

BOTTOMLINE TECHNOLOGIES INC /DE/  
Form 10-Q  
February 08, 2010  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended December 31, 2009

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)

---

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

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

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

(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 January 29, 2010 was 26,910,642.

## INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Unaudited Condensed Consolidated Balance Sheets as of December 31, 2009 and June 30, 2009	3
Unaudited Condensed Consolidated Statements of Operations for the three months ended December 31, 2009 and 2008	4
Unaudited Condensed Consolidated Statements of Operations for the six months ended December 31, 2009 and 2008	5
Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2009 and 2008	6
Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures about Market Risk	26
Item 4. Controls and Procedures	26
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	26
Item 1A. Risk Factors	27
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 4. Submission of Matters to a Vote of Security Holders	34
Item 6. Exhibits	34
SIGNATURE	35

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	December 31, 2009	June 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$54,946	\$50,255
Marketable securities	54	48
Accounts receivable, net of allowance for doubtful accounts of \$527 at December 31, 2009 and \$645 at June 30, 2009	24,266	23,118
Other current assets	6,934	5,531
Total current assets	86,200	78,952
Property and equipment, net	15,326	10,106
Intangible assets, net	103,729	89,589
Other assets	5,149	4,504
Total assets	\$210,404	\$183,151
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$6,224	\$5,955
Accrued expenses	8,178	9,290
Deferred revenue	32,190	33,029
Total current liabilities	46,592	48,274
Deferred revenue, non-current	13,168	10,213
Deferred income taxes	2,335	2,263
Other liabilities	2,064	1,852
Total liabilities	64,159	62,602
Stockholders' equity:		
Preferred Stock, \$.001 par value:		
Authorized shares—4,000; issued and outstanding shares—none	----	----
Common Stock, \$.001 par value:		
Authorized shares—50,000; issued shares—27,697 at December 31, 2009, and 26,516 at June 30, 2009; outstanding shares—25,563 at December 31, 2009, and 24,311 at June 30, 2009	28	27
Additional paid-in capital	310,661	287,082
Accumulated other comprehensive loss	(5,461 )	(4,920 )
Treasury stock: 2,134 shares at December 31, 2009, and 2,205 shares at June 30, 2009, at cost	(23,579 )	(24,360 )
Accumulated deficit	(135,404 )	(137,280 )
Total stockholders' equity	146,245	120,549

Total liabilities and stockholders' equity	\$210,404	\$183,151
--	-----------	-----------

See accompanying notes.

3

---

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

	Three Months Ended December 31,	
	2009	2008
Revenues:		
Software licenses	\$ 3,787	\$ 3,597
Subscriptions and transactions	10,469	7,744
Service and maintenance	23,775	20,527
Equipment and supplies	2,091	2,466
Total revenues	40,122	34,334
Cost of revenues:		
Software licenses	321	207
Subscriptions and transactions (1)	5,160	3,792
Service and maintenance (1)	10,405	9,513
Equipment and supplies	1,590	1,824
Total cost of revenues	17,476	15,336
Gross profit	22,646	18,998
Operating expenses:		
Sales and marketing (1)	8,825	8,150
Product development and engineering (1)	4,753	5,238
General and administrative (1)	4,248	4,619
Amortization of intangible assets	3,361	3,948
Total operating expenses	21,187	21,955
Income (loss) from operations	1,459	(2,957 )
Other (expense) income, net	(93 )	615
Income (loss) before income taxes	1,366	(2,342 )
Provision for income taxes	662	527
Net income (loss)	704	(2,869 )
Basic and diluted net income (loss) per share attributable to common stockholders:	\$ 0.03	\$ (0.12 )
Shares used in computing basic net income (loss) per share attributable to common stockholders:	25,092	24,033
Shares used in computing diluted net income (loss) per share attributable to common stockholders:	25,933	24,033

(1) Stock based compensation is allocated as follows:

	Three Months Ended December 31,	
	2009	2008
Cost of revenues: subscriptions and transactions	\$61	\$49

Edgar Filing: BOTTOMLINE TECHNOLOGIES INC /DE/ - Form 10-Q

Cost of revenues: service and maintenance	444	212
Sales and marketing	838	648
Product development and engineering	329	197
General and administrative	728	1,097

See accompanying notes.

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

	Six Months Ended December 31,	
	2009	2008
Revenues:		
Software licenses	\$6,750	\$7,203
Subscriptions and transactions	18,750	15,973
Service and maintenance	46,910	41,676
Equipment and supplies	4,268	4,988
Total revenues	76,678	69,840
Cost of revenues:		
Software licenses	540	407
Subscriptions and transactions (1)	9,038	7,991
Service and maintenance (1)	20,125	19,303
Equipment and supplies	3,211	3,679
Total cost of revenues	32,914	31,380
Gross profit	43,764	38,460
Operating expenses:		
Sales and marketing (1)	16,708	16,788
Product development and engineering (1)	8,843	10,660
General and administrative (1)	8,538	9,792
Amortization of intangible assets	6,667	8,384
Total operating expenses	40,756	45,624
Income (loss) from operations	3,008	(7,164 )
Other income, net	128	763
Income (loss) before income taxes	3,136	(6,401 )
Provision for income taxes	1,260	317
Net income (loss)	1,876	(6,718 )
Basic and diluted net income (loss) per share attributable to common stockholders:	\$0.07	\$(0.28 )
Shares used in computing basic net income (loss) per share attributable to common stockholders:	24,747	23,958
Shares used in computing diluted net income (loss) per share attributable to common stockholders:	25,372	23,958

(1) Stock based compensation is allocated as follows:

	Six Months Ended December 31,	
	2009	2008
Cost of revenues: subscriptions and transactions	\$114	\$131



Edgar Filing: BOTTOMLINE TECHNOLOGIES INC /DE/ - Form 10-Q

Cost of revenues: service and maintenance	749	390
Sales and marketing	1,487	1,343
Product development and engineering	533	400
General and administrative	1,425	2,149

See accompanying notes.

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

	Six Months Ended December 31,	
	2009	2008
Operating activities:		
Net income (loss)	\$1,876	\$(6,718 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of intangible assets	6,667	8,384
Stock compensation expense	4,308	4,413
Depreciation and amortization of property and equipment	2,164	1,995
Deferred income tax provision (benefit)	301	(179 )
Provision for allowances on accounts receivable	(99 )	11
Provision for obsolete inventory	1	7
Excess tax benefits associated with stock compensation	(130 )	(10 )
Gain on foreign exchange	(136 )	(222 )
Loss on disposal of equipment	---	12
Changes in operating assets and liabilities:		
Accounts receivable	(1,089 )	(820 )
Inventory, prepaid expenses and other assets	(565 )	(810 )
Accounts payable, accrued expenses and other liabilities	(856 )	(3,040 )
Deferred revenue	2,189	7,411
Net cash provided by operating activities	14,631	10,434
Investing activities:		
Acquisition of business	(17,000 )	---
Purchases of held-to-maturity securities	(50 )	(53 )
Proceeds from sales of held-to-maturity securities	50	53
Purchases of property and equipment	(2,528 )	(2,060 )
Net cash used in investing activities	(19,528 )	(2,060 )
Financing activities:		
Proceeds from employee stock purchase plan and exercise of stock options	9,560	961
Repurchase of common stock	(23 )	(2,603 )
Excess tax benefits associated with stock compensation	130	10
Capital lease payments	(56 )	(65 )
Payment of bank financing fees	(13 )	(20 )
Net cash provided by (used in) financing activities	9,598	(1,717 )
Effect of exchange rate changes on cash and cash equivalents	(10 )	(7,256 )
Increase (decrease) in cash and cash equivalents	4,691	(599 )
Cash and cash equivalents at beginning of period	50,255	35,316
Cash and cash equivalents at end of period	\$54,946	\$34,717
Supplemental disclosure of cash flow information:		
Issuance of warrants in connection with acquisition of business	\$10,520	---

See accompanying notes.



Bottomline Technologies (de), Inc.  
Notes to Unaudited Condensed Consolidated Financial Statements  
December 31, 2009

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three and six months ended December 31, 2009 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2010. 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 11, 2009.

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

Note 2—Recent Accounting Pronouncements

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on two issues related to revenue recognition.

