

BOTTOMLINE TECHNOLOGIES INC /DE/

Form 10-Q

November 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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)

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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 (Address of principal executive offices)	03801-6808 (Zip Code)
(603) 436-0700 (Registrant's telephone number, including area code)	

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

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

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

Large Accelerated Filer Accelerated Filer

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

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

The number of shares outstanding of the registrant's common stock as of October 31, 2011 was 36,024,277.

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

	September 30, 2011	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 124,808	\$ 111,953
Marketable securities	59	64
Accounts receivable, net of allowance for doubtful accounts of \$452 at September 30, 2011 and \$429 at June 30, 2011	38,722	41,535
Other current assets	18,942	15,308
Total current assets	182,531	168,860
Property, plant and equipment, net	17,050	16,098
Goodwill	96,083	98,524
Intangible assets, net	70,235	74,549
Other assets	3,407	5,303
Total assets	\$ 369,306	\$ 363,334
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 7,965	\$ 8,971
Accrued expenses	15,364	18,706
Deferred revenue	38,879	40,510
Total current liabilities	62,208	68,187
Deferred revenue, non-current	4,003	5,438
Deferred income taxes	1,761	2,208
Other liabilities	1,766	1,827
Total liabilities	69,738	77,660
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 35,884 at September 30, 2011, and 34,625 at June 30, 2011;		
outstanding shares 34,044 at September 30, 2011, and 32,744 at June 30, 2011	36	35
Additional paid-in capital	422,173	408,375
Accumulated other comprehensive loss	(6,628)	(4,524)
Treasury stock: 1,840 shares at September 30, 2011, and 1,881 shares at June 30, 2011, at cost	(20,321)	(20,779)
Accumulated deficit	(95,692)	(97,433)
Total stockholders equity	299,568	285,674

Total liabilities and stockholders equity	\$ 369,306	\$ 363,334
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See accompanying notes.

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

	Three Months Ended September 30,	
	2011	2010
Revenues:		
Software licenses	\$ 4,033	\$ 3,461
Subscriptions and transactions	17,594	11,534
Service and maintenance	28,849	25,052
Equipment and supplies	2,000	1,991
Total revenues	52,476	42,038
Cost of revenues:		
Software licenses	435	215
Subscriptions and transactions	9,085	6,372
Service and maintenance	12,160	10,429
Equipment and supplies	1,571	1,520
Total cost of revenues	23,251	18,536
Gross profit	29,225	23,502
Operating expenses:		
Sales and marketing	11,242	8,553
Product development and engineering	5,932	5,012
General and administrative	4,933	4,735
Amortization of intangible assets	3,884	2,882
Total operating expenses	25,991	21,182
Income from operations	3,234	2,320
Other income (expense), net	(113)	282
Income before income taxes	3,121	2,602
Income tax provision (benefit)	1,380	(73)
Net income	\$ 1,741	\$ 2,675
Basic net income per share attributable to common stockholders:	\$ 0.05	\$ 0.09
Diluted net income per share attributable to common stockholders:	\$ 0.05	\$ 0.08
Shares used in computing basic net income per share attributable to common stockholders:	33,710	30,754
Shares used in computing diluted net income per share attributable to common stockholders:	34,841	31,984

See accompanying notes.

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

(in thousands)

