

BOTTOMLINE TECHNOLOGIES INC /DE/  
Form 10-K  
September 12, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended June 30, 2008

OR

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

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

Commission file number 0-25259

**BOTTOMLINE TECHNOLOGIES (de), INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)  
**325 Corporate Drive**  
**Portsmouth, New Hampshire**  
(Address of Principal Executive Offices)  
**Registrant's telephone number, including area code: (603) 436-0700**

**02-0433294**  
(I.R.S. Employer  
Identification No.)  
**03801**  
(Zip Code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class:</b>	<b>Name of each exchange on which registered:</b>
Common Stock, \$.001 par value per share	The NASDAQ Global Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the last sale price of the registrant's common stock at the close of business on December 31, 2007 was \$328,053,894 (reference is made to Part II, Item 5 herein for a statement of assumptions upon which this calculation is based). The registrant has no non-voting stock.

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There were 24,813,716 shares of common stock, \$.001 par value per share, of the registrant outstanding as of August 29, 2008.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Items 10, 11, 12, 13 and 14 of Part III (except for information required with respect to our executive officers, which is set forth under Part I Executive Officers and Other Key Employees of the Registrant ) have been omitted from this report, as we expect to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended June 30, 2008, a definitive proxy statement for our 2008 annual meeting of stockholders. The information required by Items 10, 11, 12, 13 and 14 of Part III of this report, which will appear in our definitive proxy statement, is incorporated by reference into this report.

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### **PART I**

*This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Any statements (including statements to the effect that we believe, expect, anticipate, plan and similar expressions) that are not statements relating to historical matters should be considered forward-looking statements. Our actual results may differ materially from the results discussed in the forward-looking statements as a result of numerous important factors, including those discussed in Item 1A. Risk Factors.*

#### **Item 1. Business. Our Company**

We provide electronic payment, invoice and document automation 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, document management, reporting and document archive. We offer software designed to run on-site at the customer's location as well as hosted solutions. Historically, our software has been sold predominantly on a perpetual license basis. Today, however, certain of our newer offerings are being sold on a subscription and transaction basis.

Our corporate customers rely on our solutions to automate their payment and accounts payable processes and to streamline and manage the production and retention of electronic documents. We also provide Legal eXchange<sup>®</sup>, 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.

Bottomline was originally organized as a New Hampshire corporation in 1989 and was reincorporated as a Delaware corporation in August 1997. We maintain our corporate headquarters in Portsmouth, New Hampshire and our international headquarters in Reading, England. We maintain a website with the address [www.bottomline.com](http://www.bottomline.com). Our website includes links to our Code of Business Conduct and Ethics, and our Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee charters. We are not including the information contained in our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge, through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practical after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC).

Unless the context requires otherwise, references to we, us, our, Bottomline and the Company refer to Bottomline Technologies (de), Inc. and its subsidiaries.

#### **Our Strategy**

Our objective is to be the leading global provider of business payment, invoice and document automation software solutions and services. Key elements of our strategy include the following:

Continuing to add customers and functionality to our growing Legal eXchange network;

Providing software and services which enable banks to offer their corporate customers leading global payment capability and functionality;

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Leveraging our leading payment and document automation software solutions for enterprise customers;

Increasing the deployment of our hosted solutions, as well as subscription and transaction based pricing, in order to increase our recurring revenue contribution;

Continuing to invest in our accounts payable automation solutions to capitalize on the new and significant market opportunity for that offering;

Continuing to expand our presence outside of North America and Europe by leveraging our experience with changing global payment standards;

Broadening our relationships with our customer base by selling existing applications, as well as new product offerings, into that base;

Continuing to develop and broaden strategic relationships that enhance our global position; and

Pursuing strategic acquisitions that expand our geographical footprint or complement our product functionality.

## **Our Products and Services**

### ***Payment and Document Automation***

The payments automation capabilities inherent in our WebSeries® and PayBase® solutions can produce a wide variety of domestic and international payment instructions along with consolidated bank reporting of cash activity including ACH, EDI, Fedwire transfer, BACSTEL-IP and SWIFT messaging and paper checks in most currencies. Through our payment automation capabilities, customers can reduce administrative expenses and strengthen compliance and anti-fraud controls. Users are able to gather and access data via the Internet on payment and bank account information, including account totals and detailed transaction data, providing improved workflow, financial reporting and bank communications.

