

BOTTOMLINE TECHNOLOGIES INC /DE/  
Form 10-Q  
November 12, 2013  
Table of Contents

**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, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 0-25259**

**Bottomline Technologies (de), Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**02-0433294**  
**(I.R.S. Employer**  
**Identification No.)**

**325 Corporate Drive**

**Portsmouth, New Hampshire**  
**(Address of principal executive offices)**

**03801-6808**  
**(Zip Code)**

**(603) 436-0700**

**(Registrant's telephone number, including area code)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer  (Do not check if a smaller reporting company)

Smaller Reporting Company

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

The number of shares outstanding of the registrant's common stock as of October 31, 2013 was 38,588,779.

**Table of Contents**

**INDEX**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited) and June 30, 2013</u>	3
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended September 30, 2013 and 2012</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2013 and 2012</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	25
<u>Item 4. Controls and Procedures</u>	25
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	26
<u>Item 1A. Risk Factors</u>	26
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 6. Exhibits</u>	36
<u>SIGNATURE</u>	37

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Bottomline Technologies (de), Inc.****Condensed Consolidated Balance Sheets****(in thousands)**

	<b>September 30, 2013</b>	<b>June 30, 2013</b>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 173,588	\$ 283,552
Marketable securities	22,592	9,525
Accounts receivable, net of allowance for doubtful accounts of \$764 at September 30, 2013 and \$769 at June 30, 2013	49,936	44,430
Deferred tax assets	8,288	6,764
Prepaid expenses and other current assets	11,638	8,479
Total current assets	266,042	352,750
Property and equipment, net	28,509	23,631
Goodwill	169,591	109,196
Intangible assets, net	164,593	82,872
Other assets	13,821	17,073
Total assets	\$ 642,556	\$ 585,522
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 12,625	\$ 8,933
Accrued expenses	24,845	16,070
Deferred revenue	51,139	47,184
Total current liabilities	88,609	72,187
Convertible senior notes	141,067	138,582
Deferred revenue, non-current	9,111	9,104
Deferred income taxes	22,532	5,457
Other liabilities	13,869	3,443
Total liabilities	275,188	228,773
Stockholders equity:		
Preferred Stock, \$.001 par value:		

Authorized shares	4,000; issued and outstanding shares	none		
Common Stock, \$.001 par value:				
Authorized shares	100,000; issued shares	38,231 at September 30, 2013, and 37,903 at June 30, 2013; outstanding shares	36,434 at September 30, 2013, and 36,045 at June 30, 2013	
			38	38
Additional paid-in capital			505,206	499,182
Accumulated other comprehensive loss			(537)	(10,460)
Treasury stock: 1,797 shares at September 30, 2013, and 1,858 shares at June 30, 2013, at cost			(21,168)	(21,888)
Accumulated deficit			(116,171)	(110,123)
Total stockholders' equity			367,368	356,749
Total liabilities and stockholders' equity			\$ 642,556	\$ 585,522

See accompanying notes.

**Table of Contents****Bottomline Technologies (de), Inc.****Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)****(in thousands, except per share amounts)**

	<b>Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>		
Subscriptions and transactions	\$ 31,549	\$ 28,547
Software licenses	4,738	4,699
Service and maintenance	29,322	26,455
Other	1,640	1,988
<b>Total revenues</b>	<b>67,249</b>	<b>61,689</b>
<b>Cost of revenues:</b>		
Subscriptions and transactions	15,344	13,986
Software licenses	366	409
Service and maintenance	12,519	12,294
Other	1,226	1,522
<b>Total cost of revenues</b>	<b>29,455</b>	<b>28,211</b>
<b>Gross profit</b>	<b>37,794</b>	<b>33,478</b>
<b>Operating expenses:</b>		
Sales and marketing	16,242	14,473
Product development and engineering	8,407	8,306
General and administrative	8,486	6,561
Amortization of intangible assets	5,705	4,312
<b>Total operating expenses</b>	<b>38,840</b>	<b>33,652</b>
<b>Loss from operations</b>	<b>(1,046)</b>	<b>(174)</b>
<b>Other income (expense), net</b>	<b>(4,040)</b>	<b>46</b>
<b>Loss before income taxes</b>	<b>(5,086)</b>	<b>(128)</b>
<b>Income tax provision (benefit)</b>	<b>962</b>	<b>(146)</b>
<b>Net (loss) income</b>	<b>\$ (6,048)</b>	<b>\$ 18</b>
<b>Basic net (loss) income per share attributable to common stockholders:</b>	<b>\$ (0.17)</b>	<b>\$ 0.00</b>
<b>Diluted net (loss) income per share attributable to common stockholders:</b>	<b>\$ (0.17)</b>	<b>\$ 0.00</b>

Shares used in computing basic net (loss) income per share attributable to common stockholders:	36,214	34,909
Shares used in computing diluted net (loss) income per share attributable to common stockholders:	36,214	35,626
Other comprehensive income, net of tax:		
Unrealized gain on available for sale securities, net of tax	17	
Foreign currency translation adjustments	9,906	2,393
Other comprehensive income, net of tax	9,923	2,393
Comprehensive income	\$ 3,875	\$ 2,411

See accompanying notes.

**Table of Contents****Bottomline Technologies (de), Inc.****Unaudited Condensed Consolidated Statements of Cash Flows****(in thousands)**

	<b>Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
Operating activities:		
Net income	\$ (6,048)	\$ 18
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	5,705	4,312
Stock compensation expense	5,032	4,207
Depreciation and amortization of property and equipment	1,832	1,713
Deferred income tax benefit	(544)	(1,105)
Provision for allowances on accounts receivable	47	75
Provision for allowances for obsolescence of inventory	7	(1)
Excess tax benefits associated with stock compensation	(116)	(82)
Amortization of debt issuance costs	296	
Amortization of debt discount	2,486	
Amortization of premium on investments	92	
Loss on disposal of equipment	1	2
(Gain) loss on foreign exchange	(35)	12
Changes in operating assets and liabilities:		
Accounts receivable	2,903	1,770
Inventory	748	40
Prepaid expenses and other current assets	(1,181)	(208)
Other assets	(342)	122
Accounts payable	775	(295)
Accrued expenses	(1,847)	(2,035)
Deferred revenue	(1,639)	1,422
Other liabilities	369	72
Net cash provided by operating activities	8,541	10,039
Investing activities:		
Acquisition of business, net of cash acquired	(108,918)	(28,253)
Purchases of held-to-maturity securities	(55)	(62)
Proceeds from sales of held-to-maturity securities	55	62
Purchase of available-for-sale securities	(13,629)	
Proceeds from sales of available-for-sale securities	500	
Proceeds from sale of property and equipment	28	
Purchases of property and equipment, net	(3,346)	(1,782)
Net cash used in investing activities	(125,365)	(30,035)
Financing activities:		



Edgar Filing: BOTTOMLINE TECHNOLOGIES INC /DE/ - Form 10-Q

Proceeds from exercise of stock options and employee stock purchase plan	1,596	1,623
Excess tax benefits associated with stock compensation	116	82
Capital lease payments		(28)
Repurchase of common stock		(933)
Net cash provided by financing activities	1,712	744
Effect of exchange rate changes on cash	5,148	1,524
Decrease in cash and cash equivalents	(109,964)	(17,728)
Cash and cash equivalents at beginning of period	283,552	124,801
Cash and cash equivalents at end of period	\$ 173,588	\$ 107,073

See accompanying notes.

**Table of Contents**

**Bottomline Technologies (de), Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**September 30, 2013**

**Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements 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 of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three months ended September 30, 2013 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2014. For further information, refer to the financial statements and footnotes included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) on August 29, 2013.

The classification of certain personnel costs were reclassified from cost of sales to sales and marketing expense during fiscal year 2013. This reclassification changed our gross profit and total operating expenses but did not affect our consolidated revenues, operating (loss) income, or net (loss) income. For the first three months of fiscal year 2013 the reclassification was \$0.3 million. To provide consistent presentation of the measurement of cost of revenues and operating expenses, these changes, while not significant, are reflected for all periods presented.

**Note 2 Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standards update which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. We adopted this guidance effective July 1, 2013 and it did not have a significant impact on our consolidated financial statements.

In March 2013, the FASB issued an accounting standards update which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard is effective for fiscal years beginning after December 15, 2013; however, early adoption is permitted. We do not expect the adoption of this standard to significantly impact our consolidated financial statements.

In June 2013, the Emerging Issues Task Force (EITF) reached final consensus on the presentation of an unrecognized tax benefit when a net operating loss carryforward or tax credit carryforward exists. This topic addresses the balance sheet presentation of a liability for an unrecognized tax benefit when settlement of the liability with the taxing

authority would otherwise reduce a deferred tax asset for a net operating loss or tax credit carryforward under the provisions of the tax law. The EITF affirmed that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss or other tax credit carryforward when settlement in this manner is permissible under the tax law. This standard is applicable for annual periods beginning after December 31, 2013, and for interim periods within those annual periods. Accordingly, we will apply this standard beginning July 1, 2014, the first quarter of our 2015 fiscal year. We anticipate that this will result in a reduction to non-current deferred tax assets and non-current other liabilities in our consolidated balance sheet. We do not believe this will have an impact on our consolidated statements of comprehensive income (loss) or cash flows.

### **Note 3 Fair Value**

#### *Fair Values of Assets and Liabilities*

We measure fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the assumptions that market participants would use in pricing an asset or liability (the inputs) are based on a tiered fair value hierarchy consisting of three levels, as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar instruments in active markets or for similar markets that are not active.

**Table of Contents**

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants would price the asset or liability.

Valuation techniques for assets and liabilities include methodologies such as the market approach, the income approach or the cost approach, and may use unobservable inputs such as projections, estimates and management's interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available or cost-effective to obtain.

At September 30, 2013 and June 30, 2013, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	September 30, 2013				June 30, 2013			
	Fair Value Measurements				Fair Value Measurements			
	Using Input Types				Using Input Types			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money market funds (cash and cash equivalents)	\$ 62,832	\$	\$	\$ 62,832	\$ 85,880	\$	\$	\$ 85,880
Available for sale securities								
Debt								
US Corporate	10,679			10,679	4,125			4,125
Residential mortgage-backed	6,346			6,346	2,846			2,846
Government US	5,511			5,511	2,499			2,499
Total available for sale securities	\$ 22,536	\$	\$	\$ 22,536	\$ 9,470	\$	\$	\$ 9,470

*Marketable Securities*

The table below presents information regarding our marketable securities by major security type as of September 30, 2013 and June 30, 2013.

Marketable securities:	September 30, 2013			June 30, 2013		
	Held to Maturity	Available for Sale	Total	Held to Maturity	Available for Sale	Total
	(in thousands)			(in thousands)		
Corporate and other debt securities	56	22,536	22,592	55	9,470	9,525
Total marketable securities	\$ 56	\$ 22,536	\$ 22,592	\$ 55	\$ 9,470	\$ 9,525

The following table summarizes the estimated fair value of our investments in available for sale marketable securities classified by the contractual maturity date of the securities, in thousands:

	<b>As of September 30, 2013</b>
	(in thousands)
Due within 1 year	\$ 12,955
Due in 1 year through 5 years	\$ 9,581
<b>Total</b>	<b>\$ 22,536</b>

**Table of Contents**

All of our available for sale marketable securities are included in current assets as we do not have the positive intent to hold these investments until maturity.

The following table presents the aggregate fair values and gross unrealized losses for those available for sale investments that were in an unrealized loss position as of September 30, 2013, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	<b>As of September 30, 2013</b>	
	<b>Less than 12 Months</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>
	<b>(in thousands)</b>	
U.S. Corporate	\$ 4,205	\$ 3
Residential mortgage-backed	\$	\$
Government US	\$	\$
Total	\$ 4,205	\$ 3

*Fair Value of Financial Instruments*

We have certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and the convertible senior notes (the Notes) more fully described in Note 10. Fair value information for each of these instruments is as follows:

Cash and cash equivalents, accounts receivable and accounts payable fair value approximates their carrying values, due to the short-term nature of these instruments.

Marketable securities classified as held to maturity are recorded at amortized cost, which at September 30, 2013 and June 30, 2013, approximated fair value.

Marketable securities classified as available for sale are recorded at fair value. Unrealized gains and losses are included as a component of other accumulated comprehensive loss in shareholders' equity, net of tax.