	Three Months Ended September 30,	
	2011	2010
Operating activities:		
Net income	\$ 1,741	\$ 2,675
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	3,884	2,882
Stock compensation expense	3,165	2,570
Depreciation and amortization of property, plant and equipment	1,374	1,248
Deferred income tax benefit	(269)	(815)
Provision for allowances on accounts receivable	50	
Provision for allowances for obsolescence of inventory		1
Excess tax benefits associated with stock compensation	(1,131)	(31)
Loss on disposal of equipment		23
Loss (gain) on foreign exchange	123	(35)
Changes in operating assets and liabilities:		
Accounts receivable	2,233	(190)
Inventory	6	(68)
Prepaid expenses and other current assets	174	(30)
Other assets	154	861
Accounts payable	(876)	(265)
Accrued expenses	(2,717)	525
Deferred revenue	(2,513)	(3,016)
Other liabilities	(10)	11
Net cash provided by operating activities	5,388	6,346
Investing activities:		
Purchases of held-to-maturity securities	(63)	(54)
Proceeds from sales of held-to-maturity securities	63	54
Purchases of property and equipment, net	(2,462)	(723)
Net cash used in investing activities	(2,462)	(723)
Financing activities:		
Proceeds from sale of common stock, net		4,865
Proceeds from exercise of warrants, net	8,452	
Proceeds from exercise of stock options and employee stock purchase plan	1,509	1,036
Excess tax benefits associated with stock compensation	1,131	31
Capital lease payments	(46)	(28)
Payment of bank financing fees		(3)
Net cash provided by financing activities	11,046	5,901
Effect of exchange rate changes on cash	(1,117)	2,032
Increase in cash and cash equivalents	12,855	13,556
Cash and cash equivalents at beginning of period	111,953	122,758
Cash and cash equivalents at end of period	\$ 124,808	\$ 136,314

See accompanying notes.

Table of Contents**Bottomline Technologies (de), Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****September 30, 2011****Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three months ended September 30, 2011 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2012. For further information, refer to the financial statements and footnotes included in the Annual Report on Form 10-K for Bottomline Technologies (de), Inc. (the Company) as filed with the Securities and Exchange Commission (SEC) on September 9, 2011.

Note 2 Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued an accounting standards update regarding the presentation of comprehensive income in financial statements. The provisions of this standard provide an option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. We will be required to incorporate the provisions of this new standard effective with our first quarter filing for fiscal year 2013 and we have not yet determined which presentation methodology we will adopt.

Note 3 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 September 30, 2011 and June 30, 2011, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	September 30, 2011				June 30, 2011			
	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)	\$ 62,712	\$	\$	\$ 62,712	\$ 60,971	\$	\$	\$ 60,971

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

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which, at September 30, 2011 and June 30, 2011, approximated fair value. These investments all mature within one year. The fair value of our other financial instruments approximate their carrying values, due to the short-term nature of those instruments.

Note 4 Product and Business Acquisitions*Allegient*

On April 1, 2011, we acquired LAS Holdings, Inc., a Delaware corporation doing business as Allegient Systems, Inc. (Allegient), a provider of advanced capabilities for legal e-billing, bill review and analytics. Allegient's proprietary Software as a Service (SaaS) platform and value-added turnkey solutions complement and extend our Legal eXchange® portfolio, offering the combined customer base of more than 100 leading insurers enhanced capabilities to effectively manage their legal expenses.

In the preliminary allocation of the purchase price, we recognized approximately \$20.3 million of goodwill which arose due to the recognition of certain deferred tax liabilities in purchase accounting, anticipated acquisition synergies and due to the assembled workforce of Allegient. The goodwill is not deductible for income tax purposes. Identifiable intangible assets for Allegient, aggregating \$39.7 million, are being amortized over a weighted average useful life of thirteen years. The acquired identifiable intangible assets include customer related assets, core technology, the Allegient tradename and below market lease agreements, and are being amortized over estimated useful lives of thirteen, twelve, one and six years, respectively. Allegient's operating results were included in our Outsourced Solutions segment from the date of the acquisition forward, and all of the Allegient goodwill was allocated to this segment.

Set forth below is the preliminary allocation of the Allegient purchase price at September 30, 2011.

Current assets	\$ 6,942
Property and equipment	1,370
Other assets	2,617
Customer related intangible assets	30,553
Core technology	8,837
Other intangible assets	278
Goodwill	20,250
Current liabilities	(5,028)
Other liabilities	(16,167)
 Total purchase price	 \$ 49,652

The purchase price for the Allegient acquisition was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition, with any remaining unallocated purchase price recorded as goodwill. The fair value assigned to identifiable intangible assets acquired 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.

