

BOTTOMLINE TECHNOLOGIES INC /DE/  
Form 10-Q  
February 06, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended December 31, 2014**

**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)**

<b>Delaware</b> <b>(State or other jurisdiction of</b> <b>incorporation or organization)</b>	<b>02-0433294</b> <b>(I.R.S. Employer</b> <b>Identification No.)</b>
<b>325 Corporate Drive</b> <b>Portsmouth, New Hampshire</b> <b>(Address of principal executive offices)</b>	<b>03801-6808</b> <b>(Zip Code)</b>
<b>(603) 436-0700</b> <b>(Registrant's telephone number, including area code)</b>	

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 <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company <input type="checkbox"/>

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 January 30, 2015 was 39,870,095.

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

	<b>December 31, 2014</b>	<b>June 30, 2014</b>
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 163,498	\$ 167,673
Marketable securities	23,785	23,805
Accounts receivable net of allowances for doubtful accounts of \$873 at December 31, 2014 and \$862 at June 30, 2014	56,589	61,064
Deferred tax assets	14,452	13,904
Prepaid expenses and other current assets	10,888	14,334
Total current assets	269,212	280,780
Property and equipment, net	39,276	35,901
Goodwill	199,292	208,991
Intangible assets, net	142,141	163,504
Other assets	10,009	11,167
Total assets	\$ 659,930	\$ 700,343
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,158	\$ 16,283
Accrued expenses	21,686	25,542
Deferred revenue	57,948	66,571
Total current liabilities	90,792	108,396
Convertible senior notes	154,180	148,795
Deferred revenue, non current	16,040	15,997
Deferred income taxes	21,691	23,537
Other liabilities	13,348	16,192
Total liabilities	296,051	312,917
Stockholders equity		
Preferred Stock, \$.001 par value:		
Authorized shares-4,000; issued and outstanding shares-none		

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Common Stock, \$.001 par value:

Authorized shares-100,000; issued shares-39,808 at December 31, 2014 and 39,244 at June 30, 2014; outstanding shares-37,705 at December 31, 2014 and 37,477 at June 30, 2014	40	39
Additional paid-in-capital	543,761	530,377
Accumulated other comprehensive income (loss)	(15,235)	6,816
Treasury Stock: 2,103 shares at December 31, 2014 and 1,747 shares at June 30, 2014, at cost	(30,230)	(20,579)
Accumulated deficit	(134,457)	(129,227)
 Total stockholders' equity	 363,879	 387,426
 Total liabilities and stockholders' equity	 \$ 659,930	 \$ 700,343

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 December 31,</b>		<b>Six Months Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>				
Subscriptions and transactions	\$ 42,865	\$ 34,845	\$ 83,736	\$ 66,394
Software licenses	5,423	5,463	11,081	10,201
Service and maintenance	32,180	31,369	65,140	60,691
Other	1,757	1,728	3,611	3,368
<b>Total revenues</b>	<b>82,225</b>	<b>73,405</b>	<b>163,568</b>	<b>140,654</b>
<b>Cost of revenues:</b>				
Subscriptions and transactions	19,789	16,754	39,117	32,098
Software licenses	372	392	767	758
Service and maintenance	12,688	13,973	25,972	26,492
Other	1,264	1,285	2,570	2,511
<b>Total cost of revenues</b>	<b>34,113</b>	<b>32,404</b>	<b>68,426</b>	<b>61,859</b>
<b>Gross profit</b>	<b>48,112</b>	<b>41,001</b>	<b>95,142</b>	<b>78,795</b>
<b>Operating expenses:</b>				
Sales and marketing	19,545	18,024	38,747	34,266
Product development and engineering	11,030	9,271	22,711	17,678
General and administrative	8,803	8,124	17,080	16,610
Amortization of intangible assets	7,000	8,174	14,184	13,879
<b>Total operating expenses</b>	<b>46,378</b>	<b>43,593</b>	<b>92,722</b>	<b>82,433</b>
<b>Income (loss) from operations</b>	<b>1,734</b>	<b>(2,592)</b>	<b>2,420</b>	<b>(3,638)</b>
<b>Other expense, net</b>	<b>(3,587)</b>	<b>(3,391)</b>	<b>(7,234)</b>	<b>(7,431)</b>
<b>Loss before income taxes</b>	<b>(1,853)</b>	<b>(5,983)</b>	<b>(4,814)</b>	<b>(11,069)</b>
<b>Income tax provision</b>	<b>109</b>	<b>1,282</b>	<b>416</b>	<b>2,244</b>
<b>Net loss</b>	<b>\$ (1,962)</b>	<b>\$ (7,265)</b>	<b>\$ (5,230)</b>	<b>\$ (13,313)</b>

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Basic and diluted net loss per share:	\$ (0.05)	\$ (0.20)	\$ (0.14)	\$ (0.37)
Shares used in computing basic and diluted net loss per share:	37,759	36,667	37,703	36,441
Other comprehensive income (loss), net of tax:				
Unrealized gain on available for sale securities	(9)	(1)	(21)	15
Minimum pension liability adjustments	(26)		(63)	
Foreign currency translation adjustments	(8,147)	3,838	(21,967)	13,745
Other comprehensive income (loss), net of tax:	(8,182)	3,837	(22,051)	13,760
Comprehensive income (loss)	\$ (10,144)	\$ (3,428)	\$ (27,281)	\$ 447

See accompanying notes.

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

	<b>Six Months Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Operating activities:		
Net loss	\$ (5,230)	\$ (13,313)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of intangible assets	14,184	13,879
Stock compensation expense	12,429	10,567
Depreciation and amortization of property and equipment	5,017	3,938
Deferred income tax benefit	(2,380)	(845)
Provision for allowances on accounts receivable	110	125
Excess tax benefits associated with stock compensation	(70)	(455)
Amortization of debt issuance costs	592	592
Amortization of debt discount	5,385	5,016
Amortization of premium on investments	218	185
Loss on disposal of equipment	4	4
Loss (gain) on foreign exchange	73	(45)
Changes in operating assets and liabilities:		
Accounts receivable	1,773	851
Prepaid expenses and other current assets	3,050	844
Other assets	278	(39)
Accounts payable	(3,344)	(1,056)
Accrued expenses	(1,703)	(1,798)
Deferred revenue	(4,723)	(233)
Other liabilities	767	706
Net cash provided by operating activities	26,430	18,923
Investing activities:		
Acquisition of businesses, net of cash acquired	(4,195)	(110,118)
Purchases of held-to-maturity securities	(76)	(55)
Proceeds from sales of held-to-maturity securities	76	55
Purchase of available-for-sale securities	(8,085)	(16,316)
Proceeds from sales of available-for-sale securities	7,847	2,011
Purchases of property and equipment, net	(10,562)	(5,483)
Proceeds from disposal of property and equipment	36	36
Net cash used in investing activities	(14,995)	(129,870)
Financing activities:		
Repurchase of common stock	(10,277)	



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Proceeds from exercise of stock options and employee stock purchase plan	1,571	2,855
Excess tax benefits associated with stock compensation	70	455
Net cash (used in) provided by financing activities	(8,636)	3,310
Effect of exchange rate changes on cash	(6,974)	6,013
Decrease in cash and cash equivalents	(4,175)	(101,624)
Cash and cash equivalents at beginning of period	167,673	283,552
Cash and cash equivalents at end of period	\$ 163,498	\$ 181,928

See accompanying notes.

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

**Notes to Unaudited Condensed Consolidated Financial Statements**

**December 31, 2014**

**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, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2015. 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 28, 2014.

**Note 2 Recent Accounting Pronouncements**

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 addressed 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. We adopted this standard prospectively effective July 1, 2014, resulting in a reduction of \$2.3 million to non-current deferred tax assets and non-current other liabilities in our consolidated balance sheet. This did not have an impact on our consolidated statements of comprehensive income (loss) or cash flows.