The first issue, Revenue Arrangements with Multiple Deliverables, applies to multiple-deliverable revenue arrangements and provides for two significant changes to existing multiple-element revenue recognition guidance. The first change relates to the determination of when individual deliverables within an arrangement should be treated as separate units of accounting. Broadly, a deliverable should be treated as a separate unit of accounting when it has value to the customer on a standalone basis and when delivery or performance of any undelivered items is considered to be probable and substantially within the control of the vendor. The second change relates to the manner in which arrangement consideration should be allocated to any separately identified deliverables. The consensus requires that the allocation of revenue among deliverables be based on vendor specific objective evidence or third-party evidence of selling price and, to the extent that neither of these levels of evidence exist, that the allocation be based on the vendor's best estimate of selling price for each deliverable. Use of the residual method of allocating revenue to arrangement deliverables is prohibited unless the revenue transaction is specifically governed by software revenue recognition literature. Financial statement disclosure requirements have also been significantly expanded.

The second issue, Certain Revenue Arrangements that Include Software Elements, focuses on redefining which revenue arrangements are within the scope of software revenue recognition literature and which are not. The issue provides guidance on determining whether tangible products containing non-software and software elements are governed by software revenue recognition literature and significantly narrows the definition of what constitutes a "software" transaction. In particular, non-software components of products that include software, software products bundled with tangible products where the non-software and software components function together to deliver the product's essential functionality, and undelivered elements related to non-software components are, as a result of this issue, outside the scope of software revenue recognition rules. The issue also provides guidance on allocating revenue between non-software and software elements.

Each of these issues is effective for fiscal years beginning on or after June 15, 2010. The issues can be implemented prospectively to all revenue arrangements entered or materially modified after the date of adoption, or retrospectively to all revenue arrangements for all financial statement periods presented. Early adoption is permitted. Both issues must be adopted in the same period and under the same transition method. The Company expects to adopt these issues prospectively as of July 1, 2010 and is currently evaluating the impact of the pronouncements on its financial statements.

Note 3—Fair Value

Fair Value of Assets and Liabilities

7

---

In September 2006, the FASB issued financial statement disclosure standards, effective for financial statements issued for fiscal years beginning after November 15, 2007, regarding the fair value of assets and liabilities. The Company adopted these standards in fiscal 2008. These standards define fair value, establish a framework for measuring fair value and expand disclosures about fair value measurements. They apply only to fair value measurements already required or permitted by other accounting standards and do not require any new fair value measurements.

For nonfinancial assets and liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis, the effective date of these standards was delayed until fiscal years beginning after November 15, 2008 (July 1, 2009 for the Company). The Company's nonfinancial assets and liabilities that met these deferral criteria included goodwill, intangible assets, and property, plant and equipment. The adoption of the remaining provisions of these standards on July 1, 2009 did not have an impact on the Company's financial position or results of operations.

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

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

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

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

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

At December 31, 2009, assets and liabilities of the Company measured at fair value on a recurring basis included money market funds of \$0.2 million. At June 30, 2009, assets and liabilities of the Company measured at fair value on a recurring basis included money market funds and US Treasury securities funds of \$2.6 million and \$0.8 million, respectively. These amounts were reported as a component of the Company's cash and cash equivalents and were valued based on reference to quoted prices in active markets (Level 1 inputs).

#### Fair Value of Financial Instruments

The Company has certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable and accounts payable. The Company's marketable securities are classified as held to maturity and recorded at amortized cost which, at December 31, 2009 and June 30, 2009, approximated fair value. These investments all mature within one year. The fair value of the Company's other financial instruments approximate their carrying values, due to the short-term nature of those instruments.

#### Note 4 – Business Acquisitions

#### PayMode

On September 14, 2009, the Company completed the purchase of substantially all of the assets and related operations of PayMode from Bank of America (the "Bank"). PayMode facilitates the electronic exchange of payments and invoices between organizations and their suppliers and is operated as a Software as a Service (SaaS) offering. There are currently in excess of 90,000 vendors participating in the PayMode network.

As a result of the acquisition the Company acquired the PayMode operations including the vendor network, application software, intellectual property rights and other assets, properties and rights used exclusively or primarily in the PayMode business. As purchase consideration, the Company paid the Bank cash of \$17.0 million and issued the Bank a warrant to purchase 1,000,000 shares of common stock of the Company at an exercise price of \$8.50 per share. The warrants

were exercisable upon issuance and were valued at \$10.5 million using a Black Scholes valuation model that used the following inputs:

Dividend yield	0%
Expected term	10 years
Risk free interest rate	3.42%
Volatility	78%

The expected term of ten years equates to the contractual life of the warrants. Volatility was based on the Company's actual stock price over a ten year historic period.

The Company finalized its estimates of fair value for property, equipment and intangible assets acquired during the period ended December 31, 2009. In the allocation of the purchase price set forth below, the Company has recognized approximately \$2.7 million of goodwill. This amount is deductible for US income tax purposes and is arising principally due to the assembled workforce of PayMode and due to expected product synergies arising from the acquisition. Costs of the acquisition of approximately \$0.5 million were expensed during the six months ended December 31, 2009, principally as a component of general and administrative expenses.

PayMode's operating results have been included in the Company's operating results from the date of the acquisition forward, as a component of the Outsourced Solutions segment, and all of the PayMode goodwill was allocated to this segment.

Upon acquisition, PayMode was integrated into existing business lines of the Company in a manner that makes tracking or reporting earnings specifically attributable to PayMode impracticable. For the six months ended December 31, 2009, revenues attributable to PayMode represented less than 5% of the Company's consolidated revenues.

The final allocation of the purchase price as of December 31, 2009 is as follows:

	(in thousands)
Current assets	1,340
Property and equipment	4,901
Intangible assets	18,659
Goodwill	2,653
Current liabilities	(33 )
Total purchase price	\$ 27,520

The valuation of the acquired intangible assets was estimated by performing projections of discounted cash flow, whereby revenues and costs associated with each intangible asset are forecast to derive expected cash flow which is discounted to present value at discount rates commensurate with perceived risk. The valuation and projection process is inherently subjective and relies on significant unobservable inputs (Level 3 inputs). The valuation assumptions also take into consideration the Company's estimates of contract renewal, technology attrition and revenue growth projections. The values for specifically identifiable intangible assets, by major asset class, are as set forth below. Other intangible assets consist of a tradename and a below market lease arrangement.



	(in thousands)
Customer related intangible assets	\$ 9,349
Core technology	7,648
Other intangible assets	1,662
	\$ 18,659

The customer related intangible assets, core technology and other intangible assets acquired are being amortized over weighted average lives of seventeen years, seven years and fourteen years, respectively.

## Pro-forma Information

The following unaudited pro-forma financial information presents the combined results of operations of the Company and PayMode as if that acquisition had occurred on July 1, 2009 and 2008, respectively, after giving effect to certain adjustments such as decreased revenues formerly earned by PayMode from interest income allocated to PayMode through Bank of America's fund transfer process since, in general terms, the Company will not be eligible to earn revenues in this manner. The pro-forma adjustments also reflect an increase in amortization expense as a result of acquired intangible assets and a decrease in interest income as a result of the cash paid for the acquisition. This pro-forma financial information does not necessarily reflect the results of operations that would have actually occurred had the Company and PayMode been a single entity during these periods.

	Pro Forma Three Months Ended December 31, 2009		Pro Forma Six Months Ended December 31, 2009	
	2008	2008	2008	2008
	(unaudited)			
	(in thousands)			
Revenues	\$40,122	\$35,817	\$77,881	\$72,785
Net income (loss)	\$704	\$(4,754)	\$194	\$(10,191)
Net income (loss) per basic and diluted share attributable to common stockholders	\$0.03	\$(0.20)	\$0.01	\$(0.43)

## Note 5—Net Income (Loss) Per Share

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

	Three Months Ended December 31, 2009		Six Months Ended December 31, 2009	
	2008	2008	2008	2008
	(in thousands)			
Basic:				
Net income (loss)	\$704	\$(2,869)	\$1,876	\$(6,718)
Less: Net income allocable to participating securities	(25)	---	(72)	---
Net income (loss) allocable to common stockholders – basic	\$679	\$(2,869)	\$1,804	\$(6,718)
Basic net income (loss) per share attributable to common stockholders	\$0.03	\$(0.12)	\$0.07	\$(0.28)
Shares used in computing basic net income (loss) per share attributable to common stockholders	25,092	24,033	24,747	23,958
Diluted:				
Net income (loss)	\$704	\$(2,869)	\$1,876	\$(6,718)
Less: Net income allocable to participating securities	(24)	---	(70)	---

Net income (loss) allocable to common stockholders – diluted	\$680	\$(2,869	) \$1,806	\$(6,718	)
Diluted net income (loss) per share attributable to common stockholders	\$0.03	\$(0.12	) \$0.07	\$(0.28	)
Shares used in computing diluted net income (loss) per share attributable to common stockholders	25,933	24,033	25,372	23,958	

Basic net income per share excludes any dilutive effects of stock options, unvested restricted stock and stock warrants. Basic and diluted earnings per share is computed pursuant to the two-class method. The two-class method calculates earnings for common stock and participating securities based on their proportionate participation rights in undistributed

earnings. Certain of the Company's unvested restricted stock awards are considered to be participating securities as they entitle the holder to receive non-forfeitable rights to cash dividends at the same rate as common stock.