Allegient Pro forma information

The following unaudited pro forma financial information presents the combined results of operations of Bottomline and Allegient as if the acquisition had occurred on July 1, 2010. The pro forma financial information presented includes the accounting effects resulting from certain adjustments such as an increase in amortization expense as a result of acquired intangible assets, an increase in depreciation expense as a result of acquired property and equipment and a decrease in interest income as a result of the cash paid for the acquisition. This pro forma information does not necessarily reflect the results of operations that would have actually occurred had we and Allegient been a single entity during these periods.

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	Pro Forma (unaudited) Three months ended September 30, 2010
Revenues	\$ 45,781
Net income	\$ 2,342
Net income per basic share attributable to common stockholders	\$ 0.08
Net income per diluted share attributable to common stockholders	\$ 0.07

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. 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. During the year ended June 30, 2011 we recognized, as an increase to the cost of the acquired contracts, additional consideration of \$4.4 million which is payable no later than December 31, 2011. This amount represents our estimate of the additional consideration that will be due to Bank of America based on the ultimate customer migration to Paymode-X. The total acquisition cost of \$5.4 million has been classified as a component of our customer related intangible assets and is being amortized over an estimated life of seven years. The final customer migration to Paymode-X is currently targeted for completion in the second half of fiscal year 2012.

Note 5 Net Income Per Share

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

	Three Months Ended September 30, 2011 2010 (in thousands)	
Numerator:		
Net income allocable to common stockholders	\$ 1,741	\$ 2,675
Denominator:		
Shares used in computing basic net income per share attributable to common stockholders	33,710	30,754
Effect of dilutive securities	1,131	1,230
Shares used in computing diluted net income per share attributable to common stockholders	34,841	31,984
Basic net income per share attributable to common stockholders	\$ 0.05	\$ 0.09
Diluted net income per share attributable to common stockholders	\$ 0.05	\$ 0.08

The calculation of basic net income per share excludes any dilutive effects of stock options, unvested restricted stock and stock warrants.

For the three months ended September 30, 2011, all shares of unvested restricted stock and stock options were included in the calculation of diluted earnings per share. For the three months ended September 30, 2010, 45,000 shares of unvested restricted stock and stock options were excluded from the calculation of diluted earnings per share as their effect on the calculation would have been anti-dilutive.

Note 6 Comprehensive Income or Loss

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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 September 30, 2011 2010 (in thousands)	
Net income	\$ 1,741	\$ 2,675
Other comprehensive income (loss):		
Foreign currency translation adjustments	(2,104)	3,396
Comprehensive income (loss)	\$ (363)	\$ 6,071

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Note 7 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.

As of July 1, 2011, we revised the methodology used for allocating general and administrative costs to our reportable segments. We also changed the classification of one customer from the Outsourced Solutions segment to the Banking segment. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

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

Payments and Transactional Documents. Our Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also 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 Europe, 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. This segment also incorporates our payments automation software for direct debit and receivables management for corporations, banks, financial institutions and government organizations, revenue for which is primarily recognized upon delivery.

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 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.

Outsourced Solutions. The Outsourced Solutions segment provides customers with outsourced and hosted Software as a Service (SaaS) offerings that facilitate electronic payment, electronic invoicing, and spend management. Our legal spend management solutions, which enable customers to create more efficient processes for managing invoices generated by outside law firms while offering insight into important legal spend factors such as budgeting, expense monitoring and outside counsel performance, are 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. Revenue within this segment is generally recognized on a subscription or transaction basis or proportionately over the estimated life of the customer relationship.

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

Our chief operating decision maker assesses segment performance based on a variety of factors that can include segment revenue and a segment measure of profit or loss. Each segment's measure of profit or loss is on a pre-tax basis and

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excludes stock compensation expense, acquisition-related expenses (including acquisition related contingent consideration), 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 are established as a percentage of the segment's budgeted revenues.