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update which provides for new revenue recognition guidance. The new standard supersedes nearly all existing revenue recognition guidance. The core principle of the new guidance is to recognize revenue when promised goods or services are transferred to customers, in an amount that reflects the consideration to which the vendor expects to receive for those goods or services. The new standard is expected to require more judgment and estimates within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to separate performance obligations. This standard is effective for us in our first quarter of our 2018 fiscal year using one of two methods of adoption: (i) retrospective to each prior reporting period presented, with the option to elect certain practical expedients as defined within the standard; or (ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application inclusive of certain additional disclosures. We are currently evaluating the method of adoption and the impact of this standard on our consolidated financial statements.

**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.

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At December 31, 2014 and June 30, 2014, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	December 31, 2014				June 30, 2014			
	Fair Value Measurements Using Input Types				Fair Value Measurements Using Input Types			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money market funds (cash and cash equivalents)	\$ 68,738	\$	\$	\$ 68,738	\$ 71,252	\$	\$	\$ 71,252
Available for sale securities								
Debt								
US Corporate	11,038			11,038	13,119			13,119
Residential mortgage-backed	7,560			7,560	5,537			5,537
Government US	5,117			5,117	5,069			5,069
<b>Total available for sale securities</b>	<b>\$ 23,715</b>	<b>\$</b>	<b>\$</b>	<b>\$ 23,715</b>	<b>\$ 23,725</b>	<b>\$</b>	<b>\$</b>	<b>\$ 23,725</b>

*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, 2014 and June 30, 2014, 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 income/(loss) in shareholders' equity, net of tax. We use the specific identification method to determine any realized gains or losses from the sale of our marketable securities classified as available for sale.

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, \$154.2 million at December 31, 2014, 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 \$202.1 million as of December 31, 2014. 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.

*Marketable Securities*

The table below presents information regarding our marketable securities by major security type as of December 31, 2014 and June 30, 2014.

	December 31, 2014			June 30, 2014		
	Held to Maturity	Available for Sale	Total	Held to Maturity	Available for Sale	Total
Marketable securities:						
Corporate and other debt securities	70	23,715	23,785	80	23,725	23,805
<b>Total marketable securities</b>	<b>\$ 70</b>	<b>\$ 23,715</b>	<b>\$ 23,785</b>	<b>\$ 80</b>	<b>\$ 23,725</b>	<b>\$ 23,805</b>

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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:

	<b>As of December 31, 2014</b>
	(in thousands)
Due within 1 year	\$ 11,106
Due in 1 year through 5 years	\$ 12,609
<b>Total</b>	<b>\$ 23,715</b>

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, 2014, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	<b>As of December 31, 2014</b>	
	<b>Less than 12 Months</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>
	(in thousands)	
U.S. Corporate	\$ 6,541	\$ 14
Residential mortgage-backed	\$ 3,547	\$ 4
Government US	\$ 1,713	\$
<b>Total</b>	<b>\$ 11,801</b>	<b>\$ 18</b>

**Note 4 Product and Business Acquisitions*****Fiscal 2015 Acquisitions******Arian***

On November 21, 2014, we acquired UK-based Arian Software Limited (Arian) for a cash payment of £2.3 million (approximately \$3.5 million based on exchange rates in effect at the acquisition date) and 60,000 shares of our common stock. The common stock component of the purchase consideration was issued to certain equity holders of Arian who are now Bottomline employees. The common stock is subject to a vesting schedule tied to continued employment; as such we will record share-based payment expense over the underlying stock vesting period of four years. Arian a long-term partner, provides technology used in our financial messaging business. In the allocation of the purchase price we recognized \$2.4 million of goodwill which is not deductible for income tax purposes. The goodwill arose principally due to anticipated future benefits arising from the acquisition. Identifiable intangible assets of \$1.5 million, consisting of acquired technology and certain customer related intangible assets are being amortized

over estimated useful lives of twelve years and nine years, respectively. Arian's operating results have been included in the results of the Hosted Solutions segment from the date of the acquisition forward and did not have a material impact on our revenue or earnings.

*Litco*

On July 9, 2014, we acquired substantially all of the assets and assumed certain liabilities of Litco Systems Inc. (Litco) for \$0.7 million in cash. Litco is a long-time reseller and integration partner of document automation products, principally in the Canadian marketplace. Customer related intangible assets are being amortized over an estimated useful life of six years. Litco's operating results have been included in the results of the Payments and Transactional Documents segment from the date of the acquisition forward and did not have a material impact on our revenue or earnings.

Acquisition expenses of approximately \$0.2 million were expensed during the six months ended December 31, 2014 related to the Arian and Litco acquisitions, principally as a component of general and administrative expense.

**Table of Contents*****Fiscal 2014 Acquisitions******Andera***

On April 3, 2014, we acquired Andera, Inc. (Andera) for purchase consideration of \$42.8 million in cash. We also issued 102,158 shares of our common stock to certain equity holders of Andera. These shares have vesting conditions tied to continuing employment, and, as such, the shares are compensatory and we will recognize share based payment expense over the underlying vesting period. The accounting purchase price also includes \$0.2 million related to unvested Andera stock options that we assumed in the acquisition. This amount reflects the fair value of the underlying awards that relate to pre-acquisition service periods.

At December 31, 2014, we were still finalizing our estimates of fair value for certain assets acquired and liabilities assumed. Accordingly, the purchase price allocation that follows is preliminary and subject to change as we finalize our fair value estimates. The preliminary allocation of the Andera acquisition purchase price as of December 31, 2014 is as follows:

	<b>(in thousands)</b>
Current assets	\$ 2,157
Property and equipment	1,226
Customer related intangible assets	13,749
Core technology	7,429
Other intangible assets	623
Goodwill	26,417
Current liabilities	(5,327)
Other liabilities	(3,294)
<b>Total purchase price</b>	<b>\$ 42,980</b>

In addition, during fiscal 2014, we completed several other business acquisitions. Please refer to our disclosures included in the Annual Report on Form 10-K as filed with the SEC on August 28, 2014.

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 forecasted 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.

**Note 5 Net Loss Per Share**

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

<b>Three Months Ended December 31,</b>	<b>Six Months Ended December 31,</b>
--	--



	2014	2013	2014	2013
	(in thousands)			
<b>Numerator:</b>				
Net loss	\$ (1,962)	\$ (7,265)	\$ (5,230)	\$ (13,313)
<b>Denominator:</b>				
Shares used in computing basic and diluted net loss per share	37,759	36,667	37,703	36,441
<b>Basic and diluted net loss per share</b>	<b>\$ (0.05)</b>	<b>\$ (0.20)</b>	<b>\$ (0.14)</b>	<b>\$ (0.37)</b>

For the three and six months ended December 31, 2014, 2.7 million and 2.6 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, 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.

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

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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, 2014, 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.

In recent years, we changed the internal reporting classification of certain operating lines and the allocation of expenses between those operating lines. To ensure a consistent presentation, 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 healthcare products and 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.

*Hosted Solutions.* Our Hosted Solutions segment provides customers predominately with SaaS technology 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 also incorporates our global financial messaging and Paymode-X solutions. Revenue within this segment is generally recognized on a subscription or transaction basis or ratably over the estimated life of the customer relationship.

*Digital Banking.* Our Digital Banking segment provides solutions that are specifically designed for banking and financial institution customers. Our cloud-based commercial banking products, including our online account opening solutions that we acquired in fiscal year 2014 through our acquisition of Andera, are 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 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.

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 normally 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 expenses 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 based on a percentage of the segment's revenues.