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

At December 31, 2009 and 2008, 235,989 and 4,973,216 shares of unvested restricted stock and stock options were excluded from the calculation of diluted earnings per share, respectively, as their effect on the calculation would have been anti-dilutive.

#### Note 6—Comprehensive Income or Loss

Comprehensive income or loss represents the Company's net income (loss) 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		Six Months Ended	
	December 31,		December 31,	
	2009	2008	2009	2008
	(in thousands)			
Net income (loss)	\$704	\$(2,869 )	\$1,876	\$(6,718 )
Other comprehensive income (loss):				
Foreign currency translation adjustments	470	(10,884 )	(541 )	(18,909 )
Comprehensive income (loss)	\$1,174	\$(13,753 )	\$1,335	\$(25,627 )

#### Note 7—Operations by Segments and Geographic Areas

##### Segment Information

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company's operating segments are organized principally by the type of product or service offered and by geography; similar operating segments have been aggregated into three reportable segments as follows:

**Payments and Transactional Documents.** 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 or, if extended payment terms have been granted to the customer, as payments become contractually due. This segment incorporates the Company's check printing solutions in the UK, revenue for which is typically recorded on a per transaction basis or ratably over the expected life of the customer relationship, as well as certain solutions that are licensed on a subscription basis, revenue for which is typically recorded ratably over the contractual term.

Banking Solutions. The Banking Solutions segment provides solutions that are specifically designed for banking and financial institution customers. These solutions typically involve longer implementation periods and a significant level of professional resources. Due to the customized nature of these products, revenue is generally recognized over the period of project performance, on a percentage of completion basis. Periodically, the Company licenses these solutions on a subscription basis which has the effect of contributing to recurring revenue and the revenue predictability of future periods, but which also delays revenue recognition over a period that is longer than the period of project performance.

Outsourced Solutions. The Outsourced Solutions segment provides customers with outsourced and hosted solution offerings that facilitate invoice receipt and presentment and spend management. The Company's Legal eXchange solution, which provides the opportunity to create more efficient processes for managing invoices generated by outside law firms while offering access to important legal spend factors such as budgeting, expense monitoring and outside counsel

performance, is included within this segment. This segment also incorporates the Company's hosted and outsourced accounts payable automation solutions, including PayMode, which the Company acquired in September 2009. 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 maker assesses segment performance based on a variety of factors that can include segment revenue and a segment measure of profit or loss. Each segment's measure of profit or loss is on a pre-tax basis, and excludes stock compensation expense, acquisition-related expenses, amortization of intangible assets and restructuring related charges. There are no inter-segment sales; accordingly, the measure of segment revenue and profit or loss reflects only revenues from external customers. The costs of certain corporate level expenses, primarily general and administrative expenses, are allocated to the Company's operating segments at predetermined rates that approximate cost.

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

Segment information for the three and six months ended December 31, 2009 and 2008 according to the segment descriptions above, is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	(in thousands)			
<b>Revenues:</b>				
Payments and Transactional Documents	\$23,809	\$22,955	\$46,576	\$46,331
Banking Solutions	7,595	5,433	14,703	11,106
Outsourced Solutions	8,718	5,946	15,399	12,403
Total revenues	\$40,122	\$34,334	\$76,678	\$69,840
<b>Segment measure of profit (loss):</b>				
Payments and Transactional Documents	\$5,457	\$3,737	\$10,433	\$6,406
Banking Solutions	641	(1,046 )	1,626	(2,027 )
Outsourced Solutions	1,249	503	2,453	1,289
Total measure of segment profit	\$7,347	\$3,194	\$14,512	\$5,668

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

Three Months Ended	Six Months Ended
--------------------	------------------

Edgar Filing: BOTTOMLINE TECHNOLOGIES INC /DE/ - Form 10-Q

	December 31,		December 31,	
	2009	2008	2009	2008
	(in thousands)			
Segment measure of profit	\$7,347	\$3,194	\$14,512	\$5,668
Less:				
Amortization of intangible assets	(3,361 )	(3,948 )	(6,667 )	(8,384 )
Stock compensation expense	(2,400 )	(2,203 )	(4,308 )	(4,413 )
Acquisition related expenses	(127 )	---	(529 )	(35 )
Add:				
Other (expense) income, net	(93 )	615	128	763
Income (loss) before income taxes	\$1,366	\$(2,342 )	\$3,136	\$(6,401 )

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	(in thousands)			
Depreciation expense:				
Payments and Transactional Documents	\$415	\$416	\$789	\$871
Banking Solutions	171	177	336	352
Outsourced Solutions	621	376	1,039	772
Total depreciation expense	\$1,207	\$969	\$2,164	\$1,995

#### Geographic Information

The Company has presented geographic information about its revenues, below. This presentation allocates revenue based on the point of sale not the location of the customer. Accordingly, the Company derives revenues from geographic locations based on the location of the customer that would vary from the geographic areas listed here, particularly in respect of a financial institution customer located in Australia for which the point of sale was the United States.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	(in thousands)			
Revenues from unaffiliated customers:				
United States	\$26,479	\$ 20,789	\$50,248	\$ 42,407
Europe	13,140	13,196	25,517	26,666
Australia	503	349	913	767
Total revenues from unaffiliated customers	\$40,122	\$ 34,334	\$76,678	\$ 69,840

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

	December	
	31, 2009	June 30, 2009
	(in thousands)	
Long-lived assets, net		
United States	\$17,728	\$12,160
Europe	2,631	2,313
Australia	116	137
Total long-lived assets, net	\$20,475	\$14,610



Note 8—Income Taxes

The Company recorded income tax expense of \$0.7 million and \$0.5 million for the three months ended December 31, 2009 and 2008, respectively. The income tax expense recorded for the quarter ended December 31, 2009 was due to tax expense associated with the Company's UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state income tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The income tax expense recorded for the quarter ended December 31, 2008 was due to tax expense associated with the Company's UK, German, Australian and US operations. The US income tax expense was principally due an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes.

The Company recorded income tax expense of \$1.3 million and \$0.3 million for the six months ended December 31, 2009 and 2008, respectively. The income tax expense for the six months ended December 31, 2009 was due to tax expense associated with the Company's UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state income tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The income tax expense for the six months ended December 31, 2008 was net of approximately \$0.4 million of non-recurring tax benefits arising from a reduction in the Company's unrecognized tax benefits upon the expiration of certain statutes of limitations, from the enactment of legislation during fiscal year 2009 that allowed the Company to claim a tax refund for a portion of its unused research and development credit carryforwards in the US, and from a decrease in the Company's German tax rate as a result of a restructuring of the Company's German operations. The Company's net income tax expense also reflected expense associated with the Company's German, French, and Australian operations, as well as income tax expense in the US.