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

Segment information for the three months ended September 30, 2011 and 2010 according to the segment descriptions above, is as follows:

	Three Months Ended September 30, 2011 2010 (in thousands)	
Revenues:		
Payments and Transactional Documents	\$ 24,751	\$ 23,501
Banking Solutions	13,016	11,180
Outsourced Solutions	14,709	7,357
Total revenues	\$ 52,476	\$ 42,038
Segment measure of profit:		
Payments and Transactional Documents	\$ 6,057	\$ 5,395
Banking Solutions	2,610	2,809
Outsourced Solutions	1,767	9
Total measure of segment profit	\$ 10,434	\$ 8,213

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

	Three Months Ended September 30, 2011 2010 (in thousands)	
Total measure of segment profit	\$ 10,434	\$ 8,213
Less:		
Amortization of intangible assets	(3,884)	(2,882)
Stock-based compensation expense	(3,165)	(2,570)
Acquisition related expenses	(124)	(441)
Restructuring expenses	(27)	
Add:		
Other income (loss), net	(113)	282
Income before income taxes	\$ 3,121	\$ 2,602

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

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Three Months Ended
September 30,
2011 2010
(in thousands)

Depreciation expense:		
Payments and Transactional Documents	\$ 384	\$ 419
Banking Solutions	234	168
Outsourced Solutions	756	661
Total depreciation expense	\$ 1,374	\$ 1,248

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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 September 30, 2011 2010 (in thousands)	
Revenues from unaffiliated customers:		
United States	\$ 35,594	\$ 28,937
Europe	16,182	12,608
Asia-Pacific	700	493
Total revenues from unaffiliated customers	\$ 52,476	\$ 42,038

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

	September 30, 2011	June 30, 2011
	(in thousands)	
Long-lived assets, net		
United States	\$ 15,056	\$ 14,053
Europe	3,286	3,469
Asia-Pacific	146	167
Total long-lived assets, net	\$ 18,488	\$ 17,689

Note 8 Income Taxes

We recorded income tax expense of \$1.4 million and an income tax benefit of \$0.1 million for the three months ended September 30, 2011 and 2010, respectively. The income tax expense for the quarter ended September 30, 2011 was primarily attributable to our UK and US operations, which was offset in part by a tax benefit of \$0.1 million resulting from the enactment of legislation during the quarter that decreased the statutory tax rates in the UK. This benefit is not expected to recur in subsequent quarters.

The income tax benefit for the quarter ended September 30, 2010 was substantially due to the impact of a discrete tax benefit of \$0.9 million 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 improvement in the UK operations including the attainment of three years of cumulative profitability on a pre-tax basis during the quarter ended September 30, 2010. The tax benefit was offset in part by tax expense attributable to 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 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 \$0.1 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

Note 9 Goodwill and Other Intangible Assets

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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, patents and below market lease arrangements.

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	As of September 30, 2011			Weighted Average Remaining Life (in years)
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	
Amortized intangible assets:				
Customer related	\$ 104,857	\$ (50,829)	\$ 54,028	11.1
Core technology	42,468	(28,470)	13,998	8.9
Other intangible assets	3,696	(1,487)	2,209	10.2
Total	\$ 151,021	\$ (80,786)	\$ 70,235	
Unamortized intangible assets:				
Goodwill			96,083	
Total intangible assets			\$ 166,318	

	As of June 30, 2011			Weighted Average Remaining Life (in years)
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	
Amortized intangible assets:				
Customer related	\$ 106,013	\$ (48,495)	\$ 57,518	11.1
Core technology	42,797	(28,084)	14,713	9.1
Other intangible assets	3,699	(1,381)	2,318	10.2
Total	\$ 152,509	\$ (77,960)	\$ 74,549	
Unamortized intangible assets:				
Goodwill			98,524	
Total intangible assets			\$ 173,073	

Estimated amortization expense for fiscal year 2012 and subsequent fiscal years is as follows:

	(in thousands)
2012	\$ 13,861
2013	11,489
2014	8,516
2015	7,777
2016	6,638
2017 and thereafter	25,838

Note 10 Restructuring Costs

During fiscal 2011 we realigned our workforce and the workforce of certain of our fiscal 2011 acquisitions, and recorded pre-tax restructuring expenses of approximately \$1.1 million.