To help augment financial document composition and delivery we offer a number of solutions for automating a wide variety of business documents and financial transaction processes as well as related web-based delivery and document archive. Our products offer advanced design, output formatting and delivery capabilities that enable customers to replace paper-based forms (such as invoices, purchase orders and shipping notices) with more efficient and cost-effective electronic documents. With the capabilities of these product suites, users can centrally manage, distribute and archive business and transaction documents and then distribute them via email, print, fax or the Internet.

### ***Legal Spend Management***

Our SaaS solution, Legal eXchange, integrates with claims management and time and billing systems to automate legal invoice management processes and to provide insight into all areas of a company's outside legal spend. Legal eXchange's combination of automated invoice routing and a sophisticated rules engine allows corporate legal and insurance claims departments to create more efficient processes for managing invoices generated by outside law firms and other service providers, while offering access to important legal spend factors including budgeting, expense monitoring and outside counsel performance.

### ***Electronic Banking***

Our WebSeries Electronic Banking Platform allows banks and financial institutions to deploy Internet-based cash management services for their corporate clients. Based on patented technology and complementary existing systems, our banking platform enables users to leverage a single Internet-based interface for the origination and processing of all types of inbound and outbound domestic and international payments. The software architecture of our banking platform allows banks and financial institutions to configure highly specialized solution sets for enterprise cash management, wholesale banking and retail branch payments using modules for ACH, international payments, check management,

information reporting, unattended payment and file transmission, and distributed document printing.

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### ***Accounts Payable Automation***

Our accounts payable automation solutions allow businesses and enterprises to automate the accounts payable invoice receipt and management process and facilitate the ultimate payment. We have continued to invest in the on-going development and enhancement of our accounts payable automation solutions to include a wider range of functionality.

### ***Professional Services***

Our teams of service professionals draw on extensive experience to provide consulting, project implementation and training services to our clients. By easing the implementation of our products, these services help our customers accelerate the time to value. By improving the overall customer experience, these services help us retain customers and drive future revenue generating arrangements from existing customers.

### ***Equipment and Supplies***

We offer consumable products for laser check printing, including magnetic ink character recognition toner and blank-paper check stock. We also provide printers and printer-related equipment, primarily through arrangements with our hardware vendors, to complement our software product offerings.

### **Our Customers**

Our customers are in diverse industries including financial services, insurance, health care, technology, communications, education, media, manufacturing and government. We provide our products and services to approximately 80 of the Fortune 100 companies and approximately 70 of the FTSE (Financial Times) 100 companies. Our customers include leading organizations such as American International Group, Australia and New Zealand Banking Group (ANZ), Bank of America, British Airways, Hertz Corporation, Home Depot, Inc., Liberty Mutual, Safeco Insurance and Vodafone.

### **Our Competition**

The markets in which we participate are highly competitive. We believe our ability to compete depends on factors within and beyond our control, including:

the performance, reliability, features, price and ease of use of our offerings as compared to competitor alternatives;

our industry knowledge and expertise;

the execution of our sales and services organizations;

our ability to attract and retain employees with the requisite domain knowledge and technical skill set necessary to develop and support our products; and

the timing and market acceptance of new products as well as enhancements to existing products, by us and by our current and future competitors.

Our payment and document automation products compete primarily with companies that provide solutions to create, publish, manage and archive electronic documents, such as Adobe, StreamServe and Xerox and companies that offer electronic payment and laser check printing software and services, such as Payformance (now a division of Sungard), MHC Associates, and ACOM Solutions in the US and Microgen, Albany Software Ltd. and Experian Group, Ltd. in Europe. Our products also compete with companies that provide a diverse array of accounts payable automation and workflow capabilities, such as Xign (now part of JP Morgan Chase), BasWare and 170 Systems. To a lesser extent, we compete with providers of enterprise resource planning solutions and providers of traditional payment products, including check stock and check



printing software and services. In addition, some financial institutions compete with us as outsourced check printing and electronic payment service providers.

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For Electronic Banking, we primarily compete with companies such as S1 Corporation, CoCoNet Corporation, Clear2Pay, Dovetail Software, Inc. and ACI Worldwide that offer a wide range of financial services including electronic banking applications. We also encounter competition to a lesser degree from Metavante, SunGard, and Fundtech, as well as companies that provide traditional treasury workstation solutions.

For our Legal eXchange solution, we compete with a number of companies, including DataCert, CT TyMetrix, LexisNexis CounselLink and Allegient Systems.

Although we believe that we compete favorably in each of the markets in which we participate, the markets for our products and services are intensely competitive and characterized by rapid technological change and a number of factors could adversely affect our ability to compete in the future, including those discussed in Item 1A. Risk Factors.