The Notes were recorded at \$133.3 million upon issuance, which reflected their principal value less the fair value of the embedded conversion option (Conversion Feature). The carrying value of the Notes will be accreted, over the remaining term to maturity, to their principal value of \$189.8 million. The fair value of the Notes (inclusive of the Conversion Feature) was approximately \$215.6 million as of September 30, 2013. We estimated the fair value of the Notes by reference to quoted market prices; however the Notes have only a limited trading volume and as such this fair value estimate is not necessarily the value at which the Notes could be retired or transferred.

**Note 4 Product and Business Acquisitions**

### ***2014 Acquisition Activity***

During the three months ended September 30, 2013, we completed two business acquisitions, SF2I SA (Sterci) and Simplex GTP Limited (Simplex) for aggregate purchase consideration of \$126.4 million in cash. Sterci and Simplex are leading providers of financial messaging solutions utilizing the SWIFT global messaging network on behalf of more than 350 customers across 20 different countries. These acquisitions, combined with our existing SWIFT financial messaging business, will create a new global center of excellence in financial messaging, providing solutions for banks, financial institutions and corporations around the world. Details of each acquisition follow below.

#### *Sterci*

On August 20, 2013, we acquired Sterci, a Swiss corporation for a cash payment of 111.0 million Swiss Francs (approximately \$121.0 million based on exchange rates in effect at the acquisition date).

At September 30, 2013, we were still finalizing our estimates of fair value for certain tangible and intangible assets acquired, as well as the actuarial measurement and disclosures of Sterci's defined benefit plan obligation. Accordingly, the allocation of the purchase price that follows below is preliminary and subject to change as we finalize our fair value analysis, which we expect to complete during the quarter ending December 31, 2013. In the preliminary allocation of the purchase price set forth below, we recognized \$44.4 million of goodwill. The goodwill arose primarily due to the recognition of certain deferred tax and pension liabilities in purchase accounting, the assembled workforce of Sterci and synergies that we expect to receive from the expansion of our financial messaging solutions. The goodwill is not deductible for income tax purposes.

## Table of Contents

Sterci sponsors a retirement plan for its Swiss based employees that is governed by local regulatory requirements. This plan includes certain minimum benefit guarantees that, under US GAAP, result in defined benefit plan accounting. Our total expense under this plan was approximately \$0.2 million for the quarter ended September 30, 2013.

Sterci also owned a non-controlling interest in Simplex which had an acquisition date fair value of \$5.6 million.

Sterci's operating results have been included in our operating results from the date of the acquisition forward as a component of the Hosted Solutions segment and all of the Sterci goodwill was allocated to this segment. Identifiable intangible assets aggregating \$79.9 million are being amortized over a weighted average useful life of twelve years. The identifiable intangible assets include customer related assets, core technology and other intangible assets (trade names) and are being amortized over estimated weighted average useful lives of fourteen, eight and eleven years, respectively.

For the quarter ended September 30, 2013, revenues attributable to the Sterci acquisition represented less than 3% of our consolidated revenues. For the quarter ended September 30, 2013, operations of Sterci generated a pre-tax loss of approximately \$3.5 million, inclusive of \$1.7 million in intangible asset amortization expense.

### *Simplex*

On September 4, 2013, we acquired all of the remaining equity of Simplex, a UK-based corporation for a cash payment of £3.4 million (approximately \$5.4 million based on exchange rates in effect at the acquisition date).

The acquisition of Simplex was a business combination achieved in stages as we initially held, through our acquisition of Sterci, a non-controlling interest in Simplex prior to our acquiring control on September 4, 2013. The accounting purchase price for Simplex of \$15.2 million includes the acquisition date fair value of our non-controlling interest in Simplex of \$5.6 million, plus the cash consideration paid on September 4, 2013 for the controlling interest in Simplex of \$5.4 million. The accounting purchase price also includes the settlement of a preexisting relationship, specifically amounts due from Simplex, of \$4.2 million. In the preliminary purchase price allocation below, our prior non-controlling interest in Simplex was initially included in the purchase price allocation of Sterci at fair value and was then reallocated to the Simplex assets acquired and liabilities assumed upon obtaining control of Simplex. We paid a total of \$126.4 million in cash for these acquisitions excluding the impact of cash acquired.

At September 30, 2013, we were still finalizing our estimates of fair value and useful lives for certain tangible and intangible assets acquired. Accordingly, the allocation of the purchase price that follows below is preliminary and subject to change as we finalize our fair value analysis, which we expect to complete during the quarter ending December 31, 2013. In the preliminary allocation of the purchase price set forth below, we recognized \$11.9 million of goodwill which is not deductible for income tax purposes. The goodwill arose primarily due to the recognition of certain deferred tax liabilities in purchase accounting, the assembled workforce of Simplex and synergies we expect to receive by leveraging Simplex with our existing financial messaging solutions.

Simplex's operating results have been included in our operating results from the date of the acquisition forward as a component of the Hosted Solutions segment and all of the goodwill was allocated to this segment. Identifiable intangible assets aggregating \$4.5 million include customer related assets and other intangible assets and are being amortized over estimated weighted average useful lives of fifteen and four years, respectively.

For the quarter ended September 30, 2013, revenues attributable to the Simplex acquisition represented less than 1% of our consolidated revenues and Simplex was integrated into our existing business lines in a manner that makes



tracking or reporting earnings specifically attributable to this acquisition impracticable.

Set forth below is the preliminary allocation of the purchase price for the Sterci and Simplex acquisitions as of September 30, 2013.

	<b>Sterci</b>	<b>Simplex</b>	<b>Elimination</b>	<b>Total</b>
	(in thousands)			
Current assets	\$ 24,401	\$ 3,019	\$	\$ 27,420
Property and equipment	2,668	455		3,123
Due from Simplex	4,242		(4,242)	
Customer related intangible assets	55,807	4,338		60,145
Core technology	17,848			17,848
Other intangible assets	6,291	191		6,482
Investment in Simplex	5,596		(5,596)	
Goodwill	44,363	11,866		56,229
Current liabilities	(12,352)	(3,708)		(16,060)
Pension liability	(9,478)			(9,478)
Other liabilities	(18,367)	(958)		(19,325)
 Total purchase price	 \$ 121,019	 \$ 15,203	 \$ (9,838)	 \$ 126,384

A reconciliation of cash paid to the accounting purchase price for these acquisitions as of September 30, 2013 is as follows.

	<b>Sterci</b>	<b>Simplex</b>	<b>Elimination</b>	<b>Total</b>
	(in thousands)			
Cash paid	\$ 121,019	\$ 5,365	\$	\$ 126,384
Settlement of preexisting relationship		4,242	(4,242)	
Acquisition date fair value of the previously held equity interest		5,596	(5,596)	
 Total accounting purchase price	 \$ 121,019	 \$ 15,203	 \$ (9,838)	 \$ 126,384

**Table of Contents**

Acquisition expenses of approximately \$2.0 million were expensed during the three months ended September 30, 2013 related to these acquisitions, principally as a component of general and administrative expense.

*Pro Forma Information*

The following unaudited pro forma financial information presents the combined results of operations of Bottomline and Sterci, which was considered a significant acquisition for the purposes of pro forma information disclosure, as if the acquisition had occurred on July 1, 2012. The pro forma financial information for all periods presented includes the accounting effects resulting from certain adjustments such as an increase in amortization expense as a result of acquired intangible assets, an increase in depreciation expense as a result of acquired property and equipment and a decrease in interest income as a result of the cash paid for the acquisition. This pro forma information does not necessarily reflect the results of operations that would have actually occurred had we and Sterci been a single entity during these periods.

	<b>Three months ended September 30, 2013 (in thousands)</b>	<b>Three months ended September 30, 2012</b>
Revenues	\$ 69,021	\$ 69,499
Net income	\$ (9,466)	\$ (4,057)
Net income per basic share attributable to common stockholders	\$ (0.26)	\$ (0.12)
Net income per diluted share attributable to common stockholders	\$ (0.26)	\$ (0.12)

**Note 5 Net Income (Loss) Per Share**

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

	<b>Three Months Ended September 30, 2013      2012 (in thousands)</b>	
<b>Numerator:</b>		
Net (loss) income allocable to common stockholders	\$ (6,048)	\$ 18
<b>Denominator:</b>		
Shares used in computing basic net (loss) income per share attributable to common stockholders	36,214	34,909
Effect of dilutive securities		717
Shares used in computing diluted net (loss) income per share attributable to common stockholders	36,214	35,626

Basic net (loss) income per share attributable to common stockholders	\$ (0.17)	\$ 0.00
Diluted net (loss) income per share attributable to common stockholders	\$ (0.17)	\$ 0.00

## **Table of Contents**

At September 30, 2013, approximately 2.9 million shares of unvested restricted stock and stock options were excluded from the calculation of diluted earnings per share as their effect on the calculation would have been anti-dilutive. As more fully discussed in Note 10, in December 2012 we issued the Notes maturing in December 2017. We intend, upon conversion or maturity of the Notes, to satisfy any conversion premium by issuing shares of our common stock. We have also issued warrants for up to 6.3 million shares of our common stock at an exercise price of \$40.04 per share. For the quarter ended September 30, 2013, shares potentially issuable upon conversion or maturity of the Notes or upon exercise of the warrants were excluded from our earnings per share calculations as their effect would have been anti-dilutive.

## **Note 6 Operations by Segments and Geographic Areas**

### *Segment Information*

Operating segments are the components of our business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our chief executive officer. Our operating segments are organized principally by the type of product or service offered and by geography.

During fiscal year 2013, we changed the internal reporting classification of certain operating lines. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

Similar operating segments have been aggregated into three reportable segments as follows:

*Payments and Transactional Documents.* Our Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also incorporates our payments automation software for direct debit and receivables management and provides a range of standard professional services and equipment and supplies that complement and enhance our core software products. Revenue associated with the aforementioned products and services is typically recorded upon delivery. This segment also incorporates our check printing solutions in Europe as well as certain other solutions that are licensed on a subscription basis, revenue for which is typically recorded on a subscription or transaction basis or ratably over the expected life of the customer relationship.

*Banking Solutions.* Our Banking Solutions segment provides solutions that are specifically designed for banking and financial institution customers. Our commercial banking products are Software as a Service (SaaS) offerings focused predominantly on medium-sized and small banks and financial institutions, and revenue for these products is typically recognized on a subscription or transaction basis or ratably over the estimated life of the customer relationship. Our customized transaction banking solutions typically involve longer implementation periods and a significant level of professional services. Due to the customized nature of these products, revenue is generally recognized over the period of project performance on a percentage of completion basis. Periodically, we license these solutions on a subscription basis which has the effect of contributing to recurring revenue and the revenue predictability of future periods, but which also delays revenue recognition over a period that is longer than the period of project performance.

*Hosted Solutions.* Our Hosted Solutions segment provides customers with hosted SaaS offerings that facilitate electronic payment, electronic invoicing, and spend management. Our legal spend management solutions, which enable customers to create more efficient processes for managing invoices generated by outside law firms while offering insight into important legal spend factors such as expense monitoring and outside counsel performance, are

included within this segment. This segment incorporates our hosted payments and accounts payable automation solutions, including Paymode-X. This segment also incorporates our financial messaging solutions, including the operating results of our recent acquisitions of Sterci and Simplex. Revenue within this segment is generally recognized on a subscription or transaction basis or ratably over the estimated life of the customer relationship.

Periodically a sales person in one operating segment will sell products and services that are typically sold within a different operating segment. In such cases, the transaction is generally recorded by the operating segment to which the sales person is assigned. Accordingly, segment results can include the results of transactions that have been allocated to a specific segment based on the

**Table of Contents**

contributing sales resources, rather than the nature of the product or service. Conversely, a transaction can be recorded by the operating segment primarily responsible for delivery to the customer, even if the sales person is assigned to a different operating segment.

Our chief operating decision maker assesses segment performance based on a variety of factors that can include segment revenue and a segment measure of profit or loss. Each segment's measure of profit or loss is on a pre-tax basis and excludes stock compensation expense, acquisition and integration related expenses (including acquisition related contingent consideration), amortization of intangible assets, impairment losses on equity investments, restructuring related charges and certain non-cash items related to our convertible notes. There are no inter-segment sales; accordingly, the measure of segment revenue and profit or loss reflects only revenues from external customers. The costs of certain corporate level expenses, primarily general and administrative expenses, are allocated to our operating segments at predetermined rates that are established as a percentage of the segment's budgeted revenues.