A rollforward of the restructuring activity for the quarter ended September 30, 2011 is as follows:

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	(in thousands)
Accrued severance benefits at June 30, 2011	\$ 134
Charged to general and administrative expense	27
Payments charged against the accrual	(149)
Accrued severance benefits at September 30, 2011	\$ 12

Note 11 Warrant Exercise

In July 2011, Bank of America exercised their warrant to purchase 1,000,000 shares of our common stock and, pursuant to that exercise, we received \$8.5 million in cash. The warrant had been issued to Bank of America in connection with our September 2009 acquisition of PayMode and, as provided in the warrant agreement, Bank of America may not sell the shares issued to it upon exercise in an amount in excess of 200,000 shares per month.

Table of Contents**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 and Section 21E of the Securities Exchange Act of 1934. Without limiting the foregoing, the words may, will, should, could, expects, plans, 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 provide collaborative payment, invoice and document management solutions to corporations, insurance companies, healthcare organizations, financial institutions and banks around the world. Our solutions are used to streamline, automate and manage processes and transactions involving global payments, invoice receipt and approval, collections, cash management, risk mitigation, document management, reporting and document archive. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer's location. A growing portion of our offerings are being sold as SaaS-based solutions and paid for on a subscriptions and transactions basis. Historically, however, our software has been sold predominantly on a perpetual license basis.

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. We offer SaaS-based 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 also offer a SaaS-based offering that facilitates the exchange of electronic payments and invoices between buyers and their suppliers. Our offerings also include software solutions that banks use to provide Web-based payment and reporting capabilities to their corporate customers. Our document automation solutions are used by organizations to automate paper-intensive processes for the generation of transactional and supply chain documents.

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

For the first three months of fiscal year 2012, our revenue increased to \$52.5 million from \$42.0 million in the same period of fiscal year 2011. This revenue increase was attributable to revenue increases of \$7.4 million in our Outsourced Solutions segment, \$1.8 million in our Banking Solutions segment and \$1.3 million in our Payments and Transactional Documents segment. The revenue contribution from our legal spend management solutions, our SWIFT Access Service solution and increased revenue from our Paymode-X[®] solution accounted for the majority of the revenue increase in our Outsourced Solutions segment. The Banking Solutions segment's increased revenue related to both new and ongoing projects. The increased revenue in our Payments and Transactional Documents segment was related to increased European revenue in our payment and document automation products principally due to increased revenue from our fiscal 2011 acquisition of Direct Debit Limited (DDL). These increases include a favorable effect of foreign exchange rates of \$0.6 million primarily associated with the British Pound Sterling, which appreciated against the US Dollar when compared to the same period in the prior fiscal year.

We had net income of \$1.7 million in the three months ended September 30, 2011 compared to net income of \$2.7 million in the three months ended September 30, 2010. The decrease in net income was due largely to \$1.4 million of income tax expense recognized in the three months ended September 30, 2011 as compared to an income tax benefit of \$0.1 million recognized in the three months ended September 30, 2010. Our gross margin increased \$5.7 million in the first three months of fiscal year 2012 related primarily to our increased revenue across all segments as compared to the same period in the prior year. The increased gross margin was partially offset by increased operating expense of \$4.8 million which was primarily due to increased employee related costs and increased intangible asset amortization expense related to our fiscal 2011 acquisitions as compared to the same period in the prior year.

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In the first three months of fiscal 2012, we derived approximately 38% of our revenue from customers located outside of North America, principally in the UK and Australia. We expect future revenue growth to be driven by increased purchases of our products, including legal spend management solutions, SWIFT Access Service solution, Paymode-X and our WebSeries® products, by new and existing bank and financial institution customers in both North America and international markets and from increased sales of our payments and transactional documents products.

Critical Accounting Policies

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

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended June 30, 2011 related to stock based compensation, revenue recognition, the valuation of goodwill and intangible assets and the valuation of acquired intangible assets and acquired deferred revenue. 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 September 9, 2011. There have been no changes to our critical accounting policies during the three months ended September 30, 2011.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued an accounting standards update regarding the presentation of comprehensive income in financial statements. The provisions of this standard provide an option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. We will be required to incorporate the provisions of this new standard effective with our first quarter filing for fiscal year 2013 and we have not yet determined which presentation methodology we will adopt.

