

BOTTOMLINE TECHNOLOGIES INC /DE/  
Form 10-Q  
February 07, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(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, 2010

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

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Bottomline Technologies (de), Inc.  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

325 Corporate Drive  
Portsmouth, New Hampshire

03801-6808

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(Address of principal executive offices)

(Zip Code)

(603) 436-0700

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer  Accelerated Filer

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

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

The number of shares outstanding of the registrant's common stock as of January 31, 2011 was 33,213,810.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Bottomline Technologies (de), Inc.  
Unaudited Condensed Consolidated Balance Sheets  
(in thousands)

	December 31, 2010	June 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$143,936	\$122,758
Marketable securities	61	51
Accounts receivable, net of allowance for doubtful accounts of \$439 at December 31, 2010 and \$481 at June 30, 2010	36,840	26,019
Other current assets	8,139	8,910
Total current assets	188,976	157,738
Property, plant and equipment, net	14,342	14,561
Goodwill	69,712	64,294
Intangible assets, net	29,592	31,172
Other assets	667	1,617
Total assets	\$303,289	\$269,382
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$6,549	\$5,857
Accrued expenses	10,062	9,715
Deferred revenue	42,807	37,461
Total current liabilities	59,418	53,033
Deferred revenue, non-current	2,991	2,738
Deferred income taxes	2,266	1,432
Other liabilities	1,940	1,788
Total liabilities	66,615	58,991
Stockholders' equity:		
Preferred Stock, \$.001 par value:		
Authorized shares—4,000; issued and outstanding shares—none	----	----
Common Stock, \$.001 par value:		
Authorized shares—50,000; issued shares—33,680 at December 31, 2010, and 32,376 at June 30, 2010; outstanding shares—31,714 at December 31, 2010, and 30,325 at June 30, 2010	34	32
Additional paid-in capital	393,235	375,700
Accumulated other comprehensive loss	(6,289 )	(9,358 )
Treasury stock: 1,966 shares at December 31, 2010, and 2,051 shares at June 30, 2010, at cost	(21,720 )	(22,657 )
Accumulated deficit	(128,586 )	(133,326 )

Total stockholders' equity	236,674	210,391
Total liabilities and stockholders' equity	\$303,289	\$269,382

See accompanying notes.

Bottomline Technologies (de), Inc.  
 Unaudited Condensed Consolidated Statements of Operations  
 (in thousands, except per share amounts)

	Three Months Ended December 31,	
	2010	2009
Revenues:		
Software licenses	\$4,180	\$3,787
Subscriptions and transactions	13,031	10,469
Service and maintenance	24,952	23,775
Equipment and supplies	2,119	2,091
Total revenues	44,282	40,122
Cost of revenues:		
Software licenses	214	321
Subscriptions and transactions (1)	6,748	5,160
Service and maintenance (1)	10,404	10,405
Equipment and supplies	1,635	1,590
Total cost of revenues	19,001	17,476
Gross profit	25,281	22,646
Operating expenses:		
Sales and marketing (1)	9,257	8,825
Product development and engineering (1)	5,476	4,753
General and administrative (1)	4,545	4,248
Amortization of intangible assets	2,905	3,361
Total operating expenses	22,183	21,187
Income from operations	3,098	1,459
Other income (expense), net	32	(93)
Income before income taxes	3,130	1,366
Provision for income taxes	1,065	662
Net income	2,065	704
Basic net income per share attributable to common stockholders:	\$0.07	\$0.03
Diluted net income per share attributable to common stockholders:	\$0.06	\$0.03
Shares used in computing basic net income per share attributable to common stockholders:	31,330	25,092
Shares used in computing diluted net income per share attributable to common stockholders:	33,253	25,933

(1) Stock based compensation is allocated as follows:

	Three Months Ended December 31,	
	2010	2009
Cost of revenues: subscriptions and transactions	\$118	\$61

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Cost of revenues: service and maintenance	474	444
Sales and marketing	994	838
Product development and engineering	419	329
General and administrative	846	728

See accompanying notes.