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

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Segment information for the three and six months ended December 31, 2014 and 2013 according to the segment descriptions above, is as follows:

	<b>Three Months Ended December 31,</b>		<b>Six Months Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>			
<b>Segment revenue:</b>				
Payments and Transactional Documents	\$ 30,899	\$ 31,426	\$ 63,453	\$ 61,969
Hosted Solutions	32,231	25,124	63,027	45,458
Digital Banking	19,095	16,855	37,088	33,227
	<b>\$ 82,225</b>	<b>\$ 73,405</b>	<b>\$ 163,568</b>	<b>\$ 140,654</b>
<b>Segment measure of profit:</b>				
Payments and Transactional Documents	\$ 8,863	\$ 9,353	\$ 18,969	\$ 19,015
Hosted Solutions	4,536	(50)	8,376	1,080
Digital Banking	2,723	2,858	3,688	3,678
Total measure of segment profit	\$ 16,122	\$ 12,161	\$ 31,033	\$ 23,773

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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,		Six Months Ended December 31,	
	2014	2013	2014	2013
	(in thousands)			
Total measure of segment profit	\$ 16,122	\$ 12,161	\$ 31,033	\$ 23,773
Less:				
Amortization of intangible assets	(7,000)	(8,174)	(14,184)	(13,879)
Stock-based compensation expense	(6,098)	(5,535)	(12,429)	(10,567)
Acquisition and integration related expenses	(1,280)	(903)	(1,707)	(2,769)
Restructuring benefit (expense)	14	10	(272)	(45)
Non cash pension expense	(24)	(151)	(21)	(151)
Other expense, net	(3,587)	(3,391)	(7,234)	(7,431)
Loss before income taxes	\$ (1,853)	\$ (5,983)	\$ (4,814)	\$ (11,069)

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
	(in thousands)			
Depreciation expense:				
Payments and Transactional Documents	\$ 612	\$ 605	\$ 1,248	\$ 1,118
Hosted Solutions	1,258	1,006	2,486	1,831
Digital Banking Solutions	638	495	1,283	989
Total depreciation expense	\$ 2,508	\$ 2,106	\$ 5,017	\$ 3,938

*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,		Six Months Ended December 31,	
	2014	2013	2014	2013
	(in thousands)			
Revenues from unaffiliated customers:				

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United States	\$ 48,436	\$ 43,171	\$ 94,355	\$ 84,951
United Kingdom	23,677	24,144	48,657	46,486
Continental Europe	9,340	5,298	18,586	7,705
Asia-Pacific	772	792	1,970	1,512
Total revenues from unaffiliated customers	\$ 82,225	\$ 73,405	\$ 163,568	\$ 140,654

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Long-lived assets, excluding deferred tax assets and intangible assets, which are based on geographical location, were as follows:

	As of December 31, 2014	As of June 30, 2014
	(in thousands)	
Long-lived assets		
United States	\$ 39,536	\$ 36,856
United Kingdom	7,012	6,611
Continental Europe	2,531	3,224
Asia-Pacific	206	157
Total long-lived assets	\$ 49,285	\$ 46,848

**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 \$0.1 million and \$1.3 million for the three months ended December 31, 2014 and 2013, respectively. The income tax expense for the quarter ended December 31, 2014 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 expense also included a tax benefit of \$0.3 million resulting from the enactment in December 2014 of the Tax Increase Prevention Act of 2014, which retroactively extended the US research and development credit for one year beginning January 1, 2014. The tax expense recorded 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.

We recorded income tax expense of \$0.4 million and \$2.2 million for the six months ended December 31, 2014 and 2013, respectively. The tax expense recorded for the six months ended December 31, 2014 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 expense also included a tax benefit of \$0.3 million resulting from the enactment in December 2014 of the Tax Increase Prevention Act of 2014, which retroactively extended the US research and development credit for one year beginning January 1, 2014. The tax expense recorded for the six months 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 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 \$0.2 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 implemented in fiscal year 2014 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.



**Table of Contents****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.

<b>As of December 31, 2014</b>				<b>Weighted Average Remaining Life (in years)</b>
<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (in thousands)</b>	<b>Net Carrying Value</b>		
<b>Amortized intangible assets:</b>				
Customer related	\$ 195,797	\$ (92,530)	\$ 103,267	11.3
Core technology	77,223	(48,377)	28,846	6.7
Other intangible assets	19,495	(9,467)	10,028	6.7
<b>Total</b>	<b>\$ 292,515</b>	<b>\$ (150,374)</b>	<b>\$ 142,141</b>	
<b>Unamortized intangible assets:</b>				
Goodwill			199,292	
<b>Total intangible assets</b>			<b>\$ 341,433</b>	

<b>As of June 30, 2014</b>				<b>Weighted Average Remaining Life (in years)</b>
<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (in thousands)</b>	<b>Net Carrying Value</b>		
<b>Amortized intangible assets:</b>				
Customer related	\$ 206,294	\$ (88,184)	\$ 118,110	11.8
Core technology	78,991	(45,552)	33,439	6.8
Other intangible assets	20,220	(8,265)	11,955	7.2
<b>Total</b>	<b>\$ 305,505</b>	<b>\$ (142,001)</b>	<b>\$ 163,504</b>	
<b>Unamortized intangible assets:</b>				
Goodwill			208,991	
<b>Total intangible assets</b>			<b>\$ 372,495</b>	

Excluding the impact of intangible asset amortization arising from our acquisition of Intellinx, Ltd in January 2015 (see Note 13), estimated amortization expense for fiscal year 2015 and subsequent fiscal years is as follows:

	<b>(in thousands)</b>
2015	\$ 28,027
2016	24,023
2017	19,476
2018	15,637
2019	13,980
2020 and thereafter	55,182

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

	<b>Payments and Transactional Documents</b>	<b>Hosted Solutions</b>	<b>Digital Banking</b>
	<b>(in thousands)</b>		
Balance at June 30, 2014	\$ 70,532	\$ 102,612	\$ 35,847
Goodwill acquired during the period		2,363	
Purchase accounting and other adjustments		(839)	509
Impact of foreign currency translation	(2,339)	(9,393)	
Balance at December 31, 2014	\$ 68,193	\$ 94,743	\$ 36,356

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**Note 9 Contingencies**

We are, from time to time, a party to 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.

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.

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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, 2014, 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, 2014 was as follows:

	<b>(in thousands)</b>
Principal amount	\$ 189,750
Unamortized discount	(35,570)
<b>Net carrying value</b>	<b>\$ 154,180</b>

Costs incurred in connection with our issuance of the Notes, principally related to underwriting and legal fees, are being 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:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>			
Contractual interest expense (cash)	\$ 711	\$ 711	\$ 1,423	\$ 1,423
Amortization of debt discount (non-cash)	2,716	2,530	5,385	5,016
Amortization of debt issue costs (non-cash)	296	296	592	592
	\$ 3,723	\$ 3,537	\$ 7,400	\$ 7,031
<b>Effective interest rate of the liability component</b>	<b>7.23%</b>	<b>6.83%</b>	<b>7.18%</b>	<b>6.79%</b>

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### *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 December 31, 2014 consisted of the Note Hedges, Conversion Feature and Warrants as discussed in Note 10. As of December 31, 2014 each of these instruments continued to meet 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 failed to satisfy those requirements we would be required 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 Postretirement Benefits**

### *Defined Benefit Pension Plan*

We sponsor a retirement plan for our 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.

Net periodic pension costs for the Swiss pension plan include the following components:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>			
<b>Components of net periodic cost</b>				
Service cost	\$ 562	\$ 628	\$ 1,154	\$ 901
Interest cost	164	172	338	247
Prior service credit	(23)		(47)	
Expected return on plan assets	(245)	(223)	(503)	(319)
Net periodic cost	\$ 458	\$ 577	\$ 942	\$ 829

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### **Note 13 Subsequent Event**

On January 12, 2015, we acquired all of the outstanding share capital of Intellinx Ltd., an Israeli corporation, (Intellinx). Intellinx is a leading provider of cyber fraud and risk management solutions. Headquartered in Israel, Intellinx customers include some of the world's leading banks and government agencies.

The consideration for the Intellinx acquisition consisted of approximately \$66.7 million in cash (\$6.8 million of which will be held in escrow as a source for the satisfaction of indemnification obligations owed to us) and 774,000 shares of our common stock. The common stock component of the purchase consideration was issued to certain equity holders of Intellinx who became employees of Bottomline. The common stock is subject to a vesting schedule tied to continued employment; as such we will record share based payment expense over the underlying stock vesting period which ranges from four to five years. A preliminary purchase price allocation for Intellinx is not yet available, however we anticipate that a significant component of the purchase price will be allocated to intangible assets including acquired technology, customer related assets and goodwill.