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

#### Note 9—Goodwill and Other Intangible Assets

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

	As of December 31, 2009			Weighted
	Gross Carrying	Accumulated	Net	Average
	Amount	Amortization	Carrying	Remaining
		(in thousands)	Value	Life
				(in years)
Amortized intangible assets:				
Customer related	\$59,374	\$ (34,470 )	\$24,904	7.8
Core technology	33,040	(23,525 )	9,515	5.5
Patent	953	(278 )	675	9.5
Other intangible assets	2,331	(409 )	1,922	12.1
Total	\$95,698	\$ (58,682 )	\$37,016	
Unamortized intangible assets:				
Goodwill			66,713	
Total intangible assets			\$103,729	

	As of June 30, 2009			Weighted
	Gross Carrying	Accumulated	Net	Average
	Amount	Amortization	Carrying	Remaining
			Value	

	(in thousands)			Life (in years)
Amortized intangible assets:				
Customer related	\$50,194	\$ (29,753 )	\$20,441	3.0
Core technology	28,093	(24,633 )	3,460	1.7
Patent	953	(243 )	710	10.0
Other intangible assets	1,045	(636 )	409	1.8
Total	\$80,285	\$ (55,265 )	\$25,020	
Unamortized intangible assets:				
Goodwill			64,569	
Total intangible assets			\$89,589	

Estimated amortization expense for fiscal year 2010 and subsequent fiscal years is as follows:

	(in thousands)
2010	\$ 13,254
2011	10,091
2012	5,188
2013	3,616
2014	1,772
2015 and thereafter	9,762

#### Note 10— Restructuring Costs

During the fourth quarter of fiscal 2009, the Company reduced its workforce by approximately 40 full time positions and announced the departure of its Chief Operating Officer. In connection with these events, the Company incurred expenses of approximately \$3.0 million associated with severance related benefits, including stock compensation expense. As these events were completed in fiscal 2009, the Company did not recognize additional expense during the six months ended December 31, 2009 and does not expect to recognize additional expense in future periods relating to these actions.

As of December 31, 2009, the Company’s remaining liability for severance related benefits was as follows:

	(in thousands)
Accrued severance benefits at June 30, 2009	\$ 426
Payments charged against the accrual	(370 )
Impact of changes in foreign currency exchange rates	1
Accrued severance benefits at December 31, 2009	\$ 57

#### Note 11 – Subsequent Events

On January 27, 2010, the Company filed a universal shelf registration statement with the Securities and Exchange Commission that, once effective, will allow it to offer and sell up to \$100,000,000 of common stock, preferred stock, debt securities, warrants, depository shares, stock purchase contracts and stock purchase units. These securities may be offered and sold by the Company in one or more offerings.

For purposes of assessing whether there were any subsequent events warranting disclosure, the Company evaluated events occurring between December 31, 2009 and February 8, 2010.

#### 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, a growing portion of our 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 offer Legal eXchange®, a Software as a Service (SaaS) offering 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.

In September 2009 we acquired PayMode from Bank of America. PayMode facilitates the electronic exchange of payments and invoices between organizations and suppliers and is a SaaS offering. As part of the acquisition, we also entered into a multi-year agreement with Bank of America to operate PayMode on its behalf.

For the first six months of fiscal year 2010, our revenue increased to \$76.7 million from \$69.8 million in the same period of fiscal year 2009. This revenue increase was primarily attributable to revenue increases in our Banking Solutions segment, our European operations and the revenue contribution from PayMode. These increases were offset in part by a decrease of \$1.3 million due to declining foreign exchange rates primarily associated with the British Pound Sterling, which depreciated against the US Dollar compared to the same period in the prior fiscal year.

We had net income of \$1.9 million in the six months ended December 31, 2009 compared to a net loss of \$6.7 million in the same period of fiscal year 2009. The increase in net income was due largely to improved gross margins and a reduction in operating expenses. The decreases in our cost of revenue and operating expense categories were due largely to cost savings related to our fourth quarter fiscal 2009 headcount reduction and a decrease in foreign exchange rates of approximately \$0.6 million associated with the British Pound Sterling.

In the first six months of fiscal 2010, we derived approximately 46% of our revenue from customers located outside of North America, principally in the UK and Australia. We expect future revenue growth to be driven by the revenue contribution from PayMode, increased purchases of our products by new and existing bank and financial institution customers in both North America and international markets and increased sales of our payments and transactional documents products.

While we continue to grow our business, the overall economic environment has remained challenging. While we have not experienced any significant decline in our expected volume of customer orders we are observing that, in some cases, closing new business is taking somewhat longer and, in some cases, customer buying decisions are being postponed. Our customers operate in many different industries, a diversification that we believe helps us in this economic climate. Additionally, we believe that our recurring and subscription revenue base helps position us defensively against any short term economic downturn. While we believe that we continue to compete favorably in all of the markets we serve, ongoing or worsening economic stresses could impact our business more significantly in the future.

#### Critical Accounting Policies

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

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended June 30, 2009 related to stock-based compensation, revenue recognition, the valuation of goodwill and intangible assets and the valuation of acquired deferred revenue. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed in our Annual Report on Form 10-K, as filed with the SEC on September 11, 2009. There have been no changes to our critical accounting policies during the three months ended December 31, 2009.

## Recent Accounting Pronouncements

### Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on two issues related to revenue recognition.

The first issue, Revenue Arrangements with Multiple Deliverables, applies to multiple-deliverable revenue arrangements and provides for two significant changes to existing multiple-element revenue recognition guidance. The first change relates to the determination of when individual deliverables within an arrangement should be treated as separate units of accounting. Broadly, a deliverable should be treated as a separate unit of accounting when it has value to the customer on a standalone basis and when delivery or performance of any undelivered items is considered to be probable and substantially within the control of the vendor. The second change relates to the manner in which arrangement consideration should be allocated to any separately identified deliverables. The issue requires that the allocation of revenue among deliverables be based on vendor specific objective evidence or third-party evidence of selling price and, to the extent that neither of these levels of evidence exist, that the allocation be based on the vendor's best estimate of selling price for each deliverable. Use of the residual method of allocating revenue to arrangement deliverables is prohibited unless the revenue transaction is specifically governed by software revenue recognition literature. Financial statement disclosure requirements have also been significantly expanded.

The second issue, Certain Revenue Arrangements that Include Software Elements, focuses on redefining which revenue arrangements are within the scope of software revenue recognition literature and which are not. The issue provides guidance on determining whether tangible products containing non-software and software elements are governed by software revenue recognition literature and significantly narrows the definition of what constitutes a "software" transaction. In particular, non-software components of products that include software, software products bundled with tangible products where the non-software and software components function together to deliver the product's essential functionality, and undelivered elements related to non-software components are, as a result of this issue, outside the scope of software revenue recognition rules. The issue also provides guidance on allocating revenue between non software and software elements.

Each of these issues is effective for fiscal years beginning on or after June 15, 2010. The issues can be implemented prospectively to all revenue arrangements entered or materially modified after the date of adoption, or retrospectively to all revenue arrangements for all financial statement periods presented. Early adoption is permitted. Both issues must be adopted in the same period and under the same transition method. We expect to adopt these issues prospectively as of July 1, 2010 and are currently evaluating the impact of the pronouncements on our financial statements.

## Three Months Ended December 31, 2009 Compared to the Three Months Ended December 31, 2008

### Revenues by segment

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

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



	Three Months Ended December 31,				Increase (Decrease)	
	2009		2008		Between Periods	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Payments and Transactional Documents	\$23,809	59.4	\$22,955	66.9	\$854	3.7
Banking Solutions	7,595	18.9	5,433	15.8	2,162	39.8
Outsourced Solutions	8,718	21.7	5,946	17.3	2,772	46.6
	\$40,122	100.0	\$34,334	100.0	\$5,788	16.9

Payments and Transactional Documents. The revenue increase for the three months ended December 31, 2009 was primarily attributable to an increase in maintenance revenues from our US and European payments and document automation products and an increase of \$0.3 million as a result of an increase in foreign exchange rates associated with the British Pound Sterling and European Euro. We expect revenue for the Payments and Transactional Documents segment to increase during the remainder of fiscal 2010 as a result of increased sales of our payment and document automation solutions.

Banking Solutions. Revenues from our Banking Solutions segment increased as compared to the same period in the prior fiscal year due to an increase in professional services revenue associated with large ongoing projects. We expect revenues for the Banking Solutions segment to increase during the remainder of the fiscal year as a result of the contribution of revenue from ongoing projects and from additional purchases by new and existing bank and financial institution customers in both North America and international markets.

Outsourced Solutions. Revenues from our Outsourced Solutions segment increased as compared to the same period in the prior fiscal year due primarily to the revenue contribution from PayMode. We expect revenue for the Outsourced Solutions segment to increase during the remainder of the fiscal year as a result of the revenue contribution from PayMode.