Bottomline Technologies (de), Inc.  
 Unaudited Condensed Consolidated Statements of Operations  
 (in thousands, except per share amounts)

	Six Months Ended December 31,	
	2010	2009
Revenues:		
Software licenses	\$7,642	\$6,750
Subscriptions and transactions	24,565	18,750
Service and maintenance	50,004	46,910
Equipment and supplies	4,110	4,268
Total revenues	86,321	76,678
Cost of revenues:		
Software licenses	429	540
Subscriptions and transactions (1)	13,121	9,038
Service and maintenance (1)	20,833	20,125
Equipment and supplies	3,155	3,211
Total cost of revenues	37,538	32,914
Gross profit	48,783	43,764
Operating expenses:		
Sales and marketing (1)	17,811	16,708
Product development and engineering (1)	10,488	8,843
General and administrative (1)	9,280	8,538
Amortization of intangible assets	5,787	6,667
Total operating expenses	43,366	40,756
Income from operations	5,417	3,008
Other income, net	315	128
Income before income taxes	5,732	3,136
Provision for income taxes	992	1,260
Net income	4,740	1,876
Basic and diluted net income per share attributable to common stockholders:	\$0.15	\$0.07
Shares used in computing basic net income per share attributable to common stockholders:	31,042	24,747
Shares used in computing diluted net income per share attributable to common stockholders:	32,619	25,372

(1) Stock based compensation is allocated as follows:

	Six Months Ended December 31,	
	2010	2009
Cost of revenues: subscriptions and transactions	\$224	\$114
Cost of revenues: service and maintenance	883	749



Sales and marketing	1,844	1,487
Product development and engineering	778	533
General and administrative	1,693	1,425

See accompanying notes.

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

	Six Months Ended December 31,	
	2010	2009
Operating activities:		
Net income	\$4,740	\$1,876
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	5,787	6,667
Stock compensation expense	5,422	4,308
Depreciation and amortization of property, plant and equipment	2,518	2,164
Deferred income tax (benefit) provision	(715 )	301
Provision for allowances on accounts receivable	1	(99 )
Provision for allowances for obsolete inventory	4	1
Excess tax benefits associated with stock compensation	(322 )	(130 )
Loss on disposal of equipment	24	----
Loss (gain) on foreign exchange	30	(136 )
Changes in operating assets and liabilities:		
Accounts receivable	(8,708 )	(1,089 )
Inventory	(122 )	(23 )
Prepaid expenses and other current assets	4,552	549
Other assets	(1,764 )	(1,091 )
Accounts payable	(32 )	298
Accrued expenses	(618 )	(1,752 )
Deferred revenue	3,107	2,189
Other liabilities	16	598
Net cash provided by operating activities	13,920	14,631
Investing activities:		
Acquisition of businesses and assets, net of cash acquired	(5,962 )	(17,000 )
Purchases of held-to-maturity securities	(54 )	(50 )
Proceeds from sales of held-to-maturity securities	54	50
Purchases of property and equipment, net	(1,913 )	(2,528 )
Net cash used in investing activities	(7,875 )	(19,528 )
Financing activities:		
Proceeds from sale of common stock, net	4,864	----
Proceeds from exercise of stock options and employee stock purchase plan	7,898	9,560
Repurchase of common stock	----	(23 )
Excess tax benefits associated with stock compensation	322	130
Capital lease payments	(56 )	(56 )
Payment of bank financing fees	(3 )	(13 )
Net cash provided by financing activities	13,025	9,598
Effect of exchange rate changes on cash and cash equivalents	2,108	(10 )
Increase in cash and cash equivalents	21,178	4,691
Cash and cash equivalents at beginning of period	122,758	50,255
Cash and cash equivalents at end of period	\$143,936	\$54,946
Supplemental disclosure of cash flow information:		

Issuance of warrants in connection with acquisition of business	\$---	\$10,520
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See accompanying notes.

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Bottomline Technologies (de), Inc.  
Notes to Unaudited Condensed Consolidated Financial Statements  
December 31, 2010

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, 2010 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2011. For further information, refer to the financial statements and footnotes included in the Annual Report on Form 10-K for Bottomline Technologies (de), Inc. as filed with the Securities and Exchange Commission (SEC) on September 10, 2010.

Note 2—Recent Accounting Pronouncements

Revenue Recognition

In October 2009, the Financial Accounting Standards Board issued authoritative guidance on two issues related to revenue recognition: Revenue Arrangements with Multiple Deliverables and Certain Revenue Arrangements that Include Software Elements.

