BOTTOMLINE TECHNOLOGIES INC /DE/
Form 10-Q
February 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 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	**02-0433294**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
325 Corporate Drive Portsmouth, New Hampshire	**03801-6808**
(Address of principal executive offices)	**(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 x 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 x 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 x	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 x

The number of shares outstanding of the registrant s common stock as of January 31, 2014 was 39,060,205.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Bottomline Technologies (de), Inc.

Condensed Consolidated Balance Sheets

(in thousands)

	December 31, 2013 (unaudited)	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 181,928	$ 283,552
Marketable securities	23,670	9,525
Accounts receivable, net of allowance for doubtful accounts of $814 at December 31, 2013 and $769 at June 30, 2013	52,174	44,430
Deferred tax assets	7,098	6,764
Prepaid expenses and other current assets	10,464	8,479
Total current assets	275,334	352,750
Property and equipment, net	28,652	23,631
Goodwill	175,203	109,196
Intangible assets, net	155,270	82,872
Other assets	12,611	17,073
Total assets	$ 647,070	$ 585,522
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 10,957	$ 8,933
Accrued expenses	24,127	16,070
Deferred revenue	49,353	47,184
Total current liabilities	84,437	72,187
Convertible senior notes	143,598	138,582
Deferred revenue, non-current	12,950	9,104
Deferred income taxes	20,584	5,457
Other liabilities	14,428	3,443
Total liabilities	275,997	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 38,670 at December 31, 2013, and 37,903 at June 30, 2013; outstanding shares 36,873 at December 31, 2013, and 36,045 at June 30, 2013		39		38
Additional paid-in capital		512,338		499,182
Accumulated other comprehensive income (loss)		3,300		(10,460)
Treasury stock: 1,797 shares at December 31, 2013, and 1,858 shares at June 30, 2013, at cost		(21,168)		(21,888)
Accumulated deficit		(123,436)		(110,123)
Total stockholders equity		371,073		356,749
Total liabilities and stockholders equity	$	647,070	$	585,522

See accompanying notes.

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Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands, except per share amounts)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Revenues:				
Subscriptions and transactions	$ 34,845	$ 30,361	$ 66,394	$ 58,908
Software licenses	5,463	5,469	10,201	10,168
Service and maintenance	31,369	25,735	60,691	52,190
Other	1,728	2,044	3,368	4,032
Total revenues	73,405	63,609	140,654	125,298
Cost of revenues:				
Subscriptions and transactions	16,754	16,238	32,098	30,224
Software licenses	392	617	758	1,026
Service and maintenance	13,973	11,977	26,492	24,271
Other	1,285	1,540	2,511	3,062
Total cost of revenues	32,404	30,372	61,859	58,583
Gross profit	41,001	33,237	78,795	66,715
Operating expenses:				
Sales and marketing	18,024	15,955	34,266	30,428
Product development and engineering	9,271	8,426	17,678	16,732
General and administrative	8,124	6,467	16,610	13,028
Amortization of intangible assets	8,174	5,201	13,879	9,513
Total operating expenses	43,593	36,049	82,433	69,701
Loss from operations	(2,592)	(2,812)	(3,638)	(2,986)
Loss on derivative instruments, net		(4,917)		(4,917)
Other expense, net	(3,391)	(585)	(7,431)	(539)
Loss before income taxes	(5,983)	(8,314)	(11,069)	(8,442)
Income tax (benefit) provision	1,282	(1,274)	2,244	(1,420)
Net loss	$ (7,265)	$ (7,040)	$ (13,313)	$ (7,022)
	$ (0.20)	$ (0.20)	$ (0.37)	$ (0.20)

Basic and diluted net loss per share attributable to common stockholders:				
Shares used in computing basic and diluted net loss per share attributable to common stockholders:	36,667	35,284	36,441	35,097
Other comprehensive income, net of tax:				
Unrealized gain on available for sale securities, net of tax	(1)		15	
Foreign currency translation adjustments	3,838	947	13,745	3,340
Other comprehensive income, net of tax	3,837	947	13,760	3,340
Comprehensive (loss) income	$ (3,428)	$ (6,093)	$ 447	$ (3,682)

See accompanying notes.