We do not track or assign our assets by operating segment.

Segment information for the three months ended September 30, 2013 and 2012 according to the segment descriptions above, is as follows:

	<b>Three Months Ended September 30, 2013      2012 (in thousands)</b>	
<b>Segment revenue:</b>		
Payments and Transactional Documents	\$ 29,811	\$ 27,571
Banking Solutions	17,276	18,119
Hosted Solutions	20,162	15,999
<b>Total segment revenue</b>	<b>\$ 67,249</b>	<b>\$ 61,689</b>
<b>Segment measure of profit:</b>		
Payments and Transactional Documents	\$ 8,964	\$ 7,082
Banking Solutions	1,485	2,015
Hosted Solutions	1,163	1,259
<b>Total measure of segment profit</b>	<b>\$ 11,612</b>	<b>\$ 10,356</b>

A reconciliation of the measure of segment profit to GAAP operating (loss) income before income taxes is as follows:

**Three Months Ended  
September 30,  
2013      2012  
(in thousands)**

Edgar Filing: BOTTOMLINE TECHNOLOGIES INC /DE/ - Form 10-Q

Total measure of segment profit	\$ 11,612	\$ 10,356
Less:		
Amortization of intangible assets	(5,705)	(4,312)
Stock-based compensation expense	(5,032)	(4,207)
Acquisition and integration related expenses	(1,866)	(1,715)
Restructuring charges	(55)	(296)
Add:		
Other income (expense), net	(4,040)	46
Loss before income taxes	\$ (5,086)	\$ (128)

**Table of Contents**

The following depreciation expense amounts are included in the segment measure of profit:

	<b>Three Months Ended September 30, 2013      2012 (in thousands)</b>	
<b>Depreciation expense:</b>		
Payments and Transactional Documents	\$ 619	\$ 485
Banking Solutions	494	526
Hosted Solutions	719	702
<b>Total depreciation expense</b>	<b>\$ 1,832</b>	<b>\$ 1,713</b>

*Geographic Information*

We have presented geographic information about our revenues below. This presentation allocates revenue based on the point of sale, not the location of the customer. Accordingly, we derive revenues from geographic locations based on the location of the customer that would vary from the geographic areas listed here; particularly in respect of financial institution customers located in Australia and Canada for which the point of sale was the United States.

	<b>Three Months Ended September 30, 2013      2012 (in thousands)</b>	
<b>Revenues from unaffiliated customers:</b>		
United States	\$ 41,780	\$ 42,710
United Kingdom	22,342	17,178
Continental Europe	2,407	1,047
Asia-Pacific	720	754
<b>Total revenues from unaffiliated customers</b>	<b>\$ 67,249</b>	<b>\$ 61,689</b>

Long-lived assets, which are based on geographical location, were as follows:

	<b>As of September 30, 2013</b>	<b>As of June 30, 2013</b>
	<b>(in thousands)</b>	
<b>Long-lived assets</b>		
United States	\$ 32,597	\$ 31,068
United Kingdom	4,321	3,602



Continental Europe	2,691	24
Asia-Pacific	154	119
Total long-lived assets	\$ 39,763	\$ 34,813

**Note 7 Income Taxes**

The income tax expense we record in any interim period is based on our estimated effective tax rate for the fiscal year. The calculation of our estimated effective tax rate requires an estimate of pre-tax income by tax jurisdiction, as well as total tax expense for the fiscal year. Accordingly, this tax rate is subject to adjustment if, in subsequent interim periods, there are changes to our initial estimates of total tax expense or pre-tax income, including income by jurisdiction.

We recorded income tax expense of \$1.0 million and an income tax benefit of \$0.1 million for the three months ended September 30, 2013 and 2012, respectively. The income tax expense for the three months ended September 30, 2013 was principally due to tax expense associated with our US and UK operations, which was offset in part by a tax benefit associated with our Swiss operations. Our tax expense for the three months ended September 30, 2013 was offset in part by a discrete tax benefit of approximately \$0.6 million from the enactment of legislation that decreased UK income tax rates. The income tax benefit we recorded for the quarter ended September 30, 2012 was principally due to the impact of discrete tax benefits from the enactment of legislation that decreased UK income tax rates, which offset tax expense associated with our UK, Australian and US operations.

**Table of Contents**

The excess of our effective tax rate over statutory rates is due to our inability to utilize UK foreign tax credits in the determination of US taxable income. This has the effect of taxing certain income twice, once in the UK and again in the US, which results in a higher overall effective tax rate (or a decrease in our overall US tax benefit).

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately \$0.1 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

We record a deferred tax asset if we believe it is more likely than not that we will recover that asset against future taxable income. In making this determination we consider historical and projected financial results, the planned reversal of existing deferred tax liabilities that provide a source of future taxable income and the availability of tax planning strategies.

The Notes we issued in December 2012 will result in a significant future expense burden for interest expense, in particular non-cash interest expense, as the debt is accreted to the principal amount due on maturity. In making our assessment of deferred tax asset recoverability, we considered our projected future financial results, the planned reversal of existing deferred tax liabilities and the impact of a specific tax planning action that we believe will provide a significant future source of US taxable income. Based on this analysis we concluded that it was more likely than not that our deferred tax assets will be recovered. However if we are unable to generate future US taxable income sufficient to overcome the expense burden of the Notes, all or a portion of our US deferred tax assets might become impaired which would give rise to the recognition of significant deferred tax expense in the period in which that determination was made.

**Note 8 Goodwill and Other Intangible Assets**

The following tables set forth the information for intangible assets subject to amortization and for intangible assets not subject to amortization. Other intangible assets consist principally of acquired tradenames, backlog, patents and below market lease arrangements.

	As of September 30, 2013			Weighted Average
	Gross Carrying	Accumulated	Net Carrying	Remaining
	Amount	Amortization	Value	Life
		(in thousands)		(in years)
Amortized intangible assets:				
Customer related	\$ 195,634	\$ (75,123)	\$ 120,511	12.3
Core technology	69,601	(38,137)	31,464	7.3
Other intangible assets	18,442	(5,824)	12,618	7.9
<b>Total</b>	<b>\$ 283,677</b>	<b>\$ (119,084)</b>	<b>\$ 164,593</b>	
Unamortized intangible assets:				
Goodwill			169,591	
<b>Total intangible assets</b>			<b>\$ 334,184</b>	

	As of June 30, 2013			Weighted Average
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Remaining Life (in years)
Amortized intangible assets:				
Customer related	\$ 131,382	\$ (69,927)	\$ 61,455	11.0
Core technology	50,658	(35,847)	14,811	6.8
Other intangible assets	11,841	(5,235)	6,606	5.3
<b>Total</b>	<b>\$ 193,881</b>	<b>\$ (111,009)</b>	<b>\$ 82,872</b>	
Unamortized intangible assets:				
Goodwill			109,196	
Total intangible assets			\$ 192,068	

**Table of Contents**

Estimated amortization expense for fiscal year 2014 and subsequent fiscal years is as follows:

	(in thousands)
2014	\$ 29,400
2015	24,809
2016	19,626
2017	17,016
2018	13,666
2019 and thereafter	65,781

The following table represents a rollforward of our goodwill balances, by reportable segment, as follows:

	Payments and Transactional Documents	Banking Solutions	Hosted Solutions
	(in thousands)		
Balance at June 30, 2013	\$ 66,862	\$ 8,453	\$ 33,881
Goodwill acquired during the period			56,229
Impact of foreign currency translation	1,374		2,792
Balance at September 30, 2013	\$ 68,236	\$ 8,453	\$ 92,902

At September 30, 2013, we were still finalizing our estimates of fair value for the Sterci and Simplex intangible assets acquired. Accordingly, the values disclosed for intangible assets and goodwill are subject to change as we finalize our fair value estimates, which we expect to complete during the quarter ending December 31, 2013.

**Note 9 Contingencies**

On February 12, 2013 R&N Check Corp (R&N) filed a lawsuit against us in the Superior Court of Rockingham County, New Hampshire. The lawsuit alleges breach of contract in connection with a patent purchase and settlement agreement that we entered into in January 2006 and seeks unspecified damages and recovery of legal costs. On March 18, 2013 we removed the lawsuit to the United States District Court for the District of New Hampshire and R&N thereafter filed a motion to remand to the New Hampshire state court. The parties engaged in mediation in June 2013. Although we did not resolve the matter in the initial mediation session, we have remained engaged in active dialogue with R&N and are currently optimistic that we will resolve this matter without a trial. We do not currently believe that the outcome of this action will have a material adverse consequence on our financial statements.

We are, from time to time, a party to other legal proceedings and claims that arise out of the ordinary course of our business. We do not believe that there are claims or proceedings pending against us for which the ultimate resolution would have a material effect on, or require disclosure in, our financial statements.

**Note 10 Convertible Senior Notes**

On December 12, 2012, we issued \$189.8 million aggregate principal amount of our 1.50% Convertible Senior Notes maturing on December 1, 2017 (the Notes). Cash interest at a rate of 1.50% per year is payable semi-annually on

June 1 and December 1 of each year.

The Notes were issued under an indenture dated December 12, 2012 (the Base Indenture ) by and between us and The Bank of New York Mellon Trust Company, N.A., as Trustee and a First Supplemental Indenture dated December 12, 2012 (the First Supplemental Indenture ) by and between us and the Trustee (the Base Indenture and the First Supplemental Indenture are collectively referred to as the Indenture ). There are no financial or operating covenants relating to the Notes.

The Notes are senior unsecured obligations of ours and rank senior in right of payment to any future unsecured indebtedness that is expressly subordinated in right of payment to the Notes, and equal in right of payment to any of our existing and future unsecured indebtedness that is not subordinated. The Notes are effectively junior in right of payment to any of our secured indebtedness (to the extent of the value of assets securing such indebtedness) and structurally junior to all existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries. Prior to this offering, neither we nor our subsidiaries had any outstanding indebtedness for borrowed money. The Indenture does not limit the amount of debt that we or our subsidiaries may incur. The Notes are not guaranteed by us or any of our subsidiaries.

**Table of Contents**

Holders may convert their Notes at their option, prior to the close of business on the business day immediately preceding June 1, 2017, in multiples of \$1,000 principal amount, only under the following circumstances:

during any calendar quarter commencing after the calendar quarter ending on March 31, 2013 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price per \$1,000 principal amount of the convertible notes for each trading day of the measurement period was less than 98% of the product of the last reported sales price of our common stock and the conversion rate on each trading day; or

upon the occurrence of specified corporate events, including a merger or a sale of all or substantially all of our assets.

On or after June 1, 2017 until the close of business on the second scheduled trading day immediately preceding the maturity date of December 1, 2017, holders may convert their Notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

The conversion rate for the Notes is initially 33.3042 shares per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$30.03 per share of our common stock). The conversion rate is subject to customary adjustment for certain events as described in the Indenture. The principal balance of the Notes is always required to be settled in cash. However, we are permitted at our election to settle any conversion obligation in excess of the principal portion in cash, shares of our common stock, or a combination of cash and shares of our common stock.

We may not redeem the Notes prior to their maturity date. If we undergo a fundamental change, (as described in the Indenture), subject to certain conditions, holders may require us to repurchase for cash all or part of their Notes in principal amounts of \$1,000 or an integral multiple thereof. The fundamental change repurchase price will be equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Indenture contains customary events of default with respect to the Notes and provides that upon certain events of default occurring and continuing the Trustee may, and the Trustee at the request of such holders of at least 25% in principal amount of the convertible notes shall, declare 100% of the principal of and accrued and unpaid interest, if any, on the Notes to be due and payable. In case of certain events of bankruptcy, insolvency or reorganization, involving us or a significant subsidiary, 100% of the principal of and accrued and unpaid interest on the Notes will automatically become due and payable. Upon such a declaration of acceleration, such principal and accrued and unpaid interest, if any, will be due and payable immediately.

Under limited circumstances, we may be required to pay contingent interest on the Notes as a result of failure to comply with the reporting obligations in the Indenture or failure to file required Securities and Exchange Commission documents and reports. When applicable, the contingent interest payable per \$1,000 principal amount is 0.25% per

annum over the applicable term as provided under the Indenture. The contingent interest features of the Notes are embedded derivative instruments. The estimated fair value of the contingent interest features of the Notes was zero at issuance and at September 30, 2013, as the likelihood of any liability being incurred under these provisions was deemed remote and, to the extent occurring, the time period during which a contingent interest charge would apply is projected to be short.

