

BOTTOMLINE TECHNOLOGIES INC /DE/  
Form 10-Q  
May 09, 2008

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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 March 31, 2008

OR

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

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

Commission file number: 0-25259

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

325 Corporate Drive  
Portsmouth, New Hampshire  
(Address of principal executive offices)

03801-6808  
(Zip Code)

(603) 436-0700  
(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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  Smaller Reporting Company   
(Do not check if a 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 April 30, 2008 was 25,001,688.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	March 31, 2008	June 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 76,877	\$ 38,997
Marketable securities	55	26,876
Accounts receivable, net of allowance for doubtful accounts and returns of \$1,276 at March 31, 2008 and \$1,590 at June 30, 2007	19,890	24,169
Other current assets	4,540	5,402
Total current assets	101,362	95,444
Property and equipment, net	8,846	8,270
Intangible assets, net	75,322	84,296
Other assets	2,612	1,784
Total assets	\$ 188,142	\$ 189,794
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 6,495	\$ 6,650
Accrued expenses	7,098	8,475
Deferred revenue	25,028	24,998
Total current liabilities	38,621	40,123
Deferred revenue, non-current	2,208	2,498
Deferred income taxes	4,876	6,258
Other liabilities	1,029	479
Total liabilities	46,734	49,358
Stockholders' equity:		
Common stock	26	25
Additional paid-in capital	275,247	263,229
Accumulated other comprehensive income	7,534	8,292
Treasury stock	(19,846)	(11,285)
Accumulated deficit	(121,553)	(119,825)
Total stockholders' equity	141,408	140,436
Total liabilities and stockholders' equity	\$ 188,142	\$ 189,794

See accompanying notes.



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

	Three Months Ended	
	March 31,	
	2008	2007
Revenues:		
Software licenses	\$ 3,149	\$ 4,071
Subscriptions and transactions	7,223	6,750
Service and maintenance	18,359	16,856
Equipment and supplies	3,301	3,438
Total revenues	32,032	31,115
Cost of revenues:		
Software licenses	173	177
Subscriptions and transactions	3,839	3,064
Service and maintenance (1)	8,117	7,864
Equipment and supplies	2,409	2,532
Total cost of revenues	14,538	13,637
Gross profit	17,494	17,478
Operating expenses:		
Sales and marketing (1)	7,411	8,073
Product development and engineering (1)	4,016	4,248
General and administrative (1)	4,516	5,110
Amortization of intangible assets	2,629	2,701
Total operating expenses	18,572	20,132
Loss from operations	(1,078)	(2,654)
Other income, net	998	682
Loss before provision for income taxes	(80)	(1,972)
Provision (benefit) for income taxes	267	(98)
Net loss	\$ (347)	\$ (1,874)
Basic and diluted net loss per share:	\$ (0.01)	\$ (0.08)
Shares used in computing net loss per basic and diluted share:	23,927	23,529

(1) Stock based compensation is allocated as follows:

	Three Months Ended	
	March 31,	
	2008	2007
Cost of revenues: service and maintenance	\$ 271	\$ 231
Sales and marketing	800	663
Product development and engineering	209	186
General and administrative	1,095	871
	\$ 2,375	\$ 1,951

See accompanying notes.

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

	Nine Months Ended March 31,	
	2008	2007
Revenues:		
Software licenses	\$ 9,906	\$ 10,005
Subscriptions and transactions	21,407	19,976
Service and maintenance	54,127	45,854
Equipment and supplies	9,786	10,152
Total revenues	95,226	85,987
Cost of revenues:		
Software licenses	598	560
Subscriptions and transactions	11,723	8,457
Service and maintenance (1)	23,504	21,626
Equipment and supplies	7,024	7,529
Total cost of revenues	42,849	38,172
Gross profit	52,377	47,815
Operating expenses:		
Sales and marketing (1)	22,777	22,887
Product development and engineering (1)	12,468	12,100
General and administrative (1)	13,702	14,558
Amortization of intangible assets	7,958	6,575
Total operating expenses	56,905	56,120
Loss from operations	(4,528)	(8,305)
Other income, net	2,790	2,421
Loss before provision for income taxes	(1,738)	(5,884)
Provision (benefit) for income taxes	84	(414)
Net loss	\$ (1,822)	\$ (5,470)
Basic and diluted net loss per share	\$ (0.08)	\$ (0.23)
Shares used in computing net loss per basic and diluted share:	23,806	23,527

(1) Stock based compensation is allocated as follows:

	Nine Months Ended March 31,	
	2008	2007
Cost of revenues: service and maintenance	\$ 740	\$ 520
Sales and marketing	2,097	2,120
Product development and engineering	592	578
General and administrative	2,975	2,673
	\$ 6,404	\$ 5,891



See accompanying notes.

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

	Nine Months Ended March 31,	
	2008	2007
Operating activities:		
Net loss	\$ (1,822)	\$ (5,470)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock compensation expense	6,404	5,891
Amortization of intangible assets	7,958	6,575
Depreciation and amortization of property and equipment	2,525	2,265
Loss on disposal of property and equipment	51	—
Deferred income tax benefit	(561)	(585)
Excess tax benefits associated with stock compensation	(118)	(30)
Provision for allowances on accounts receivable	(125)	(120)
Provision for obsolete inventory	15	(39)
Gain on foreign exchange	(309)	(69)
Changes in operating assets and liabilities:		
Accounts receivable	4,498	1,703
Inventory, prepaid expenses and other assets	921	275
Accounts payable, accrued expenses and deferred revenue	(2,322)	(1,329)
Net cash provided by operating activities	17,115	9,067
Investing activities:		
Acquisition of business and assets, net of cash acquired	—	(16,975)
Purchases of available-for-sale securities	(225)	(11,900)
Purchases of held-to-maturity securities	(51)	—
Proceeds from sales of available-for-sale securities	27,050	25,350
Proceeds from sales of held-to-maturity securities	51	—
Purchases of property, plant and equipment, net	(3,159)	(2,380)
Net cash provided by (used in) investing activities	23,666	(5,905)
Financing activities:		
Repurchase of common stock	(8,611)	(8,736)
Proceeds from employee stock purchase plan and exercise of stock options	5,674	2,864
Excess tax benefits associated with stock compensation	118	30
Payment of bank financing fees	(20)	(25)
Capital lease payments	(22)	(43)
Net cash used in financing activities	(2,861)	(5,910)
Effect of exchange rate changes on cash and cash equivalents	(40)	616
Increase (decrease) in cash and cash equivalents	37,880	(2,132)
Cash and cash equivalents at beginning of period	38,997	38,752
Cash and cash equivalents at end of period	\$ 76,877	\$ 36,620
Supplemental disclosure of cash flow information:		
Non-cash investing activities:		
Issuance of common stock in connection with acquisitions	—	\$ 5,206

See accompanying notes.

Bottomline Technologies (de), Inc.  
Notes to Unaudited Condensed Consolidated Financial Statements  
March 31, 2008

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 nine months ended March 31, 2008 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2008. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) on September 12, 2007.

Certain prior period amounts have been reclassified to conform to the current year presentation.

Note 2—Business Acquisitions

On October 13, 2006 the Company, through its U.K. subsidiary, acquired all of the outstanding share capital of Formscape Group, Ltd. (Formscope). Formscope is a U.K. headquartered company with operations in the United States, the U.K. and Germany that provides software solutions for automating purchase-to-pay, document and financial transaction processes.

In connection with the acquisition, the Company accrued costs associated with Formscope facility exit activities, which were finalized during the quarter ended September 30, 2007. A summary of the exit accrual activity from the acquisition date through March 31, 2008 is presented below.

	Exit Accrual
Initial estimate, included in preliminary purchase price allocation for Formscope	\$ 913
Adjustments to original estimate, recorded through goodwill	(130)
Payments charged against the accrual	(825)
Impact of changes in foreign currency exchange rates	42
Remaining accrual at March 31, 2008	\$ —

The following unaudited pro-forma financial information presents the combined results of operations of the Company and Formscope as if that acquisition had occurred as of July 1, 2006 after giving effect to certain adjustments such as increased amortization expense of acquired intangible assets, a decrease in interest income as a result of cash paid for the acquisition and the dilutive effect of common stock issued by the Company as part of the purchase consideration. This pro-forma financial information does not necessarily reflect the results of operations that would have actually occurred had the Company and Formscope been a single entity during this period.