## **Our Operating Segments**

We organize our business by segments in order to maximize market opportunities. Our operating segments are organized principally by the type of product or services offered and by geography. As of July 1, 2007, we revised the structure of our internal operating segments and changed the nature of the financial information that is provided to and used by our chief operating decision maker. The change in segment structure as of July 1, 2007 resulted in our hosted and outsourced accounts payable automation product offerings being included as a component of our Outsourced Solutions segment rather than our Payment and Transactional Documents segment. This change is reflected for all periods presented. In accordance with SFAS 131, we have aggregated similar operating segments into three reportable segments as follows:

*Payments and Transactional Documents.* Our Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also provides a range of standard professional services and equipment and supplies that complement and enhance our core software products. Revenue for 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 also incorporates our check printing solutions in the U.K., revenue for which is typically recorded on a per transaction basis or ratably over the expected life of the customer relationship.

*Banking Solutions.* Our 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.

*Outsourced Solutions.* Our Outsourced Solutions segment provides customers with outsourced and hosted solution offerings that facilitate invoice receipt and presentment and spend management. Our Legal eXchange solution, which provides customers the opportunity to create more efficient processes for managing invoices generated by outside law firms, while offering access to important legal spend factors such as budgeting, expense monitoring and outside counsel performance, is included within this segment. This segment also incorporates our hosted and outsourced accounts payable automation solutions. Revenue within this segment is generally recognized on a subscription or transaction basis or proportionately over the estimated life of the customer relationship.

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

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

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

The following represents a summary of our reportable segments for the years ended June 30, 2006, 2007 and 2008.

	Fiscal Year Ended June 30,		
	2006	2007	2008
	(in thousands)		
<b>Revenues:</b>			
Payments and Transactional Documents	\$ 70,622	\$ 75,099	\$ 84,962
Banking Solutions	12,706	20,017	22,107
Outsourced Solutions	18,337	23,219	24,172
<b>Total revenues</b>	<b>\$ 101,655</b>	<b>\$ 118,335</b>	<b>\$ 131,241</b>
<b>Segment measure of profit (loss):</b>			
Payments and Transactional Documents	\$ 9,070	\$ 12,733	\$ 14,052
Banking Solutions	(1,155)	576	1,150
Outsourced Solutions	(677)	(7,131)	(2,610)
<b>Total measure of segment profit</b>	<b>\$ 7,238</b>	<b>\$ 6,178</b>	<b>\$ 12,592</b>

A reconciliation of the measure of segment profit to our GAAP loss for 2006, 2007 and 2008, before the provision for income taxes, is as follows:

	Fiscal Year Ended June 30,		
	2006	2007	2008
	(in thousands)		
Segment measure of profit	\$ 7,238	\$ 6,178	\$ 12,592
<b>Less:</b>			
Amortization of intangible assets	(4,491)	(9,324)	(11,399)
Stock compensation expense	(6,984)	(7,945)	(8,803)
Acquisition related expenses	(189)		(269)
Other income, net	3,252	3,177	3,082
<b>Loss before provision for income taxes</b>	<b>\$ (1,174)</b>	<b>\$ (7,914)</b>	<b>\$ (4,797)</b>

**Financial Information About Geographic Areas**

Revenues, based on the point of sales, not the location of the customer, are as follows:

	Fiscal Year Ended June 30,		
	2006	2007	2008

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	(in thousands)					
United States	\$ 54,331	53.5%	\$ 65,064	55.0%	\$ 74,846	57.0%
Europe	45,471	44.7%	51,507	43.5%	54,673	41.7%
Australia	1,863	1.8%	1,764	1.5%	1,722	1.3%
Total	\$ 101,665	100.0%	\$ 118,335	100.0%	\$ 131,241	100.0%

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

	Fiscal Year Ended June 30,	
	2007	2008
	(in thousands)	
Long-lived assets:		
United States	\$ 4,664	\$ 9,194
Europe	5,195	6,386
Australia	195	175
<b>Total long-lived assets</b>	<b>\$ 10,054</b>	<b>\$ 15,755</b>

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 continued growth and success in international markets. As is the case with most international operations, the success and profitability of these operations is subject to numerous risks and uncertainties including exchange rate fluctuations. We do not currently hedge against exchange rate fluctuations. A number of other factors could also have a negative effect on our business and results from operations outside the US, including different regulatory and industry standards and certification requirements, reduced protection for intellectual property rights in some countries, import or export licensing requirements, the complexities of foreign tax jurisdictions and difficulties and costs of staffing and managing our foreign operations.