#### Revenues by category

	Three Months Ended December 31,				Increase (Decrease) Between Periods	
	2009		2008		2009 Compared to 2008	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Revenues:						
Software licenses	\$3,787	9.4	\$3,597	10.5	\$190	5.3
Subscriptions and transactions	10,469	26.1	7,744	22.5	2,725	35.2
Service and maintenance	23,775	59.3	20,527	59.8	3,248	15.8
Equipment and supplies	2,091	5.2	2,466	7.2	(375 )	(15.2 )
Total revenues	\$40,122	100.0	\$34,334	100.0	\$5,788	16.9

Software Licenses. The increase in software license revenues was due to an increase in revenue from certain of our US and European payment products, offset in part by decreases in software license revenue from certain of our US document process automation products. We expect software license revenues to increase during the remainder of fiscal year 2010, principally as a result of increased software license revenue from our domestic and international Payments and Transactional Documents products and from software license revenues within our Banking Solutions segment.

Subscriptions and Transactions. The increase in subscription and transaction revenues was due principally to the revenue contribution from PayMode. We expect subscription and transaction revenues to increase during the remainder of the fiscal year as a result of the revenue contribution from PayMode.

Service and Maintenance. The increase in service and maintenance revenues was primarily the result of an increase in professional services revenues associated with several large banking projects, increased professional service revenues in Europe, increases in software maintenance revenues in the US and Europe and an increase of \$0.2 million as a result of an increase in foreign exchange rates associated with the British Pound Sterling and European Euro. We

expect that service and maintenance revenues will increase during the remainder of the fiscal year as a result of new and existing projects within our Banking Solutions segment and as a result of additional revenues from our domestic and international payments and documents products.

Equipment and Supplies. The decrease in equipment and supplies revenues was principally due to a decrease in revenues from our US and European paper supplies and printing equipment products. We expect that equipment and supplies revenues will remain relatively consistent during the remainder of 2010.

Cost of revenues by category

	Three Months Ended December 31,				Increase (Decrease)	
	2009		2008		Between Periods	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Cost of revenues:						
Software licenses	\$321	0.8	\$207	0.6	\$114	55.1
Subscriptions and transactions	5,160	12.9	3,792	11.1	1,368	36.1
Service and maintenance	10,405	25.9	9,513	27.7	892	9.4
Equipment and supplies	1,590	4.0	1,824	5.3	(234 )	(12.8 )
Total cost of revenues	\$17,476	43.6	\$15,336	44.7	\$2,140	14.0
Gross profit	\$22,646	56.4	\$18,998	55.3	\$3,648	19.2

**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 slightly to 8% of software license revenues in the three months ended December 31, 2009 as compared to 6% for the three months ended December 31, 2008. The increase was related to higher costs of third party software that we license alongside our solutions during the three months ended December 31, 2009. We expect that software license costs will remain relatively consistent, as a percentage of software license revenues, during the remainder of the fiscal year.

**Subscriptions and Transactions.** Subscriptions and 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 remained consistent at 49% of subscription and transaction revenues in the three months ended December 31, 2009 and 2008. The increase in subscription and transaction costs in dollar terms was due principally to in the costs associated with our PayMode product offering. We expect that subscription and transaction costs will increase as a percentage of subscription and transaction revenue during the remainder of the fiscal year due to continued investment in PayMode.

**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 44% in the three months ended December 31, 2009 as compared to 46% in the three months ended December 31, 2008. The decrease in service and maintenance costs as a percentage of service and maintenance revenues was due to improved gross margins for professional services in our Banking Solutions segment and due to the impact of cost reduction measures implemented in our prior fiscal year. We expect that service and maintenance costs will remain relatively consistent, as a percentage of service and maintenance revenues, during the remainder of the fiscal year.

**Equipment and Supplies.** Equipment and supplies costs include the costs associated with equipment and supplies that we resell, as well as freight, shipping and postage costs associated with the delivery of our products. Equipment and supplies costs remained relatively consistent at 76% of equipment and supplies revenues in the three months ended December 31, 2009 as compared to 74% for the three months ended December 31, 2008. We expect that equipment and supplies costs will remain relatively consistent as a percentage of equipment and supplies revenues for the remainder of the fiscal year.

#### Operating Expenses

	Three Months Ended December 31,				Increase (Decrease)	
	2009		2008		Between Periods 2009	
	(in thousands)	As % of total revenues	(in thousands)	As % of total revenues	(in thousands)	%
Operating expenses:						
Sales and marketing	\$8,825	22.0	\$8,150	23.7	\$675	8.3
Product development and engineering	4,753	11.8	5,238	15.3	(485 )	(9.3 )
General and administrative	4,248	10.6	4,619	13.5	(371 )	(8.0 )
Amortization of intangible assets	3,361	8.4	3,948	11.5	(587 )	(14.9 )
Total operating expenses	\$21,187	52.8	\$21,955	64.0	\$(768 )	(3.5 )

**Sales and Marketing.** Sales and marketing expenses consist primarily of salaries and other related costs for sales and marketing personnel, sales commissions, travel, public relations and marketing materials and trade show participation. Sales and marketing expenses increased in the three months ended December 31, 2009 as compared to the three months ended December 31, 2008 as a result of an increase in headcount related costs due to our acquisition of PayMode, an increase of \$0.1 million as a result of an increase in foreign exchange rates associated with the British Pound Sterling and European Euro, and an increase in advertising and product promotion costs. We expect that sales and marketing expenses will increase over the remainder of the fiscal year as we continue to focus on our marketing initiatives to support our new products, including PayMode.

**Product Development and Engineering.** Product development and engineering expenses consist primarily of personnel costs to support product development which consists of enhancements and revisions to our products based on customer feedback and general marketplace demands, as well as development of our newer accounts payable automation products. The decrease in product development and engineering expenses in the three months ended December 31, 2009 as compared to the three months ended December 31, 2008 was primarily attributable to a decrease in the use of contract employees and an increase in the use of development resources in revenue generating roles during the period, the cost of which is recorded as cost of sales. These decreases were offset in part by increases related to our PayMode development and enhancement efforts. We expect that product development and engineering expenses will increase during the remainder of the fiscal year as we devote more resources to the enhancement of the PayMode product.

**General and Administrative.** General and administrative expenses consist primarily of salaries and other related costs for operations and finance employees and legal and accounting services. General and administrative expenses decreased in the three months ended December 31, 2009 as compared to the three months ended December 31, 2008 due principally to cost reduction initiatives implemented in our prior fiscal year, including a reduction in compensation expense as a result of the departure of our Chief Operating Officer in fiscal 2009. We expect that general and administrative expenses will increase slightly during the remainder of the fiscal year.

**Amortization of Intangible Assets.** We amortize our intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us. Accordingly, amortization expense rates are often higher in the earlier periods of an asset's estimated life. The decrease in amortization expense in the quarter ended December 31, 2009 as compared to the quarter ended December 31, 2008 occurred as expense from intangible assets arising in prior acquisitions decreased as those assets aged, offset in part by an increase in amortization expense from intangible assets arising through our acquisition of PayMode. We expect that total amortization expense for fiscal 2010 will approximate \$13.3 million.

#### Other Income, Net

	Three Months Ended December 31,		Increase (Decrease) Between Periods 2009 Compared to 2008	
	2009	2008		%
	(in thousands)			
Interest income	\$50	\$189	\$(139)	(73.5)
Interest expense	(17)	(3)	(14)	(466.7)
Other (expense) income, net	(126)	429	(555)	(129.4)
Other (expense) income, net	\$(93)	\$615	\$(708)	(115.1)

Other (Expense) Income, Net. In the three months ended December 31, 2009 as compared to the three months ended December 31, 2008, interest income decreased as a result of declining marketplace yields associated with our cash and short-term investment accounts. Interest expense remained insignificant during the three months ended December 31, 2009 and 2008. Other (expense) income, net decreased as a result of realized foreign exchange losses. We expect that the individual components of other income and expense will continue to represent minor components of our overall operations during the remainder of fiscal 2010.

Provision for Income Taxes. We recorded income tax expense of \$0.7 million and \$0.5 million for the three months ended December 31, 2009 and 2008, respectively. The income tax expense recorded for the quarter ended December 31, 2009 was due to tax expense associated with our UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state income tax expense and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The income tax expense recorded for the quarter ended December 31, 2008 was due to tax expense associated with our UK, German and Australian operations and due to income tax in the US. The US income tax expense was principally

due an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes.