Unaudited, Pro Forma

Nine Months Ended  
March 31, 2007

Revenues	\$	91,529
Net loss		(7,719)
Net loss per basic and diluted share		(0.33)

## Note 3—Net Loss Per Share

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

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	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2008	2007	2008	2007

(in thousands, except per share amounts)

## Numerator:

Net loss	\$	(347)	\$	(1,874)	\$	(1,822)	\$	(5,470)
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## Denominator:

Weighted average shares outstanding used in computing basic and diluted loss per share

		23,927		23,529		23,806		23,527
Basic and diluted net loss per share	\$	(0.01)	\$	(0.08)	\$	(0.08)	\$	(0.23)

## Note 4—Comprehensive Income or Loss

Comprehensive income or loss represents 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		Nine Months Ended	
	March 31,		March 31,	
	2008	2007	2008	2007

(in thousands)

Net loss	\$	(347)	\$	(1,874)	\$	(1,822)	\$	(5,470)
Other comprehensive income (loss):								
Foreign currency translation adjustments		(15)		390		(758)		3,694
Comprehensive loss	\$	(362)	\$	(1,484)	\$	(2,580)	\$	(1,776)

## Note 5—Operations by Segments and Geographic Areas

## Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for reporting information about operating segments in financial statements. 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.

The Company's operating segments are organized principally by the type of product or services offered and by geography. As of July 1, 2007, the Company revised the structure of its internal operating segments and changed the nature of the financial information that is provided to and used by the Company's chief operating decision makers. The change in segment structure as of July 1, 2007 resulted in the Company's accounts payable automation product offerings being included as a component of its Outsourced Solutions segment rather than its Payment and Transactional Documents segment. This change is reflected for all periods presented. In accordance with SFAS 131, the Company has aggregated similar operating segments into three reportable segments as follows:

Payments and Transactional Documents. The Company's 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 the Company's core software products. Revenue associated with this segment is typically recorded upon delivery. This segment also incorporates the Company's check printing solutions in the U.K., revenue for which is typically recorded on a per transaction basis or ratably over the expected life of the customer relationship.

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 tailored nature of these products, revenue is generally recognized over the period of project performance, on a percentage of completion basis.

Outsourced Solutions. The Outsourced Solutions segment provides customers with outsourced and hosted solution offerings that facilitate invoice receipt and presentment and spend management. The Company's Legal eXchange solution, which provides customers 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 also included within this segment. This segment also incorporates the Company's accounts payable

automation solutions. 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.

The Company's chief operating decision makers assess 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 and acquisition-related expenses including amortization of intangible assets and charges related to acquired in-process research and development. 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 the Company's operating segments at predetermined rates that approximate cost.

The Company does not track or assign its assets by operating segment.

The following represents a summary of the Company's reportable segments:

	Three Months Ended March 31, 2008		Nine Months Ended March 31, 2008	
	2007	2007	2007	2007
	(in thousands)			
Revenues:				
Payments and Transactional Documents	\$ 19,670	\$ 19,634	\$ 60,890	\$ 54,395
Banking Solutions	6,331	5,557	16,739	14,009
Outsourced Solutions	6,031	5,924	17,597	17,583
Total revenues	32,032	31,115	95,226	85,987
Segment measure of profit				
Payments and Transactional Documents	3,274	3,181	11,488	8,249
Banking Solutions	1,026	685	1,531	(376)
Outsourced Solutions	(280)	(1,868)	(3,091)	(3,712)
Total measure of segment profit	\$ 4,020	\$ 1,998	\$ 9,928	\$ 4,161

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

	Three Months Ended March 31, 2008		Nine Months Ended March 31, 2008	
	2007	2007	2007	2007
	(in thousands)			
Segment measure of profit	\$ 4,020	\$ 1,998	\$ 9,928	\$ 4,161



Less:

Amortization of intangible assets	(2,629)	(2,701)	(7,958)	(6,575)
Stock compensation expense	(2,375)	(1,951)	(6,404)	(5,891)
Acquisition-related expenses	(94)	—	(94)	—
Other income, net	\$ 998	\$ 682	\$ 2,790	\$ 2,421
Loss before provision for income taxes	\$ (80)	\$ (1,972)	\$ (1,738)	\$ (5,884)

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

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	Three Months Ended		Nine Months Ended	
	March 31, 2008	2007	March 31, 2008	2007
	(in thousands)			
Depreciation expense:				
Payments and Transactional Documents	\$ 358	\$ 445	\$ 1,063	\$ 1,222
Banking Solutions	132	125	377	349
Outsourced Solutions	425	248	1,085	694
Total depreciation expense	\$ 915	\$ 818	\$ 2,525	\$ 2,265

### Geographic Information

Revenues, based on the point of sales, not the location of the customer, by geographic area were as follows:

	Three Months Ended		Nine Months Ended	
	March 31, 2008	2007	March 31, 2008	2007
	(in thousands)			
Revenues from unaffiliated customers:				
United States	\$ 18,523	\$ 17,304	\$ 53,686	\$ 47,146
Europe	13,094	13,338	40,341	37,584
Australia	415	473	1,199	1,257
Total revenues from unaffiliated customers	\$ 32,032	\$ 31,115	\$ 95,226	\$ 85,987

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

	March 31,	June 30,
	2008	2007
	(in thousands)	
Long-lived assets:		
United States	\$ 6,563	\$ 4,664
Europe	4,731	5,195
Australia	164	195
Total long-lived assets	\$ 11,458	\$ 10,054

### Note 6—Income Taxes

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), an interpretation of FASB Statement No. 109 (“SFAS 109”), on July 1, 2007. In accordance with the transition provisions of FIN 48, the cumulative effect of applying the pronouncement was reported as an adjustment to the July 1, 2007 balance of accumulated deficit. As a result of the adoption of FIN 48, the Company recorded a decrease to its tax reserves and its accumulated deficit in the amount of \$0.1 million during the first quarter of fiscal year 2008.

Upon adoption of FIN 48 the Company had approximately \$0.3 million of unrecognized tax benefits, of which an insignificant amount represented accrued interest, all of which would affect the Company's effective tax rate if recognized. The Company has classified the entire portion of its unrecognized tax benefits as non-current liabilities, as it does not anticipate settling any of these tax positions with a cash payment within the next twelve months. The amount of unrecognized tax benefits increased by approximately \$0.2 million to a total of \$0.5 million during the nine months ended March 31, 2008, primarily as a result of intercompany transactions subject to tax in multiple jurisdictions, all of which would affect the Company's effective tax rate if recognized. The Company currently anticipates that its unrecognized tax benefits will decrease within the next twelve months by approximately \$0.2 million, as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense, but to date has not recorded any amounts related to potential penalties. To the extent that the accrued interest does not ultimately become payable, the amounts accrued will be derecognized and reflected as an income tax benefit in the period that such a determination is made. As of July 1, 2007 and March 31, 2008, the Company's accrued interest related to uncertain tax positions was not material.

The Company files U.S. federal income tax returns and returns in various state, local and foreign jurisdictions. Generally, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examinations by tax authorities for years before 2001. Currently, the Company is under examination in one state jurisdiction for the tax years 2002 through 2004. The Company believes that the ultimate resolution of these open years will not have a material adverse impact on the Company's consolidated financial position, results of operations or cash flows.

For the three months ended March 31, 2008, the Company recorded net tax expense of \$0.3 million. This expense was largely due to tax expense in the U.S. and Australia, partially offset by an income tax benefit associated with the Company's U.K. operations. In the three months ended March 31, 2007, the Company recorded a net tax benefit of \$0.1 million. The net benefit position was due to an income tax benefit associated with the Company's European operations, partially offset by income tax expense associated with the Company's U.S. and Australian operations. In each of the quarters ended March 31, 2008 and 2007, the income tax expense recorded in the U.S. was primarily attributable to two factors: an increase in deferred tax liabilities associated with goodwill that is deductible for U.S. tax purposes but not amortized for financial reporting purposes, and the use of deferred tax assets arising through prior business acquisitions. With respect to the utilization of acquired deferred tax assets, the corresponding decrease to the valuation allowance was recorded as a reduction to goodwill. The U.S. tax expense also consisted of a small amount of state income tax expense which will be incurred irrespective of the Company's net operating loss carryforwards.

For the nine months ended March 31, 2008, the Company recorded net tax expense of \$0.1 million. This expense was largely due to tax expense in the U.S. and Australia, partially offset by an income tax benefit associated with the Company's U.K. operations. Further, the net tax expense includes the impact of a one-time tax benefit arising from the enactment of legislation that decreased the Company's tax rates in the U.K. and Germany (this legislation was enacted during the quarter ended September 30, 2007, and the benefit from this tax rate change will not re-occur in subsequent quarters). For the nine months ended March 31, 2007, the Company recorded a net tax benefit of \$0.4 million. The net benefit position was due to an income tax benefit associated with the Company's European operations, offset in part by income tax expense in the U.S. and Australia. In each of the nine months ended March 31, 2008 and 2007, the income tax expense recorded in the U.S. was primarily attributable to two factors: an increase in deferred tax liabilities associated with goodwill that is deductible for U.S. tax purposes but not amortized for financial reporting purposes, and the use of deferred tax assets arising through prior business acquisitions. With respect to the utilization of acquired deferred tax assets, the corresponding decrease to the valuation allowance was recorded as a reduction to goodwill. The U.S. tax expense also consisted of a small amount of state income tax expense which will be incurred irrespective of the Company's net operating loss carryforwards.