**Sales and Marketing**

As of June 30, 2008, we employed 141 sales and marketing employees worldwide, of whom 84 were focused on the Americas markets, 55 were focused on European markets and 2 were focused on Asia Pacific markets. We market and sell our products directly through our sales force and indirectly through a variety of channel partners and reseller relationships. We market and sell our products domestically and internationally, with an international focus on Europe and Australia. We also maintain an inside sales group which provides a lower-cost channel into maintaining existing customers and expanding our customer base.

**Product Development and Engineering**

Our product development and engineering organization includes employees as well as offshore development resources who provide a flexible supplement to our internal resources. We have three primary development groups: software engineering, quality assurance and technical writing. We spent \$12.3 million, \$16.1 million, and \$17.4 million on product development and engineering costs in fiscal years 2006, 2007 and 2008. These expenditures include the impact of stock compensation expense.

Our software engineers have substantial experience in advanced software development techniques as well as extensive knowledge of the complex processes involved in business document, payment, and invoicing systems. Our engineers participate in the Microsoft Developer Network, IBM Partner World for Developers, and the Oracle Partner Developer Program. They maintain extensive knowledge of software development trends and best practices. Our technology focuses on providing business solutions utilizing industry standards, providing a path for extendibility and scalability of our products. Security, control and fraud prevention, as well as performance, data management and information reporting, are priorities in the technology we develop and deploy.

Our quality assurance engineers have extensive knowledge of our products and expertise in software quality assurance techniques. The quality assurance team participates in all phases of our product development processes. Members of the quality assurance group make use of both manual and automated software testing techniques to ensure high quality software is being delivered to our customers. The quality assurance group members participate in alpha and beta releases, testing of new product releases as well as customizations to our clients, and provide initial training materials for customer support and service.

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Our technical support group provides all product documentation as well as technical support for released products. The technical writers are versed in current document technology and work closely with the software engineers to create and maintain documentation that is clear, current and complete. The technical support engineers are responsible for the analysis of reported software problems and work closely with customer support staff as well as other internal groups to provide the highest quality of support to our customers. The group's broad knowledge of our products, our technology, and our customers' infrastructure allows it to rapidly respond to customer support needs.

### **Backlog**

At the end of fiscal year 2008, our backlog was \$77.8 million, including deferred revenues of \$34.5 million. At the end of fiscal year 2007, our backlog was \$59.7 million, including deferred revenues of \$27.5 million. The current year increase in backlog is due to an increase in orders during 2008 and due to the backlog arising through our acquisition of Optio Software, Inc. (Optio) in April, 2008. We do not believe that backlog is a meaningful indicator of sales that can be expected for any future period, and there can be no assurance that backlog at any point in time will translate into revenue in any specific subsequent period.

### **Proprietary Rights**

We rely upon a combination of patents, copyrights, trademarks and trade-secret laws to establish and maintain proprietary rights in our technology and products. We had 23 active patent applications relating to our products as of June 30, 2008. We have been awarded 9 patents and expect to receive others. The earliest year of expiration for our awarded patents is 2015.

We intend to continue to file patent applications as we develop new technologies. There can be no assurance, however, that our existing patent applications, or any others that may be filed in the future, will issue or will be of sufficient scope and strength to provide meaningful protection of our technology or any commercial advantage to us, or that the issued patents will not be challenged, invalidated or circumvented. In addition, we rely upon a combination of copyright and trademark laws and non-disclosure and other intellectual property contractual arrangements to protect our proprietary rights. Given the rapidly changing nature of the industry's technology, the creative abilities of our development, marketing and service personnel may be as or more important to our competitive position as the legal protections and rights afforded by patents. We also enter into agreements with our employees and clients that seek to limit and protect our intellectual property and the distribution of proprietary information. However, there can be no assurance that the steps we have taken to protect our intellectual property will be adequate to deter misappropriation of proprietary information, and we may not be able to detect unauthorized use and take appropriate steps to enforce our proprietary rights.

### **Government Regulation**

Although our operations have not been subject to any material industry-specific governmental regulation, some of our existing and potential customers are subject to extensive federal and state governmental regulations. In addition, governmental regulation in the financial services industry is evolving, particularly with respect to payment technology, and our customers may become subject to increased regulation in the future. Accordingly, our products and services must be designed to work within the regulatory constraints under which our customers operate.

### **Employees**

As of June 30, 2008, we had 679 full-time employees, 141 of whom were in sales and marketing, 295 of whom were in professional services and customer support, 133 of whom were in development and 110 of whom were in administration and finance. None of our employees are represented by a labor union. We have not

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experienced any work stoppages and we believe that employee relationships are good. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and managerial personnel in a highly competitive market.

