10, 2008

/s/ William S. McKiernan
William S. McKiernan
Chief Executive Officer
(Principal Executive Officer)

CYBERSOURCE CORPORATION**Certification Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the periodic report of CyberSource Corporation (the "Company") on Form 10-Q for the period ended September 30, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Steven D. Pellizzer, the Vice President, Finance (Principal Financial Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: November 10, 2008

/s/ Steven D. Pellizzer
Steven D. Pellizzer
Chief Financial Officer
(Principal Financial Officer)

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