The carrying amount of the Notes will be accreted to the principal amount over the remaining term to maturity and we will record a corresponding charge to interest expense.

The net carrying amount of the convertible notes at September 30, 2013 was as follows:

	<b>(in thousands)</b>
Principal amount	\$ 189,750
Unamortized discount	(48,683)
<b>Net carrying value</b>	<b>\$ 141,067</b>

We incurred certain third party costs in connection with our issuance of the Notes, principally related to underwriting and legal fees, which will be amortized to interest expense ratably over the five-year term of the Notes.

**Table of Contents**

The following table sets forth total interest expense related to the convertible notes:

	<b>Quarter Ended September 30, 2013      2012</b>	
	<b>(in thousands)</b>	
Contractual interest expense (cash)	\$ 712	
Amortization of debt issue costs (non-cash)	296	
Amortization of debt discount (non-cash)	2,486	
	\$ 3,494	
Effective interest rate of the liability component	6.74%	%

*Note Hedges*

In December 2012, we entered into privately negotiated transactions to purchase hedge instruments (the Note Hedges), covering approximately 6.3 million shares of our common stock. The Note Hedges are subject to anti-dilution provisions substantially similar to those of the Notes, have a strike price that corresponds to the conversion price of the Notes, are exercisable by us upon any conversion under the Notes and expire on December 1, 2017.

The Note Hedges are generally expected to reduce the potential dilution to our common stock (or, in the event the Conversion Feature is settled in cash, to reduce our cash payment obligation) in the event that at the time of conversion our stock price exceeds the conversion price under the Notes. The cost of the Note Hedges, \$42.3 million, is expected to be tax deductible as an original issue discount over the life of the Notes, as the Notes and the Note Hedges represent an integrated debt instrument for tax purposes.

The Note Hedges are transactions that are separate from the terms of the Notes and the Warrants (discussed below) and holders of the Notes and the Warrants have no rights with respect to the Note Hedges.

*Warrants*

In December 2012, we received aggregate proceeds of \$25.8 million, net of issue costs, from the sale of warrants (the Warrants), for the purchase of up to 6.3 million shares of our common stock, subject to antidilution adjustments, at a strike price of \$40.04 per share. The Warrants are exercisable in equal tranches over a period of 150 days beginning on March 1, 2018 and ending on October 18, 2018.

The Warrants are transactions that are separate from the terms of the Notes and the Note Hedges, and holders of the Notes and Note Hedges have no rights with respect to the Warrants.

**Note 11 Derivative Instruments**

Our derivative instruments for the quarter ended September 30, 2013 consisted of the Note Hedges, Conversion Feature and Warrants as discussed in Note 10. As of September 30, 2013 each of these instruments met the



classification requirements for inclusion within stockholders' equity and as such they were not subject to fair value re-measurement. We are required, for the remaining term of the Notes, to assess whether we continue to meet the stockholders' equity classification requirements. If in any future period we fail to satisfy those requirements we would need to reclassify the derivative instruments out of stockholders' equity, to either assets or liabilities depending on their nature, and record those instruments at fair value with changes in fair value reflected in earnings.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements contained in this report that are not purely historical are 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). Without limiting the foregoing, the words may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, potential and similar expressions are intended to identify forward-looking statements. All forward-looking statements included in this Quarterly Report on Form 10-Q are based on information available to us up to and including the date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth below under Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 1A. Risk Factors and elsewhere in this Form 10-Q. You should carefully review those factors and also carefully review the risks outlined in other documents that we file from time to time with the Securities and Exchange Commission.

## **Table of Contents**

In the management discussion that follows we have highlighted those changes and operating factors that were the primary factors affecting period to period fluctuations. The remainder of the change in period to period fluctuations from that which is specifically disclosed is arising from various individually insignificant items.

### **Overview**

We provide cloud-based payment, invoice and banking solutions to banks, corporations, insurance companies and financial institutions around the world. Our solutions are used to streamline, automate and manage processes and transactions involving global payments, cash management, invoice receipt and approval, collections, risk mitigation, document management, reporting and document archive. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer's location. Historically our software was sold predominantly on a perpetual license basis. However, a growing portion of our offerings are being sold as SaaS-based solutions and paid for on a subscription and transaction basis.

We operate a cloud-based network that facilitates the exchange of electronic payments and invoices between buyers and their suppliers. We offer hosted and on-premise solutions that banks use to provide cash management and treasury capabilities to their business customers, as well as SWIFT financial messaging solutions for banks and corporations around the world. We offer legal spend management solutions that automate receipt and review of legal invoices for insurance companies and other large corporate consumers of outside legal services. Our corporate customers rely on our solutions to automate their payment and accounts payable processes and to streamline and manage the production and retention of electronic documents. Our document automation solutions are used by organizations to automate paper-intensive processes for the generation of transactional and supply chain documents.

Our solutions complement, leverage and extend our customers' existing information systems, accounting applications and banking relationships and can be deployed quickly and efficiently. To help our customers receive the maximum value from our products and meet their specific business requirements, we also provide professional services for installation, training, consulting and product enhancement.

### *Recent Acquisitions*

During the three months ended September 30, 2013, we completed two business acquisitions for aggregate purchase consideration of \$108.9 million in cash, net of cash acquired.

On August 20, 2013, we acquired SF2I SA (Sterci), a Switzerland based corporation and on September 4, 2013, we acquired Simplex GTP Limited (Simplex), a UK based corporation. Sterci and Simplex were each a leading provider of financial messaging solutions utilizing the SWIFT global messaging network.

### *Financial Highlights*

For the three months ended September 30, 2013, our revenue increased to \$67.2 million from \$61.7 million in the prior year. This revenue increase was attributable to revenue increases in our Hosted Solutions segment (\$4.2 million) and our Payments and Transactional Documents segment (\$2.2 million), partially offset by a revenue decrease in our Banking Solutions segment (\$0.8 million). The increased revenue contribution from our legal spend management solutions, our financial messaging solutions including the impact of our Sterci and Simplex acquisitions and our Paymode-X solution accounted for the revenue increase in our Hosted Solutions segment. The revenue increase in our Payments and Transactional Documents segment was related to higher European revenue in our payment and document automation products. The Banking Solutions segment's revenue decrease was primarily due to the timing of completion of certain projects in our banking business and the impact of expected customer attrition in our acquired

commercial banking business.

We had net loss of \$6.0 million in the quarter ended September 30, 2013 compared to net income of \$18 thousand in the same quarter of the prior year. Our first quarter 2014 net loss included the impact of \$3.5 million of interest expense related to our convertible senior notes (Notes) and the impact of increased operating expenses of \$5.2 million offset, in part, by increased gross margins of \$4.3 million. The increases in our operating expense categories were due primarily to increased employee related costs as we continued to grow our business and the operating impact of our recent acquisitions, including the impact of increased intangible asset amortization expense. The increase in our gross margin was driven primarily by revenue increases in our Payments and Transactional Documents and Hosted Solutions segments.

In the first quarter of fiscal year 2014, we derived approximately 39% of our revenue from customers located outside of North America, principally in the United Kingdom, continental Europe and the Asia-Pacific region. We expect future revenue growth to be driven by our banking products, our legal spend management, financial messaging and Paymode-X solutions.

## **Table of Contents**

### **Critical Accounting Policies**

We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates which also would have been reasonable could have been used.

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended June 30, 2013 related to revenue recognition, the valuation of goodwill and intangible assets, the valuation of acquired intangible assets and deferred revenue and income taxes. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed in our Annual Report on Form 10-K, as filed with the SEC on August 29, 2013.

### **Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standards update which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. We adopted this guidance effective July 1, 2013 and it did not have a significant impact on our consolidated financial statements.

In March 2013, the FASB issued an accounting standards update which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard is effective for fiscal years beginning after December 15, 2013; however, early adoption is permitted. We do not expect the adoption of this standard to significantly impact our consolidated financial statements.

In June 2013, the Emerging Issues Task Force (EITF) reached final consensus on the presentation of an unrecognized tax benefit when a net operating loss carryforward or tax credit carryforward exists. This topic addresses the balance sheet presentation of a liability for an unrecognized tax benefit when settlement of the liability with the taxing authority would otherwise reduce a deferred tax asset for a net operating loss or tax credit carryforward under the provisions of the tax law. The EITF affirmed that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss or other tax credit carryforward when settlement in this manner is permissible under the tax law. This standard is applicable for annual periods beginning after December 31, 2013, and for interim periods within those annual periods. Accordingly, we will apply this standard beginning July 1, 2014, the first quarter of our 2015 fiscal year. We anticipate that this will result in a reduction to non-current deferred tax assets and non-current other liabilities in our consolidated balance sheet. We do not believe this will have an impact on our consolidated statements of comprehensive income (loss) or cash flows

### **Results of Operations**

#### **Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012**

***Segment Information***

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

Our operating segments are organized principally by the type of product or service offered and by geography. Similar operating segments have been aggregated into three reportable segments: Payments and Transactional Documents, Banking Solutions and Hosted Solutions.

**Table of Contents**

During fiscal year 2013 we changed the internal reporting classification of certain operating lines and revised the methodology used for recording certain personnel related costs. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented. The following tables represent our segment revenues and our segment measure of profit:

	<b>Three Months Ended September 30, 2013      2012</b>		<b>Increase (Decrease) Between Periods 2013 Compared to 2012</b>	
	<b>(in thousands)</b>		<b>(in thousands)</b>	<b>%</b>
<b>Segment revenue:</b>				
Payments and Transactional Documents	\$ 29,811	\$ 27,571	\$ 2,240	8.1
Banking Solutions	17,276	18,119	(843)	(4.7)
Hosted Solutions	20,162	15,999	4,163	26.0
	\$ 67,249	\$ 61,689	\$ 5,560	9.0
<b>Segment measure of profit:</b>				
Payments and Transactional Documents	\$ 8,964	\$ 7,082	\$ 1,882	26.6
Banking Solutions	1,485	2,015	(530)	(26.3)
Hosted Solutions	1,163	1,259	(96)	(7.6)
Total measure of segment profit	\$ 11,612	\$ 10,356	\$ 1,256	12.1

A reconciliation of the measure of segment profit to our GAAP (loss) income for the three months ended September 30, 2013 and 2012, before the provision for income taxes, is as follows:

	<b>Three Months Ended September 30, 2013      2012</b>	
	<b>(in thousands)</b>	
Total measure of segment profit	\$ 11,612	\$ 10,356
Less:		
Amortization of intangible assets	(5,705)	(4,312)
Stock-based compensation expense	(5,032)	(4,207)
Acquisition and integration related expenses	(1,866)	(1,715)
Restructuring charges	(55)	(296)
Add:		
Other income (expense), net	(4,040)	46
Loss before income taxes	\$ (5,086)	\$ (128)

*Payments and Transactional Documents.* The revenue increase for the three months ended September 30, 2013 was primarily attributable to revenue increases of \$2.7 million in European service and maintenance revenue, \$0.1 million

in software licenses revenue and \$0.2 million in subscriptions and transactions revenue. The revenue increases include an unfavorable effect of foreign exchange rates of \$0.4 million primarily associated with the British Pound Sterling which depreciated against the US Dollar when compared to the same period in the prior fiscal year. The segment profit increase of \$1.9 million for the three months ended September 30, 2013 was primarily attributable to the revenue increases described above, partially offset by increased operating expenses of \$0.2 million as compared to the three months ended September 30, 2012. We expect revenue and profit for the Payments and Transactional Documents segment to increase during the remainder of fiscal year 2014 primarily as a result of increased adoption of our payments and document automation products to new and existing customers.

*Banking Solutions.* Revenues from our Banking Solutions segment decreased slightly as compared to the same period in the prior fiscal year due to a decrease in service and maintenance revenues of \$0.5 million and a decrease in subscriptions and transactions revenue of \$0.3 million in our commercial banking business. The decrease in services and maintenance revenue was primarily due to the completion of certain large banking projects. Segment profit decreased \$0.5 million for the three months ended September 30, 2013 as compared to the same period in the prior fiscal year, due primarily to the reduction in revenue and increased sales and marketing costs of \$0.5 million related to increased headcount costs as we continue to develop our commercial banking business. We expect revenue and profit for the Banking Solutions segment to decrease slightly during the remainder of the fiscal year as a result of the timing of customer project implementations and the continued transition of the Banking Solutions segment customers to hosted offerings.