### **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.*

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

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

changes in or our failure to meet analysts' or investors' estimates or expectations;

general and industry-specific business, economic and market conditions;

actual or anticipated fluctuations in operating results, including those arising as a result of any impairment of goodwill or other intangible assets related to past or future acquisitions;

public announcements concerning us, including announcements of litigation, our competitors or our industry;

introductions of new products or services or announcements of significant contracts by us or our competitors;

acquisitions, divestitures, strategic partnerships, joint ventures, or capital commitments by us or our competitors;

adverse developments in patent or other proprietary rights; and

announcements of technological innovations by our competitors.

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

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

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



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

Due to an increasing number of large and more complex customer contracts, particularly in our Banking Solutions segment, we have experienced, and will likely continue to experience, delays in the timing of our revenue recognition. These large and complex customer contracts generally require significant implementation work, product customization and modification 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 may not be successful**

We operate in a highly competitive and rapidly evolving technology environment and believe that it is important to enhance existing product offerings and develop new product offerings to meet strategic opportunities as they evolve. Investments in existing 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. For example, 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.

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

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

difficulties integrating acquired operations, personnel, technologies or products;

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

write-offs related to impairment of goodwill and other intangible assets;

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

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

dilution to existing stockholders and earnings per share;

incurrence of substantial debt; and

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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.

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

We review our intangible assets, including goodwill, periodically for impairment. At June 30, 2008, the carrying value of our goodwill and our other intangible assets was approximately \$72 million and \$43 million, respectively. While we reviewed our goodwill and intangible assets during the fourth quarter of fiscal year 2008 and concluded that there was no impairment, we could be subject to future impairment charges with respect to these intangible assets, or intangible assets arising as a result of acquisitions in future periods. Further, to the extent we acquire projects related to in-process research and development activities, such amounts require immediate, rather than ratable, expense recognition. Any such charges, to the extent occurring, would likely have a material adverse effect on our operating results.

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

A significant percentage of our expenses, particularly personnel and facilities costs, are relatively fixed and based in part on anticipated revenue levels. In recent years, we experienced slowing growth rates with certain of our licensed software products. A decline in revenues without a corresponding and timely slowdown in expense growth could negatively affect our business. Significant revenue shortfalls in any quarter may cause significant declines in operating results since we may be unable to reduce spending in a timely manner.

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

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

the timing of orders and longer sales cycles;

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

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

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

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

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

The gross margins for our products and services vary considerably. Our software revenues generally yield significantly higher gross margins than do our subscription and transaction, service and maintenance and equipment and supplies revenue streams. In fiscal 2008, we experienced a slight decrease in our software license fees. If software license fees 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.

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### **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:

difficulties and costs of staffing and managing foreign operations;

currency exchange rate fluctuations;

differing regulatory and industry standards and certification requirements;

the complexities of foreign tax jurisdictions;

reduced protection for intellectual property rights in some countries; and

import or export licensing requirements.

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

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

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.

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### **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 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.

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

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

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

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

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

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

evolving industry standards, mandates and laws, such as those mandated by the National Automated Clearing House Association and the Association for Payment Clearing Services;

rapidly changing technology, which could cause our software to become suddenly outdated or could require us to make our products compatible with new database or network systems;

developments and changes relating to the Internet that we must address as we maintain existing products and introduce any new products; and

the loss of any of our key strategic partners who serve as a valuable network from which we can leverage industry expertise and respond to changing marketplace demands.

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

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

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

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

If the products that we offer and continue to introduce do not sustain marketplace acceptance, our future financial results 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.

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

Our software license agreements typically contain provisions that afford customers a degree of warranty protection in the event that our software fails to conform to its written specifications. These agreements typically





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

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

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

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

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

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

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

disruption due to political or military conflicts around the world;

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

currency exchange rate fluctuations that could adversely impact the cost advantages intended from these agreements. To the extent that these or unforeseen risks occur, our operating results and financial condition could be adversely impacted.

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### **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 1B. *Unresolved Staff Comments.***

There are no material unresolved written comments from the staff of the SEC regarding our periodic or current reports received not less than 180 days before the end of our fiscal year to which this Form 10-K relates.

### **Item 2. *Properties.***

We currently lease approximately 65,000 square feet of office space at our corporate headquarters in Portsmouth, New Hampshire under a lease that expires in 2012. We also occupy approximately 88,000 square feet of leased domestic offices in Alpharetta, Georgia, Great Neck, New York, Morrisville, North Carolina, and Chicago, Illinois.