Revenue Arrangements with Multiple Deliverables applies to multiple-deliverable revenue arrangements and provides for two significant changes to existing multiple-element revenue recognition guidance. The first change relates to the determination of when individual deliverables within an arrangement should be treated as separate units of accounting. Broadly, a deliverable should be treated as a separate unit of accounting when it has value to the customer on a standalone basis and when delivery or performance of any undelivered items is considered to be probable and substantially within the control of the vendor. The second change relates to the manner in which arrangement consideration should be allocated to any separately identified deliverables and requires that the allocation of revenue among deliverables be based on vendor specific objective evidence (VSOE) or third-party evidence of selling price and, to the extent that neither of these levels of evidence exist, that the allocation be based on the vendor's best estimate of selling price for each deliverable. Use of the residual method of allocating revenue to arrangement deliverables is specifically prohibited unless the transaction is governed by software revenue recognition literature. Financial statement disclosure requirements have also been expanded. We adopted this guidance on a prospective basis on July 1, 2010, which required us to apply this guidance to all revenue arrangements entered into, or materially modified, on or after that date. The adoption of this accounting standard did not have a material impact on our condensed consolidated financial statements for the quarter and six months ended December 31, 2010 and we do not believe it will have a material impact in the remainder of fiscal 2011.

Certain Revenue Arrangements that Include Software Elements focuses on redefining which revenue arrangements are within the scope of software revenue recognition literature and which are not. The issue provides guidance on determining whether tangible products containing non-software and software elements are governed by software revenue recognition literature and narrows the definition of what constitutes a "software" transaction. In particular, non-software components of products that include software, software products bundled with tangible products where

the non-software and software components function together to deliver the product's essential functionality, and undelivered elements related to non-software components are, as a result of this issue, outside the scope of software revenue recognition rules. The issue also provides guidance on allocating revenue between non-software and software elements. We adopted the guidance on a prospective basis beginning July 1, 2010. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements for the quarter and six months ended December 31, 2010 and we do not believe it will have a material impact in the remainder of fiscal 2011.

### Note 3—Revenue Recognition

#### Software Arrangements

We recognize revenue on our software license arrangements when four basic criteria are met: persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed and determinable and collectability is deemed probable. We consider a fully executed, non-cancelable agreement or a customer purchase order to be persuasive evidence of an arrangement. Delivery is deemed to have occurred upon transfer of the product title to the customer or the completion of services rendered. We consider the arrangement fee to be fixed and determinable if it is not subject to adjustment and if the customer has not been granted extended payment terms. Excluding our long term contract arrangements for which revenue is recorded on a percentage of completion basis, extended payment terms are deemed to be present when any portion of the software license fee is due in excess of 90 days after the date of product delivery. In arrangements that contain extended payment terms, software revenue is recorded as customer payments become contractually due, assuming all other revenue recognition criteria have been met. We consider the arrangement fee to be probable of collection if our internal credit analysis indicates that the customer will be able to pay contractual amounts as they become due.

Our software arrangements may contain multiple revenue elements, such as software licenses, professional services, hardware and post-contract customer support. For multiple element software arrangements which qualify for separate element treatment, revenue is recognized for each element when each of the four basic criteria is met; excluding post-contract customer support, this is typically upon delivery or completion of professional services. Revenue for post-contract customer support agreements is recognized ratably over the term of the agreement, which is generally one year. Revenue is allocated to each element, excluding the software license, based on vendor specific objective evidence of fair value (“VSOE”). VSOE is limited to the price charged when the element is sold separately or, for an element not yet being sold separately, the price established by management having the relevant authority. We do not have VSOE for our software licenses since they are seldom sold separately. Accordingly, revenue is allocated to the software license according to the residual value method. Under the residual value method, revenue equal to VSOE of each undelivered element is deferred and recognized upon delivery of that element. Any “residual” arrangement fee is allocated to the software license. This has the effect of allocating any sales discount inherent in the arrangement to the software license fee.

Certain of our software license arrangements require significant customization and modification and involve extended implementation periods and, as such, do not qualify for separate element treatment. These arrangements are typically accounted for using percentage of completion contract accounting. In such arrangements, since we are able to make reasonably reliable estimates of progress toward completion, revenue is recognized over the life of the project as work is performed. Revenue earned in each reporting period is determined based on the percentage of labor hours incurred on the project as a percentage of total estimated labor hours. Customer payment milestones for both software and professional services fees on these long-term arrangements typically occur on a periodic basis over the period of project completion.