Six Months Ended December 31, 2009 Compared to the Six Months Ended December 31, 2008

Revenues by segment

We have aggregated similar operating segments into three reportable segments: Payments and Transactional Documents, Banking Solutions and Outsourced Solutions. The following table represents our revenues by segment:

	Six Months Ended December 31,				Increase (Decrease)	
	2009	As % of	2008	As % of	Between Periods 2009	Compared to 2008
	(in thousands)	total	(in thousands)	total	(in thousands)	%
		Revenues		Revenues		
Payments and Transactional Documents	\$ 46,576	60.7	\$ 46,331	66.3	\$ 245	0.5
Banking Solutions	14,703	19.2	11,106	15.9	3,597	32.4
Outsourced Solutions	15,399	20.1	12,403	17.8	2,996	24.2
	\$ 76,678	100.0	\$ 69,840	100.0	\$ 6,838	9.8

Payments and Transactional Documents. The slight revenue increase for the six months ended December 31, 2009 was primarily attributable to increases in maintenance and services revenue from certain of our European payment and document automation products, offset in part by a decrease in equipment and supplies, software license and services revenues from certain of our US document automation products and a decrease of approximately \$1.1 million as a result of declining foreign exchange rates associated with the British Pound Sterling.

Banking Solutions. Revenues from our Banking Solutions segment increased as compared to the same period in the prior fiscal year due to an increase in professional services revenue associated with several large ongoing banking projects.

Outsourced Solutions. Revenues from our Outsourced Solutions segment increased as compared to the same period in the prior fiscal year due to the revenue contribution from PayMode, offset in part by a decrease in foreign currency exchange rates associated with the British Pound Sterling of \$0.2 million.

Revenues by category

	Six Months Ended December 31,				Increase (Decrease)	
	2009	As % of	2008	As % of	Between Periods 2009	Compared to 2008
	(in thousands)	total	(in thousands)	total	(in thousands)	%
		Revenues		Revenues		



		Revenues		Revenues	
Revenues:					
Software licenses	\$6,750	8.8	\$ 7,203	10.3	\$(453 ) (6.3 )
Subscriptions and transactions	18,750	24.4	15,973	22.9	2,777 17.4
Service and maintenance	46,910	61.2	41,676	59.7	5,234 12.6
Equipment and supplies	4,268	5.6	4,988	7.1	(720 ) (14.4 )
Total revenues	\$76,678	100.0	\$ 69,840	100.0	\$6,838 9.8

Software Licenses. The decrease in software license revenues was due to a decrease in revenue from certain of our US document automation products, a decrease in software license revenues within our Banking Solutions segment, and a decrease in foreign currency exchange rates associated with the British Pound Sterling of approximately \$0.2 million. These decreases were offset in part by increases in software license revenue from our US and European payments and outsourced solutions products.

Subscriptions and Transactions. The increase in subscription and transaction revenues was due principally to the revenue contribution from PayMode, offset in part by a decrease of \$0.3 million as a result of declining foreign exchange rates associated with the British Pound Sterling.

Service and Maintenance. The increase in service and maintenance revenues was primarily the result of an increase in professional services revenues associated with several large banking projects, increased professional service revenues in Europe and increases in software maintenance revenues in the US and Europe. These increases were offset in part by lower document automation services revenue in the US and a decrease of approximately \$0.7 million as a result of declining foreign exchange rates associated with the British Pound Sterling.

Equipment and Supplies. The decrease in equipment and supplies revenues was principally due to a decrease in revenues from our US and European paper supplies and printing equipment as well as a decrease of approximately \$0.2 million as a result of decreasing foreign exchange rates associated with the British Pound Sterling.

#### Cost of revenues by category

	Six Months Ended December 31,				Increase (Decrease) Between Periods 2009 Compared to 2008	
	2009		2008		(in thousands)	%
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues		
Cost of revenues:						
Software licenses	\$540	0.7	\$407	0.6	\$133	32.7
Subscriptions and transactions	9,038	11.8	7,991	11.4	1,047	13.1
Service and maintenance	20,125	26.2	19,303	27.6	822	4.3
Equipment and supplies	3,211	4.2	3,679	5.3	(468)	(12.7)
Total cost of revenues	\$32,914	42.9	\$31,380	44.9	\$1,534	4.9
Gross profit	\$43,764	57.1	\$38,460	55.1	\$5,304	13.8

Software Licenses. Software license costs increased slightly to 8% of software license revenues in the six months ended December 31, 2009 as compared to 6% for the six months ended December 31, 2008. The increase was due to costs associated with third-party software that we sell alongside our solutions.

Subscriptions and Transactions. Subscriptions and transactions remained relatively consistent at 48% of subscription and transaction revenues in the six months ended December 31, 2009 as compared to 50% in the six months ended December 31, 2008. The improvement in gross margin was due principally to cost reductions in our UK invoice receipt solution. The increase in subscription and transaction costs in dollar terms was due principally to the costs associated with our Paymode product offering.

Service and Maintenance. Service and maintenance costs decreased as a percentage of service and maintenance revenues to 43% in the six months ended December 31, 2009 as compared to 46% in the six months ended December 31, 2008. The decrease in service and maintenance costs as a percentage of service and maintenance revenues was as a result of improved professional services margins in our Banking Solutions segment and due to the impact of cost reduction measures implemented in our prior fiscal year.

Equipment and Supplies. Equipment and supplies costs remained relatively consistent at 75% of equipment and supplies revenues in the six months ended December 31, 2009 as compared to 74% of equipment and supplies revenues in the six months ended December 31, 2008.

## Operating Expenses

	Six Months Ended December 31,				Increase (Decrease) Between Periods 2009 Compared to 2008	
	2009 As % of total (in thousands)	revenues	2008 (in thousands)	As % of total revenues	(in thousands)	%
Operating expenses:						
Sales and marketing	\$16,708	21.8	\$16,788	24.0	\$(80)	(0.5)
Product development and engineering	8,843	11.6	10,660	15.3	(1,817)	(17.1)
General and administrative	8,538	11.1	9,792	14.0	(1,254)	(12.8)
Amortization of intangible assets	6,667	8.7	8,384	12.0	(1,717)	(20.5)
Total operating expenses	\$40,756	53.2	\$45,624	65.3	\$(4,868)	(10.7)

**Sales and Marketing.** Sales and marketing expenses decreased slightly in the six months ended December 31, 2009 as compared to the six months ended December 31, 2008 due to a decrease of approximately \$0.3 million as a result of declining foreign exchange rates associated with the British Pound Sterling, a reduction in employee recruiting costs and a reduction in trade show costs. These decreases were offset in part by an increase in headcount related costs associated with PayMode.

**Product Development and Engineering.** The decrease in product development and engineering expenses was primarily attributable to a reduction in the use of contract employees and a reduction in headcount related costs, offset in part by increased costs associated with our ongoing product enhancements related to PayMode.

**General and Administrative.** The decrease in general and administrative expenses was principally attributable to a decrease in the use of contract employees and travel costs as a result of overall cost reduction efforts, a decrease in compensation expense as a result of the departure of our Chief Operating Officer in our prior fiscal year and a decrease in bad debt expense.

**Amortization of Intangible Assets.** We amortize our intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us. Accordingly, amortization expense rates are often higher in the earlier periods of an asset's estimated life. The decrease in amortization expense in the six months ended December 31, 2009 as compared to the six months ended December 31, 2008 occurred as expense from intangible assets arising in prior acquisitions decreased as those assets aged, offset in part by an increase in amortization expense from intangible assets arising through our acquisition of PayMode. We expect that total amortization expense for fiscal 2010 will approximate \$13.3 million.

#### Other Income, Net

	Six Months Ended December 31,		Increase (Decrease) Between Periods 2009 Compared to 2008	
	2009	2008		%
	(in thousands)			
Interest income	\$ 109	\$ 454	\$(345 )	(76.0 )
Interest expense	(25 )	(27 )	2	7.4
Other income, net	44	336	(292 )	(86.9 )
Other income, net	\$ 128	\$ 763	\$(635 )	(83.2 )

**Other Income, Net.** For the six months ended December 31, 2009 as compared to the six months ended December 31, 2008, interest income decreased as a result of declining marketplace yields associated with our cash and short-term investment accounts. Other income, net decreased as a result of declining foreign exchange gains associated with the British Pound Sterling and the European Euro.

**Provision for Income Taxes.** We recorded income tax expense of \$1.3 million and \$0.3 million for the six months ended December 31, 2009 and 2008, respectively. The income tax expense for the six months ended December 31, 2009 was due to tax expense associated with our UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state income tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The income tax expense for the six months ended December 31, 2008 was net of

approximately \$0.4 million of one-time, non-recurring tax benefits arising from a reduction in our unrecognized tax benefits upon the expiration of certain statutes of limitations, from the enactment of legislation during fiscal year 2009 that allowed us to claim a tax refund for a portion of our

unused research and development credit carryforwards in the US, and from a decrease in our German tax rate as a result of a restructuring of our German operations. Our net income tax expense also reflected expense associated with our German, French, and Australian operations, as well as income tax expense in the US.