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Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Operating activities:		
Net loss	$ (13,313)	$ (7,022)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	13,879	9,513
Stock compensation expense	10,567	8,941
Depreciation and amortization of property and equipment	3,938	3,441
Deferred income tax benefit	(845)	(3,570)
Provision for allowances on accounts receivable	125	183
Provision for allowances for obsolescence of inventory	14	62
Excess tax benefits associated with stock compensation	(455)	(253)
Amortization of debt issuance costs	592	61
Amortization of debt discount	5,016	486
Amortization of premium on investments	185	
Loss on derivative instruments		4,917
Loss on disposal of equipment	4	25
(Gain) loss on foreign exchange	(45)	10
Changes in operating assets and liabilities:		
Accounts receivable	851	(971)
Inventory	654	(18)
Prepaid expenses and other current assets	176	1,394
Other assets	(39)	(16)
Accounts payable	(1,056)	531
Accrued expenses	(1,798)	(2,169)
Deferred revenue	(233)	3,706
Other liabilities	706	319
Net cash provided by operating activities	18,923	19,570
Investing activities:		
Acquisition of businesses and assets, net of cash acquired	(110,118)	(29,902)
Purchases of held-to-maturity securities	(55)	(62)
Proceeds from sales of held-to-maturity securities	55	62
Purchase of available-for-sale securities	(16,316)	
Proceeds from sales of available-for-sale securities	2,011	
Purchases of property and equipment, net	(5,483)	(5,219)
Proceeds from disposal of fixed assets	36	46
Net cash used in investing activities	(129,870)	(35,075)

Financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	2,855	2,908
Excess tax benefits associated with stock compensation	455	253
Proceeds from issuance of convertible senior notes		189,750
Debt issuance costs		(5,790)
Proceeds from issuance of warrants, net of issue costs		25,789
Purchase of convertible note hedges		(42,390)
Capital lease payments		(50)
Repurchase of common stock		(933)
Net cash provided by financing activities	3,310	169,537
Effect of exchange rate changes on cash	6,013	1,996
Increase (decrease) in cash and cash equivalents	(101,624)	156,028
Cash and cash equivalents at beginning of period	283,552	124,801
Cash and cash equivalents at end of period	$ 181,928	$ 280,829

See accompanying notes.

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Bottomline Technologies (de), Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

December 31, 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 and six months ended December 31, 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, or net loss. For the three and six months ended December 31, 2012 the reclassification was $0.3 million and $0.6 million, respectively. 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.

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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.

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 December 31, 2013 and June 30, 2013, our assets and liabilities measured at fair value on a recurring basis were as follows:

	December 31, 2013 Fair Value Measurements Using Input Types				June 30, 2013 Fair Value Measurements Using Input Types			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds (cash and cash equivalents)	$ 61,799	$	$	$ 61,799	$ 85,880	$	$	$ 85,880
Available for sale securities								
Debt								
US Corporate	10,383			10,383	4,125			4,125
Residential mortgage-backed	7,076			7,076	2,846			2,846
Government US	6,158			6,158	2,499			2,499
Total available for sale securities	$ 23,617	$	$	$ 23,617	$ 9,470	$	$	$ 9,470

Marketable Securities

The table below presents information regarding our marketable securities by major security type as of December 31, 2013 and June 30, 2013.

	December 31, 2013			June 30, 2013		
	Held to Maturity	Available for Sale	Total	Held to Maturity	Available for Sale	Total
	(in thousands)					
Marketable securities:						
Corporate and other debt securities	53	23,617	23,670	55	9,470	9,525
Total marketable securities	$ 53	$ 23,617	$ 23,670	$ 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:

	As of December 31, 2013
	(in thousands)
Due within 1 year	$ 12,894
Due in 1 year through 5 years	$ 10,723
Total	$ 23,617

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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 December 31, 2013, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	As of December 31, 2013 Less than 12 Months	
	Fair Value	**Unrealized Loss**
	(in thousands)	
U.S. Corporate	$ 5,396	$ 8
Residential mortgage-backed	$ 1,749	$ 1
Government US	$ 652	$ 1
Total	$ 7,797	$ 10

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 December 31, 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 $251.1 million as of December 31, 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 six months ended December 31, 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).