### **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.

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 power mission-critical business transactions. We help our customers optimize financially-oriented operations and build deeper customer and partner relationships by providing a trusted and easy-to-use set of cloud-based digital banking, fraud prevention, payment, financial document, insurance and healthcare solutions. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer's location. A growing portion of our offerings are being sold as SaaS-based solutions and paid for on a subscription and transaction basis.

We offer hosted and on-premise solutions that banks use to provide cash management and treasury capabilities to their business customers, as well as solutions that banks and credit unions use to facilitate online account opening. We offer financial messaging solutions for banks and corporations around the world, via solutions that leverage the SWIFT global messaging network. 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. We operate a



cloud-based network that facilitates the exchange of electronic payments and invoices between buyers and their suppliers. 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, while our healthcare customers use our solutions to streamline patient revenue and financial processes. Our document automation solutions are used by organizations to automate paper-intensive processes for the generation of transactional and supply chain documents. With our acquisition of Intellinx Ltd. in January 2015, we also offer comprehensive cyber fraud and risk management solutions. These solutions are designed to non-invasively monitor and analyze user behavior to flag and, in certain cases, instantly stop suspicious activity.

Our solutions are designed to complement, leverage and extend our customers' existing information systems, accounting applications and banking relationships so that they 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.

#### *Financial Highlights*

For the six months ended December 31, 2014, our revenue increased to \$163.6 million from \$140.7 million in the prior year. This revenue increase was attributable to revenue increases in our Hosted Solutions segment (\$17.6 million), our Digital Banking

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segment (\$3.9 million) and our Payments and Transactional Documents segment (\$1.5 million). The increased revenue contribution from our legal spend management, financial messaging and Paymode-X solutions accounted for the revenue increase in our Hosted Solutions segment. The Digital Banking segment's revenue increase was primarily due to higher revenue as a result of our acquisition of Andera, Inc. (Andera) in the fourth quarter of fiscal 2014.

We had net loss of \$5.2 million in the six months ended December 31, 2014 compared to net loss of \$13.3 million in the six months ended December 31, 2013. Our net loss for the six months ended December 31, 2014 was affected by the impact of increased operating expenses of \$10.3 million offset by increased gross margins of \$16.3 million. The increases in our operating expense categories was due primarily to the effect of our recent acquisitions including increased employee related costs as we continued to grow our business. The increase in our gross margin was driven by revenue increases in all of our reportable segments.

In the first six months of fiscal year 2015, we derived approximately 43% 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 recently acquired cyber fraud and risk management solutions, our digital banking products, and our legal spend management, financial messaging and Paymode-X solutions.

Our customers operate in many different industries, a diversification that we believe helps us in a challenging economic climate. Additionally, we believe that our recurring and subscription revenue base helps position us defensively against any short term economic downturn. While we believe that we continue to compete favorably in all of the markets we serve, ongoing or worsening economic stresses could negatively impact our business in the future.

## **Critical Accounting Policies and Significant Judgments and Estimates**

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, 2014 related to revenue recognition, the valuation of goodwill and intangible assets, the valuation of acquired 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 28, 2014.

## **Recent Accounting Pronouncements**

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 addressed 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. We adopted this standard prospectively effective July 1, 2014, resulting in a reduction of \$2.3 million to non-current deferred tax assets and non-current other liabilities in our consolidated balance sheet. This did not have an impact on our consolidated statements of comprehensive income

(loss) or cash flows.

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update which provides for new revenue recognition guidance. The new standard supersedes nearly all existing revenue recognition guidance. The core principle of the new guidance is to recognize revenue when promised goods or services are transferred to customers, in an amount that reflects the consideration to which the vendor expects to receive for those goods or services. The new standard is expected to require more judgment and estimates within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to separate performance obligations. This standard is effective for us in our first quarter of our 2018 fiscal year using one of two methods of adoption: (i) retrospective to each prior reporting period presented, with the option to elect certain practical expedients as defined within the standard; or (ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application inclusive of certain additional disclosures. We are currently evaluating the method of adoption and the impact of this standard on our consolidated financial statements.

**Table of Contents****Results of Operations****Three Months Ended December 31, 2014 Compared to the Three Months Ended December 31, 2013*****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, Hosted Solutions and Digital Banking.

In recent years, we changed the internal reporting classifications of certain operating lines and the allocation of expenses between those operating lines. To ensure a consistent presentation, 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 December 31,</b>		<b>Increase (Decrease) Between Periods 2014 compared to 2013</b>	
	<b>2014 (in thousands)</b>	<b>2013 (in thousands)</b>	<b>(in thousands)</b>	<b>%</b>
<b>Segment revenue:</b>				
Payments and Transactional Documents	\$ 30,899	\$ 31,426	(527)	(1.7)
Hosted Solutions	32,231	25,124	7,107	28.3
Digital Banking	19,095	16,855	2,240	13.3
	<b>\$ 82,225</b>	<b>\$ 73,405</b>	<b>\$ 8,820</b>	<b>12.0</b>
<b>Segment measure of profit:</b>				
Payments and Transactional Documents	\$ 8,863	\$ 9,353	(490)	(5.2)
Hosted Solutions	4,536	(50)	4,586	9,172.0
Digital Banking	2,723	2,858	(135)	(4.7)
Total measure of segment profit	\$ 16,122	\$ 12,161	\$ 3,961	32.6

A reconciliation of the measure of segment profit to our GAAP loss for the three months ended December 31, 2014 and 2013, before the provision for income taxes, is as follows:

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Total measure of segment profit	\$ 16,122	\$ 12,161
Less:		
Amortization of intangible assets	(7,000)	(8,174)
Stock-based compensation expense	(6,098)	(5,535)
Acquisition and integration related expenses	(1,280)	(903)
Restructuring benefit	14	10
Non-cash pension expense	(24)	(151)
Other expense, net	(3,587)	(3,391)
Loss before income taxes	\$ (1,853)	\$ (5,983)

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*Payments and Transactional Documents.* The slight revenue decrease for the three months ended December 31, 2014 as compared to the same period in the prior fiscal year was primarily attributable to revenue decreases of \$0.3 million in professional service revenue, \$0.4 million in North American software maintenance revenue and \$0.8 million in European software license revenue, offset in part by increases of \$0.8 million in North American software license revenue and \$0.2 million in European software maintenance revenue. The revenue decrease includes the unfavorable effect of foreign exchange rates of \$0.5 million. The segment profit decrease of \$0.5 million for the three months ended December 31, 2014 was primarily attributable to the revenue decreases described above as well as increased operating expenses of \$0.2 million as compared to the three months ended December 31, 2013. We expect revenue and profit for the Payments and Transactional Documents segment to remain relatively consistent during the remainder of fiscal year 2015 primarily as a result of increased adoption of our payments and document automation products to new and existing customers.

*Hosted Solutions.* Revenues from our Hosted Solutions segment increased \$7.1 million as compared to the same period in the prior fiscal year due primarily to increased revenue from our financial messaging solutions of \$4.9 million and, to a lesser degree from increases in our legal spend management and Paymode-X solutions. Segment profit increased \$4.6 million as compared to the same period in the prior fiscal year due to the increased revenue as described above and increased gross margins, partially offset by increased operating expenses of \$1.4 million, primarily due to our overall business growth. 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, financial messaging and Paymode-X solutions.

*Digital Banking.* Revenues from our Digital Banking segment increased \$2.2 million as compared to the same period in the prior fiscal year due to an increase in subscription and transactions revenue of \$3.7 million, offset in part by a decrease in service and maintenance revenues of \$1.5 million. The increase in subscription and transactions revenue was primarily due to the revenue contribution from our acquisition of Andera in the fourth quarter of fiscal year 2014. The decrease in service and maintenance revenue was principally due to the de-emphasis of certain large, highly customized banking projects in lieu of standard product deployments and our cloud-based solutions. Segment profit decreased \$0.1 million for the three months ended December 31, 2014 as compared to the same period in the prior fiscal year, as the revenue increases described above were offset by increased sales and marketing costs of \$0.8 million and increased product development costs of \$0.5 million as we continued to invest in our digital banking solutions. We expect revenue for the Digital Banking segment to increase slightly and profit to remain relatively consistent for the remainder of the fiscal year as we work to continue to transition customers to hosted offerings.