Results of Operations

Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010

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.

As of July 1, 2011, we revised the methodology used for allocating general and administrative costs to our reportable segments. We also changed the classification of one customer from the Outsourced Solutions segment to the Banking segment. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

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Our operating segments are organized principally by the type of product or service offered and by geography. Similar operating segments have been aggregated into three reportable segments: Payments and Transactional Documents, Banking Solutions and Outsourced Solutions. The following tables represent our segment revenues and our segment measure of profit:

	Three Months Ended September 30,		Increase (Decrease) Between Periods 2011 Compared to 2010	
	2011	2010	(in thousands)	%
Segment revenue:				
Payments and Transactional Documents	\$ 24,751	\$ 23,501	\$ 1,250	5.3
Banking Solutions	13,016	11,180	1,836	16.4
Outsourced Solutions	14,709	7,357	7,352	99.9
	\$ 52,476	\$ 42,038	\$ 10,438	24.8
Segment measure of profit:				
Payments and Transactional Documents	\$ 6,057	\$ 5,395	\$ 662	12.3
Banking Solutions	2,610	2,809	(199)	(7.1)
Outsourced Solutions	1,767	9	1,758	19,533.3
Total measure of segment profit	\$ 10,434	\$ 8,213	\$ 2,221	27.0

A reconciliation of the measure of segment profit to our GAAP income for the three months ended September 30, 2011 and 2010, before the provision for income taxes, is as follows:

	Three Months Ended September 30,	
	2011	2010
	(in thousands)	
Total measure of segment profit	\$ 10,434	\$ 8,213
Less:		
Amortization of intangible assets	(3,884)	(2,882)
Stock-based compensation expense	(3,165)	(2,570)
Acquisition related expenses	(124)	(441)
Restructuring expenses	(27)	
Add:		
Other income (loss), net	(113)	282
Income before income taxes	\$ 3,121	\$ 2,602

Payments and Transactional Documents. The revenue increase for the three months ended September 30, 2011 was primarily attributable to increases of \$0.6 million in software license revenue and \$0.7 million in subscriptions and transactions revenue, both of which were attributable to increased European revenue as a result of our fiscal 2011 acquisition of DDL. These increases include a favorable effect of foreign exchange rates of \$0.5 million primarily associated with the British Pound Sterling which appreciated against the US Dollar when compared to the same period in the prior fiscal year. The segment profit increase of \$0.7 million for the three months ended September 30, 2011 was primarily attributable to increased gross margins related to increased European revenue from our payment and document automation products, partially offset by increased sales and marketing expenses as compared to the three months ended September 30, 2010. The segment profit increase includes a favorable effect of foreign exchange rates of \$0.1 million primarily associated with the British Pound Sterling. We expect revenue and profit for the Payments and Transactional Documents segment to increase during the remaining three quarters of fiscal 2012 as a result of increased sales of our payment and document automation solutions and improvements in gross margins.

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Banking Solutions. Revenues from our Banking Solutions segment increased as compared to the same period in the prior fiscal year due to an increase in professional services revenue of \$3.4 million associated with both new and ongoing banking projects, partially offset by a decrease in subscriptions and transactions revenue of \$1.4 million. Segment profit decreased \$0.2 million for the three months ended September 30, 2011 as compared to the same period in the prior fiscal year. Operating expenses increased by \$1.0 million associated with increased sales and marketing and product development related costs. The increased sales and marketing costs were primarily related to increased headcount costs and increased trade show costs. The increased operating expenses were partially offset by improved gross margins of \$0.8 million primarily

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associated with the increase in professional services revenue. We expect revenue and profit for the Banking Solutions segment to increase during the remainder of the fiscal year as a result of the contribution of revenue from ongoing projects and from additional purchases from new and existing bank and financial institution customers.