We own approximately 16,000 square feet of office space in Reading, England, and this facility serves as our European headquarters. Additionally, we lease approximately 20,000 square feet of office space throughout the UK. We also lease approximately 5,000 square feet of office space in Melbourne and Sydney, Australia and approximately 2,000 square feet in Linden, Germany.

Our New Hampshire facility serves as our corporate headquarters and is used by employees associated with all of our operating segments in addition to our management, administrative, sales and marketing and customer support teams. Our New York facility is used to support the product development initiatives of all of our operating segments. Our North Carolina and Georgia facilities, and all of our European facilities, are used predominantly by personnel associated with our payments and transactional documents operating segment. Our Illinois facility is used principally by personnel who support aspects of our Legal eXchange solution, which is a component of our outsourced solutions segment. Our Australian facilities are used by personnel associated with both our payment and transactional documents and banking solutions operating segments.

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### **Item 3. Legal Proceedings.**

On August 10, 2001, a class action complaint was filed against the Company in the United States District Court for the Southern District of New York: Paul Cyrek v. Bottomline Technologies, Inc.; Daniel M. McGurl; Robert A. Eberle; FleetBoston Robertson Stephens, Inc.; Deutsche Banc Alex Brown Inc.; CIBC World Markets; and J.P. Morgan Chase & Co. A consolidated amended class action complaint, *In re Bottomline Technologies Inc. Initial Public Offering Securities Litigation*, was filed on April 20, 2002.

On November 13, 2001, a class action complaint was filed against Optio in the United States District Court for the Southern District of New York: Kevin Dewey v. Optio Software, Inc.; Merrill Lynch, Pierce, Fenner & Smith, Inc.; Bear, Stearns & Co., Inc.; FleetBoston Robertson Stephens, Inc.; Deutsche Bank Securities, Inc.; Dain Rauscher Inc.; U.S. Bancorp Piper Jaffray, Inc.; C. Wayne Cape; and F. Barron Hughes. A consolidated amended class action complaint, *In re Optio Software, Inc. Initial Public Offering Securities Litigation*, was filed on April 22, 2002.

The amended complaints filed in both the actions against the Company and Optio assert claims under Sections 11, 12(2) and 15 of the Securities Act of 1933, as amended, and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The amended complaints assert, among other things, that the descriptions in the Company's and Optio's prospectuses for their initial public offerings were materially false and misleading in describing the compensation to be earned by the underwriters of the offerings, and in not describing certain alleged arrangements among underwriters and initial purchasers of the common stock from the underwriters. The amended complaints seek damages (or, in the alternative, tender of the plaintiffs' and the class's common stock and rescission of their purchases of the common stock purchased in the initial public offering), costs, attorneys' fees, experts' fees and other expenses.

In July 2002, the Company and Optio joined in an omnibus motion to dismiss, which challenged the legal sufficiency of plaintiffs' claims. The motion was filed on behalf of hundreds of issuer and individual defendants named in similar lawsuits. On February 19, 2003, the court issued an order denying the motion to dismiss as to Bottomline and denying in part the motion to dismiss as to Optio. In addition, in October 2002, Daniel M. McGurl, Robert A. Eberle, C. Wayne Cape and F. Barron Hughes were dismissed from this case without prejudice. Both Bottomline and Optio authorized the negotiation of a settlement of the pending claims, and the parties negotiated a settlement, which was subject to approval by the court. On August 31, 2005, the court issued an order preliminarily approving the settlement. On December 5, 2006, the United States Court of Appeals for the Second Circuit overturned the District Court's certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc with the Second Circuit on January 5, 2007 in response to the Second Circuit's decision. On April 6, 2007, plaintiffs' Petition for Rehearing of the Second Circuit's decision was denied. On June 25, 2007, the District Court signed an order terminating the settlement. On September 27, 2007, plaintiffs filed a motion for class certification in certain designated focus cases in the District Court, and that motion is currently pending before the District Court. Neither Bottomline nor Optio's cases are part of the designated focus case group. On November 13, 2007, the issuer defendants in the designated focus cases filed a motion to dismiss the second consolidated amended class action complaints that were filed in those cases. On March 26, 2008, the District Court issued an Opinion and Order denying, in large part, the motions to dismiss the amended complaints in these focus cases.

The Company, and its subsidiary Optio, intend to vigorously defend themselves in these actions. Bottomline does not currently believe that the outcome of these proceedings will have a material adverse impact on its financial condition, results of operations or cash flows.

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

No matter was submitted to a vote of our stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of fiscal year 2008.