#### Note 7—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:

	As of March 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
	(in thousands)		
Amortized intangible assets:			
Core technology	\$ 24,842	\$ (21,169)	\$ 3,673
Customer related	36,814	(18,428)	18,386
Patent	953	(154)	799
Total	62,609	(39,751)	22,858
Unamortized intangible assets:			
Goodwill			52,464
Total intangible assets, net			\$ 75,322

	As of June 30, 2007		
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value
Amortized intangible assets:			
Core technology	\$ 24,982	\$ (18,572)	\$ 6,410
Customer related	36,851	(13,330)	23,521
Patent	953	(100)	853
Below market lease	94	(67)	27
Total	\$ 62,880	\$ (32,069)	\$ 30,811
Unamortized intangible assets:			
Goodwill			53,485
Total intangible assets, net			\$ 84,296

Estimated amortization expense for fiscal year 2008 and subsequent fiscal years is as follows:

	In thousands
2008	\$ 10,597
2009	8,783
2010	6,185
2011	3,782
2012	895
2013 and thereafter	574

#### Note 8—Recent Accounting Pronouncements

##### SFAS 141(R)

In December 2007, the FASB issued Statement No. 141(R), “Business Combinations” (“SFAS 141(R)”) which will significantly change the accounting for and reporting of business combination transactions. The most significant changes in the accounting for business combinations under SFAS 141(R) include:

- Valuation of any acquirer shares issued as purchase consideration will be measured at fair value as of the acquisition date;
- Contingent purchase consideration, if any, will generally be measured and recorded at the acquisition date, at fair value, with any subsequent change in fair value reflected in earnings rather than through an adjustment to the purchase price allocation;
- Acquired in-process research and development costs, which have historically been expensed immediately upon acquisition, will now be capitalized at their acquisition date fair values, measured for impairment (without recurring amortization) over the remaining development period and, upon completion of a successful development project, amortized to expense over the asset’s estimated useful life;
- Acquisition related costs will be expensed as incurred rather than capitalized as part of the purchase price allocation;
- Acquisition related restructuring cost accruals will be reflected within the acquisition accounting only if certain specific criteria are met as of the acquisition date. The prior accounting convention, which permitted an acquirer to record restructuring accruals within the purchase price allocation as long as certain, broad criteria had been met, generally around formulating, finalizing and communicating certain exit activities, will no longer be permitted.

SFAS 141(R) is effective for the first annual reporting period beginning on or after December 15, 2008 and earlier adoption is not permitted. Accordingly, the Company will adopt SFAS 141(R) on July 1, 2009. The Company expects that the adoption of this pronouncement will significantly affect how it accounts for business combination transactions consummated after the adoption date, in the areas noted above.

##### SFAS 160

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51” (“SFAS 160”). SFAS 160 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including the requirement that the noncontrolling interest be classified as a component of equity. SFAS 160 is required to be adopted simultaneously with SFAS 141(R). The Company is not presently a party to any transaction in which it has a

noncontrolling interest and,

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accordingly, does not currently believe that this pronouncement will have a significant impact on its financial condition, results of operations or cash flows.

#### Note 9—Subsequent Events

On April 21, 2008, the Company acquired Optio Software, Inc. (“Optio”). Optio is a US based company with operations in the United States, the United Kingdom, Germany and France, that provides software solutions dedicated to automating, managing and controlling the entire lifecycle of document intensive processes, while extending the value of its customers’ enterprise resource planning and hospital information systems. Optio operating results will be included in the Company’s operating results from the date of acquisition forward, as a component of the Payments and Transactional Documents operating segment.

The purchase consideration for Optio was approximately \$44.9 million in cash. The Company is still in the process of preparing a preliminary allocation of the purchase price with respect to assets acquired and liabilities assumed, but currently expects that a substantial portion of the Optio purchase price will ultimately be allocated to intangible assets, and that such assets are likely to include acquired core technology, customer related assets and goodwill. The Company is also still in the process of determining whether it acquired any in-process research and development projects, and expects to complete this assessment prior to June 30, 2008. To the extent that any portion of the purchase consideration is allocated to acquired in-process research and development costs, such amounts will be expensed immediately, not capitalized as part of the purchase price. Such an expense, to the extent occurring, would likely be material.

#### 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,” “intends,” “anticipates,” “believes,” “estimates,” “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.

#### Overview

We provide electronic payment, invoice and document management solutions to corporations, 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 software designed to run on-site at the customer’s location as well as hosted solutions. Historically, our software has been sold predominantly on a perpetual license basis. Today, however, certain of our newer offerings are being sold on a subscription and transaction 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 also provide a hosted solution, Legal eXchange, that receives, manages and controls legal invoices and the related spend management for insurance companies and other large consumers of outside legal services. Our offerings also include software solutions that banks use to provide web-based payment and reporting capabilities to their corporate customers.

Our solutions complement and leverage our customers' existing information systems, accounting applications and banking relationships. As a result, our solutions can be deployed quickly and efficiently. To help our customers receive the maximum value from our products and meet their own particular needs, we also provide professional services for installation, training, consulting and product enhancement. Additionally, we offer our customers a broad range of equipment and supplies that complement our software products.

For the first nine months of fiscal year 2008, our revenues increased to \$95.2 million from \$86.0 million in the same period of last fiscal year. This revenue increase was primarily attributable to the revenue contribution from Formscape, which

we acquired in October 2006, increased revenues within our banking solutions segment as a result of increased demand for those products and an increase of approximately \$1.9 million as a result of an increase in foreign currency exchange rates associated with the British Pound Sterling which has appreciated against the U.S. Dollar over the past year. In the first nine months of fiscal 2008, we derived approximately 44% of our revenue through our international operations, the majority of which was attributable to our operations in the U.K. We expect future revenue growth to be driven by the continued market adoption of our Legal eXchange product in the U.S., increased sales of our payments and transactional documents products, increased purchases of our products by new and existing bank and financial institution customers in both North America and international markets and the continued contribution of revenue from our newer subscription and transaction based products. As the demand for our banking products grows, we are developing opportunities to structure our software license terms for certain of these products in the form of annual subscription based pricing and/or revenue share and transaction-based pricing. To the extent that these revenue models become more prevalent, we would likely experience faster revenue growth in our subscription and transaction based revenue streams with some corresponding decrease in our software license and maintenance revenue streams.

We had a net loss of \$1.8 million in the nine months ended March 31, 2008 compared to net loss of \$5.5 million in the nine months ended March 31, 2007. The decrease in our net loss was due to the revenue increases outlined above, offset in part by increases in our cost of revenues and operating expense categories as our business has continued to grow. Our cost of revenues and operating expenses for the nine months ended March 31, 2008 reflect an increase of approximately \$1.8 million from the same period of the prior year due to an increase in foreign currency exchange rates associated with the British Pound Sterling. Increases in subscription and transactions and service and maintenance cost of revenues reflect our continued investment in our hosted, banking and accounts payable automation products, including our ongoing investments in our hosted infrastructure and customer delivery capabilities for these products. The decrease in general and administrative expenses relates primarily to decreased professional services and personnel related costs. The increase in intangible asset amortization reflects the expense impact of our October 2006 Formscape acquisition.

On April 21, 2008, we completed our acquisition of Optio Software, Inc. (“Optio”) for a purchase price of approximately \$44.9 million in cash. Optio is a provider of technology solutions that improve the efficiency of document intensive processes, has operations in the US and Europe, and will become a component of our payments and transactional documents operating segment. We expect that Optio will ultimately contribute significant recurring revenue and profit to our operating results, but for approximately one year following the acquisition we anticipate that the recurring revenue contribution from Optio will be reduced as a result of the accounting treatment applied to acquired software maintenance contracts. Acquired software maintenance revenues will be recorded by us at their estimated cost of fulfillment, plus a reasonable profit margin. As a result, we initially expect that the revenue recorded from these acquired contracts will be substantially below their stated values. Typically these maintenance agreements renew annually, and we expect to record the full revenue amounts as the contracts renew in subsequent periods and are no longer considered acquired contracts for purposes of this accounting treatment. While ultimately the decision with respect to contract renewal is controlled by each underlying customer, our experience with similar contracts has been that the substantial majority are renewed each year.

#### 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, which would have resulted in different financial results.

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended June 30, 2007 related to stock-based compensation, revenue recognition, goodwill and intangible assets and the valuation of acquired intangible assets. 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 12, 2007. There have been no changes to our critical accounting policies during the three or nine months ended March 31, 2008.