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At December 31, 2013, we were still finalizing our estimates of fair value for certain tangible and intangible assets acquired, as well as certain of the actuarial measurements of Sterci s defined benefit plan. 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 year ending June 30, 2014. In the preliminary allocation of the purchase price set forth below, we recognized $47.7 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.

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, require defined benefit plan accounting. Certain assumptions used to determine our pension liability include level 3 measurements. The net periodic pension cost under this plan was approximately $0.8 million for the six months ended December 31, 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 $75.9 million are being amortized over a weighted average useful life of eleven 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 thirteen, eight and eleven years, respectively.

For the six months ended December 31, 2013, revenues attributable to the Sterci acquisition represented approximately 4% of our consolidated revenues. For the six months ended December 31, 2013, operations of Sterci generated a pre-tax loss of approximately $10.9 million, inclusive of $5.5 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.

At December 31, 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 year ending June 30, 2014. In the preliminary allocation of the purchase price set forth below, we recognized $11.8 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 useful lives of fifteen and four years, respectively.

For the six months ended December 31, 2013, revenues attributable to the Simplex acquisition represented approximately 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.

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Set forth below is the preliminary allocation of the purchase price for the Sterci and Simplex acquisitions as of December 31, 2013.

	Sterci	Simplex	Elimination	Total
		(in thousands)		
Current assets	$ 24,132	$ 3,113	$	$ 27,245
Property and equipment	2,668	455		3,123
Due from Simplex	4,242		(4,242)	
Customer related intangible assets	52,292	4,338		56,630
Core technology	17,425			17,425
Other intangible assets	6,142	191		6,333
Investment in Simplex	5,596		(5,596)	
Goodwill	47,675	11,823		59,498
Current liabilities	(12,256)	(3,759)		(16,015)
Pension liability	(9,528)			(9,528)
Other liabilities	(17,369)	(958)		(18,327)
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 December 31, 2013 is as follows.

	Sterci	Simplex	Elimination	Total
		(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

The valuation of acquired intangible assets for our acquisitions was estimated by performing projections of discounted cash flow, whereby revenues and costs associated with each intangible asset are forecast to derive expected cash flow which is discounted to present value at discount rates commensurate with perceived risk. The valuation and projection process is inherently subjective and relies on significant unobservable inputs (Level 3 inputs). The valuation assumptions also take into consideration our estimates of contract renewal, technology attrition and revenue projections.

Acquisition expenses of approximately $2.4 million were expensed during the six months ended December 31, 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.

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
	(in thousands)			
Revenues	$ 73,405	$ 71,167	$ 142,426	$ 140,666
Net loss	$ (7,265)	$ (11,814)	$ (16,731)	$ (15,871)
Net loss per basic and diluted share attributable to common stockholders	$ (0.20)	$ (0.33)	$ (0.46)	$ (0.45)

Note 5 Net Loss Per Share

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
	(in thousands)			
Numerator:				
Net loss allocable to common stockholders	$ (7,265)	$ (7,040)	$ (13,313)	$ (7,022)
Denominator:				
Shares used in computing basic and diluted net loss per share attributable to common stockholders	36,667	35,284	36,441	35,097
Basic and diluted net loss per share attributable to common stockholders	$ (0.20)	$ (0.20)	$ (0.37)	$ (0.20)

For the three and six months ended December 31, 2013, 2.6 million and 2.8 million stock options and shares of restricted stock, respectively, were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive.

For the three and six months ended December 31, 2012, 3.0 million and 3.1 million stock options and shares of restricted stock, respectively, were excluded from the calculation of diluted earnings per share as their effect 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 December 31, 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.

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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 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, non-cash pension expense 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 and six months ended December 31, 2013 and 2012 according to the segment descriptions above, is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
	(in thousands)			
Segment revenue:				

Payments and Transactional Documents	$ 31,281	$ 29,645	$ 61,092	$ 57,216
Banking Solutions	17,194	16,855	34,470	34,974
Hosted Solutions	24,930	17,109	45,092	33,108
Total segment revenue	$ 73,405	$ 63,609	$ 140,654	$ 125,298
Segment measure of profit:				
Payments and Transactional Documents	$ 9,030	$ 7,302	$ 17,994	$ 14,384
Banking Solutions	3,013	819	4,498	2,834
Hosted Solutions	118	2,401	1,281	3,660
Total measure of segment profit	$ 12,161	$ 10,522	$ 23,773	$ 20,878