**Revenues by category**

	Three Months Ended December 31,				Increase (Decrease) Between Periods 2014 compared to 2013	
	2014		2013		(in thousands)	%
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues		
Revenues:						
Subscriptions and transactions	\$ 42,865	52.1	\$ 34,845	47.5	\$ 8,020	23.0
Software licenses	5,423	6.6	5,463	7.4	(40)	(0.7)
Service and maintenance	32,180	39.2	31,369	42.7	811	2.6
Other	1,757	2.1	1,728	2.4	29	1.7

Total revenues	\$ 82,225	100.0	\$ 73,405	100.0	\$ 8,820	12.0
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*Subscriptions and Transactions.* The increase in subscriptions and transactions revenues of \$8.0 million was due principally to the increase in revenue contribution from our digital banking solutions of \$3.7 million, our financial messaging solutions of \$2.3 million and, to a lesser extent, from increases in our legal spend management and Paymode-X solutions. We expect subscriptions and transactions revenues to increase during the remainder of the fiscal year, primarily as a result of increased revenue contribution from our legal spend management, financial messaging, digital banking and Paymode-X solutions.

*Software Licenses.* Revenue from software licenses remained consistent in the three months ended December 31, 2014 as compared to the three months ended December 31, 2013 as an increase of \$0.8 million in North American software license revenue was offset by a decrease of \$0.8 million in European software license revenue. We expect software license revenues to increase during the remainder of fiscal year 2015, principally as a result of increased software license revenue from our Payments and Transactional Documents segment.

*Service and Maintenance.* The increase in service and maintenance revenues was primarily the result of increases from our financial messaging solutions of \$2.7 million, offset in part by a decrease in revenues from our Digital Banking segment of \$1.5

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million, as we continue to de-emphasize certain large, highly customized banking projects in lieu of standard product deployments and our cloud-based solutions and a decrease of \$0.5 million in our Payments and Transactional Documents segment. The service and maintenance revenue in the three months ended December 31, 2014 compared to the same period in the prior year includes the unfavorable effect of foreign exchange rates of \$0.4 million. We expect that service and maintenance revenues will remain consistent during the remainder of the fiscal year as a result of decreases in revenue due to anticipated foreign currency fluctuations offset by increases in revenue from our Intellinx acquisition.

*Other.* Our other revenues consist principally of equipment and supplies sales which remained relatively minor components of our overall revenue. We expect that other revenues will remain relatively consistent during the remainder of 2015.

**Cost of revenues by category**

	Three Months Ended December 31,				Increase (Decrease) Between Periods	
	2014		2013		2014 compared to 2013	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Cost of revenues:						
Subscriptions and transactions	\$ 19,789	24.1	\$ 16,754	22.8	\$ 3,035	18.1
Software licenses	372	0.5	392	0.5	(20)	(5.1)
Service and maintenance	12,688	15.4	13,973	19.0	(1,285)	(9.2)
Other	1,264	1.5	1,285	1.8	(21)	(1.6)
Total cost of revenues	\$ 34,113	41.5	\$ 32,404	44.1	\$ 1,709	5.3
Gross profit	\$ 48,112	58.5	\$ 41,001	55.9	\$ 7,111	17.3

*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 decreased slightly to 46% of subscription and transactions revenues in the three months ended December 31, 2014 compared to 48% of subscriptions and transactions revenues in the three months ended December 31, 2013, primarily due to improved gross margins in our Hosted Solutions and Payments and Transactional Documents segments, partially offset by decreased gross margins in our Banking Solutions segment. We expect that subscriptions and transactions costs will remain consistent as a percentage of subscriptions and transactions revenue during the remainder of the fiscal year.

*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 7% of software license revenue in the three months ended December 31, 2014 and 2013. We expect that software license costs will remain relatively consistent, as a percentage of software license revenues, during the remainder of the fiscal year.

*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 to 39% of service and maintenance revenues in the three months ended December 31, 2014 as compared to 45% of service and maintenance revenues in the three months ended December 31, 2013. This was driven principally by an improvement in software maintenance gross margins in certain of our European software 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 remain minor components of our business. We expect that other costs will remain relatively consistent as a percentage of other for the remainder of the fiscal year.

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	Three Months Ended December 31,				Increase (Decrease) Between Periods 2014 compared to 2013	
	2014		2013		(in thousands)	%
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues		
Operating expenses:						
Sales and marketing	\$ 19,545	23.8	\$ 18,024	24.6	\$ 1,521	8.4
Product development and engineering	11,030	13.4	9,271	12.6	1,759	19.0
General and administrative	8,803	10.7	8,124	11.1	679	8.4
Amortization of intangible assets	7,000	8.5	8,174	11.1	(1,174)	(14.4)
Total operating expenses	\$ 46,378	56.4	\$ 43,593	59.4	\$ 2,785	6.4

*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 December 31, 2014 as compared to the three months ended December 31, 2013 primarily as a result of an increase in employee related costs associated with increased marketing initiatives. 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, including our digital banking and Paymode-X solutions 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 December 31, 2014 as compared to the three months ended December 31, 2013 increased principally as a result of an increase in headcount related costs of \$1.2 million and increased professional services expense offset in part by a decrease in costs related to contract employees. 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 digital banking and legal spend management solutions as well as our European product offerings and as a result of our recent acquisitions.

*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 December 31, 2014 as compared to the three months ended December 31, 2013 primarily due to an increase in employee related costs. We expect general and administrative expenses will increase slightly 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 decrease in amortization expense in the quarter ended December 31, 2014 as compared to the quarter ended December 31, 2013 occurred primarily due to a reduction in amortization expense associated with intangible assets arising from our fiscal year 2014 acquisition of Sterci. Excluding the impact of intangible asset amortization arising from our acquisition of Intellinx Ltd. in January 2015, we expect that total amortization expense for fiscal year 2015 will approximate \$28.0 million.

**Other Expense, Net**

	Three Months Ended December 31,		Increase (Decrease) Between	
	2014	2013	2014 compared to 2013	Periods
	(in thousands)			%
Interest income	\$ 137	\$ 191	\$ (54)	(28.3)
Interest expense	(3,683)	(3,538)	(145)	(4.1)
Other expense, net	(41)	(44)	3	6.8
Other expense, net	\$ (3,587)	\$ (3,391)	\$ (196)	(5.8)

*Other Expense, Net.* For the three months ended December 31, 2014 as compared to the three months ended December 31, 2013, interest income decreased slightly as a result of lower average cash balances in the quarter ended December 31, 2014. The slight 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 \$2.7 million and amortization of debt issuance costs of \$0.3 million

**Table of Contents****Provision for Income Taxes**

We recorded income tax expense of \$0.1 million and \$1.3 million for the three months ended December 31, 2014 and 2013, respectively. The income tax expense for the quarter ended December 31, 2014 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 expense also included a tax benefit of \$0.3 million resulting from the enactment in December 2014 of the Tax Increase Prevention Act of 2014, which retroactively extended the US research and development credit for one year beginning January 1, 2014. The tax expense recorded 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 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).