*Hosted Solutions.* Revenues from our Hosted Solutions segment increased \$4.2 million as compared to the same period in the prior fiscal year due primarily to increased revenue contribution from our legal spend management solutions of \$1.1 million, our Paymode-X solution of \$0.7 million and our financial messaging solutions of \$2.4 million. The increase in our financial messaging solutions revenue includes the revenue contribution from our Sterci and Simplex acquisitions which occurred during the quarter as well as the revenue contribution from our existing financial messaging business. Segment profit decreased \$0.1 million as compared to the same period in the prior fiscal year due to an increase in operating expenses, due in part to our acquisition activity. We expect revenue and profit for the Hosted Solutions segment to increase during the remainder of the fiscal year as a result of the revenue contribution from our legal spend management, Paymode-X and financial messaging solutions.

**Table of Contents****Revenues by category**

	Three Months Ended September 30,		2012		Increase (Decrease)	
	2013	As % of total	2012	As % of total	Between Periods	
	(in thousands)	Revenues (in thousands)	Revenues (in thousands)	Revenues (in thousands)	2013 Compared to 2012	%
<b>Revenues:</b>						
Subscriptions and transactions	\$ 31,549	46.9	\$ 28,547	46.3	\$ 3,002	10.5
Software licenses	4,738	7.1	4,699	7.6	39	0.8
Service and maintenance	29,322	43.6	26,455	42.9	2,867	10.8
Other	1,640	2.4	1,988	3.2	(348)	(17.5)
<b>Total revenues</b>	<b>\$ 67,249</b>	<b>100.0</b>	<b>\$ 61,689</b>	<b>100.0</b>	<b>\$ 5,560</b>	<b>9.0</b>

*Subscriptions and Transactions.* The increase in subscriptions and transactions revenues of \$3.0 million was due principally to the increase in revenue contribution from our financial messaging solutions of \$1.3 million, our legal spend management solutions of \$1.1 million and our Paymode-X solutions of \$0.7 million, offset in part by expected customer attrition in our commercial banking business. We expect subscriptions and transactions revenues to increase during the remainder of the fiscal year, primarily as a result of the revenue contribution from our Sterci and Simplex acquisitions and increased revenue in our legal spend management, Paymode-X and financial messaging solutions.

*Software Licenses.* Revenue from software licenses remained consistent in the three months ended September 30, 2013 as compared to the three months ended September 30, 2012. We expect software license revenues to increase during the remainder of fiscal year 2014, principally as a result of increased software license revenue from our European Payments and Transactional Documents segment.

*Service and Maintenance.* The increase in service and maintenance revenues was primarily the result of increases in service and maintenance revenues from our European operations, \$2.7 million from our payments and document automation products and \$1.1 million from our Hosted Solutions segment, partially offset by decreased services revenue in our Banking segment of \$0.8 million due to the timing of completion of customer projects and our US payments and document automation products of \$0.3 million. The increased revenue includes the unfavorable effect of foreign exchange rates of \$0.2 million primarily associated with the British Pound Sterling which depreciated against the US Dollar when compared to the same period in the prior fiscal year. We expect that service and maintenance revenues will increase during the remainder of the fiscal year as a result of our Sterci and Simplex acquisitions.

*Other.* Our other revenues consist principally of equipment and supplies sales which remained relatively minor components of our overall revenue. Other revenue decreased \$0.3 million as compared to the same period in the prior fiscal year due to small revenue decreases in both our North American and European geographies. We expect that other revenues will remain relatively consistent during the remainder of 2014.

**Cost of revenues by category**



	Three Months Ended September 30, 2013		2012		Increase (Decrease) Between Periods 2013 Compared to 2012	
	As % of total		As % of total			
	(in thousands)	Revenues	(in thousands)	Revenues	(in thousands)	%
Cost of revenues:						
Subscriptions and transactions	\$ 15,344	22.8	\$ 13,986	22.7	\$ 1,358	9.7
Software licenses	366	0.6	409	0.7	(43)	(10.5)
Service and maintenance	12,519	18.6	12,294	19.9	225	1.8
Other	1,226	1.8	1,522	2.4	(296)	(19.4)
Total cost of revenues	\$ 29,455	43.8	\$ 28,211	45.7	\$ 1,244	4.4
Gross profit	\$ 37,794	56.2	\$ 33,478	54.3	\$ 4,316	12.9

*Subscriptions and Transactions.* Subscriptions and transactions costs include salaries and other related costs for our professional services teams as well as costs related to our hosting infrastructure such as depreciation and facilities related expenses. Subscriptions and transactions costs remained consistent at 49% of subscriptions and transactions revenues in the three months ended September 30, 2013 and 2012. We expect that subscriptions and transactions costs will decrease slightly as a percentage of subscriptions and transactions revenue during the remainder of the fiscal year.

**Table of Contents**

*Software Licenses.* Software license costs consist of expenses incurred by us to manufacture, package and distribute our software products and related documentation and costs of licensing third party software that is incorporated into or sold with certain of our products. Software license costs remained consistent at 8% of software licenses revenue in the three months ended September 30, 2013 compared to 9% in the same period of 2012. We expect that software license costs will increase slightly, as a percentage of software license revenues, during the remainder of the fiscal year primarily the result of increased third party software costs sold with certain of our banking products.

*Service and Maintenance.* Service and maintenance costs include salaries and other related costs for our customer service, maintenance and help desk support staffs, as well as third party contractor expenses used to complement our professional services team. Service and maintenance costs decreased slightly to 43% of service and maintenance revenues in the three months ended September 30, 2013 as compared to 46% of service and maintenance revenues in the three months ended September 30, 2012. The decreased costs as a percentage of revenue were primarily related to higher gross margins associated with our payment and transactional document products. We expect that service and maintenance costs will remain relatively consistent as a percentage of service and maintenance revenues, during the remainder of the fiscal year.

*Other.* Other costs include the costs associated with equipment and supplies that we resell, as well as freight, shipping and postage costs associated with the delivery of our products and remained relatively consistent at 75% of other revenues in the three months ended September 30, 2013 as compared to 77% for the three months ended September 30, 2012. We expect that other costs will remain relatively consistent as a percentage of other for the remainder of the fiscal year.

**Operating Expenses**

	Three Months Ended September 30,		Three Months Ended September 30,		Increase	
	2013		2012		Between Periods	
	As % of total		As % of total		2013 Compared to 2012	
	(in thousands)	revenues	(in thousands)	revenues	(in thousands)	%
Operating expenses:						
Sales and marketing	\$ 16,242	24.2	\$ 14,473	23.5	\$ 1,769	12.2
Product development and engineering	8,407	12.5	8,306	13.5	101	1.2
General and administrative	8,486	12.6	6,561	10.6	1,925	29.3
Amortization of intangible assets	5,705	8.5	4,312	7.0	1,393	32.3
Total operating expenses	\$ 38,840	57.8	\$ 33,652	54.6	\$ 5,188	15.4

*Sales and Marketing.* Sales and marketing expenses consist primarily of salaries and other related costs for sales and marketing personnel, sales commissions, travel, public relations and marketing materials and trade show participation. Sales and marketing expenses increased in the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 primarily as a result of an increase in employee related costs of \$1.5 million. We expect that sales and marketing expenses will increase over the remainder of the fiscal year as we continue to focus on our marketing initiatives to support our new and existing products, particularly our commercial banking products and Paymode-X and as a result of our recent acquisitions.

*Product Development and Engineering.* Product development and engineering expenses consist primarily of personnel costs to support product development which consists of enhancements and revisions to our products based on customer feedback and general marketplace demands. Product development and engineering expenses in the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 remained consistent. We expect that product development and engineering expenses will increase during the remainder of the fiscal year as we continue to invest in our SaaS-based solutions that we believe will drive future revenue growth, such as our commercial banking, Paymode-X and legal spend management solutions.

*General and Administrative.* General and administrative expenses consist primarily of salaries and other related costs for operations and finance employees and legal and accounting services. General and administrative expenses increased in the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 primarily due to increases in employee related costs of \$1.1 million and acquisition related expenses of \$0.8 million. The increases were offset in part by a \$0.3 million decrease in professional services expense. We expect that general and administrative expenses will increase during the remainder of the fiscal year as a result of our recent acquisitions.

*Amortization of Intangible Assets.* We amortize our intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us. Accordingly, amortization expense rates are often higher in the earlier periods of an asset's estimated life. The increase in amortization expense in the quarter ended September 30, 2013 as compared to the quarter ended September 30, 2012 occurred as a result of increased expense from intangible assets associated with our fiscal year 2014 and 2013 acquisitions. We expect that total amortization expense for fiscal year 2014 will approximate \$29.4 million.

**Table of Contents****Other Income (Expense), Net**

	Three Months Ended September 30,		Increase (decrease) Between Periods 2013 Compared to 2012	
	2013	2012		%
	(in thousands)			
Interest income	\$ 226	\$ 125	\$ 101	80.8
Interest expense	(3,491)	(1)	(3,490)	(349000.0)
Other expense, net	(775)	(78)	(697)	(893.6)
Other income (expense), net	\$ (4,040)	\$ 46	\$ (4,086)	(8882.6)

*Other Income (Expense), Net.* For the three months ended September 30, 2013 as compared to the three months ended September 30, 2012, interest income increased as a result of higher average cash balances in the quarter ended September 30, 2013. The increase in interest expense is due to interest expense related to our Notes and consisted of cash interest expense of \$0.7 million, amortization of debt discount of \$2.5 million and amortization of debt issuance costs of \$0.3 million. The increase in other expense is due to foreign exchange losses incurred in the three months ended September 30, 2013 compared with the three months ended September 30, 2012. We expect that interest expense will continue to increase as compared to fiscal year 2013 while the other individual components of other income and expense will continue to represent minor components of our overall operations during the remainder of fiscal year 2014.

**Provision for Income Taxes**

We recorded income tax expense of \$1.0 million and an income tax benefit of \$0.1 million for the three months ended September 30, 2013 and 2012, respectively. The income tax expense for the quarter ended September 30, 2013 was principally due to tax expense associated with our US and UK operations, which was offset in part by a tax benefit associated with our Swiss operations. Our tax expense for the three months ended September 30, 2013 was offset in part by a discrete tax benefit of approximately \$0.6 million from the enactment of legislation that decreased UK income tax rates. The income tax benefit for the quarter ended September 30, 2012 was principally due to the impact of discrete tax benefits of approximately \$0.1 million from the enactment of legislation that decreased UK income tax rates, which offset tax expense associated with our UK, Australian and US operations.

The excess of our effective tax rate over statutory rates is due to our inability to utilize UK foreign tax credits in the determination of US taxable income. This has the effect of taxing certain income twice, once in the UK and again in the US, which results in a higher overall effective tax rate (or a decrease in our overall US tax benefit).

**Liquidity and Capital Resources**

We have financed our operations primarily from cash provided by operating activities and the sale of our common stock and, with the issuance of the Notes in December 2012, with debt proceeds. We have generated positive operating cash flows in each of our last twelve completed fiscal years. Accordingly, we believe that the cash generated from our operations and the cash and cash equivalents we have on hand will be sufficient to meet our operating requirements for the foreseeable future.

In addition to our operating cash requirements, we will require cash to pay interest on the Notes and to make principal payments on the Notes at maturity or upon conversion. We are permitted to settle any conversion obligation under the Notes in excess of the principal balance in either cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. We intend to satisfy any conversion premium by issuing shares of our common stock. We believe that the cash generated from our operations and the cash and cash equivalents we have on hand will be sufficient to meet our future cash obligations. If our existing cash resources along with cash generated from operations is insufficient to satisfy our funding requirements we may need to sell additional equity or debt securities or seek other financing arrangements. Although we believe based on our operations today that we would be successful in obtaining additional financing, we cannot be certain that financing alternatives will be available in amounts or at terms that are acceptable to us, or available to us at all.

In the three months ended September 30, 2013 we spent \$108.9 million on acquisitions and investments in businesses, net of cash acquired.