#### Non-Software Arrangements

For arrangements governed by general revenue recognition literature, such as with our hosted or SaaS offerings or equipment and supplies only sales, we recognize revenue when four basic criteria are met; these criteria are similar to those governing software transactions: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the arrangement fee is fixed or determinable and collectability is reasonably assured. For our SaaS offerings, revenue is generally recognized on a subscription or transaction basis over the period of performance.

For arrangements consisting of multiple elements, revenue is allocated to each element based on a selling price hierarchy. The selling price of each element is based on VSOE if available, third party evidence (“TPE”) if VSOE is not

available or estimated selling price (“ESP”) if neither VSOE or TPE are available. TPE is determined based on selling prices charged by unrelated third party vendors for similar deliverables when sold separately. The residual method of allocation in a non-software arrangement is not permitted and, instead, arrangement consideration is allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionately to each deliverable based on the relative proportion of each deliverable’s selling price to the total arrangement fee. We are typically unable to establish TPE as we are unable to obtain sufficient information on vendor selling prices to substantiate TPE. The objective of ESP is to estimate the price at which we would transact if the deliverable were sold separately rather than as part of a multiple element arrangement. Our determination of ESP considers several factors including actual selling prices for similar transactions, gross margin expectations and ongoing pricing strategy. We plan to formally analyze our ESP determinations on at least an annual basis.

Whether a deliverable represents a separate unit of accounting, thus resulting in discrete revenue recognition as the revenue recognition criteria for that deliverable are met, is dependent on whether the deliverable has value to the customer on a standalone basis. A deliverable is deemed to have standalone value if it is sold separately by us or any other vendor or if the deliverable could be resold by the customer. Additionally, in an arrangement that includes a general right of return related to delivered items, delivery or performance of any undelivered items must be considered probable and substantially within our control.

Up-front fees paid by the customer, even if non-refundable, that do not have stand alone value are deferred and recognized as revenue over the period of performance. We periodically charge up-front fees related to installation and integration services in connection with certain of our hosted or SaaS offerings. These fees are deferred and recognized as revenue ratably over the estimated customer relationship period, which is generally five years, and the revenue recognition period associated with these fees normally commences upon customer implementation.

Unless capitalized as part of an intangible asset in connection with a business or asset acquisition, contract origination costs and incremental direct costs are expensed as incurred.

#### Arrangements Including Both Software and Non-Software Deliverables

Periodically, we will enter into an arrangement that contains both software and non-software deliverables. In such a transaction, the aggregate arrangement consideration is allocated to the software deliverables and non-software deliverables as a group, using the relative selling prices of each of the deliverables based on the aforementioned selling price hierarchy. After this allocation is completed, the arrangement consideration allocated to the software deliverables is further allocated using the residual value method described above.

Regardless of the allocation methodology or the nature of the deliverables, we limit the amount of revenue that can be recognized for delivered items to the amount that is not contingent on future deliverables or subject to customer specified return or refund rights.

#### Customer Returns

The sales value of customer returns are estimated and accrued for based upon return authorizations issued and past history. Actual returns, in the aggregate, have been consistent with management's expectations and have historically not been significant.

#### Note 4—Fair Value

##### Fair Value of Assets and Liabilities

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

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

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



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

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

At December 31, 2010, our assets measured at fair value on a recurring basis were as follows:

(in thousands)	December 31, 2010			Total
	Fair Value Measurements Using Input Types			
	Level 1	Level 2	Level 3	
Money market funds (cash and cash equivalents)	\$99,616	\$—	\$—	\$99,616

(in thousands)	June 30, 2010			Total
	Fair Value Measurements Using Input Types			
	Level 1	Level 2	Level 3	
Money market funds (cash and cash equivalents)	\$58,257	\$—	\$—	\$58,257

#### Fair Value of Financial Instruments

We have certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable and accounts payable. Our marketable securities are classified as held to maturity and recorded at amortized cost which, at December 31, 2010 and June 30, 2010, approximated fair value. These investments all mature within one year. The fair values of our other financial instruments approximate their carrying values, due to the short-term nature of those instruments.

#### Note 5—Product and Business Acquisitions

##### SMA Financial, Ltd.

On October 26, 2010, we acquired SMA Financial, Ltd., (“SMA”) for a cash payment of approximately £5.0 million (approximately \$7.9 million, based on foreign exchange rates at the time of the acquisition). SMA is a London-based provider of Software as a Service (SaaS) connectivity to the Society for Worldwide Interbank Financial Telecommunication, which is referred to as SWIFT, for the automation of payments and financial messaging. As a result of the acquisition, we expect to offer next-generation treasury and cash management solutions to a range of bank and corporate customers.