#### Recent Accounting Pronouncements

##### SFAS 141(R)

In December 2007, the FASB issued Statement No. 141(R), "Business Combinations", or SFAS 141(R), which will significantly change the accounting for and reporting of business combination transactions. The most significant changes in the accounting for business combinations under SFAS 141(R) include:

- valuation of any acquirer shares issued as purchase consideration will be measured at fair value as of the acquisition date;

- contingent purchase consideration, if any, will generally be measured and recorded at the acquisition date, at fair value, with any subsequent change in fair value reflected in earnings rather than through an adjustment to the purchase price allocation;
- acquired in-process research and development costs, which have historically been expensed immediately upon acquisition, will now be capitalized at their acquisition date fair values, measured for impairment (without recurring amortization) over the remaining development period and, upon completion of a successful development project, amortized to expense over the asset's estimated useful life;
- acquisition related costs will be expensed as incurred rather than capitalized as part of the purchase price allocation; and
- acquisition related restructuring cost accruals will be reflected within the acquisition accounting only if certain specific criteria are met as of the acquisition date. The prior accounting convention, which permitted an acquirer to record restructuring accruals within the purchase price allocation as long as certain, broad criteria had been met, generally around formulating, finalizing and communicating certain exit activities, will no longer be permitted.

SFAS 141(R) is effective for the first annual reporting period beginning on or after December 15, 2008 and earlier adoption is not permitted. Accordingly, we will adopt SFAS 141(R) on July 1, 2009. We expect that the adoption of this pronouncement will significantly affect how we account for business combination transactions consummated after the adoption date, in the areas noted above.

#### SFAS 160

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51", or SFAS 160. SFAS 160 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including the requirement that the noncontrolling interest be classified as a component of equity. SFAS 160 is required to be adopted simultaneously with SFAS 141(R). We are not presently a party to any transaction in which we have a noncontrolling interest and, accordingly, do not currently believe that this pronouncement will have a significant impact on our financial condition, results of operations or cash flows.

#### FIN 48

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No.48, "Accounting for Uncertainty in Income Taxes", or FIN 48, an interpretation of FASB Statement No. 109, on July 1, 2007. As a result of our adoption of FIN 48, we recorded a decrease to our tax reserves and our accumulated deficit in the amount of \$0.1 million during the quarter ended September 30, 2007.

Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007

#### Revenues by segment

As of July 1, 2007, we revised the structure of our internal operating segments and changed the nature of the financial information that is provided to and used by our chief operating decision makers. We have aggregated similar operating segments into three reportable segments: Payments and Transactional Documents, Banking Solutions and Outsourced Solutions. The change in segment structure as of July 1, 2007 resulted in our accounts payable automation product offerings being included as a component of our Outsourced Solutions segment rather than our Payment and Transactional Documents segment. The change in segment composition is reflected for all financial periods presented. The following table represents our revenues by segment:

	Three Months Ended March 31,				Increase (Decrease)	
	2008		2007		Between Periods 2008	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Payments and Transactional Documents	\$ 19,670	61.4	\$ 19,634	63.1	\$ 36	0.2
Banking Solutions	6,331	19.8	5,557	17.9	774	13.9
Outsourced Solutions	6,031	18.8	5,924	19.0	107	1.8
	\$ 32,032	100.0	\$ 31,115	100.0	\$ 917	2.9

Payments and Transactional Documents. The increase in revenue for the three months ended March 31, 2008 was primarily attributable to an increase in foreign currency exchange rates and an increase in maintenance revenues from our Formscape products, offset by lower software revenues. We expect revenue for the Payments and Transactional Documents segment to increase during the remainder of the fiscal year as a result of our acquisition of Optio and as a result of increased purchases of our licensed products by both new and existing customers.

Banking Solutions. The increase in revenue for the three months ended March 31, 2008 was a result of the revenue from the continuation of several large banking projects. We expect revenues for the Banking Solutions segment to remain relatively constant during the remainder of the fiscal year, with the majority of revenue generated from ongoing projects.

Outsourced Solutions. The revenue increase for the three months ended March 31, 2008 was primarily a result of an increase in new customers for our Legal eXchange offering, offset in part by a decrease in revenue from certain of our legacy accounts payable automation products in Europe. We expect revenue for the Outsourced Solutions segment to increase during the remainder of the fiscal year.

#### Revenues by category

	Three Months Ended March 31,				Increase (Decrease) Between Periods 2008 Compared to 2007	
	2008	As % of total Revenues	2007	As % of total Revenues	(in thousands)	%
	(in thousands)		(in thousands)			
Revenues:						
Software licenses	\$ 3,149	9.8	\$ 4,071	13.1	\$ (922)	(22.6)
Subscriptions and transactions	7,223	22.6	6,750	21.7	473	7.0
Service and maintenance	18,359	57.3	16,856	54.2	1,503	8.9
Equipment and supplies	3,301	10.3	3,438	11.0	(137)	(4.0)
Total revenues	\$ 32,032	100.0	\$ 31,115	100.0	\$ 917	2.9

Software Licenses. The decrease in software license revenues was due principally to a decrease in perpetual license revenues from certain of our European software products and a decrease in software revenue within our Banking Solutions segment. We expect software license revenues to increase during the remainder of the fiscal year, largely as a result of our acquisition of Optio.

Subscriptions and Transactions. The increase in subscription and transaction revenues was due principally to an increase in the revenue contribution from our Legal eXchange offering as a result of new customers and an increase in foreign currency exchange rates. We expect subscription and transaction revenues to continue to increase during the remainder of the fiscal year as a result of the revenue contribution from new Legal eXchange customers.

Service and Maintenance. The increase in service and maintenance revenues occurred as a result of increases in the software maintenance revenue contribution from Formscape, an increase in professional services revenues associated with ongoing large banking projects and an increase in foreign currency exchange rates. We expect that service and maintenance revenues will increase during the remainder of the fiscal year as a result of the revenue contribution from Optio and from the ongoing projects in our Banking Solutions segment.

Equipment and Supplies. Equipment and supplies revenue decreased in the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 due primarily to a decrease in orders as we continued to de-emphasize the lower margin transactions within this aspect of our business. We expect that equipment and supplies revenues will remain relatively constant during the remainder of the fiscal year, but expect that this revenue stream will continue to decrease as a percentage of our total revenues.

Cost of revenues by category

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	Three Months Ended March 31,				Increase (Decrease) Between Periods 2008 Compared to 2007	
	2008		2007		(in thousands)	%
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues		
Cost of revenues:						
Software licenses	\$ 173	0.5	\$ 177	0.6	\$ (4)	(2.3)
Subscriptions and transactions	3,839	12.0	3,064	9.8	775	25.3
Service and maintenance	7,846	24.5	7,633	24.5	213	2.8
Stock compensation expense	271	0.9	231	0.8	40	17.3
Equipment and supplies	2,409	7.5	2,532	8.1	(123)	(4.9)
Total cost of revenues	\$ 14,538	45.4	\$ 13,637	43.8	\$ 901	6.6
Gross profit	\$ 17,494	54.6	\$ 17,478	56.2	\$ 16	0.1

**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 6% of software license revenues in the three months ended March 31, 2008 from 4% in the three months ended March 31, 2007. The increase in software license costs as a percentage of software license revenues was primarily due to a decrease in license revenues of non-royalty bearing products. We expect that software license costs will remain relatively constant, as a percentage of software license revenues, during the remainder of the fiscal year.

**Subscriptions and Transactions.** Subscriptions and transaction 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 increased to 53% of subscription and transaction revenues in the three months ended March 31, 2008 from 45% in the three months ended March 31, 2007. The increase in subscription and transaction costs was due principally to our continued investment in our accounts payable automation solutions, particularly our hosted infrastructure and our customer delivery capabilities. We expect that subscription and transactions costs will remain relatively constant in dollar terms but will decrease as a percentage of subscription and transaction revenue as this revenue stream continues to increase over the remainder of the fiscal year.

**Service and Maintenance.** Service and maintenance costs include salaries and other related costs for our customer service, maintenance and help desk support staffs, as well as third party contractor expenses used to complement our professional services team. Service and maintenance costs decreased as a percentage of service and maintenance revenues to 43% in the three months ended March 31, 2008 as compared to 45% in the three months ended March 31, 2007. The decrease in service and maintenance costs as a percentage of service and maintenance revenues was due primarily to the increase in software maintenance revenue from Formscape, which did not result in a corresponding increase in costs, and an improvement in professional services gross margins in our Banking Solutions segment, offset in part by an increase in banking customer support costs. During the remainder of the fiscal year, we expect that service and maintenance costs will increase slightly as a percentage of service and maintenance revenues, as the contribution of maintenance revenue from Optio will initially reflect the impact of purchase accounting fair value adjustments, which will have the effect of reducing the revenue contribution from the acquired maintenance contracts. The maintenance contracts will revert to "full-value" upon subsequent customer renewal.