**Table of Contents**

One of our goals is to maintain and improve our capital structure. The key metrics we focus on in assessing the strength of our liquidity and a summary of our cash activity for the three months ended September 30, 2013 and 2012 are summarized in the tables below:

	<b>September 30, 2013</b>	<b>June 30, 2013</b>
	<b>(in thousands)</b>	
Cash, cash equivalents and marketable securities	\$ 196,180	\$ 293,077
Long-term debt <sup>(1)</sup>	\$ 141,067	\$ 138,582

- (1) Our long-term debt as of September 30, 2013 and June 30, 2013 consists of our convertible notes. The convertible notes are shown on our Consolidated Balance Sheet at a carrying value of \$141.1 million at September 30, 2013 and \$138.6 million at June 30, 2013 which represents the principal balance of \$189.8 million less unamortized discount of \$48.7 million and \$51.2 million respectively.

	<b>Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>	
Cash provided by operating activities	\$ 8,541	\$ 10,039
Cash used in investing activities	(125,365)	(30,035)
Cash provided by financing activities	1,712	744
Effect of exchange rates on cash	5,148	1,524

*Cash, cash equivalents and marketable securities.* At September 30, 2013 our cash and cash equivalents of \$173.6 million consisted primarily of cash deposits held at major banks and money market funds. The \$110.0 million decrease in cash and cash equivalents at September 30, 2013 from June 30, 2013 was primarily due to net cash used in acquisitions of \$108.9 million, cash used for the purchase of available for sale securities of \$13.6 million and cash used to purchase property and equipment of \$3.3 million, partially offset by cash generated from operations of \$8.5 million, cash generated from the exercise of employee stock options and our employee stock purchase plan of \$1.6 million and the favorable effect of exchange rates on cash of \$5.1 million.

At September 30, 2013 our marketable securities of \$22.6 million consisted primarily of US treasury notes, residential mortgage-backed securities, and U.S. corporate debt securities.

Cash, cash equivalents and marketable securities included \$85.6 million held by our foreign subsidiaries as of September 30, 2013, of which \$36.5 million would be subject to US tax rates if we sought to use those amounts to fund domestic operations. Cash and cash equivalents held by our foreign subsidiaries are denominated in currencies other than US Dollars. Increases in the foreign currency exchange rates of the British Pound, Swiss Franc, European Euro, and Australian Dollar to the US Dollar increased our overall cash balances by approximately \$5.1 million in the quarter ended September 30, 2013. Further changes in the foreign currency exchange rates of these currencies could have a significant effect on our overall cash balances. However, we continue to believe that our existing cash balances, even in light of the foreign currency volatility we frequently experience, are adequate to meet our operating requirements for the foreseeable future.

We intend to continue to permanently reinvest our earnings from foreign subsidiaries, and we currently do not anticipate that we will need funds generated from our foreign subsidiaries to fund our domestic operations. If in the future we were to change our intention with respect to permanent reinvestment of earnings from our foreign subsidiaries, any foreign earnings that had previously not been taxed in the US would generally become subject to US tax at statutory rates.

*Operating Activities.* Cash generated from operating activities primarily relates to our net income or loss less the impact of non-cash expenses and changes in working capital. Cash generated from operations decreased by \$1.5 million in the quarter ended September 30, 2013 versus the same quarter the prior year. The decrease was primarily the result of a decrease of \$3.1 million in cash provided by deferred revenue and an increase in cash used for prepaid expenses of \$1.0 million partially offset by an increase in cash provided by accounts receivable of \$1.1 million and a reduction of cash used for accounts payable of \$1.1 million.

At September 30, 2013, we had US net operating loss carryforwards of \$70.9 million, which expire at various times through year 2034 and foreign net operating loss carryforwards of \$14.2 million, primarily in Europe, which have no statutory expiration date. We also have approximately \$3.8 million of research and development tax credit carryforwards available which expire at various points through year 2034. Our operating losses and tax credit carryforwards may be subject to limitations under provisions of the Internal Revenue Code.

**Table of Contents**

At September 30, 2013, a portion of the deferred tax assets associated with our US and European operations have been reserved since, given the available evidence, it was deemed more likely than not that these deferred tax assets would not be realized.

*Investing Activities.* During the quarter ended September 30, 2013, we completed two business acquisitions using cash (net of cash acquired) of \$108.9 million. The increase in net cash used in investing activities for the three months ended September 30, 2013 versus the same quarter of the prior fiscal year was primarily due to the \$108.9 million in cash used to fund current year acquisitions as compared to the \$28.3 million of cash we used during the same quarter of the prior fiscal year and cash used to purchase marketable securities of \$13.7 million.

*Financing Activities.* The increase in cash provided by financing activities for the quarter ended September 30, 2013 as compared to the same quarter the prior year was predominantly due to \$0.9 million cash used to purchase treasury stock in the prior year.

**Off-Balance Sheet Arrangements**

During the three months ended September 30, 2013 we did not have any off-balance sheet arrangements.

**Contractual Obligations**

Following is a summary of future payments that we are required to make under existing contractual obligations as of September 30, 2013:

	Payment Due by Fiscal Year				Total
	2014	2015-2016	2017-2018	Thereafter	
	(in thousands)				
Long-term debt:					
Principal payment	\$	\$	\$ 189,750	\$	\$ 189,750
Interest payments	2,846	5,693	4,269		12,808
Operating leases	3,581	6,981	6,241	10,309	27,112
Purchase commitments	3,913	6,739	1,127		11,779
Total contractual obligations	\$ 10,340	\$ 19,413	\$ 201,387	\$ 10,309	\$ 241,449

Purchase orders are not included in the table above. Our purchase orders represent authorizations to purchase rather than binding agreements. The contractual obligation amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum services to be used; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Obligations under contract that we can cancel without a significant penalty are not included in the table above. Also excluded from the table is our estimate of unrecognized tax benefits, for which cash settlement may be required, in the amount of \$1.1 million. These amounts have been excluded because, as of September 30, 2013, we are unable to estimate the timing of future cash outflows, if any, associated with these liabilities as we do not currently anticipate settling any of these tax positions with cash payment in the foreseeable future.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**



We are exposed to a variety of risks, including foreign currency exchange rate fluctuations. We have not entered into any foreign currency hedging transactions or other instruments to minimize our exposure to foreign currency exchange rate fluctuations nor do we presently plan to in the future. Also, we have not entered into any interest rate swap agreements, or other instruments to minimize our exposure to interest rate fluctuations. There has been no material change to our exposure to market risk from that which was disclosed in our Annual Report on Form 10-K as filed with the SEC on August 29, 2013.

#### **Item 4. Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2013. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2013, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

## **Table of Contents**

At September 30, 2013, we were still in the process of integrating our overall systems of internal control over financial reporting of SF2I SA (Sterci) and Simplex GTP Limited, which we acquired during the three months then ended.

Except as noted above, no change in our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2013 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**

On February 12, 2013 R&N Check Corp (R&N) filed a lawsuit against us in the Superior Court of Rockingham County, New Hampshire. The lawsuit alleges breach of contract in connection with a patent purchase and settlement agreement that we entered into in January 2006 and seeks unspecified damages and recovery of legal costs. On March 18, 2013 we removed the lawsuit to the United States District Court for the District of New Hampshire and R&N thereafter filed a motion to remand to the New Hampshire state court. The parties engaged in mediation in June 2013. Although we did not resolve the matter in the initial mediation session, we have remained in active dialogue with R&N and are currently optimistic that we will resolve this matter without a trial. We do not currently believe that the outcome of this action will have a material adverse consequence on our financial statements.

We are, from time to time, a party to other legal proceedings and claims that arise out of the ordinary course of our business. We do not believe that there are claims or proceedings pending against us for which the ultimate resolution would have a material effect on, or require disclosure in, our financial statements.

### **Item 1A. Risk Factors**

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below before making an investment decision involving our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties may also impair our business operations.*

*If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could fall, and you may lose all or part of the money you paid to buy our common stock.*

*The risk factors below do not reflect material changes from the risk factors disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended June 30, 2013.*

### **Risks Related To Ownership Of Our Common Stock**

#### **Our common stock has experienced and may continue to undergo significant market price and volume fluctuations**

The market price of our common stock has experienced and may continue to undergo extreme fluctuations due to a variety of factors, including:

general and industry-specific business, economic and market conditions;

changes in or our failure to meet analysts' or investors' estimates or expectations;

actual or anticipated fluctuations in operating results, including those arising as a result of any impairment of goodwill or other intangible assets related to past or future acquisitions;

public announcements concerning us, including announcements regarding litigation, our competitors or our industry;

publication of research by securities or industry analysts about us and our business;

introductions of new products or services or announcements of significant contracts by us or our competitors;

acquisitions, divestitures, strategic partnerships, joint ventures, or capital commitments by us or our competitors;

adverse developments in patent or other proprietary rights; and

announcements of technological innovations by our competitors.

## **Table of Contents**

### **Our fixed costs may lead to operating results below analyst or investor expectations if our revenues are below anticipated levels, which could adversely affect the market price of our common stock**

A significant percentage of our expenses, particularly personnel and facilities costs, are relatively fixed and based in part on anticipated revenue levels, which can be difficult to predict. A decline in revenues without a corresponding and timely slowdown in expense growth could negatively affect our business. Significant revenue shortfalls in any quarter may cause significant declines in operating results since we may be unable to reduce spending in a timely manner.

Quarterly or annual operating results that are below the expectations of public market analysts could adversely affect the market price of our common stock. Factors that could cause fluctuations in our operating results include the following:

economic conditions, which may affect our customers and potential customers budgets for information technology expenditures;

the timing of orders and longer sales cycles;

the timing of product implementations, which are highly dependent on customers resources and discretion;

the incurrence of costs relating to the integration of software products and operations in connection with acquisitions of technologies or businesses; and

the timing and market acceptance of new products or product enhancements by either us or our competitors. Because of these factors, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful.

### **Our mix of products and services could have a significant effect on our financial condition, results of operations and the market price of our common stock**

The gross margins for our products and services vary considerably. Our software revenues generally yield significantly higher gross margins than do our subscriptions and transactions, service and maintenance and equipment and supplies revenue streams. If software license revenues or recurring revenues were to significantly decline in any future period, or if the mix of our products and services in any given period did not match our expectations, our results of operations and the market price of our common stock could be significantly adversely affected.

## **Risks Related To Our Business**

### **Acquisitions could disrupt our business and harm our financial condition**

Part of our operating strategy is to identify and pursue strategic acquisitions that can expand our geographical footprint or complement our existing product functionality. In September 2013 we completed our acquisition of

Simplex GTP Limited (Simplex) and in August 2013, we acquired SF2I SA (Sterci), leading providers of financial messaging solutions utilizing the SWIFT global messaging network. In February 2013, we acquired Prilos AG, a long-time reseller of our document automation products in the German marketplace. In October 2012, we acquired the assets of 5280 Dynamic Solutions LLC, a US-based software company. In September 2012, we acquired Albany Software, Ltd., a UK-based software company. We may in the future acquire or make investments in other businesses, products or technologies. Any acquisition or strategic investment we have made or may make in the future may entail numerous risks, including the following:

difficulties integrating acquired operations, personnel, technologies or products;

inability to retain key personnel of the acquired company;

inadequacy of existing operating, financial and management information systems to support the combined organization or new operations;

write-offs related to impairment of goodwill and other acquired assets;

entrance into markets and operating geographies in which we have no or limited prior experience or knowledge;

diversion of management's focus from our core business concerns;

dilution to existing stockholders and our earnings per share;

incurrence of substantial debt;

exposure to litigation from third parties, including claims related to intellectual property or other assets acquired or liabilities assumed; and

failure to realize anticipated benefits of the transaction due to the above factors or other factors.

## **Table of Contents**

Any such difficulties encountered as a result of any merger, acquisition or strategic investment could have a material adverse effect on our business, operating results and financial condition.

### **As a result of our acquisitions, we could be subject to significant future write-offs with respect to intangible assets, which may adversely affect our future operating results**

We review our intangible assets periodically for impairment. At September 30, 2013, the carrying value of our goodwill and our other intangible assets was approximately \$170 million and \$165 million, respectively. While we reviewed our goodwill and our other intangible assets during the fourth quarter of fiscal year 2013 and concluded that there was no impairment, we could be subject to future impairment charges with respect to these intangible assets or intangible assets arising as a result of acquisitions in future periods. Any such charges, to the extent occurring, would likely have a material adverse effect on our operating results.