**Table of Contents****Executive Officers and Other Key Employees of the Registrant**

Our executive officers and other key employees and their respective ages as of August 31, 2008, are as follows:

<b>Name</b>	<b>Age</b>	<b>Positions</b>
Robert A. Eberle	47	President, Chief Executive Officer and Director
Peter S. Fortune	49	Chief Operating Officer and President of Bottomline Europe
Kevin M. Donovan	38	Chief Financial Officer and Treasurer
Richard A. Bell	43	Senior Vice President and General Manager, Financial Process Solutions North America
Eric A. Campbell	51	Chief Technology Officer
Paul J. Fannon	40	Managing Director, Transactional Services Europe
Thomas D. Gaillard	45	Senior Vice President and General Manager, Transactional Services North America
Craig A. Jones	51	Senior Vice President and General Manager, Global Banking and Financial Services
Michael Lane	45	Senior Vice President and General Manager, Global Banking and Financial Services
Andrew Mintzer	46	Senior Vice President, Product Strategy and Delivery
Chris W. Peck	43	Managing Director, Group Sales Europe
Nigel K. Savory	41	Managing Director, Europe

*Robert A. Eberle* has served as a director since September 2000 and as Chief Executive Officer since November 2006. Mr. Eberle has served as President since August 2004. From April 2001 to November 2006, Mr. Eberle served as Chief Operating Officer. Mr. Eberle served as Chief Financial Officer from September 1998 to August 2004.

*Peter S. Fortune* has served as Chief Operating Officer since November 2006, and as President of Bottomline Europe since we acquired the predecessor company in August 2000. From November 2005 to November 2006, Mr. Fortune served as Chief Marketing Officer.

*Kevin M. Donovan* has served as Chief Financial Officer since August 2004 and as Treasurer since May 2001. Mr. Donovan served as Vice President, Finance from January 2000 to August 2004.

*Richard A. Bell* has served as Senior Vice President and General Manager, Financial Process Solutions North America since September 2005. From January 2001 to September 2005, Mr. Bell served as Vice President of Create!form, which we acquired in September 2003.

*Eric A. Campbell* has served as Chief Technology Officer since May 2000.

*Paul J. Fannon* has served as Managing Director, Transactional Services Europe since December 2003. From December 2001 through December 2003, Mr. Fannon served as Managing Director, Payment Solutions Europe.

*Thomas D. Gaillard* has served as Senior Vice President and General Manager, Transactional Services North America since July 2003. From May 2002 to July 2003, Mr. Gaillard served as Vice President, Corporate Development.

*Craig A. Jones* has served as Senior Vice President and General Manager, Global Banking and Finance, since July 2006. From July 2003 to July 2006, Mr. Jones served as Vice President and General Manager, Financial Process Solutions North America. From July 2002 to July 2003, Mr. Jones served as Vice President of Product Management.

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*Michael Lane* has served as Senior Vice President and General Manager, Global Banking and Financial Services since March 2008. From May 2005 to February 2008, Mr. Lane served as Managing Director, Financial Services for Pegasystems, Inc. From March 2003 to April 2005, Mr. Lane served as Managing Director, Global Financial Services for Vitria Technology, Inc.

*Andrew Mintzer* has served as Senior Vice President, Product Strategy and Delivery since November 2007. From June 2003 to November 2007, Mr. Mintzer served as Vice President of Development.

*Christopher W. Peck* has served as Managing Director, Group Sales Europe since July 2003. From August 2000, when we acquired the predecessor company, through July 2003, Mr. Peck served as Group Sales Director of Bottomline Europe.

*Nigel K. Savory* has served as Managing Director, Europe since December 2003. From December 2001 through December 2003, Mr. Savory served as the Managing Director, Transaction Services Europe.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is traded on The NASDAQ Global Market under the symbol EPAY. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock, as quoted on The NASDAQ Global Market (previously the NASDAQ National Market).

Period	High	Low
Fiscal 2007		
First quarter	\$ 10.38	\$ 6.98
Second quarter	\$ 11.62	\$ 9.28
Third quarter	\$ 13.24	\$ 10.24
Fourth quarter	\$ 13.13	\$ 10.50
Fiscal 2008		
First quarter	\$ 14.14	\$ 11.30
Second quarter	\$ 16.37	\$ 11.58
Third quarter	\$ 14.04	\$ 9.85
Fourth quarter	\$ 13.79	\$ 9.50

As of August 29, 2008, there were approximately 175 holders of record of our common stock. Because many of the shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of individual stockholders represented by these holders of record.