Outsourced Solutions. Revenues from our Outsourced Solutions segment increased as compared to the same period in the prior fiscal year due primarily to the revenue contribution from our legal spend management solutions of \$4.6 million, our SWIFT Access Service solution of \$1.8 million and our Paymode-X solution of \$0.9 million. The legal spend management solutions revenue growth was driven principally by our April 2011 acquisition of Allegient and the SWIFT Access Service revenue growth was driven by our October 2010 acquisition of SMA Financial Ltd. (SMA). Segment profit increased \$1.8 million as compared to the same period in the prior fiscal year due primarily to our increased profitability from our fiscal 2011 acquisitions and improved gross margins from our Paymode-X solution. We expect revenue and profit for the Outsourced Solutions segment to increase during the remainder of the fiscal year as a result of the revenue contribution from our legal spend management and Paymode-X solutions and from our SWIFT Access Service solution.

Revenues by category

	Three Months Ended September 30,				Increase	
	2011		2010		Between Periods	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Revenues:						
Software licenses	\$ 4,033	7.7	\$ 3,461	8.2	\$ 572	16.5
Subscriptions and transactions	17,594	33.5	11,534	27.4	6,060	52.5
Service and maintenance	28,849	55.0	25,052	59.6	3,797	15.2
Equipment and supplies	2,000	3.8	1,991	4.8	9	0.5
Total revenues	\$ 52,476	100.0	\$ 42,038	100.0	\$ 10,438	24.8

Software Licenses. The increase in software license revenues was due to an increase in European revenue of approximately \$0.7 million in our Payments and Transactional Documents segment principally attributable to our February 2011 acquisition of DDL. We expect software license revenues to increase during the remainder of fiscal year 2012, principally as a result of increased software license revenue from our Payments and Transactional Documents and Banking Solutions segments.

Subscriptions and Transactions. The increase in subscriptions and transactions revenues was due principally to the revenue contribution from our legal spend management solutions of \$4.5 million, SWIFT Access Service solution of \$1.3 million, Paymode-X solution of \$0.9 million and payments and document automation products of \$0.7 million. The increases in legal spend management and SWIFT Access Service revenues were due to our fiscal 2011 acquisitions of Allegient and SMA, respectively. These revenue increases were partially offset by a decrease in revenue from our Banking Solutions segment of \$1.4 million as compared to the same period in the prior fiscal year. We expect subscriptions and transactions revenues to increase during the remainder of the fiscal year, primarily as a result of the revenue contribution from our legal spend management, Paymode-X and SWIFT Access Service solutions.

Service and Maintenance. The increase in service and maintenance revenues was primarily the result of an increase in professional services revenues of \$3.3 million associated with both new and ongoing banking projects and increased revenues from our SWIFT Access Service solution of \$0.6 million, partially offset by a decrease in European service and maintenance revenue from our payment and document automation products of \$0.2 million. The increased revenue includes a favorable effect of foreign exchange rates of \$0.3 million primarily associated with the British Pound Sterling which appreciated against the US Dollar when compared to the same period in the prior fiscal year. We expect that service and maintenance revenues will increase during the remainder of the fiscal year as a result of new and existing projects within our Banking Solutions segment.

Equipment and Supplies. Equipment and supplies revenue remained relatively unchanged as compared to the same period in the prior fiscal year. We expect that equipment and supplies revenues will remain relatively consistent during the remainder of 2012.

Table of Contents**Cost of revenues by category**

	Three Months Ended September 30,				Increase	
	2011		2010		Between Periods	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Cost of revenues:						
Software licenses	\$ 435	0.8	\$ 215	0.5	\$ 220	102.3
Subscriptions and transactions	9,085	17.3	6,372	15.2	2,713	42.6
Service and maintenance	12,160	23.2	10,429	24.8	1,731	16.6
Equipment and supplies	1,571	3.0	1,520	3.6	51	3.4
Total cost of revenues	\$ 23,251	44.3	\$ 18,536	44.1	\$ 4,715	25.4
Gross profit	\$ 29,225	55.7	\$ 23,502	55.9	\$ 5,723	24.4

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 increased to 11% of software license revenues in the three months ended September 30, 2011 as compared to 6% for the three months ended September 30, 2010. The increase in software license costs of \$0.2 million was primarily due to the cost of third party software that accompanies certain of our European sales and increased third party costs related to new and ongoing banking projects. We expect that software license costs will remain relatively consistent, as a percentage of software license revenues, during the remainder of the fiscal year.