### **We face risks associated with our international operations that could harm our financial condition and results of operations**

A significant percentage of our revenues have been generated by our international operations and our future growth rates and success are in part dependent on our continued growth and success in international markets. We have operations in the US, Canada, UK, Australia, New Zealand, France and Germany, and with our August 2013 acquisition of Sterci, Switzerland and, to a lesser extent, Singapore. As is the case with most international operations, the success and profitability of these operations are subject to numerous risks and uncertainties that include, in addition to the risks our business as a whole faces, the following:

currency exchange rate fluctuations;

difficulties and costs of staffing and managing foreign operations;

differing regulatory and industry standards and certification requirements;

the complexities of tax laws in foreign jurisdictions;

reduced protection for intellectual property rights in some countries; and

import or export licensing requirements.

### **Our business and operating results are subject to fluctuations in foreign currency exchange rates**

We conduct a substantial portion of our operations outside of the US, principally in the United Kingdom, continental Europe and the Asia-Pacific region. During the three months ended September 30, 2013, approximately 39% of our revenues and 38% of our operating expenses were attributable to customers or operations located outside of North America. We anticipate the percentage of revenues and operating expenses from outside North America will increase as a result of our August 2013 acquisition of Sterci. During the twelve months ended June 30, 2013 as compared to the

same period in the prior year, the foreign currency exchange rates of the British Pound Sterling to the US Dollar decreased slightly. Future appreciation of the US Dollar against the British Pound Sterling, European Euro or Australian Dollar will have the impact of reducing both our revenues and operating expenses.

**Weakness or deterioration in domestic and global economic conditions could have a significant adverse impact on our business, financial condition and operating results**

Our business, financial condition and operating results are significantly affected by general economic conditions. The US and global economies have experienced a significant prolonged downturn and prospects for sustained economic recovery remain uncertain. In particular, the European Union continues to face significant economic challenges, which could impede the recovery of the worldwide economy. Prolonged economic weakness or a downturn in the US and global economies could result in a variety of risks to our business, including:

increased volatility in our stock price;

increased volatility in foreign currency exchange rates;

delays in, or curtailment of, purchasing decisions by our customers or potential customers either as a result of continuing economic uncertainty or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives;

pricing pressures for our products and services, including reductions in the duration or renewal rates for our subscription and transaction based customer contracts;

increased credit risk associated with our customers or potential customers, particularly those that may operate in industries or geographic regions most affected by the economic downturn; and

impairment of our goodwill or other assets.

To the extent that economic conditions remain uncertain or deteriorate, or any of the above risks occur, our business and operating results could be significantly and adversely affected.

**Table of Contents**

**As a result of our commercial banking acquisition in March 2012, we entered a new customer market and broadened our solution set to address the unique customer demands of this market; these initiatives require significant investment and may not be successful**

In March 2012, we acquired substantially all of the assets and related operations of Intuit Inc.'s (Intuit) commercial banking business. In connection with this acquisition, we broadened our overall banking business in a number of important ways, including:

broadened our overall solution set to include a focus on medium-sized and small banks and financial institutions, an initiative that requires significant product investment;

accelerated the development of our overall solution set to SaaS-based offerings, which requires ongoing investment in our hosted infrastructure, including data security and disaster recovery capabilities; and

grew our global sales and marketing resources to be able to capitalize on the significant customer opportunity that we see in these markets.

The investment required to support these initiatives may adversely affect our operating results, particularly in the short term.

In addition, the commercial banking business that we acquired had been experiencing customer attrition due in large part to customers' views that the product required further investment and improvement. While we believe that the investment we are making in the commercial banking business will ultimately address this underlying concern, there is a risk that customer attrition will continue to occur, particularly in the short term. If we are unable to bring to market a commercial banking solution that addresses these concerns, or if the initiatives described above are unsuccessful in retaining existing customers, securing new customers and growing our revenues, our operating results would likely be adversely affected.

**We continue to make significant investments in existing products and new product offerings, which can adversely affect our operating results; these investments may not be successful**

We operate in a highly competitive and rapidly evolving technology environment and believe that it is important to enhance our existing product offerings as well as to develop new product offerings to meet strategic opportunities as they evolve. Our operating results have recently been affected by increases in product development expenses as we have continued to make investments in our hosted, banking and accounts payable automation products. We may at any time, based on product needs or marketplace demands, decide to significantly increase our product development expenditures. We expect to continue to make significant investments in our Paymode-X, legal spend management, and our banking products during fiscal year 2014. Investments in existing products and new product offerings can have a negative impact on our operating results and any new product enhancement or offering may not be accepted in the marketplace or generate material revenues.

**Our future financial results will be affected by our success in selling our products in a subscription and transaction revenue model, which carries with it certain risks**



A substantial portion of our revenues and profitability were historically generated from perpetual software license revenues, however we are offering a growing number of our products under a subscription and transaction based revenue model. We believe this model has certain advantages over a perpetual license model, including better predictability of revenue; however, it also presents a number of risks to us, including the following:

arrangements entered into on a subscription and transaction basis generally delay the timing of revenue recognition and often require the incurrence of up-front costs, which can be significant;

subscription and transaction based revenue arrangements often include specific performance requirements or service levels that we may be unable to consistently achieve, subjecting us to penalties or other costs. Further, a material breach by us, such as a persistent failure to achieve required service levels, might permit the customer to exit the contract prior to its expiration, without additional compensation to us;

customer retention is critical to our future growth rates. Customers in a subscription and transaction arrangement may elect not to renew their contractual arrangement with us upon expiration, or they may attempt to renegotiate pricing or other contractual terms at the point of (or prior to) renewal on terms that are less favorable to us; and

there is no assurance that the solutions we offer on a subscription and transaction basis, including new revenue models that we may introduce, will receive broad marketplace acceptance, in which case our financial results could be materially and adversely affected.

**Security breaches could have a significant adverse effect on our business**

In the course of providing services to our customers, we collect, store, process and transmit highly sensitive and confidential information. Certain of our solutions also facilitate the transfer of cash. Our products, particularly our SaaS and Web-based offerings, may be vulnerable to unauthorized access, computer viruses, cyber-attacks and other disruptive problems which could result in the theft, destruction or misappropriation of confidential information.

## **Table of Contents**

We may need to spend significant capital or other resources to ensure effective ongoing protection against the threat of security breaches or to alleviate problems caused by security concerns. Despite our precautions, a security breach or computer virus could still occur, which could have a significant negative impact on our business including damage to our reputation, the loss of customers and potential customers and material financial liability to us. Any such event would likely have a material adverse impact on our business, operating results and financial condition.

### **We rely on certain third-party software and data center hosting facilities, which could cause errors, interruptions or failures to our solutions or be difficult to replace**

We rely on software licensed from third parties in order to deliver certain of our solutions. This software may not continue to be available to us on commercially reasonable terms, or at all. The loss of the right to use any of this software could result in delays in our ability to provide our solutions until equivalent technology is either developed by us or acquired from another third party, if available, which may not be possible on a cost effective basis. In addition, errors or defects in third-party software that is used in conjunction with our solutions could adversely affect the operation of our products.

Our SaaS offerings provide services to our customers from third-party data center facilities in several different US and international locations. We do not control the operations of these third-party facilities and, similar to our own facilities, these locations are vulnerable to damage or interruption from natural or man-made disasters, loss of power, communications failures and similar events. We evaluate and select our data center providers carefully, and we have developed certain disaster recovery plans and maintain backup systems to reduce the risk and adverse effects of any disruption or failure at these data centers. However, such an event could occur despite our precautions and cause system interruptions, reputational harm, delays in product development, breaches of data security, failure to maintain service level requirements and the loss of critical data, any of which could adversely affect our business, financial condition and results of operations.

### **An increasing number of large and more complex customer contracts, or contracts that involve the delivery of services over contractually committed periods, generally delays the timing of our revenue recognition and, in the short-term, may adversely affect our operating results, financial condition and the market price of our stock**

Due to an increasing number of large and more complex customer contracts, particularly in our Banking Solutions segment, we have experienced, and will likely continue to experience, delays in the timing of our revenue recognition. These arrangements generally require significant implementation work, product customization and modification, systems integration and user acceptance testing. This results in the recognition of revenue over the period of project completion which normally spans several quarters. Delays in revenue recognition on these contracts, including delays that result from customer decisions to halt or slow down a long-term project due to their own staffing or other challenges, could adversely affect our operating results, financial condition and the market price of our common stock. Additionally, large bank and financial institution customer opportunities are very competitive and take significant time and effort to consummate. When competing for these customer opportunities, we face greater sales costs, longer sales cycles and less predictability with respect to these orders than with orders in other areas of our business. If we are unable to continue to generate new large orders on a regular basis, our business operating results and financial condition could be adversely affected.

### **A significant percentage of our revenues to date have come from our payment and document management offerings and our future performance will depend on continued market acceptance of these solutions**

A significant percentage of our revenues to date have come from the license and maintenance of our payment and document management offerings and sales of associated products and services. Any significant reduction in demand for our payment and document management offerings could have a material adverse effect on our business, operating results and financial condition. Our future performance could depend on the following factors:

retaining and expanding our software maintenance and subscriptions and transactions customer bases, which are significant sources of our recurring revenue;

continued market acceptance of our payment and document management offerings;

our ability to demonstrate the value of our solutions as compared to solutions from other vendors such as enterprise resource planning software vendors that offer a broader enterprise application solution;

our ability to introduce enhancements to meet the market's evolving needs for secure payments and cash management solutions; and

acceptance of our solutions that are offered on a SaaS basis.

## **Table of Contents**

### **Because we recognize subscription revenue from our customers over the term of their agreements, downturns or upturns in sales of our subscription based offerings will not be immediately reflected in our operating results**

We recognize subscription revenue over the term of our customer agreements. As a result, most of our subscription revenue arises from agreements entered into during previous periods. Consequently, a shortfall in orders for our subscription based solutions in any one period may not significantly reduce our subscription revenue for that period, but could negatively affect revenue in future periods. In addition, we may be unable to quickly reduce our cost structure in response to a decrease in these orders. Accordingly, the effect of downturns in sales of our subscription based solutions will not be fully reflected in our results of operations until future periods. A subscription revenue model also makes it difficult for us to rapidly increase our revenue through additional subscription sales in any one period, as revenue is generally recognized over the applicable customer term.

### **We face significant competition in our targeted markets, including competition from companies with significantly greater resources, which may result in price reductions and decreased demand for our products**

The markets in which we compete are intensely competitive and characterized by rapid technological change. We compete with a wide range of companies ranging from small start-up enterprises with limited resources which compete principally on the basis of technology features or specific customer relationships, to large companies which can leverage significant customer bases and financial resources. Some competitors in our targeted markets have longer operating histories, significantly greater financial, technical, and sales and marketing resources, greater brand recognition and a larger installed customer base than we do. We expect to face additional competition as other established and emerging companies enter the markets we address. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships to expand their product offerings and to offer more comprehensive solutions. This growing competition may result in price reductions of our products and services, reduced revenues and gross margins and loss of market share, any one of which could have a material adverse effect on our business, operating results and financial condition.

### **We depend on employees who are skilled in payment, cash and document management and invoice presentment methodologies, business banking solutions and Web and other technologies**

Our success depends upon the efforts and abilities of our executive officers and technical and sales employees who are skilled in e-commerce, payment methodology and regulation, business banking technologies, and Web, database and network technologies. Our current key employees and employees whom we seek to hire in order to support our growth are in high demand within the marketplace and many competitors, customers and industry organizations are able to offer considerably higher compensation packages than we currently provide. The loss of one or more of our key employees or our failure to attract and retain sufficient qualified employees to grow our operations could have a material adverse effect on our business. In addition, we do not maintain key man life insurance policies on any of our employees and our employees are generally free to terminate their employment with us at any time. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, operating results and financial condition.

### **Our success depends on our ability to develop new and enhanced products, services and strategic partner relationships**

The markets in which we compete are subject to rapid technological change and our success is dependent on our ability to develop new and enhanced products, services and strategic partner relationships that meet evolving market needs. Trends that could have a critical impact on us include:

evolving industry standards, mandates and laws, such as those mandated by the National Automated Clearing House Association and the Association for Payment Clearing Services;

rapidly changing technology, which could cause our software to become suddenly outdated or could require us to make our products compatible with new database or network systems;

developments and changes relating to the Web, cloud computing and mobile applications that we must address as we maintain existing products and introduce new products; and

the loss of any of our key strategic partners who serve as a valuable network from which we can leverage industry expertise and respond to changing marketplace demands.