**Six Months Ended December 31, 2014 Compared to the Six Months Ended December 31, 2013****Segment Information**

The following tables represent our segment revenues and our segment measure of profit:

	Six Months Ended December 31,		Increase (Decrease) Between Periods 2014 compared to 2013	
	2014 (in thousands)	2013 (in thousands)	(in thousands)	%
Segment revenue:				
Payments and Transactional Documents	\$ 63,453	\$ 61,969	1,484	2.4
Hosted Solutions	63,027	45,458	17,569	38.6
Digital Banking	37,088	33,227	3,861	11.6
	\$ 163,568	\$ 140,654	\$ 22,914	16.3
Segment measure of profit:				
Payments and Transactional Documents	\$ 18,969	\$ 19,015	(46)	(0.2)
Hosted Solutions	8,376	1,080	7,296	675.6
Digital Banking	3,688	3,678	10	0.3
Total measure of segment profit	\$ 31,033	\$ 23,773	\$ 7,260	30.5

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A reconciliation of the measure of segment profit to our GAAP loss for the six months ended December 31, 2014 and 2013, before the provision for income taxes, is as follows:

	<b>Six Months Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Total measure of segment profit	\$ 31,033	\$ 23,773
Less:		
Amortization of intangible assets	(14,184)	(13,879)
Stock-based compensation expense	(12,429)	(10,567)
Acquisition and integration related expenses	(1,707)	(2,769)
Restructuring expense	(272)	(45)
Non cash pension expense	(21)	(151)
Other expense, net	(7,234)	(7,431)
Loss before income taxes	\$ (4,814)	\$ (11,069)

*Payments and Transactional Documents.* The revenue increase of \$1.5 million for the six months ended December 31, 2014, was primarily attributable to increased software license revenue of \$0.9 million, increased subscription and transactions revenue of \$0.3 million and other revenue of \$0.2 million and includes the favorable effect of foreign exchange rates of \$0.8 million. The segment profit remained consistent for the six months ended December 31, 2014 as increased gross margins were offset by increased operating expenses of \$1.2 million.

*Hosted Solutions.* Revenues from our Hosted Solutions segment increased \$17.6 million as compared to the same period in the prior fiscal year due primarily to increased revenue contributions from our financial messaging solutions of \$13.5 million and, to a lesser extent, from revenue increases in our legal spend management and our Paymode-X solutions. The segment profit increase of \$7.3 million as compared to the same period in the prior year was primarily the result of increased gross margins of \$12.6 million, driven principally by our increase in revenues, offset in part by an increase in operating expenses of \$5.3 million primarily related to the operating expenses of our Sterci and Simplex acquisitions.

*Digital Banking.* Revenues from our Digital Banking segment increased \$3.9 million as compared to the same period in the prior fiscal year due to an increase in subscriptions and transactions revenue of \$7.2 million largely related to the revenue contribution from our acquisition of Andera in the fourth quarter of fiscal year 2014, offset in part by a decrease of \$3.2 million in service revenue as a result of a decrease in revenue contribution from large banking projects. The segment profit remained consistent as improvements in gross margin were offset by increased operating expenses of \$2.3 million. The increased operating expenses are primarily the result of increased product development and sales and marketing expenses.

**Revenues by category**

<b>Six Months Ended December 31,</b>	<b>Increase Between Periods</b>
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	2014		2013		2014 compared to 2013	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
<b>Revenues:</b>						
Subscriptions and transactions	\$ 83,736	51.2	\$ 66,394	47.2	\$ 17,342	26.1
Software licenses	11,081	6.8	10,201	7.3	880	8.6
Service and maintenance	65,140	39.8	60,691	43.1	4,449	7.3
Other	3,611	2.2	3,368	2.4	243	7.2
Total revenues	\$ 163,568	100.0	\$ 140,654	100.0	\$ 22,914	16.3

*Subscriptions and Transactions.* The increase in subscriptions and transactions revenues of \$17.3 million was due principally to the increased subscription and transaction revenue from our Hosted Solutions segment of \$9.8 million. This overall increase includes increased revenue from our financial messaging solutions of \$6.0 million and, to a lesser extent, our legal spend management solution. The increase in revenue was also attributable to increases in our Digital Banking segment of \$7.2 million and our Payments and Transactional Documents segment of \$0.3 million. The increase in our Digital Banking revenue was primarily attributable to our fiscal year 2014 acquisition of Andera.

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*Software Licenses.* Software license revenues increased \$0.9 million for the six months ended December 31, 2014, as compared to the prior year. The increase was primarily due to increased revenue in our North American Payments and Transactional Documents solutions offset in part by decreased revenue in our European Payments and Transactional Documents solutions.

*Service and Maintenance.* The increase in service and maintenance revenues of \$4.4 million was primarily the result of increased service and maintenance revenues from our financial messaging solutions of \$7.6 million, partially offset by a decrease in our Digital Banking segment of \$3.4 million as we continue to de-emphasize certain large, highly customized banking projects.

*Other.* The slight increase in other revenues was principally due to an increase in revenue from our payments and transactional document products.

**Cost of revenues by category**

	Six Months Ended December 31, 2014		2013		Increase (Decrease) Between Periods 2014 compared to 2013	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Cost of revenues:						
Subscriptions and transactions	\$ 39,117	23.9	\$ 32,098	22.8	\$ 7,019	21.9
Software licenses	767	0.5	758	0.6	9	1.2
Service and maintenance	25,972	15.9	26,492	18.8	(520)	(2.0)
Other	2,570	1.5	2,511	1.8	59	2.3
Total cost of revenues	\$ 68,426	41.8	\$ 61,859	44.0	\$ 6,567	10.6
Gross profit	\$ 95,142	58.2	\$ 78,795	56.0	\$ 16,347	20.7

*Subscriptions and Transactions.* Subscriptions and transactions costs remained consistent at 47% of subscriptions and transactions revenues in the six months ended December 31, 2014, as compared to 48% in the six months ended December 31, 2013.

*Software Licenses.* Software license costs remained consistent at 7% of software license revenues in the six months ended December 31, 2014 and 2013.

*Service and Maintenance.* Service and maintenance costs decreased slightly as a percentage of service and maintenance revenues to 40% in the six months ended December 31, 2014, as compared to 44% for the six months ended December 31, 2013. The decrease in service and maintenance costs as a percentage of revenue was primarily a result of improved margins in our Digital Banking, Hosted Solutions and Payments and Transactional Documents segments.

*Other.* Other cost of revenues remained consistent as a percentage of other revenue in the six months ended December 31, 2014, as compared to the six months ended December 31, 2013.

**Operating Expenses**

	Six Months Ended December 31,				Increase Between	
	2014		2013		Periods	
	(in	As % of total	(in	As % of total	(in	%
	thousands)	Revenues	thousands)	Revenues	thousands)	
Operating expenses:						
Sales and marketing	\$ 38,747	23.7	\$ 34,266	24.3	\$ 4,481	13.1
Product development and engineering	22,711	13.9	17,678	12.6	5,033	28.5
General and administrative	17,080	10.4	16,610	11.8	470	2.8
Amortization of intangible assets	14,184	8.7	13,879	9.9	305	2.2
Total operating expenses	\$ 92,722	56.7	\$ 82,433	58.6	\$ 10,289	12.5

*Sales and Marketing.* Sales and marketing expenses increased \$4.5 million in the six months ended December 31, 2014, as compared to the six months ended December 31, 2013, primarily as a result of an increase in employee related costs of \$3.3 million, largely due to the impact of our recent acquisitions.

*Product Development and Engineering.* The increase in product development and engineering expenses of \$5.0 million was primarily attributable to a net increase in employee and contract employee and professional services related costs.



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*General and Administrative.* The increase in general and administrative expenses of \$0.5 million was principally attributable to an increase in employee and contract employee related costs.

*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 six months ended December 31, 2014, as compared to the six months ended December 31, 2013, occurred as a result of increased expense from intangible assets associated with our recent acquisitions.

**Other Expense, Net**

	Six Months Ended December 31,		Increase (Decrease) Between	
	2014	2013	2014 compared to 2013	Periods
	(in thousands)			%
Interest income	\$ 264	\$ 417	\$ (153)	(36.7)
Interest expense	(7,329)	(7,029)	(300)	(4.3)
Other expense, net	(169)	(819)	650	79.4
Other expense, net	\$ (7,234)	\$ (7,431)	\$ 197	2.7

*Other Expense, Net.* For the six months ended December 31, 2014, as compared to the six months ended December 31, 2013, interest income decreased as a result of a decrease in average cash balances. Interest expense increased as a result of interest expense related to our Notes issued in December 2012 and consisted of cash interest expense of \$1.4 million, amortization of debt discount of \$5.4 million and amortization of debt issuance costs of \$0.6 million. The decrease in other expense is the result of an decrease in foreign exchange losses in the six months ended December 31, 2014 as compared to the six months ended December 31, 2013. We expect interest income and other expense, net to remain minor components of our overall operations.