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

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
	(in thousands)			
Total measure of segment profit	$ 12,161	$ 10,522	$ 23,773	$ 20,878
Less:				
Amortization of intangible assets	(8,174)	(5,201)	(13,879)	(9,513)
Stock-based compensation expense	(5,535)	(4,734)	(10,567)	(8,941)
Acquisition and integration related expenses	(903)	(2,565)	(2,769)	(4,280)
Restructuring expense (benefit)	10	(834)	(45)	(1,130)
Non cash pension expense	(151)		(151)	
Add:				
Loss on derivative instruments, net		(4,917)		(4,917)
Other expense, net	(3,391)	(585)	(7,431)	(539)
Loss before income taxes	$ (5,983)	$ (8,314)	$ (11,069)	$ (8,442)

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

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
	(in thousands)			
Depreciation expense:				
Payments and Transactional Documents	$ 849	$ 515	$ 1,468	$ 1,000
Banking Solutions	495	515	989	1,040
Hosted Solutions	762	698	1,481	1,401
Total depreciation expense	$ 2,106	$ 1,728	$ 3,938	$ 3,441

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.

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
	(in thousands)			
Revenues from unaffiliated customers:				
United States	$ 43,171	$ 42,057	$ 84,951	$ 84,767
United Kingdom	24,144	19,649	46,486	36,827
Continental Europe	5,298	1,115	7,705	2,162
Asia-Pacific	792	788	1,512	1,542
Total revenues from unaffiliated customers	$ 73,405	$ 63,609	$ 140,654	$ 125,298

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

	As of December 31, 2013	As of June 30, 2013
	(in thousands)	
Long-lived assets		
United States	$ 32,185	$ 31,068
United Kingdom	4,320	3,602
Continental Europe	2,678	24
Asia-Pacific	132	119
Total long-lived assets	$ 39,315	$ 34,813

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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 $1.3 million and an income tax benefit of $1.3 million for the three months ended December 31, 2013 and 2012, respectively. The income tax expense for the quarter ended December 31, 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. The tax benefit recorded for the quarter ended December 31, 2012 arose principally from our US operations offset in part by tax expense associated with our UK and Australian operations.

We recorded income tax expense of $2.2 million and an income tax benefit of $1.4 million for the six months ended December 31, 2013 and 2012, respectively. The tax expense recorded for the six months ending December 31, 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. The tax benefit recorded for the six months ending December 31, 2012 arose principally from our US operations, offset in part by tax expense associated with our UK and Australian 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).

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.

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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 December 31, 2013			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Life
		(in thousands)		(in years)
Amortized intangible assets:				
Customer related	$ 194,196	$ (80,848)	$ 113,348	12.0
Core technology	69,776	(40,644)	29,132	7.1
Other intangible assets	19,597	(6,807)	12,790	7.6
Total	$ 283,569	$ (128,299)	$ 155,270	
Unamortized intangible assets:				
Goodwill			175,203	
Total intangible assets			$ 330,473	

	As of June 30, 2013			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Life
		(in thousands)		(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
Total	$ 193,881	$ (111,009)	$ 82,872	
Unamortized intangible assets:				
Goodwill			109,196	
Total intangible assets			$ 192,068	

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

	(in thousands)
2014	$ 29,836
2015	25,081
2016	19,885
2017	17,289
2018	13,959
2019 and thereafter	63,099

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

	Payments and Transactional Documents	Banking Solutions (in thousands)	Hosted Solutions
Balance at June 30, 2013	$ 66,862	$ 8,453	$ 33,881
Goodwill acquired during the period			59,498
Impact of foreign currency translation	1,966		4,543
Balance at December 31, 2013	$ 68,828	$ 8,453	$ 97,922

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At December 31, 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 fiscal year ending June 30, 2014.

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 alleged breach of contract in connection with a patent purchase and settlement agreement that we entered into in January 2006 and sought unspecified damages and recovery of legal expenses. On March 18, 2013, we removed the lawsuit to the United States District Court for the District of New Hampshire. R&N thereafter filed a motion to remand the case to the New Hampshire state court, which was granted. The parties engaged in mediation in June 2013. In November 2013 the parties entered into a settlement agreement that, among other things, expanded our rights to the patent by removing certain ongoing payment obligations and settled the litigation between the parties, with the lawsuit being dismissed with prejudice. The settlement did not have a material impact 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.