### 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:

	Six Months Ended	
	December 31, 2009	2008
	(in thousands)	
Cash provided by operating activities	\$ 14,631	\$ 10,434
	December 31, 2009	June 30, 2009
	(in thousands)	
Cash, cash equivalents and marketable securities	\$ 55,000	\$ 50,303
Working capital	39,608	30,678

We have financed our operations primarily from cash provided by operating activities and the sale of our common stock. We have generated positive operating cash flows in each of our last eight completed fiscal years. We believe that the cash generated from our operations and the cash, cash equivalents and marketable securities 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, stockholders and potentially bank or regulatory approval.

During the fiscal year, we completed the acquisition of PayMode for \$17.0 million in cash, plus the issuance of warrants for 1,000,000 shares of our common stock. The warrants have an exercise price of \$8.50 per share and a 10 year contractual life. We also may undertake additional business or asset acquisitions or divestitures.

A portion of our cash balances are held by our foreign subsidiaries and are denominated in currencies other than US Dollars. Accordingly, declines in the foreign currency exchange rates of the British Pound, European Euro, and Australian Dollar to the US Dollar could have a negative effect on our overall cash balances upon translation to US dollars. However, we continue to believe that our existing cash balances, even in light of the foreign currency volatility we have recently experienced, are adequate to meet our liquidity and working capital requirements for the foreseeable future.

On January 27, 2010, we filed a universal shelf registration statement with the Securities and Exchange Commission that, once effective, will allow us to offer and sell up to \$100,000,000 of common stock, preferred stock, debt securities, warrants, depository shares, stock purchase contracts and stock purchase units. These securities may be offered and sold by us in one or more offerings.

### Operating Activities

	Six Months Ended December 31,	
	2009	2008
	(in thousands)	
Net income (loss)	\$1,876	\$(6,718)
Non-cash adjustments	13,076	14,411
Changes in working capital	(321)	) 2,741
Net cash provided by operating activities	\$14,631	\$10,434

Net cash provided by operating activities for the six months ended December 31, 2009 was primarily due to our net income, adjusted by favorable non-cash adjustments and an increase in deferred revenue. Non-cash adjustments are principally transactions that result in the recognition of financial statement expense but not a corresponding cash disbursement, such as stock compensation expense, amortization of intangible assets and depreciation of property and equipment. Net cash provided by operating activities for the six months ended December 31, 2008 was due to our net loss,

affected by favorable non-cash adjustments and an increase in deferred revenue, offset by decreases in our accounts payable and accrued expenses and an increase in accounts receivable.

#### Investing Activities

	Six Months Ended December 31,	
	2009	2008
	(in thousands)	
Acquisition of business	\$(17,000 )	\$---
Purchases of held-to-maturity securities	(50 )	(53 )
Proceeds from sales of held-to-maturity securities	50	53
Purchases of property and equipment	(2,528 )	(2,060 )
Net cash used in investing activities	\$(19,528 )	\$(2,060 )

In the six months ended December 31, 2009, cash was used to fund the acquisition of PayMode and, to a lesser extent, to acquire property and equipment. In the six months ended December 31, 2008, cash was used to acquire property and equipment.

#### Financing Activities

	Six Months Ended December 31,	
	2009	2008
	(in thousands)	
Proceeds from employee stock purchase plan and exercise of stock options	\$9,560	\$961
Repurchase of common stock	(23 )	(2,603 )
Excess tax benefits associated with stock compensation	130	10
Payment of bank financing fees	(13 )	(20 )
Capital lease payments	(56 )	(65 )
Net cash provided by (used in) financing activities	\$9,598	\$(1,717 )

Net cash provided by financing activities for the six months ended December 31, 2009 was primarily the result of proceeds received from the exercise of stock options and the purchase of our stock by participants in our employee stock purchase plan. Net cash used in financing activities for the six months ended December 31, 2008 was primarily the result of repurchases of our common stock, offset in part by proceeds received from the exercise of stock options and the purchase of our stock by participants in our employee stock purchase plan.

#### Off-Balance Sheet Arrangements

During the six months ended December 31, 2009, 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 December 31, 2009:

	Total	Payments Due by Period *			More Than 5 Years
		Less Than 1 Year	1-3 Years	4-5 Years	
			(in thousands)		
Operating lease obligations	\$14,528	\$1,940	\$8,926	\$2,576	\$1,086
Capital lease obligations	190	59	131	----	----
Other contractual obligations	1,056	256	800	----	----
Total	\$15,774	\$2,255	\$9,857	\$2,576	\$1,086

\*Payment due dates are calculated from our most recent fiscal year end of June 30, 2009.

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 December 31, 2009 in the amount of \$1.0 million. These amounts have been excluded because as of December 31, 2009 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 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 as filed with the SEC on September 11, 2009.

### Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2009. 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 December 31, 2009, 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 December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On August 25, 2009, the plaintiffs in the initial public offering securities class action litigation against Bottomline and our subsidiary Optio Software, which is described in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009, or our Annual Report, filed a motion for final approval of the proposed settlement, approval of the plan of distribution of the settlement fund, and certification of the settlement classes. A settlement fairness hearing was held on September 10, 2009. On October 5, 2009, the Court issued an opinion granting plaintiffs’ motion for final approval

of the settlement, approval of the plan of distribution of the settlement fund, and certification of the settlement classes. An order and final judgment was entered on November 25, 2009. Various notices of appeal of the Court's order have been filed. For additional information regarding this litigation, please refer to our Annual Report.

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 risk factors below related to catastrophic events, security breaches and the concentration of revenue from subscription and transaction based arrangements represent material additions to our risk factors, and should be considered in addition to the other risk factors that follow, which do not reflect material changes from the risk factors disclosed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2009.

Ongoing financial market volatility and adverse changes in the domestic and global economic environment could have a significant adverse impact on our business, financial condition and operating results

Our business and operating results could be significantly impacted by general economic conditions. Since Fall 2008, the US and global economies have experienced an unprecedented series of events due to the effects of the credit market crisis, slowing global economic activity, a decrease in consumer and business confidence and severe liquidity concerns. A prolonged economic downturn could result in a variety of risks to our business, including:

- increased volatility in our stock price;
- increased volatility in foreign currency exchange rates;

• delays in, or curtailment of, purchasing decisions by our customers or potential customers either as a result of continuing economic uncertainty or anxiety or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives;

• increased credit risk associated with our customers or potential customers, particularly those that may operate in industries most affected by the economic downturn, such as financial services; and

- impairment of our goodwill or other assets.

During the six months ended December 31, 2009, as compared to the six months ended December 31, 2008, we experienced a decline in the foreign currency exchange rates associated with the British Pound Sterling which negatively impacted our overall revenue growth. Additionally, during fiscal 2009 we experienced a higher than anticipated level of volatility in our common stock price which we believe was a result of the general financial market turmoil rather than the result of anything specific to our business. We have observed that, in some cases, closing new business is taking somewhat longer and, in some cases, customer buying decisions are being postponed. To the extent that the current economic downturn worsens or persists, or any of the above risks occur, our business and operating results could be significantly and adversely affected.

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

The NASDAQ Global Market often experiences extreme price and volume fluctuations. 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:

- general and industry-specific business, economic and market conditions;
- changes in or our failure to meet analysts' or investors' estimates or expectations;

• actual or anticipated fluctuations in 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 business and operating results are subject to fluctuations in foreign currency exchange rates

We conduct a substantial portion of our operations outside of the US, principally in Europe and Australia. In the six months ended December 31, 2009, approximately 46% of our revenues and 33% of our operating expenses, respectively, were attributable to customers or operations located outside of North America. During fiscal 2009, the foreign currency exchange rates of the British Pound, European Euro and Australian Dollar to the US Dollar declined significantly, and we anticipate that foreign currency exchange rates may continue to fluctuate in the near term. As we experienced in fiscal 2009, continued appreciation of the US Dollar against these foreign currencies will have the impact of reducing both our revenues and operating expenses.

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 perpetual software license revenues. We are offering a growing number of our products under a subscription and transaction based revenue model, which we believe has certain advantages over a perpetual license model, including better predictability of revenue. PayMode, which we acquired in September 2009, will be offered for sale on a subscription and transaction basis.