**Provision for Income Taxes**

We recorded income tax expense of \$0.4 million and \$2.2 million for the six months ended December 31, 2014 and 2013, respectively. The tax expense recorded for the six months ended December 31, 2014 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 expense also included a tax benefit of \$0.3 million resulting from the enactment in December 2014 of the Tax Increase Prevention Act of 2014, which retroactively extended the US research and development credit for one year beginning January 1, 2014. The tax expense recorded for the six months 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.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately \$0.2 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

**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 thirteen 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 January 2015, we utilized approximately \$66.7 million of our cash to acquire Intellinx Ltd. Intellinx is a leading provider of cyber fraud and risk management solutions. Intellinx is headquartered in Israel and their customers include some of the world's leading banks and government agencies.

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.

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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 six months ended December 31, 2014 and 2013 are summarized in the tables below:

	<b>December 31, 2014</b>	<b>June 30, 2014</b>
	<b>(in thousands)</b>	
Cash and cash equivalents	\$ 163,498	\$ 167,673
Marketable securities	\$ 23,785	\$ 23,805
Long-term debt <sup>(1)</sup>	\$ 154,180	\$ 148,795

- (1) Our long-term debt as of December 31, 2014, and June 30, 2014, consists of our convertible notes. The convertible notes are shown on our Consolidated Balance Sheet at their carrying value, which represents the principal balance of \$189.8 million less unamortized discount.

	<b>Six Months Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Cash provided by operating activities	\$ 26,430	\$ 18,923
Cash used in investing activities	(14,995)	(129,870)
Cash provided by financing activities	(8,636)	3,310
Effect of exchange rates on cash	(6,974)	6,013

*Cash, cash equivalents and marketable securities.* At December 31, 2014, our cash and cash equivalents of \$163.5 million consisted primarily of cash deposits held at major banks and money market funds. The \$4.2 million decrease in cash and cash equivalents at December 31, 2014 from June 30, 2014, was primarily due to net cash used to acquire businesses and assets of \$4.2 million, cash used for the purchase of available for sale securities of \$8.1 million, cash used to purchase property and equipment of \$10.6 million, cash used for the repurchase of common stock of \$10.3 million and the unfavorable effect of exchange rates on cash of \$7.0 million. These uses of cash were partially offset by cash generated from operations of \$26.4 million, proceeds from the sale of available for sale securities of \$7.8 million and cash generated from the exercise of employee stock options and our employee stock purchase plan of \$1.6 million.

At December 31, 2014, our marketable securities of \$23.8 million consisted primarily of US treasury notes, residential mortgage-backed securities, and U.S. corporate debt securities.

Cash, cash equivalents and marketable securities included approximately \$56.4 million held by our foreign subsidiaries as of December 31, 2014. Our current intention is to reinvest these amounts in the growth of our foreign operations. If our reinvestment plans change based on future events and we decide to repatriate these amounts to fund our domestic operations, the amounts would generally become subject to tax in the US to the extent there were cumulative profits in the foreign subsidiary from which the distribution to the US was made.

Cash and cash equivalents held by our foreign subsidiaries are denominated in currencies other than US Dollars. Decreases in the foreign currency exchange rates of the British Pound, Swiss Franc, European Euro, and Australian Dollar to the US Dollar decreased our overall cash balances by approximately \$7.0 million in the six months ended

December 31, 2014. 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.

*Operating Activities.* Cash generated from operating activities primarily relates to our net loss less the impact of non-cash expenses and changes in working capital. Cash generated from operations increased by \$7.5 million in the six months ended December 31, 2014 versus the same period the prior year. The increase was primarily the result of a decrease in our net loss of \$8.1 million, an increase in cash provided by accounts receivable of \$0.9 million, an increase in cash provided by prepaid expenses of \$2.2 million and an increase in non-cash expenses of \$2.6 million offset in part by a decrease of \$4.5 million in cash used by deferred revenue and an increase in cash used for accounts payable of \$2.3 million.

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At December 31, 2014, we had US net operating loss carryforwards of \$80.6 million, which expire at various times through fiscal year 2035, and foreign net operating loss carryforwards of \$12.2 million, primarily in Europe, which have no statutory expiration date. We also have approximately \$4.5 million of research and development tax credit carryforwards available which expire at various points through fiscal year 2035. Our operating losses and tax credit carryforwards may be subject to limitations under provisions of the Internal Revenue Code.

At December 31, 2014, a portion of the deferred tax assets associated with our US, European and Canadian 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 six months ended December 31, 2014, we completed two business acquisitions using cash of \$4.2 million. The decrease in net cash used in investing activities for the six months ended December 31, 2014 versus the same quarter of the prior fiscal year was primarily due to the \$110.1 million in cash used to fund prior period acquisitions as compared to the \$4.2 million of cash we used during the current period. In the six months ended December 31, 2014 there was also a decrease in the net cash used for the purchase of available for sale securities of \$14.1 million. The decreases were partially offset by an increase in cash used to purchase fixed assets of \$5.1 million.

*Financing Activities.* The increase in cash used by financing activities for the six months ended December 31, 2014 as compared to the same period the prior year was primarily due to \$10.3 million of cash used to repurchase shares of our common stock in the six months ended December 31, 2014 as well as a decrease of \$1.3 million in cash provided by the exercise of stock options and purchases of stock under our employee stock purchase plan.

**Table of Contents*****Contractual Obligations***

Following is a summary of future payments that we are required to make under existing contractual obligations as of December 31, 2014:

	<b>Payment Due by Fiscal Year</b>				<b>Total</b>
	<b>2015</b>	<b>2016-2017</b>	<b>2018-2019</b>	<b>Thereafter</b>	
	<b>(in thousands)</b>				
Long-term debt:					
Principal payment	\$	\$	\$ 189,750	\$	\$ 189,750
Interest payments	1,423	5,693	1,423		8,539
Operating leases	2,304	9,608	8,416	15,383	35,711
Purchase commitments	3,744	5,782	797	156	10,479
 Total contractual obligations	 \$ 7,471	 \$ 21,083	 \$ 200,386	 \$ 15,539	 \$ 244,479

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.

Our estimate of unrecognized tax benefits for which cash settlement may be required, in the amount of \$1.0 million, has been excluded from the table above. These amounts have been excluded because, as of December 31, 2014, 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.

The contractual obligations table above also excludes our estimate of the contributions we will make to our Swiss defined benefit pension plan in fiscal year 2015 which is \$1.9 million. We are unable to estimate contribution amounts for periods after fiscal year 2015.

***Off-Balance Sheet Arrangements***

During the six months ended December 31, 2014, we did not have any off-balance sheet arrangements.

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

We are exposed to a variety of risks, including interest rate changes, foreign currency exchange rate fluctuations, and derivative instruments classification. 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 28, 2014, which is incorporated herein by reference.

**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 December 31, 2014. 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.

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Based on the evaluation of our disclosure controls and procedures as of December 31, 2014, 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.

No change in our internal control over financial reporting occurred during the fiscal quarter ended December 31, 2014 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**

We are, from time to time, a party to 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 impact 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, 2014.*

### **Risks Related To Owning Our Common Stock**

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

The market price of our common stock has experienced and may continue to experience significant 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 our operating results;

public announcements concerning us, our competitors or our industry;



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.

**If our operating results are below analyst or investor expectations or if our revenues are below anticipated levels, the market price of our common stock could be adversely affected**

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 adversely 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:

a change in customer demand for our products, which is highly dependent on our ability to continue to offer innovative technology solutions in very competitive markets;

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

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the timing of customer orders;

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.

### **Our mix of products and services could have a significant effect on our 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 other revenue streams. If software license revenues or our 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

### **The markets in which we compete are extremely competitive and we may not be able to compete effectively**

The markets in which we compete are intensely competitive and characterized by rapid technological change. There is no assurance that we will be able to maintain our current market share or our customer base.

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 significantly larger customer bases and greater financial resources. Many of our competitors 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 anticipate that the markets in which we compete will continue to attract new competitors and new technologies and we may not be able to compete successfully with them.

To compete successfully, we need to maintain a successful research and development function. If we fail to enhance our current products and develop new, innovative solutions or if we fail to bring new solutions to market quickly enough, our products could become less competitive or obsolete.