There can be no assurance that technological advances will not cause our products to become obsolete or uneconomical. If we are unable to develop and introduce new products or enhancements to existing products in a timely and successful manner, our business, operating results and financial condition could be materially adversely affected. Similarly, if our new products do not receive general marketplace acceptance, or if the sales cycle of any of our new products significantly delays the timing of revenue recognition, our results could be negatively affected.

## **Table of Contents**

### **Our business could be subject to future legal or regulatory actions, which could have a material adverse effect on our operating results**

Our software products and SaaS offerings facilitate the transmission of business documents and information including, in some cases, confidential data related to individuals, corporations as well as their payments, invoices and cash management. Our software products and certain of our SaaS offerings store and transmit this data electronically, and therefore our products must operate within the laws, regulations and industry standards regarding security, data protection and electronic commerce. While we believe that we are in compliance with applicable current regulatory requirements, there can be no assurance that future legal or regulatory actions will not impact us. To the extent that current or future regulatory or legal developments mandate a change in any of our products or services, require us to comply with any industry specific licensing or compliance requirements, alter the demand for or the competitive environment of our products and services or require us to make material changes to our internal operating, financial or management information systems, we might not be able to respond to such requirements in a timely or cost effective manner. If this were to occur, our business, operating results and financial condition could be materially adversely affected.

### **Defects or disruptions in our products or services could diminish demand for our solutions and have a material adverse effect on our future financial results**

If the products that we offer and introduce do not sustain marketplace acceptance, our future financial results could be adversely affected. Any unanticipated performance problems, defects or bugs could result in additional development costs, diversion of technical and other resources from our other development efforts, service disruptions for our SaaS offerings, negative publicity regarding us and our products, harm to our customer relationships and exposure to potential liability claims.

### **Catastrophic events may disrupt our business**

We are a highly automated business and we rely on our network infrastructure, various software applications and many internal technology systems and data networks for our customer support, development, sales and marketing and accounting and finance functions. Further, our SaaS offerings provide services to our customers from data center facilities in several different US and international locations. Some of these data centers are operated by third parties, and we have limited control over those facilities. A disruption or failure of these systems or data centers in the event of a natural disaster, telecommunications failure, power outage, cyber-attack, war, terrorist attack, or other catastrophic event could cause system interruptions, reputational harm, delays in product development, breaches of data security and loss of critical data. Such an event could also prevent us from fulfilling customer orders or maintaining certain service level requirements, particularly in respect of our SaaS and hosted offerings. While we have developed certain disaster recovery plans and maintain backup systems to reduce the potentially adverse effect of such events, a catastrophic event that resulted in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our business, operating results and financial condition could be adversely affected.

### **We could incur substantial costs resulting from warranty claims or product liability claims**

Our product agreements typically contain provisions that afford customers a degree of warranty protection in the event that our products fail to conform to written specifications. These agreements normally contain provisions intended to limit the nature and extent of our risk of warranty and product liability claims. A court, however, might interpret these terms in a limited way or conclude that part or all of these terms are unenforceable. Furthermore, some of our agreements are governed by non-US law and there is a risk that foreign law might provide us less or different

protection. While we maintain general liability insurance, including coverage for errors and omissions, we cannot be sure that our existing coverage will continue to be available on reasonable terms or will be available in amounts sufficient to cover one or more large claims.

Our products are used to facilitate the transmission of sensitive business documents and other confidential data related to payments, cash management and invoices. Further, some of our products facilitate the actual transfer of cash or transmit instructions that initiate cash transfer. Although we have not experienced any material warranty or product liability claims to date, a warranty or product liability claim, whether or not meritorious, could result in substantial costs and a diversion of management's attention and our resources, which could have an adverse effect on our business, operating results and financial condition.

**We could be adversely affected if we are unable to protect our proprietary technology and could be subject to litigation regarding intellectual property rights, which could cause serious harm to our business**

We rely upon a combination of patent, copyright and trademark laws and non-disclosure and other intellectual property contractual arrangements to protect our proprietary rights. However, we cannot assure that our patents, pending applications for patents that may issue in the future, or other intellectual property will be of sufficient scope and strength to provide meaningful protection to our technology or any commercial advantage to us, or that the patents will not be challenged, invalidated or circumvented. We enter into agreements with our employees and customers that seek to limit and protect the distribution of proprietary information. Despite our efforts to safeguard and maintain our proprietary rights, there can be no assurance that such rights will remain protected or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights.



## **Table of Contents**

Litigation involving patents and other intellectual property rights is common in the United States and in other countries where we operate. We may be a party to litigation in the future to protect our intellectual property rights or as a result of an alleged infringement of the intellectual property rights of others. Any such claims, whether or not meritorious, could require us to spend significant sums in litigation, pay damages, delay product implementations, develop non-infringing intellectual property or acquire licenses to intellectual property that is the subject of the infringement claim. In addition, under many of our customer contracts, we are required to indemnify our customers for third-party intellectual property infringement claims, which would increase the costs to us of any such claims. These claims could have a material adverse effect on our business, operating results and financial condition.

### **We engage off-shore development resources which may not be successful and which may put our intellectual property at risk**

In order to optimize our research and development capabilities and to meet development timeframes, we contract with off-shore third-party vendors in India and elsewhere for certain development activities. While our experience to date with these resources has been positive, there are a number of risks associated with off-shore development activities that include, but are not limited to, the following:

less efficient and less accurate communication and information flow as a consequence of time, distance and language barriers between our primary development organization and the off-shore resources, resulting in delays or deficiencies in development efforts;

disruption due to political or military conflicts around the world;

misappropriation of intellectual property from departing personnel, which we may not readily detect; and

currency exchange rate fluctuations that could adversely impact the cost advantages intended from these agreements.

To the extent that these or unforeseen risks occur, our operating results and financial condition could be adversely impacted.

### **Certain anti-takeover provisions contained in our charter and under Delaware law could hinder a takeover attempt**

We are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware prohibiting, under some circumstances, publicly-held Delaware corporations from engaging in business combinations with some stockholders for a specified period of time without the approval of the holders of substantially all of our outstanding voting stock. Such provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial, in the short term, to the interests of our stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation and bylaws contain provisions relating to the limitation of liability and indemnification of our directors and officers, dividing our board of directors into three classes of directors serving three-year terms and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders.

**Risk Factors Related to our Indebtedness**

In December 2012, we issued, at par value, \$189.8 million aggregate principal amount of 1.50% convertible senior notes due in December 2017. In connection with the pricing of the notes, we purchased convertible note hedge transactions with a strike price equal to the initial conversion price of the notes and we sold warrants with a strike price of \$40.04 per share with certain counterparties. The note hedges and the warrants each cover approximately 6.3 million shares of our common stock.

**Servicing the notes will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our obligations under the notes**

Our ability to make scheduled payments of interest and, upon maturity or early conversion, the principal balance of the notes, depends on our future performance which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional debt or equity financing on terms that may not be favorable to us or available to us at all. Our ability to refinance the notes will depend on the capital markets and our financial condition at that time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations or future indebtedness.

## **Table of Contents**

### **The conditional conversion feature of the notes, if triggered, and the requirement to repurchase the notes upon a fundamental change may adversely affect our financial condition and operating results**

In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert the notes at any time during specified periods at their option. If one or more holders elect to convert their notes, we would be required to settle the principal portion of the notes in cash. If we undergo a fundamental change, (as described in the Indenture), subject to certain conditions, holders of the notes may require us to repurchase for cash all or part of their notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest. Either of these events could adversely affect our liquidity. Even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal balance of the notes to a current rather than long-term liability, which would result in a material reduction of our working capital.

### **The accounting for the notes will result in our having to recognize interest expense significantly more than the stated interest rate of the notes and may result in volatility to our consolidated statement of operations**

Upon issuance of the notes we were required to establish a separate initial value for the conversion option and to bifurcate this value from the value attributable to the balance of the notes, or the debt component. As a result, for accounting purposes, we were required to treat the notes as having been issued with a discount to their face principal amount, which is referred to as an original issue discount. We are accreting the original issue discount to interest expense ratably over the term of the notes, which results in an effective interest rate in our consolidated statement of operations that is in excess of the stated coupon rate of the notes. This will reduce our earnings and could adversely affect the price at which our common stock trades, but will have no effect on the amount of cash interest paid to holders or on our cash flows.

Certain derivative instruments issued in connection with the Notes were classified within stockholder's equity at September 30, 2013. However, if we do not continue to satisfy all of the criteria required for equity classification, these instruments would be reclassified out of equity and be subject to re-measurement at fair value. Changes in fair value resulting from any such re-measurement would be reflected in earnings which could have a material impact on our financial statements.

### **We may be subject to significant future write-offs with respect to intangible assets or deferred tax assets**

Certain of our assets, such as intangible assets and deferred tax assets, are subject to periodic tests of recoverability based on a variety of factors. Those factors typically include, at a minimum, projections of future income levels and cash flows. The accounting for the notes will result in our recognition of a significant level of interest expense, particularly non-cash interest expense, as the carrying value of debt is accreted to par and as we amortize our debt issue costs, including the underwriters' discount. If our cash flows or income levels were to meaningfully decline, we could be subject to impairment charges with respect to these assets which would have a material adverse effect on our consolidated statement of operations.

### **The convertible note hedge and warrant transactions may affect the value of the notes and our common stock**

The warrant transactions could have a dilutive effect on our earnings per share to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants. However, subject to certain conditions, we may elect to settle the warrants in cash.

From time to time, the counterparties to the convertible note hedge transactions or their affiliates may modify their respective hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or

purchasing or selling our common stock or other securities of ours in secondary market transactions (and are likely to do so during any observation period related to a conversion of notes). This activity could cause or avoid an increase or a decrease in the market price of our common stock or the notes.

**Our level of indebtedness may limit our financial flexibility**

At September 30, 2013 we had total consolidated indebtedness of approximately \$189.8 million and unrestricted cash and marketable securities of \$173.6 million and \$22.6 million respectively. Our level of indebtedness affects our operations in several ways, including the following:

a portion of our cash flows from operating activities must be used to service our indebtedness and is not available for other purposes;

we may be at a competitive disadvantage as compared to similar companies that have less debt; and

additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may have higher costs and contain restrictive covenants, or may not be available to us.

**Table of Contents**

The factors that will affect our ability to obtain additional financing may be beyond our control and include financial market conditions, the value of our assets and our performance at the time we need financing.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information about purchases by us of our common stock during the three months ended September 30, 2013:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Announced Plans or Programs</b>	<b>Approximate Total Number of Shares That May Yet be Purchased Under The Plans or Programs (1)</b>
July 1, 2013 – July 31, 2013		\$		\$ 16,562,000
August 1, 2013 – August 31, 2013		\$		\$ 16,562,000
September 1, 2013 – September 30, 2013		\$		\$ 16,562,000
<b>Total</b>		\$		\$ 16,562,000

(1) In May 2012, our board of directors authorized a repurchase program for up to \$20.0 million of our common stock. This repurchase program replaces the program that had been in place since April 2008.

**Item 6. Exhibits**

See the Exhibit Index for a list of exhibits filed as part of this Quarterly Report on Form 10-Q, which Exhibit Index is incorporated herein by reference.

Table of Contents

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Bottomline Technologies (de), Inc.**

Date: November 12, 2013

By: /s/ KEVIN M. DONOVAN  
**Kevin M. Donovan**  
**Chief Financial Officer and Treasurer**  
**(Principal Financial and Accounting Officer)**

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>	<b>Incorporate by Reference</b>				
		<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filer Date</b>	<b>Filed Herewith</b>
2.1	Sale and Purchase Agreement, dated as of August 20, 2013, by and between Bottomline Technologies (de), Inc. and SF2I SA	8-K	000-25259	2.1	8/20/2013	
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer					X
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer					X
32.1	Section 1350 Certification of Principal Executive Officer					X
32.2	Section 1350 Certification of Principal Financial Officer					X
101.INS**	XBRL Instance Document					X
101.SCH**	XBRL Taxonomy Extension Schema Document					X
101.CAL**	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF**	XBRL Taxonomy Definition Linkbase Document					X
101.LAB**	XBRL Taxonomy Label Linkbase Document					X
101.PRE**	XBRL Taxonomy Presentation Linkbase Document					X

\*\* submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited) and June 30, 2013, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended September 30, 2013 and 2012, (iii) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2013 and 2012 and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.