At December 31, 2010, we were still finalizing our estimates of fair value for property, equipment and intangible assets acquired during the period ended December 31, 2010. In the preliminary allocation of the purchase price set forth below, based on foreign exchange rates on October 26, 2010, we have recognized approximately \$4.1 million of goodwill. The goodwill is arising principally due to the assembled workforce of SMA and as a result of the recognition of certain deferred tax liabilities in purchase accounting. The goodwill is deductible over a fifteen year period for US income tax purposes, but is not deductible for UK income tax purposes. Acquisition costs of approximately \$0.5 million were expensed during the six months ended December 31, 2010, principally as a component of general and administrative expenses. SMA’s operating results have been included in our operating results from the date of the acquisition forward, as a component of the Outsourced Solutions segment, and all of the SMA goodwill was allocated to this segment. Operating results of SMA are not material to our consolidated financial

results and therefore pro forma results of operations have not been presented.

For the six months ended December 31, 2010, revenues attributable to SMA represented less than 2% of our consolidated revenues. For the six months ended December 31, 2010, the operations of SMA did not have a material impact on our consolidated net income.

The preliminary allocation of the purchase price as of December 31, 2010 is as follows:

	(in thousands)
Current assets	\$ 4,433
Property and equipment	251
Customer related intangible assets	4,061
Goodwill	4,090
Current liabilities	(3,563 )
Other liabilities	(1,354 )
Total purchase price	\$ 7,918

The valuation of the customer related intangible assets was estimated by performing projections of discounted cash flow, whereby revenues and costs associated with the assets are forecast to derive expected cash flow which is discounted to present value at discount rates commensurate with perceived risk. The valuation and projection process is inherently subjective and relies on significant unobservable inputs (Level 3 inputs). The valuation assumptions also take into consideration our estimates of contract renewal, technology attrition and revenue growth projections. The value associated with the assets of \$4.1 million is being amortized over an estimated weighted average life of ten years.

#### PayMode

On September 14, 2009, we completed the purchase of substantially all of the assets and related operations of PayMode from Bank of America. PayMode facilitates the electronic exchange of payments and invoices between organizations and their suppliers and is operated as a SaaS offering. As a result of the acquisition we acquired the PayMode operations including the vendor network, application software, intellectual property rights and other assets, properties and rights used exclusively or primarily in the PayMode business.

To achieve a comprehensive solution for our customers, the core features and functionality of PayMode and Bottomline Business eXchange, our electronic invoicing solution, were combined and launched as a re-branded offering: Paymode-X. This solution offers an electronic order-to-pay network for businesses, and the Paymode-X network currently encompasses more than 125,000 companies.

#### PayMode Pro-forma Information

The following unaudited pro-forma financial information presents the combined results of our operations and PayMode as if that acquisition had occurred on July 1, 2009, after giving effect to certain adjustments such as decreased revenues formerly earned by PayMode from interest income allocated to PayMode through Bank of America's fund transfer process since, in general terms, we are not eligible to earn revenues in this manner. The pro-forma adjustments also reflect an increase in amortization expense as a result of acquired intangible assets and a decrease in interest income as a result of the cash paid for the acquisition. This pro-forma financial information does not necessarily reflect the results of operations that would have actually occurred had we and PayMode been a single entity during this period.

	Pro Forma Three Months Ended December 31, 2009	Pro Forma Six Months Ended December 31, 2009
Revenues	\$40,122	\$77,881
Net income	\$704	\$194
Net income per basic and diluted share attributable to common stockholders	\$0.03	\$0.01

## Global Commission Payments

On February 24, 2010, we acquired certain customer contracts associated with Bank of America's Global Commission Payments business. The initial consideration paid by us was \$1.0 million in cash; this cost has been classified as a component of our customer related intangible assets and is being amortized over an estimated life of seven years. For acquired contracts that we successfully migrate to our Paymode-X solution, additional consideration is due to Bank of America based on a trailing revenue multiple of the underlying customer. We anticipate that additional consideration of up to \$5 million may be contingently payable to Bank of America, based on the outcome of customer migration to Paymode-X, which is currently targeted for completion in the second half of calendar year 2011. Any additional consideration will be recorded by us as an increase to the cost of the acquired contracts in the period in which payment to Bank of America becomes probable and the amount of payment is reasonably estimable.