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

Given the highly competitive and rapidly evolving technology environment we operate within, we believe that it is important to constantly enhance our existing product offerings as well as to develop new product offerings to meet strategic opportunities as they evolve. This includes developing and enhancing our products to include what we believe is necessary to meet the future needs of our customers.

Our operating results have recently been affected by increases in product development expenses as we have continued to make investments in a number of our products, particularly our SaaS platforms, and as we have funded new product

development based on market opportunities. We expect to continue to make these investments and we may at any time, based on product need or marketplace demand, decide to significantly increase our product development expenditures in these or other products.

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 for us.

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

An active acquisition program is an important element of our corporate strategy. We have been a highly acquisitive company and we expect to continue to make acquisitions in the future. 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;

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

failure to realize anticipated revenue increases for any number of reasons, including if a larger than expected number of acquired customers decline to renew software maintenance contracts or subscription based contracts, if we are unsuccessful in selling the acquired products to our customer base or if the acquired contract terms do not permit us to recognize revenue on a timely basis;

costs incurred to combine the operations of companies we acquire, such as transitional employee expenses and employee retention or relocation expenses may be higher than expected;

write offs related to existing or acquired assets such as deferred tax assets, goodwill or other intangible assets;

inability to retain key personnel of the acquired company;

inadequacy of existing operating, financial and management information systems to support the combined organization, including the difficulty in integrating an acquired company's accounting, financial reporting and other administrative systems to permit effective management;

difficulties implementing controls, procedures and policies appropriate for a public company at companies that, prior to the acquisition, may have lacked such controls, policies and procedures;

in the case of foreign acquisitions, challenges integrating operations across different cultures and languages and addressing the particular regulatory, economic, currency and political risks associated with different countries or regions;

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

dilution to existing stockholders and our earnings per share;

inurrence 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. 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**

The carrying value of our intangible assets, including goodwill, represents a significant portion of our total assets. While we reviewed our goodwill and our other intangible assets during the fourth quarter of fiscal year 2014 and concluded that there was no impairment, we could be subject to future impairment charges with respect to these 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.

**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 deterioration in the recent past and prospects for sustained economic recovery remain uncertain. Prolonged economic weakness or any further 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 contracts and software maintenance contracts;

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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.

## **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. 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, particularly with the British Pound Sterling, the Swiss Franc, the European Euro and the Israeli Shekel;

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. With our acquisition of Intellinx, Ltd. in January 2015 we are also doing business in Israel and , to a lesser extent, in Asia and Africa. During the six months ended December 31, 2014, approximately 43% of our revenues and 40% of our operating expenses were attributable to customers or operations located outside of North America. During the six months ended December 31, 2014 as compared to the same period in the prior year, the foreign currency exchange rates of the British Pound Sterling to the US Dollar increased slightly. Future appreciation of the US Dollar against the British Pound Sterling, Swiss Franc, European Euro, Israeli Shekel or Australian Dollar will have the impact of reducing both our revenues and operating expenses associated with our United Kingdom and European operations.

## **We may have larger than anticipated tax liabilities**

The determination of our provision for income taxes requires significant judgment and estimation and there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to tax in multiple US and foreign tax jurisdictions and the determination of our tax liability is always subject to audit and review by the applicable domestic or foreign taxing authority. In light of fiscal challenges in US federal and state governments and in many international locations, taxing authorities are increasingly focused on ways to increase revenues which may make resolving tax disputes more difficult. While we have established tax reserves using assumptions and estimates that we believe to be reasonable, these reserves may prove insufficient in the event that a taxing authority asserts a tax position that is contrary to our position.

**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;

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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, and

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

### **Our future financial results will be affected by our success in selling our products in a subscription 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 based revenue model. We believe a subscription based revenue 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 basis generally delay the timing of revenue recognition and often require the incurrence of up-front costs, which can be significant;

subscription 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 arrangement may elect not to renew their contract 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 basis, including new revenue models that we may introduce, will receive broad marketplace acceptance.

### **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 and may adversely affect revenue in the future**

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. A shortfall in orders for our subscription based solutions in any one period would most likely not significantly reduce our subscription revenue for that period, but could adversely 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 operating results 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.

### **Large and complex customer contracts, or contracts that involve the delivery of services over contractually committed periods, delay 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**

Large and complex customer contracts, particularly in our Digital Banking segment, delay the timing of our revenue recognition. These arrangements 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. 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.

**If our products and services do not comply with laws, regulations and industry standards to which we and our customers are subject, our business could be adversely affected**

Our software products and SaaS offerings facilitate the transmission of cash, business documents and confidential information including, in some cases, personally identifiable information related to individuals and corporations. Our software products and certain

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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 our products comply with current regulatory requirements, the interpretation and application of these requirements continues to evolve and may evolve in ways that we cannot predict; so there can be no assurance that future legal or regulatory actions will not adversely 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 or our customers 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 how we operate our business, including any 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.

### **Security or data breaches could have an 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 actual transfer of cash or transmit instructions that initiate cash transfer. Our products and services, particularly our SaaS and Web-based offerings, may be vulnerable to unauthorized access, computer viruses, cyber-attacks, distributed denial of service attacks and other disruptive problems which could result in the theft, destruction or misappropriation of confidential information. Security risks in recent years have increased significantly given the increased sophistication and activities of hackers, organized crime and other external parties. We may need to spend significant capital or allocate significant resources to ensure effective ongoing protection against the threat of security breaches or to address security related concerns. Despite our efforts, a security breach or computer virus could still occur which could have a significant negative impact on our business including reputational harm, the loss of customers and material financial liability to us.

### **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**

Despite testing prior to their release and throughout the lifecycle of a product or service, software and SaaS offerings can contain errors or defects that can impact their function, performance and security. Any unanticipated performance problems or defects 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 and reputational harm to us and our products and exposure to potential liability claims. As a result, any error or defect in our products or services could adversely affect our future financial results.

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

We rely on third party hardware and software to deliver certain of our solutions. These third party products may not continue to be available to us on commercially reasonable terms, or at all. The loss of the right to use any of these products 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 products used in conjunction with our solutions could adversely affect the operation of our products.

### **Catastrophic events may disrupt our business, including our third party data centers**

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 third party data center facilities in different US and international locations over which we have no control. 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.

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### **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.

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 harm our reputation, result in substantial financial costs or divert management's attention, 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.

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 result in reputational harm to us, 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.

### **Our ability to attract and retain qualified employees is critical to the success of our business and failure to do so could adversely affect our operating results**

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, including base salary, bonus and equity incentives. The loss of one or more of our key employees or our failure to consistently attract and retain sufficient qualified employees to grow our operations could have a material adverse effect on our business. 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.

**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 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 including:

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;

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

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

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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.

### **Risks 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 or future indebtedness 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 or future indebtedness, resulting in a default under such indebtedness**

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 the notes or future indebtedness.

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

Our level of indebtedness affects our operations in several ways, including:

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.

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.

**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.

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Certain derivative instruments issued in connection with the notes were classified within stockholders' equity at December 31, 2014. 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.

### **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 their option during specified periods. If one or more holders elect to convert their notes, we would be required to settle the principal portion of the notes in cash. Additionally, 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.

### **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 the 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 outstanding warrants 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.



**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 quarter ended December 31, 2014:

<b>Period</b>	<b>Total Number of Shares Purchased(a)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs</b>
October 1, 2014 - October 31, 2014		\$		\$ 16,562,000
November 1, 2014 - November 30, 2014	409,688	25.09	409,688	\$ 6,284,000
December 1, 2014 - December 31, 2014				\$ 6,284,000
Total	409,688	\$ 25.09	409,688	

(a) In May 2012, our board of directors authorized a repurchase program for up to \$20.0 million of our common stock.

**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.

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**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: February 6, 2015

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>Filed</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filer Date</b>	
<b>Number</b>						<b>Herewith</b>
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 December 31, 2014 (unaudited) and June 30, 2014, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended December 31, 2014 and 2013, (iii) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2014 and 2013 and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.