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 subscription and transaction based offerings do not receive general marketplace acceptance, our financial results could be materially and adversely affected.

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 arrangements generally require significant implementation work, product customization and modification and user acceptance and systems integration testing, 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 or other 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 make significant investments in existing products and new product offerings that can adversely affect our operating results and these investments 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. Our operating results have recently been affected by increases in product development expenses as we continued to make investments in our hosted, banking and accounts payable automation products. We may at any time, based on product needs or marketplace demands, decide to significantly increase our product development expenditures. Over the next several quarters, we expect to make significant investments in PayMode, which we acquired in September 2009. Investments in existing products 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.

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 PayMode in September 2009. We 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, which may adversely affect our future operating results

We review our intangible assets periodically for impairment. At December 31, 2009, the carrying value of our goodwill and our other intangible assets was approximately \$67.0 million and \$37.0 million, respectively. While we reviewed our goodwill and our other intangible assets during the fourth quarter of fiscal year 2009 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. 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 experienced slowing growth rates with certain of our licensed software products. In the six months ended December 31, 2009 as compared to the six months ended December 31, 2008, we experienced a decline in the foreign currency exchange rates applicable to our European based revenues which negatively impacted our overall revenue growth. 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 the six months ended December 31, 2009, we experienced a decrease in our overall software license revenues. If software license revenues were to significantly decline in any future period, or if the mix of our products and services in any given period did not match our expectations, our results of operations and the market price of our common stock could be significantly adversely affected.

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 US, UK, 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:

- currency exchange rate fluctuations;
- difficulties and costs of staffing and managing foreign operations;
- 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 and document management offerings and our future performance will depend on continued market acceptance of these solutions

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

- continued market acceptance of our payment and document management offerings;

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. As an example, PayMode, which we acquired in September 2009, is a hosted offering. Hosted 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 investments in our hosted offerings, such as PayMode and our related 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 arrangements. Such events, to the extent occurring, could have a material and adverse effect on our operating results.

A growing portion of our revenue is derived from subscription and transaction based revenue arrangements

A growing portion of our revenue is being derived from subscription and transaction based arrangements. We believe that these arrangements have several advantages over perpetual license arrangements, including better predictability of revenue. However, there are also certain risks inherent with these transactions. For example, there is a risk that customers may elect not to renew these arrangements upon expiry or that they may aggressively attempt to renegotiate

pricing or other significant contractual terms, either at or prior to the point of renewal, based on economic conditions that exist at that time. Further, in respect of our hosted product offerings, customers often negotiate contractual termination rights in the event of a contractual breach by us which, to the extent occurring, might permit the customer to exit the contract prior to the end of its term, generally without additional compensation to us. Our future revenue and overall growth rates depend significantly upon ongoing customer retention. To the extent we were unable to achieve desired customer retention rates, or in the event we were unable to retain customers on favorable economic terms, our business, operating results and financial condition could be adversely affected.

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

Our ability to manage growth effectively will depend in part on our ability to continue to enhance our operating, financial and management information systems. 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.

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 and sales employees who are skilled in e-commerce, payment methodology and regulation, and Internet, database and network technologies. Our key employees are in high demand within the marketplace and many competitors, customers and industry organizations are able to offer considerably higher compensation packages than we currently provide. The loss of one or more of these individuals could have a material adverse effect on our business. In addition, 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.

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 do not receive general marketplace acceptance, or if the sales cycle of any of our new products significantly delays 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 could be adversely affected. Since certain of our offerings are still in early stages of adoption and since most of our 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.

Catastrophic events may disrupt our business

We are a highly automated business and we rely on our network infrastructure, various software applications and many internal technology systems and data networks for our customer support, development, sales and marketing and accounting and finance functions. Further, our hosted offerings rely on certain of these systems from the perspective of the ongoing provision of services to our customers and potential customers. A disruption or failure of these systems in the event of a natural disaster, telecommunications failure, cyber-attack, war, terrorist attack, or other catastrophic event could cause system interruptions, reputational harm, delays in product development, breaches of data security and loss of critical data. Such an event could also prevent us from fulfilling our customer orders or maintaining certain service level requirements, particularly in respect of our hosted offerings. While we have developed certain disaster recovery plans and backup systems to reduce the potentially adverse effect of such events, a catastrophic event that resulted in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our business, operating results and financial condition could be adversely affected.

Security breaches or computer viruses could harm our business by disrupting the delivery of services, damaging our reputation, or resulting in material liability to us

Our products, particularly our hosted offerings, may be vulnerable to unauthorized access, computer viruses and other disruptive problems. In the course of providing services to our customers, we may collect, store, process or transmit sensitive and confidential information. A security breach affecting us could damage our reputation and result in the loss of customers and potential customers. Such an event could also result in material financial liability to us.

Privacy, security, and compliance concerns have continued to increase as technology has evolved to facilitate e-commerce. We may need to spend significant capital or other resources to ensure ongoing protection against the threat of security breaches or to alleviate problems caused by security concerns. Additionally, computer viruses could infiltrate our systems and disrupt our business and our provision of services, particularly our hosted offerings. Any such event could have an adverse effect on our business, operating results, and financial condition.

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

Our product agreements typically contain provisions that afford customers a degree of warranty protection in the event that our products fail to conform to written specifications. These agreements typically contain provisions intended to limit the nature and extent of our risk of warranty and product liability claims. A court, however, might interpret these terms in a limited way or conclude that part or all of these terms were unenforceable. Furthermore, some of our agreements are governed by non-US law, and there is a risk that foreign law might provide us less or different protection. While we maintain general liability insurance, including coverage for errors and omissions, we cannot be sure that our existing coverage will continue to be available on reasonable terms or will be available in amounts sufficient to cover one or more large claims.

Our products facilitate the transmission of sensitive business documents and other confidential data related to payments, cash management and invoices. Further, some of our products facilitate the transfer of cash or transmit instructions that initiate cash transfer. 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 our stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation and bylaws contain provisions relating to the 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, 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 December 31, 2009:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Approximate Total Number of Dollar Value of Shares Purchased Shares That May as Part of Publicly Yet be Purchased	
			Announced Plans or Programs	Under The Plans or Programs (1)
October 1, 2009 — October 31, 2009	----	----	----	\$ 4,401,000
November 1, 2009 — November 30, 2009	----	----	----	\$ 4,401,000
December 1, 2009 — December 31, 2009	----	----	----	\$ 4,401,000
Total	----	----	----	\$ 4,401,000

(1) In April 2008, our board of directors authorized a repurchase program for the repurchase of up to \$10.0 million of our common stock.

Item 4. Submission of Matters to a Vote of Security Holders

We held our 2009 Annual Meeting of Stockholders on November 19, 2009. The following matters were voted upon at the Annual Meeting.

1. Election of Directors. Holders of 18,274,344 shares of our common stock voted to elect Michael J. Curran to serve for a term of three years as a Class II Director. Holders of 5,712,847 shares of our common stock withheld votes from such director. Holders of 23,520,679 shares of our common stock voted to elect Joseph L. Mullen to serve for a term of three years as a Class II Director. Holders of 466,512 shares of our common stock withheld votes from such director. Holders of 17,730,815 shares of our common stock voted to elect James W. Zilinski to serve for a term of three years as a Class II Director. Holders of 6,256,376 shares of our common stock withheld votes from such director.
2. Approval of the Company's 2009 Stock Incentive Plan. Holders of 16,184,583 shares of our common stock voted to approve the 2009 Stock Incentive Plan. Holders of 5,678,718 shares of our common stock voted against approving the plan, holders of 47,823 shares abstained from voting, and 2,076,067 shares were broker non-votes.
3. Ratification of Independent Registered Public Accounting Firm. Holders of 23,908,263 shares of our common stock voted to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the current fiscal year. Holders of 64,568 shares of our common stock voted against ratifying such appointment, holders of 14,360 shares abstained from voting, and no shares were broker non-votes.

Item 6. Exhibits

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

SIGNATURE

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

Bottomline Technologies (de), Inc.

Date: February 8, 2010

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

EXHIBIT INDEX

Exhibit Number	Description
10.1	Form of Executive Officer Bonus Plan for 2010 with respect to Robert A. Eberle
10.2	2009 Stock Incentive Plan (incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on November 25, 2009 (File No. 000-25259)).
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