## Note 6—Net Income Per Share

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

	Three Months Ended		Six Months Ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	in thousands)			
Numerator:				
Net income	\$2,065	\$704	\$4,740	\$1,876
Less: Net income allocable to participating securities	---	(25 )	---	(72 )
Net income allocable to common stockholders	\$2,065	\$679	\$4,740	\$1,804
Denominator:				
Shares used in computing basic net income per share attributable to common stockholders	31,330	25,092	31,042	24,747
Effect of dilutive securities	1,923	841	1,577	625
Shares used in computing diluted net income per share attributable to common stockholders	33,253	25,933	32,619	25,372
Basic net income per share attributable to common stockholders	\$0.07	\$0.03	\$0.15	\$0.07
Diluted net income per share attributable to common stockholders	\$0.06	\$0.03	\$0.15	\$0.07

The calculation of basic net income per share excludes any dilutive effects of stock options, unvested restricted stock and stock warrants. During the prior fiscal year, certain of our unvested restricted stock awards were considered to be participating securities as they entitled the holder to receive non-forfeitable rights to cash dividends at the same rate as common stock. Accordingly, for the three and six months ended December 31, 2009, basic earnings per share was computed pursuant to the two-class method which calculates earnings for common stock and participating securities based on their proportionate participation rights in undistributed earnings.

Diluted net income per share is calculated using the more dilutive of the treasury stock method (which assumes full exercise of in-the-money stock options and warrants and full vesting of restricted stock) or, for periods in which there are participating securities, the two-class method described above.

For the three months ended December 31, 2010, all shares of unvested restricted stock and stock options were included in the calculation of diluted earnings per share. For the six months ended December 31, 2010, 22,500 shares of unvested stock options were excluded from the calculation of diluted earnings per share as their effect on the calculation would have been anti-dilutive.

For the three and six months ended December 31, 2009, there were approximately 235,989 and 1,043,405, respectively, of unvested stock options excluded from the calculation of diluted earnings per share as their effect on the calculation would have been anti-dilutive.

## Note 7—Comprehensive Income or Loss

Comprehensive income or loss represents our net income plus the results of certain stockholders' equity changes not reflected in the unaudited condensed consolidated statements of operations. The components of comprehensive income or loss are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)			
Net income	\$2,065	\$704	4,740	\$1,876
Other comprehensive income (loss):				
Foreign currency translation adjustments	(327 )	470	3,069	(541 )
Comprehensive income	\$1,738	\$1,174	\$7,809	\$1,335

## Note 8—Operations by Segments and Geographic Areas

## Segment Information

Operating segments are defined as 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 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 provides a range of standard professional services and equipment and supplies that complement and enhance our core software products. Revenue associated with this segment is typically recorded upon delivery or, if extended payment terms have been granted to the customer, as payments become contractually due. This segment incorporates our check printing solutions in the UK, revenue for which is typically recorded on a per transaction basis or ratably over the expected life of the customer relationship, as well as certain solutions that are licensed on a subscription basis, revenue for which is typically recorded ratably over the contractual term.

**Banking Solutions.** The Banking Solutions segment provides solutions that are specifically designed for banking and financial institution customers. These solutions typically involve longer implementation periods and a significant level of professional resources. 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.

**Outsourced Solutions.** The Outsourced Solutions segment provides customers with outsourced and hosted solution offerings that facilitate invoice receipt and presentment and spend management. Our Legal eXchange solution, which provides the opportunity to create more efficient processes for managing invoices generated by outside law firms while offering access to important legal spend factors such as budgeting, expense monitoring and outside counsel performance, is included within this segment. This segment also incorporates our hosted and outsourced payments and accounts payable automation solutions, including Paymode-X and SWIFT Access Service, a new product offering



which we added through our SMA acquisition in October 2010. Revenue within this segment is generally recognized on a subscription or transaction basis or proportionately over the estimated life of the customer relationship.

Each operating segment has separate sales forces and periodically a sales person in one operating segment will sell products and services that are typically sold within a different operating segment. In such cases, the transaction is generally recorded by the operating segment to which the sales person is assigned. Accordingly, segment results can include the results of transactions that have been allocated to a specific segment based on the contributing sales resources, rather than the nature of the product or service. Conversely, a transaction can be recorded by the operating segment primarily responsible for delivery to the customer, even if the sales person is assigned to a different operating segment.