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 to 52% of subscriptions and transactions revenues in the three months ended September 30, 2011 as compared to 55% in the same period of 2010. The decrease in subscriptions and transactions costs as a percentage of revenue was due primarily to higher gross margins associated with our legal spend management solutions as a result of our April 2011 acquisition of Allegient and improved gross margins with our Paymode-X solution. We expect that subscriptions and transactions costs will decline slightly as a percentage of subscriptions and transactions revenue 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 remained consistent at 42% of service and maintenance revenues in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. 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.

Equipment and Supplies. Equipment and supplies 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. Equipment and supplies costs increased slightly to 79% of equipment and supplies revenues in the three months ended September 30, 2011 as compared to 76% for the three months ended September 30, 2010. The cost increase as a percentage of revenues is primarily related to a higher mix of lower margin transactions. We expect that equipment and supplies costs will remain relatively consistent as a percentage of equipment and supplies revenues for the remainder of the fiscal year.

Operating Expenses

	Three Months Ended September 30,				Increase	
	2011		2010		Between Periods	
	(in thousands)	As % of total	(in thousands)	As % of total	(in thousands)	%

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	revenues		revenues			
Operating expenses:						
Sales and marketing	\$ 11,242	21.4	\$ 8,553	20.3	\$ 2,689	31.4
Product development and engineering	5,932	11.3	5,012	11.9	920	18.4
General and administrative	4,933	9.4	4,735	11.3	198	4.2
Amortization of intangible assets	3,884	7.4	2,882	6.9	1,002	34.8
Total operating expenses	\$ 25,991	49.5	\$ 21,182	50.4	\$ 4,809	22.7

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Sales and Marketing. Sales and marketing expenses consist primarily of salaries and other related costs for sales and marketing personnel, sales commissions, travel, public relations and marketing materials and trade show participation. Sales and marketing expenses increased in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 as a result of an increase in employee related costs of \$1.9 million and increased travel costs primarily due to the impact of our fiscal 2011 acquisitions and increased trade show costs. 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.

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. The increase in product development and engineering expenses in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 was primarily attributable to an increase in costs associated with contract employees of \$0.9 million which augmented existing resources to drive increased product development and enhancement initiatives. We expect that product development and engineering expenses will increase during the remainder of the fiscal year as we continue to invest in solutions that we believe will drive future revenue growth, such as our Paymode-X, legal spend management and transaction banking offerings.

General and Administrative. General and administrative expenses consist primarily of salaries and other related costs for operations and finance employees and legal and accounting services. General and administrative expenses increased in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 primarily due to increases in employee related costs of \$0.3 million and an increase in costs associated with contract employees of \$0.1 million, partially offset by a reduction in acquisition related expenses of \$0.3 million. We expect that general and administrative expenses will remain relatively consistent during the remainder of the fiscal year.

Amortization of Intangible Assets. We amortize our intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us. Accordingly, amortization expense rates are often higher in the earlier periods of an asset's estimated life. The increase in amortization expense in the quarter ended September 30, 2011 as compared to the quarter ended September 30, 2010 occurred as a result of increased expense from intangible assets associated with our fiscal 2011 acquisitions. We expect that total amortization expense for fiscal 2012 will approximate \$13.9 million.

Other Income (Expense), Net

	Three Months Ended September 30,		Increase (Decrease) Between Periods	
	2011	2010 (in thousands)	2011 Compared to 2010	%
Interest income	\$ 114	\$ 117	\$ (3)	(2.6)
Interest expense	(16)	(15)	(1)	(6.7)
Other income (expense), net	(211)			