**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 remained relatively consistent at 73% of equipment and supplies revenues in the three months ended March 31, 2008 compared to 74% of equipment and supplies revenues in the three months ended March 31, 2007. The slight decrease in equipment and supplies costs as a percentage of equipment and supplies revenues was due to our



continued de-emphasis of lower margin equipment and supplies transactions. We expect that equipment and supplies costs will remain relatively constant as a percentage of equipment and supplies revenues for the remainder of the fiscal year.

Operating Expenses

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	Three Months Ended March 31,				Increase (Decrease) Between Periods 2007 Compared to 2006	
	2008		2007		(in thousands)	%
	(in thousands)	As % of total revenues	(in thousands)	As % of total revenues		
Operating expenses:						
Sales and marketing	\$ 6,611	20.6	\$ 7,410	23.8	\$ (799)	(10.8)
Stock compensation expense	800	2.5	663	2.1	137	20.7
Product development and engineering	3,807	11.9	4,062	13.1	(255)	(6.3)
Stock compensation expense	209	0.7	186	0.6	23	12.4
General and administrative	3,421	10.7	4,239	13.6	(818)	(19.3)
Stock compensation expense	1,095	3.4	871	2.8	224	25.7
Amortization of intangible assets	2,629	8.2	2,701	8.7	(72)	(2.7)
Total operating expenses	\$ 18,572	58.0	\$ 20,132	64.7	\$ (1,560)	(7.7)

**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 decreased in the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. The decrease was primarily attributable to a decrease in personnel related costs, including commissions, in both the U.S. and the U.K., as well as lower trade show related costs. We expect that sales and marketing expenses will increase over the remainder of the fiscal year as a result of the Optio acquisition, and as we continue to add sales resources and increase our marketing initiatives.

**Product Development and Engineering.** Product development and engineering expenses consist primarily of personnel costs to support product development, which continues to be focused on enhancements and revisions to products based on customer feedback and general marketplace demands. Our product development and engineering expenses decreased in the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 due to an increase in the use of development resources in revenue generating roles during the period, the cost of which is recorded as a cost of revenue, and a decrease in outside contractor costs. We expect that product development and engineering expenses will increase over the remainder of the fiscal year as a result of the Optio acquisition.

**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. The decrease in general and administrative expenses was primarily attributable to lower personnel related expenses, decreases in third party professional services fees and a decrease in bad debt expense. We expect that general and administrative expenses will increase over the remainder of the fiscal year as a result of the Optio acquisition.

**Stock Compensation Expense.** Stock compensation expense increased during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 due largely to an increase in stock-based compensation programs as we have continued to grow. The expense associated with share based payments is recorded as expense within the same functional expense category in which cash compensation for the applicable employee is recorded. For the three months ended March 31, 2008 and 2007, stock compensation expense was allocated as follows:

Three Months Ended  
March 31,

	2008	2007
	(in thousands)	
Cost of revenues: service and maintenance	\$ 271	\$ 231
Sales and marketing	800	663
Product development and engineering	209	186
General and administrative	1,095	871
	\$ 2,375	\$ 1,951

We expect to incur slightly higher stock compensation expense in our fourth fiscal quarter, as compared to the expense recorded in our third quarter, as a result of share-based compensation issued in conjunction with the Optio acquisition.

Amortization of Intangible Assets. Amortization expense decreased slightly as a result of the expiration of certain finite lived intangible assets, offset by an increase in foreign currency exchange rates. We expect that amortization expense will increase over the remainder of the fiscal year as a result of the amortization impact of intangible assets arising from the Optio acquisition.

Provision for Income Taxes. During the quarter ended March 31, 2008, we recorded income tax expense of \$0.3 million. This was largely due to income tax expense in the U.S. and Australia, offset in part by an income tax benefit associated with our U.K. operations. In the quarter ended March 31, 2007, we recorded an income tax benefit of \$0.1 million. This benefit was attributable to our European operations, offset in part by income tax expense in the U.S. and Australia. In each of the quarters ended March 31, 2008 and 2007, the income tax expense recorded in the U.S. was due primarily to two factors: an increase in deferred tax liabilities associated with goodwill that is deductible for U.S. tax purposes but is not amortized for financial reporting purposes, and the use of pre-acquisition deferred tax assets arising through prior business acquisitions. With respect to the utilization of acquired deferred tax assets, the corresponding decrease to the valuation allowance was recorded as a reduction to goodwill. The U.S. tax expense also consisted of a small amount of state income tax expense which we had incurred irrespective of our net operating loss carryforwards.

#### Nine Months Ended March 31, 2008 Compared to the Nine Months Ended March 31, 2007

##### Revenues by segment

As of July 1, 2007, we revised the structure of our internal operating segments and changed the nature of the financial information that is provided to and used by our chief operating decision makers. We have aggregated similar operating segments into three reportable segments: Payments and Transactional Documents, Banking Solutions and Outsourced Solutions. The change in segment structure as of July 1, 2007 resulted in our accounts payable automation product offerings being included as a component of our segment rather than our Payment and Transactional Documents segment. The change in segment composition is reflected for all financial periods presented. The following table represents our revenues by segment:

	Nine Months Ended March 31,				Increase (Decrease) Between Periods 2008 Compared to 2007	
	2008		2007		(in thousands)	%
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues		
Payments and Transactional Documents	\$ 60,890	63.9	\$ 54,395	63.3	\$ 6,495	11.9
Banking Solutions	16,739	17.6	14,009	16.3	2,730	19.5
Outsourced Solutions	17,597	18.5	17,583	20.4	14	0.1
	\$ 95,226	100.0	\$ 85,987	100.0	\$ 9,239	10.7

Payments and Transactional Documents. The revenue increase for the nine months ended March 31, 2008 was primarily attributable to a full nine months revenue contribution from Formscape, which we acquired in October 2006, and an increase in foreign currency exchange rates.

Banking Solutions. The revenue increase for the nine months ended March 31, 2008 was attributable to an increase in the revenue contribution from several large, ongoing, banking projects.

Outsourced Solutions. Revenue remained consistent for the nine months ended March 31, 2008 compared to the same period in the prior year. An increase in the revenues from our Legal eXchange offering as a result of new customers and an increase in foreign currency exchange rates, offset by a decrease in revenues from certain of our legacy accounts payable automation products in Europe, accounted for the slight increase period over period.

Revenues by category

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	Nine Months Ended March 31,				Increase (Decrease) Between Periods 2008 Compared to 2007	
	2008		2007		(in thousands)	%
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues		
Revenues:						
Software licenses	\$ 9,906	10.4	\$ 10,005	11.7	\$ (99)	(1.0)
Subscriptions and transactions	21,407	22.5	19,976	23.2	1,431	7.2
Service and maintenance	54,127	56.8	45,854	53.3	8,273	18.0
Equipment and supplies	9,786	10.3	10,152	11.8	(366)	(3.6)
Total revenues	\$ 95,226	100.0	\$ 85,987	100.0	\$ 9,239	10.7

**Software Licenses.** The decrease in software license revenues was principally due to a decrease in license revenue in Europe from certain of our legacy product offerings, offset by an increase of software license revenues from our Banking Solutions segment, and an increase in foreign currency exchange rates.

**Subscriptions and Transactions.** The increase in subscription and transaction revenues was due principally to the revenue contribution from new Legal eXchange customers and an increase in foreign currency exchange rates.

**Service and Maintenance.** The increase in service and maintenance revenues occurred primarily as a result of a full nine months of revenue contribution from Formscape, which we acquired in October 2006, an increase in revenues associated with our Banking Solutions products as a result of several large, ongoing banking projects and an increase in foreign currency exchange rates.

**Equipment and Supplies.** The decrease in equipment and supplies revenues was principally due to our continued de-emphasis of lower margin transactions within this aspect of our business.

#### Cost of revenues by category

	Nine Months Ended March 31,				Increase (Decrease) Between Periods 2008 Compared to 2007	
	2008		2007		(in thousands)	%
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues		
Cost of revenues:						
Software licenses	\$ 598	0.6	\$ 560	0.7	\$ 38	6.8
Subscriptions and transactions	11,723	12.3	8,457	9.8	3,266	38.6
Service and maintenance	22,764	23.9	21,106	24.5	1,658	7.9
Stock compensation expense	740	0.8	520	0.6	220	42.3
Equipment and supplies	7,024	7.4	7,529	8.8	(505)	(6.7)
Total cost of revenues	\$ 42,849	45.0	\$ 38,172	44.4	\$ 4,677	12.3
Gross profit	\$ 52,377	55.0	\$ 47,815	55.6	\$ 4,562	9.5

Software Licenses. Software license costs consist of expenses incurred by us to manufacture, package and distribute our software products and related documentation and costs of licensing third party software that is incorporated into or sold with certain of our products. Software license costs remained consistent at 6% of software license revenues in the nine months ended March 31, 2008 and 2007.