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

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

Segment information for the three and six months ended December 31, 2010 and 2009 according to the segment descriptions above, is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)			
Revenues:				
Payments and Transactional Documents	\$24,010	\$23,809	\$47,511	\$46,576
Banking Solutions	10,616	7,595	21,541	14,703
Outsourced Solutions	9,656	8,718	17,269	15,399
Total revenues	\$44,282	\$40,122	\$86,321	\$76,678
Segment measure of profit:				
Payments and Transactional Documents	\$6,078	\$5,457	\$11,164	\$10,433
Banking Solutions	1,645	641	4,463	1,626
Outsourced Solutions	1,500	1,249	1,808	2,453
Total measure of segment profit	\$9,223	\$7,347	\$17,435	\$14,512

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)			
Segment measure of profit	\$9,223	\$7,347	\$17,435	\$14,512
Less:				
Amortization of intangible assets	(2,905 )	(3,361 )	(5,787 )	(6,667 )
Stock compensation expense	(2,851 )	(2,400 )	(5,422 )	(4,308 )
Acquisition related expenses	(309 )	(127 )	(749 )	(529 )
Restructuring expenses	(60 )	----	(60 )	----
Add:				
Other (expense) income, net	32	(93 )	315	128
Income before income taxes	\$3,130	\$1,366	\$5,732	\$3,136



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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)			
Depreciation expense:				
Payments and Transactional Documents	\$443	\$415	\$862	\$789
Banking Solutions	168	171	336	336
Outsourced Solutions	659	621	1,320	1,039
Total depreciation expense	\$1,270	\$1,207	\$2,518	\$2,164

### 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 a financial institution customer located in Australia for which the point of sale was the United States.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)			
Revenues from unaffiliated customers:				
United States	\$30,048	\$26,479	\$58,985	\$50,248
Europe	13,699	13,140	26,307	25,517
Australia	535	503	1,029	913
Total revenues from unaffiliated customers	\$44,282	\$40,122	\$86,321	\$76,678

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

	December	
	31, 2010	June 30, 2010
	(in thousands)	
Long-lived assets, net		
United States	\$11,574	\$13,593
Europe	3,286	2,464
Australia	149	121
Total long-lived assets, net	\$15,009	\$16,178

Note 9—Income Taxes

We recorded income tax expense of \$1.1 million and \$0.7 million for the three months ended December 31, 2010 and 2009, respectively. The income tax expense recorded for the quarter ended December 31, 2010 was due to tax expense associated with our UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state income tax expense and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The income tax expense recorded for the quarter ended December 31, 2009 was due to tax expense associated with our UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state income tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes.

We recorded income tax expense of \$1.0 million and \$1.3 million for the six months ended December 31, 2010 and 2009, respectively. The income tax expense for the six months ended December 31, 2010 was due to tax expense associated with our UK, Australian and US operations, offset in part by the impact of a discrete tax benefit of \$0.9 million recognized in the quarter ended September 30, 2010 arising from the release of a portion of our valuation allowance that had previously been recorded against our UK deferred tax assets. The ability to release a portion of the UK valuation allowance was attributable to continued profitability in the UK operations, which we expect will continue, including the attainment of three years of cumulative profitability on a pre-tax basis. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state income tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The income tax expense for the six months ended December 31, 2009 was due to tax expense associated with our UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state income tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately \$0.3 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

#### Note 10—Goodwill and Other Intangible Assets

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

	As of December 31, 2010			Weighted Average Remaining Life (in years)
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	
Amortized intangible assets:				
Customer related	\$63,720	\$ (42,872 )	\$20,848	9.3
Core technology	32,658	(26,099 )	6,559	5.3
Patent	953	(349 )	604	8.5
Other intangible assets	2,338	(757 )	1,581	12.6
<b>Total</b>	<b>\$99,669</b>	<b>\$ (70,077 )</b>	<b>\$29,592</b>	
Unamortized intangible assets:				
Goodwill			69,712	
<b>Total intangible assets</b>			<b>\$99,304</b>	

	As of June 30, 2010			Weighted Average Remaining
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	

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	(in thousands)			Life (in years)
Amortized intangible assets:				
Customer related	\$58,747	\$ (37,981 )	\$20,766	8.5
Core technology	32,224	(24,210 )	8,014	5.3
Patent	953	(314 )	639	9.0
Other intangible assets	2,338	(585 )	1,753	12.3
Total	\$94,262	\$ (63,090 )	\$31,172	
Unamortized intangible assets:				
Goodwill			64,294	