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.

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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 December 31, 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 December 31, 2013 was as follows:

	(in thousands)
Principal amount	$ 189,750
Unamortized discount	(46,152)
Net carrying value	$ 143,598

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.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
	(in thousands)			
Contractual interest expense (cash)	$ 711	145	$ 1,423	145

Amortization of debt issue costs (non-cash)	296	61	592	61
Amortization of debt discount (non-cash)	2,530	486	5,016	486
	$ 3,537	692	$ 7,031	692
Effective interest rate of the liability component	6.83%	6.66%	6.79%	6.66%

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.

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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 December 31, 2013 consisted of the Note Hedges, Conversion Feature and Warrants as discussed in Note 10. As of December 31, 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.

Note 12 Pension

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, requires defined benefit plan accounting.

The components of net periodic pension cost are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
	(in thousands)			
Service cost	$ 567		$ 819	
Interest cost	155		224	
Expected return on plan assets	(201)		(290)	
Net periodic pension cost	$ 521		$ 753	

During the six months ended December 31, 2013, we made contributions of $0.6 million to our pension plan.

Note 13 Subsequent Event

On January 29, 2014 we acquired Rationalwave Analytics, Inc. (Rationalwave), an early stage predictive analytics technology company. As consideration we paid $1.2 million in cash and issued 205,882 shares of our common stock. Of the stock we issued, 92,151 shares include vesting restrictions tied to the continued employment of selling stockholders. Accordingly, these are compensatory awards for which we will record stock compensation expense over the underlying service period of four years.

Preliminary purchase accounting estimates for Rationalwave are not yet available, however we anticipate that the majority of the purchase price will be allocated to acquired intangible assets.

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,

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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.

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 six months ended December 31, 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 six months ended December 31, 2013, our revenue increased to $140.7 million from $125.3 million in the prior year. This revenue increase was attributable to revenue increases in our Hosted Solutions segment ($12.0 million) and our Payments and Transactional Documents segment ($3.9 million), partially offset by a revenue decrease in our Banking Solutions segment ($0.5 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 impact of expected customer attrition in our acquired commercial banking business.

We had net loss of $13.3 million in the six months ended December 31, 2013 compared to net loss of $7.0 million in the six months ended December 31, 2012. Our net loss for the six months ended December 31, 2013 includes the impact of $5.6 million of non-cash interest expense related to our convertible senior notes (Notes) and the impact of increased operating expenses of $12.7 million offset, in part, by increased gross margins of $12.1 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 six months of fiscal year 2014, we derived approximately 41% 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.

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 December 31, 2013 Compared to the Three Months Ended December 31, 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.

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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:

	Three Months Ended December 31,		Increase (Decrease) Between Periods 2013 Compared to 2012	
	2013	2012		
	(in thousands)		(in thousands)	%
Segment revenue:				
Payments and Transactional Documents	$ 31,281	$ 29,645	$ 1,636	5.5
Banking Solutions	17,194	16,855	339	2.0
Hosted Solutions	24,930	17,109	7,821	45.7
	$ 73,405	$ 63,609	$ 9,796	15.4
Segment measure of profit:				
Payments and Transactional Documents	$ 9,030	$ 7,302	$ 1,728	23.7
Banking Solutions	3,013	819	2,194	267.9
Hosted Solutions	118	2,401	(2,283)	(95.1)
Total measure of segment profit	$ 12,161	$ 10,522	$ 1,639	15.6

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A reconciliation of the measure of segment profit to our GAAP (loss) income for the three months ended December 31, 2013 and 2012, before the provision for income taxes, is as follows:

	Three Months Ended December 31,	
	2013	**2012**
	(in thousands)	
Total measure of segment profit	$ 12,161	$ 10,522
Less:		
Amortization of intangible assets	(8,174)	(5,201)
Stock-based compensation expense	(5,535)	(4,734)
Acquisition and integration related expenses	(903)	(2,565)
Restructuring expense (benefit)	10	(834)
Non cash pension expense	(151)	(0)
Add:		
Loss on derivative instruments, net	(0)	(4,917)
Other expense, net	(3,391)	(585)
Loss before income taxes	$ (5,983)	$