Subscriptions and Transactions. Subscriptions and transaction 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 transaction costs represented 55% of subscriptions and transaction revenues in the nine months ended March 31, 2008 as compared to 42% in the nine months ended March 31, 2007. The increase in subscriptions and transaction costs was due to our continued investment in our hosted and accounts payable automation solutions, particularly our hosted infrastructure and our customer delivery capabilities.

Service and Maintenance. Service and maintenance costs include salaries and other related costs for our customer service, maintenance and help desk support staffs, as well as third party contractor expenses used to complement our professional services team. Service and maintenance costs decreased to 42% as a percentage of service and maintenance revenues during the nine months ended March 31, 2008 as compared to 46% in the nine months ended March 31, 2007. The

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decrease in service and maintenance cost of revenue as a percentage of service and maintenance revenue was due to an increase in the contribution of software maintenance revenues from Formscape, which we acquired in October 2006, and an increase in professional services gross margins in our Banking Solutions segment.

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 decreased to 72% of equipment and supplies revenues in the nine months ended March 31, 2008 compared to 74% of equipment and supplies revenues in the nine months ended March 31, 2007. The decrease in equipment and supplies costs as a percentage of equipment and supplies revenues was attributable to our continued de-emphasis of lower margin equipments and supplies transactions.

#### Operating Expenses

	Nine Months Ended March 31,				Increase (Decrease) Between Periods 2008 Compared to 2007	
	2008	As % of total	2007	As % of total	(in thousands)	%
	(in thousands)	revenues	(in thousands)	revenues		
Operating expenses:						
Sales and marketing	\$ 20,680	21.7	\$ 20,767	24.2	\$ (87)	(0.4)
Stock compensation expense	2,097	2.2	2,120	2.5	(23)	(1.1)
Product development and engineering	11,876	12.5	11,522	13.4	354	3.1
Stock compensation expense	592	0.6	578	0.7	14	2.4
General and administrative	10,727	11.3	11,885	13.8	(1,158)	(9.7)
Stock compensation expense	2,975	3.1	2,673	3.1	302	11.3
Amortization of intangible assets	7,958	8.4	6,575	7.6	1,383	21.0
Total operating expenses	\$ 56,905	59.8	\$ 56,120	65.3	\$ 785	1.4

Sales and Marketing. Sales and marketing expenses consist primarily of salaries and other related costs for sales and marketing personnel, sales commissions, travel, public relations and marketing materials and trade show participation. The decrease in sales and marketing expenses was primarily attributable to a reduction in personnel related costs, including commissions, and a reduction in advertising and travel costs, offset by a full nine months of headcount related costs associated with the Formscape acquisition and an increase in foreign currency exchange rates.

Product Development and Engineering. Product development and engineering expenses consist primarily of personnel costs to support product development, which continues to be focused on enhancements and revisions to our products based on customer feedback and general marketplace demands. The increase in product development and engineering expenses was primarily attributable to a full nine months of costs associated with the Formscape acquisition, increased development costs related to our Legal eXchange product and an increase in foreign currency exchange rates. These increases were partially offset by an increased use of development resources in revenue generating roles during the period, the cost of which is recorded as a cost of revenue.

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. The reduction in general and administrative expenses was primarily attributable to a decrease in third party professional services fees and personnel related costs, offset in part by a full nine months of costs associated with the Formscape acquisition and an increase in foreign



currency exchange rates.

Stock Compensation Expense. Stock compensation expense increased during the nine months ended March 31, 2008 as compared to the nine months ended March 31, 2007, largely due to an increase in stock-based compensation programs as we have continued to grow. The expense associated with share based payments is recorded as expense within the same functional expense category in which cash compensation for the applicable employee is recorded. For the nine months ended March 31, 2008 and 2007, stock compensation expense was allocated as follows:

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	Nine Months Ended March 31,	
	2008	2007
	(in thousands)	
Cost of revenues: service and maintenance	\$ 740	\$ 520
Sales and marketing	2,097	2,120
Product development and engineering	592	578
General and administrative	2,975	2,673
	\$ 6,404	\$ 5,891

Amortization of Intangible Assets. Amortization expense increased as a result of the amortization of intangible assets arising from our October 2006 acquisition of Formscape.

Provision for Income Taxes. We recorded net tax expense of \$0.1 million during the nine months ended March 31, 2008. This expense was largely due to income tax expense in the U.S. and Australia, partially offset by an income tax benefit associated with our U.K. operations. Further, this net tax expense includes the one-time impact of a tax benefit arising from the enactment of legislation, during the quarter ended September 30, 2007, that decreased our tax rates in the U.K. and Germany. We recorded a net tax benefit of \$0.4 million during the nine months ended March 31, 2007. This net benefit position was due to an income tax benefit associated with our European operations, partially offset by tax expense in the U.S. and Australia. In each of the nine months ended March 31, 2008 and 2007, the income tax expense recorded in the U.S. was due primarily to two factors: an increase in deferred tax liabilities associated with goodwill that is deductible for U.S. tax purposes but is not amortized for financial reporting purposes, and the use of deferred tax assets arising through prior business acquisitions. With respect to the utilization of acquired deferred tax assets, the corresponding decrease to the valuation allowance was recorded as a reduction to goodwill. The U.S. tax expense also consisted of a small amount of state income tax expense which we had incurred irrespective of our net operating loss carryforwards.

#### Liquidity and Capital Resources

One of our goals is to maintain and improve our capital structure. The key metrics we focus on in assessing the strength of our liquidity are summarized in the table below:

	Nine Months Ended March 31,	
	2008	2007
	(in thousands)	
Cash provided by operating activities	\$ 17,115	\$ 9,067
	March 31,	June 30,
	2008	2007
	(in thousands)	
Cash, cash equivalents and marketable securities	\$ 76,932	\$ 65,873
Working capital	62,741	55,321

We have financed our operations primarily from cash provided by operating activities and the sale of our common stock. We generated positive operating cash flows in the nine months ended March 31, 2008 and in each of our last six completed fiscal years. We believe that the cash generated from our operations and the cash and cash equivalents we have on hand will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable

future. We also may receive additional investments from, and make investments in, customers or other companies. However, any such transactions would require the approval of our board of directors, and in some cases, stockholder and potentially bank or regulatory approval. We also may undertake additional business or asset acquisitions or divestitures.

In April 2008, we paid approximately \$44.9 million from our cash balances to acquire Optio Software, Inc. We continue to believe that our existing cash balances, as well as the cash we expect to generate from our ongoing operations, will be sufficient to meet our operating requirements for the foreseeable future.

Operating Activities

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	Nine Months Ended March 31,	
	2008	2007
	(in thousands)	
Net loss	\$ (1,822)	\$ (5,470)
Non-cash adjustments	15,840	13,888
Changes in working capital	3,097	649
Net cash provided by operating activities	\$ 17,115	\$ 9,067

The increase in net cash provided by operating activities for the nine months ended March 31, 2008 was due to a decrease in our net loss, affected by favorable non-cash adjustments and collections on accounts receivable, offset in part by decreases in accounts payable, accrued expenses and deferred revenue. Net cash provided by operating activities for the nine months ended March 31, 2007 was due to our net loss, affected by favorable non-cash adjustments and collections on accounts receivable, offset in part by decreases in accrued expenses and deferred revenue. Non-cash adjustments are transactions that result in the recognition of financial statement expense but not a corresponding cash receipt or disbursement, such as stock compensation expense, amortization of intangible assets, depreciation and amortization of property and equipment and provision for allowances of accounts receivable.

#### Investing Activities

	Nine Months Ended March 31,	
	2008	2007
	(in thousands)	
Acquisition of business and assets, net of cash acquired	\$ —	\$ (16,975)
Proceeds from short-term investments, net	26,825	13,450
Purchases of property and equipment, net	(3,159)	(2,380)
Net cash provided by (used in) investing activities	\$ 23,666	\$ (5,905)

In the nine months ended March 31, 2008, cash was primarily provided through the sale of marketable securities and, to a lesser extent, was used to acquire property and equipment. For the nine months ended March 31, 2007, cash was primarily provided through the sale of marketable securities and was used to fund the acquisition of Formscape, purchase marketable securities and, to a lesser extent, to acquire property and equipment. We currently expect to incur capital expenditures during the fourth quarter of fiscal 2008 that are above the average level of capital expenditures incurred during the first nine months of our fiscal year, as we continue to enhance our IT and hosted infrastructure.

#### Financing Activities

	Nine Months Ended March 31,	
	2008	2007
	(in thousands)	
Repurchase of common stock	\$ (8,611)	\$ (8,736)
Proceeds from employee stock purchase plan, and exercise of stock options	5,674	2,864
Excess tax benefits associated with stock compensation	118	30
Payment of bank financing fees	(20)	(25)

Payment under capital lease obligations	(22)	(43)
Net cash used in financing activities	\$ (2,861)	\$ (5,910)

Net cash used in financing activities for the nine months ended March 31, 2008 and March 31, 2007 was primarily the result of the repurchase of our common stock, offset by proceeds received from the exercise of employee stock options and from the purchase of our stock by participants in our employee stock purchase plan.

#### Off-Balance Sheet Arrangements

During the three months ended March 31, 2008, we did not engage in material off-balance sheet activities, including the use of structured finance, special purpose or variable interest entities, material trading activities in non-exchange traded commodity contracts or transactions with persons or entities that benefit from their non-independent relationship with us.

## Contractual Obligations

Following is a summary of future payments that we are required to make under existing contractual obligations as of March 31, 2008:

	Total	Payments Due by Period *			More Than 5 Years
		Less Than 1 Year	1-3 Years	4-5 Years	
			(in thousands)		
Operating lease obligations	\$ 10,207	\$ 709	\$ 6,836	\$ 1,686	\$ 976
Capital lease obligations	49	9	40	—	—
Other contractual obligations	179	—	179	—	—
<b>Total</b>	<b>\$ 10,435</b>	<b>\$ 718</b>	<b>\$ 7,055</b>	<b>\$ 1,686</b>	<b>\$ 976</b>

\*Payment due dates are calculated from our most recent fiscal year end of June 30, 2007

Purchase orders are not included in the table above. Our purchase orders represent authorizations to purchase rather than binding agreements. The contractual obligation amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum services to be used; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Obligations under contract that we can cancel without a significant penalty are not included in the table above. Also excluded from the table is our estimate of unrecognized tax benefits as of March 31, 2008 in the amount of \$0.5 million. These amounts have been excluded because, as of March 31, 2008, we are unable to estimate the timing of future cash outflows, if any, associated with these liabilities as we do not currently anticipate settling any of these tax positions with cash payment in the foreseeable future.

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

We are exposed to a variety of risks, including foreign currency exchange rate fluctuations and changes in the market value of our investments in marketable securities primarily due to changes in the interest rates. We have not entered into any foreign currency hedging transactions or other instruments to minimize our exposure to foreign currency exchange rate fluctuations nor do we presently plan to in the future. Also, we have not entered into any interest rate swap agreements, or other instruments to minimize our exposure to interest rate fluctuations. There has been no material change to our exposure to market risk from that which was disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, as filed with the SEC on September 12, 2007.

### Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2008. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including

its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2008, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

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

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

The following risk factors do not reflect any material changes from those included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, as filed with the SEC on September 12, 2007.

Our common stock has experienced and may continue to undergo extreme market price and volume fluctuations

Stock markets in general, and The NASDAQ Global Market in particular, have experienced extreme price and volume fluctuations, particularly in recent years. Broad market fluctuations of this type may adversely affect the market price of our common stock. The stock prices for many companies in the technology sector have experienced wide fluctuations that often have been unrelated to their operating performance. The market price of our common stock has experienced and may continue to undergo extreme fluctuations due to a variety of factors, including:

- changes in or our failure to meet analysts' or investors' estimates or expectations;
- general and industry-specific business, economic and market conditions;
- actual or anticipated fluctuations in operating results, including those arising as a result of any impairment of goodwill or other intangible assets related to past or future acquisitions;
- public announcements concerning us, including announcements of litigation, our competitors or our industry;
- introductions of new products or services or announcements of significant contracts by us or our competitors;
- acquisitions, divestitures, strategic partnerships, joint ventures, or capital commitments by us or our competitors;
- adverse developments in patent or other proprietary rights; and
- announcements of technological innovations by our competitors.

Our future financial results will be impacted by our success in selling new products in a subscription and transaction based revenue model

A substantial portion of our revenues and profitability were historically generated from software license revenues. We are currently offering certain of our newer product sets under a subscription and transaction based revenue model, which we believe has certain advantages over a perpetual license model, including better predictability of revenue.

A subscription and transaction based revenue model typically results in no up-front revenue. Additionally, there can be no assurance that our customers, or the markets in which we compete, will respond favorably to the approach we have taken with our newer offerings. To the extent that our new subscription and transaction based offerings do not



receive general marketplace acceptance, our financial results could be materially and adversely affected.

We make significant investments in existing products and new product offerings that can adversely affect our operating results and may not be successful

We operate in a highly competitive and rapidly evolving technology environment and believe that it is important to enhance existing product offerings and develop new product offerings to meet strategic opportunities as they evolve. Investments in existing product enhancements and new product offerings can have a negative impact on our operating results, and any existing product enhancements or new product offerings may not be accepted in the marketplace or generate material revenues. For example, our operating results have recently been affected by a significant increase in product development expenses as we continue to make investments in our hosted, banking and accounts payable automation products.

Integration of acquisitions could interrupt our business and our financial condition could be harmed

Part of our operating strategy is to identify and pursue strategic acquisitions that can expand our geographical footprint or complement our existing product functionality. We acquired Optio Software in April, 2008 and may in the future continue to acquire, or make investments in, other businesses, products or technologies. Any acquisition or strategic investment we have made in the past or may make in the future may entail numerous risks, including the following:

- difficulties integrating acquired operations, personnel, technologies or products;

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

- write-offs related to impairment of goodwill and other intangible assets;
- entrance into markets in which we have no or limited prior experience or knowledge;
- diversion of management's focus from our core business concerns;
- dilution to existing stockholders and earnings per share;
- incurrence of substantial debt; and

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

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

As a result of our acquisitions, we could be subject to significant future write-offs with respect to intangible assets, or expenses related to acquired in-process research and development costs, which may adversely affect our future operating results

We review our intangible assets, including goodwill, periodically for impairment. At March 31, 2008, the carrying value of our goodwill and our other intangible assets was approximately \$52 million and \$23 million, respectively. While we reviewed our goodwill and intangible assets during the fourth quarter of fiscal year 2007 and concluded that there was no impairment, we could be subject to future impairment charges with respect to these intangible assets, or intangible assets arising as a result of acquisitions in future periods. Further, to the extent we acquire projects related to in-process research and development activities, such amounts require immediate, rather than ratable, expense recognition. Any such charges, to the extent occurring, would likely have a material adverse effect on our operating results.

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

A significant percentage of our expenses, particularly personnel and facilities costs, are relatively fixed and based in part on anticipated revenue levels. In recent years, we have experienced slowing growth rates with certain of our licensed software products. A decline in revenues without a corresponding and timely slowdown in expense growth

could negatively affect our business. Significant revenue shortfalls in any quarter may cause significant declines in operating results since we may be unable to reduce spending in a timely manner.

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

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

• the timing of orders and longer sales cycles;

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

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

• the timing and market acceptance of new products or product enhancements by either us or our competitors.

Because of these factors, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful.

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

The gross margins for our products and services vary considerably. Our software revenues generally yield significantly higher gross margins than do our subscription and transaction, service and maintenance and equipment and supplies revenue streams. In recent fiscal years, we experienced a decrease in our software license fees. If software license fees were to again decline, or if the mix of our products and services in any given period does not match our expectations, our results of operations and the market price of our common stock could be significantly adversely affected.

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

A significant percentage of our revenues have been generated by our international operations, and our future growth rates and success are in part dependent on our continued growth and success in international markets. We have operations in the U.S., U.K., Australia, France and Germany. As is the case with most international operations, the success and profitability of these operations are subject to numerous risks and uncertainties that include, in addition to the risks our business as a whole faces, the following:

- difficulties and costs of staffing and managing foreign operations;
- currency exchange rate fluctuations;
- differing regulatory and industry standards and certification requirements;
- the complexities of foreign tax jurisdictions;
- reduced protection for intellectual property rights in some countries; and
- import or export licensing requirements.

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

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

• continued market acceptance of our payment management offerings including our overall accounts payable automation solution;

• prospective customers' dependence upon enterprises seeking to enhance their payment functions to integrate electronic payment capabilities;

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

- acceptance of software solutions offered on a hosted basis.

A growing number of our customer arrangements involve selling our products and services on a hosted basis, which may have the effect of delaying revenue recognition and increasing development or start-up expenses

An increasing number of our customer arrangements involve offering certain of our products and services on a hosted basis. These arrangements typically include a contractually defined service period as well as performance criteria that our products or services are required to meet over the duration of the service period. Arrangements entered into on a hosted basis generally delay the timing of revenue recognition and often require the incurrence of up-front costs, which can be significant. We are continuing to make significant investments in certain of our hosted offerings, such as our accounts payable automation products, and there can be no assurance that these products will ultimately gain broad market acceptance. Additionally, there is a risk that we might be unable to consistently maintain the performance requirements, or service levels, called for under any such hosted arrangements. Such events, to the extent occurring, could have a material and adverse effect on our operating results.

Our future financial results will depend on our ability to manage growth effectively

In the past, rapid growth has strained our managerial and other resources. If rapid growth resumes, our ability to manage that growth will depend in part on our ability to continue to enhance our operating, financial and management information systems. We cannot assure you that our personnel, systems and controls will be adequate to support future

growth. If we are unable to manage growth effectively, the quality of our services, our ability to retain key personnel and our business, operating results and financial condition could be materially adversely affected.

We face significant competition in our targeted markets, including competition from companies with significantly greater resources

In recent years, we have encountered increasing competition in our targeted markets. We compete with a wide range of companies, ranging from small start-up enterprises with limited resources, which compete principally on the basis of technology features or specific customer relationships, to large companies, which can leverage significant customer bases and financial resources. Given the size and nature of the markets we target, the implementation of our growth strategy and our success in competing for market share is dependent on our ability to grow our sales and marketing capabilities and maintain an appropriate level of financial resources.

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

Due to an increasing number of large and more complex customer contracts, particularly in our Banking Solutions segment, we have experienced, and will likely continue to experience, delays in the timing of our revenue recognition. These large and complex customer contracts generally require significant implementation work, product customization and modification, resulting in the recognition of revenue over the period of project completion, which normally spans several quarters. Delays in revenue recognition on these contracts, including delays that result from customer decisions to halt or otherwise slow down a long-term project due to their own staffing challenges, could affect our operating results, financial condition and the market price of our common stock. Similarly, if we are unable to continue to generate new large orders on a regular basis, our business operating results and financial condition could be adversely affected.

We depend on key employees who are skilled in e-commerce, payment, cash and document management and invoice presentment methodology and Internet and other technologies

Our success depends upon the efforts and abilities of our executive officers and key technical employees who are skilled in e-commerce, payment methodology and regulation, and Internet, database and network technologies. The loss of one or more of these individuals could have a material adverse effect on our business. We currently do not maintain "key man" life insurance policies on any of our employees. While some of our executive officers have employment or retention agreements with us, the loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, operating results and financial condition.

We must attract and retain highly skilled personnel with knowledge in e-commerce, payment, cash and document management and invoice presentment methodology and Internet and other technologies

We believe that our success is in part dependent upon our ability to attract, hire, train and retain highly skilled technical, sales and marketing, and support personnel, particularly with expertise in e-commerce, payment, cash management and invoice methodology and Internet and other technologies. Competition for qualified personnel is intense. As a result, we may experience increased compensation costs that may not be offset through either improved productivity or higher sales prices. There can be no assurance that we will be successful in attracting, recruiting or retaining existing personnel. Based on our experience, it takes an average of nine months for a new salesperson to become fully productive. We cannot assure you that we will be successful in increasing the productivity of our sales personnel, and the failure to do so could have a material adverse effect on our business, operating results and financial condition.

Increased competition may result in price reductions and decreased demand for our product solutions

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

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

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

- evolving industry standards, mandates and laws, such as those mandated by the National Automated Clearing House Association and the Association for Payment Clearing Services;
- rapidly changing technology, which could cause our software to become suddenly outdated or could require us to make our products compatible with new database or network systems;
- developments and changes relating to the Internet that we must address as we maintain existing products and introduce any new products; and
- the loss of any of our key strategic partners who serve as a valuable network from which we can leverage industry expertise and respond to changing marketplace demands.

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

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

Our software products and hosted services offerings facilitate the transmission of business documents and information including, in some cases, confidential financial data related to payments, invoices and cash management. Our web-based software products, and certain of our hosted services offerings, transmit this data electronically. While we believe that all of our product and service offerings comply with current regulatory and security requirements, there can be no assurance that future legal or regulatory actions will not impact our product and service offerings. To the extent that regulatory or legal developments mandate a change in any of our products or services, or alter the demand for or the competitive environment of our products and services, we might not be able to respond to such requirements in a timely or successful manner. If this were to occur, our business, operating results and financial condition could be materially adversely affected.

Any unanticipated performance problems or bugs in our product offerings could have a material adverse effect on our future financial results

If the products that we offer and continue to introduce do not sustain marketplace acceptance, our future financial results will be adversely affected. Since many of our software solutions are still in early stages of adoption and since most of our software products are continually being enhanced or further developed in response to general marketplace demands, any unanticipated performance problems or bugs that we have not been able to detect could result in additional development costs, diversion of technical and other resources from our other development efforts, negative publicity regarding us and our products, harm to our customer relationships and exposure to potential liability claims. In addition, if our products do not enjoy wide commercial success, our long-term business strategy will be adversely affected, which could have a material adverse effect on our business, operating results and financial condition.

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



Our software license agreements typically contain provisions that afford customers a degree of warranty protection in the event that our software fails to conform to its written specifications. These agreements typically contain provisions intended to limit the nature and extent of our risk of warranty and product liability claims. There is a risk, however, that a court might interpret these terms in a limited way or could hold part or all of these terms to be unenforceable. Furthermore, some of our licenses with our customers are governed by non-U.S. law, and there is a risk that foreign law might provide us less or different protection. While we maintain general liability insurance, including coverage for errors and omissions, we cannot be sure that our existing coverage will continue to be available on reasonable terms or will be available in amounts sufficient to cover one or more large claims. Although we have not experienced any material warranty or product liability claims to date, a warranty or product liability claim, whether or not meritorious, could result in substantial costs and a diversion of management's attention and our resources, which could have an adverse effect on our business, operating results and financial condition.

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

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

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We may be a party to litigation in the future to protect our intellectual property rights or as a result of an alleged infringement of the intellectual property rights of others. Any such claims, whether or not meritorious, could require us to spend significant sums in litigation, pay damages, delay product implementations, develop non-infringing intellectual property or acquire licenses to intellectual property that is the subject of the infringement claim. These claims could have a material adverse effect on our business, operating results and financial condition.

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

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

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

- disruption due to political or military conflicts around the world;
- misappropriation of intellectual property from departing personnel, which we may not readily detect; and

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

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

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

We are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware prohibiting, under some circumstances, publicly-held Delaware corporations from engaging in business combinations with some stockholders for a specified period of time without the approval of the holders of substantially all of our outstanding voting stock. Such provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial, in the short-term, to the interests of the stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation and bylaws

contain provisions relating to the limitations of liability and indemnification of our directors and officers, dividing our board of directors into three classes of directors serving three-year terms and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders.

We may incur significant costs from class action litigation as a result of expected volatility in our common stock

In the past, companies that have experienced market price volatility of their stock have been the targets of securities class action litigation. In August 2001, we were named as a party in one of the so-called “laddering” securities class action suits relating to the underwriting of our initial public offering. In April 2008, we acquired Optio Software, Inc., which is also a party in a “laddering” securities class action suit. We could incur substantial costs and experience a diversion of our management’s attention and resources in connection with any such litigation, which could have a material adverse effect on our business, financial condition and results of operations.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases by us of our common stock during the three months ended March 31, 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under The Plans or Programs (1) (2)
January 1, 2008 — January 31, 2008	60,000	\$ 12.53	60,000	\$ 1,407,000
February 1, 2008 — February 29, 2008	10,000	12.72	10,000	1,280,000
March 1, 2008 — March 31, 2008	90,000	11.38	90,000	256,000
Total	160,000	11.90	160,000	256,000

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- (1) In May 2007, our board of directors authorized a repurchase program for the repurchase of up to \$10.0 million of our common stock.
- (2) In April 2008, our board of directors authorized a new repurchase program for the repurchase of up to \$10.0 million of our common stock. This new repurchase program is in addition to the program authorized by our board of directors in May 2007, which has now been completed.

## Item 6. Exhibits

See the Exhibit Index on page 32 for a list of exhibits filed as part of this Quarterly Report on Form 10-Q, which Exhibit Index is incorporated herein by reference.

SIGNATURE

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

Company Name

Date: May 9, 2008

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

EXHIBIT INDEX

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer

Exhibit 31.1

### CERTIFICATIONS

I, Robert A. Eberle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bottomline Technologies (de), Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2008

By:

/s/ ROBERT A. EBERLE  
Robert A. Eberle  
President and Chief  
Executive Officer  
(Principal Executive Officer)

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## CERTIFICATIONS

I, Kevin M. Donovan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bottomline Technologies (de), Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2008

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

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Bottomline Technologies (de), Inc. (the "Company") for the period ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert A. Eberle, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2008

By:

/S/ ROBERT A.  
EBERLE  
Robert A. Eberle  
President and Chief  
Executive Officer  
(Principal Executive  
Officer)

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Bottomline Technologies (de), Inc. (the "Company") for the period ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Kevin M. Donovan, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2008

By:

/S/ KEVIN M.  
DONOVAN  
Kevin M. Donovan  
Chief Financial Officer  
and Treasurer  
(Principal Financial and  
Accounting Officer)