The closing price for our common stock on August 29, 2008 was \$11.52. For purposes of calculating the aggregate market value of the shares of our common stock held by non-affiliates, as shown on the cover page of this report, it has been assumed that all the outstanding shares were held by non-affiliates except for the shares beneficially held by our directors and executive officers. However, there may be other persons who may be deemed to be affiliates of ours.

We have never paid dividends on our common stock. We intend to retain our earnings for use in our business and, therefore, do not anticipate paying any cash dividends on our common stock for the foreseeable future. Additionally, pursuant to the terms of our existing Loan and Security Agreement with Silicon Valley Bank, any decision to pay dividends on our common stock would be subject to the bank's approval.

The following table provides information about purchases by us of our common stock during the quarter ended June 30, 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under The Plans or Programs (1)
April 1, 2008 - April 30, 2008	30,000	\$ 10.86	30,000	\$ 9,893,000
May 1, 2008 - May 31, 2008	139,089	\$ 10.91	139,089	8,376,000
June 1, 2008 - June 30, 2008	49,900	\$ 10.14	49,900	7,870,000
Total	218,989	\$ 10.73	218,989	\$ 7,870,000

(1)

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In April 2008, our board of directors authorized a repurchase program for the repurchase of up to \$10.0 million of our common stock. This repurchase program was in addition to the program authorized by our board of directors in May 2007, which was completed in April 2008.

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**Stock Performance Graph**

The stock performance graph below compares the percentage change in cumulative stockholder return on our common stock for the period from June 30, 2003 through June 30, 2008, with the cumulative total return on The NASDAQ Stock Market (U.S.) and the NASDAQ Computer & Data Processing Index.

This graph assumes the investment of \$100.00 in our common stock (at the closing price of our common stock on June 30, 2003), The NASDAQ Stock Market (U.S.) and the NASDAQ Computer & Data Processing Index on June 30, 2003, and assumes dividends, if any, are reinvested.

The stock price performance shown on the following graph is not necessarily indicative of future price performance.

	6/03	6/04	6/05	6/06	6/07	6/08
<b>Bottomline Technologies (de), Inc.</b>	<b>100.00</b>	<b>131.35</b>	<b>185.50</b>	<b>100.87</b>	<b>153.04</b>	<b>120.57</b>
<b>NASDAQ Composite</b>	<b>100.00</b>	<b>129.09</b>	<b>127.97</b>	<b>136.00</b>	<b>164.15</b>	<b>142.67</b>
<b>NASDAQ Computer &amp; Data Processing</b>	<b>100.00</b>	<b>121.02</b>	<b>125.04</b>	<b>129.29</b>	<b>161.03</b>	<b>148.94</b>

The information included under the heading Performance Graph in Item 5 of this Annual Report on Form 10-K is furnished and not filed and shall not be deemed to be soliciting material or subject to Regulation 14A, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.



**Table of Contents****Item 6. Selected Financial Data.**

You should read the following consolidated financial data in conjunction with the Financial Statements, including the related notes, and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. The results shown herein are not necessarily indicative of the results to be expected for any future periods.

**SELECTED CONSOLIDATED FINANCIAL DATA**

	2004	Fiscal Year Ended June 30,			2008
		2005	2006	2007	
		(in thousands, except per share data)			
<b>Statements of Operations Data:</b>					
Revenues:					
Software licenses	\$ 14,366	\$ 18,789	\$ 12,236	\$ 14,102	\$ 13,949
Subscriptions and transactions	9,380	12,462	22,290	26,767	29,693
Service and maintenance	41,984	49,771	52,511	63,887	74,446
Equipment and supplies	16,402	15,483	14,628	13,579	13,153
<b>Total revenues</b>	<b>82,132</b>	<b>96,505</b>	<b>101,665</b>	<b>118,335</b>	<b>131,241</b>
Cost of revenues:					
Software licenses	1,678	2,295	1,398	744	880
Subscriptions and transactions	5,237	5,371	9,294	12,138	15,789
Service and maintenance	17,697	22,010	24,072	29,254	32,202
Stock compensation expense			474	755	987
Equipment and supplies	13,312	11,980	11,639	10,168	9,551
<b>Total cost of revenues</b>	<b>37,924</b>	<b>41,656</b>	<b>46,877</b>	<b>53,059</b>	<b>59,409</b>
<b>Gross profit</b>	<b>44,208</b>	<b>54,849</b>	<b>54,788</b>	<b>65,276</b>	<b>71,832</b>
Operating expenses:					
Sales and marketing	21,653	24,896	23,816	28,761	28,898
Stock compensation expense			2,489	2,893	2,841
Product development and engineering					
Product development and engineering	9,319	9,375	11,448	15,308	16,596
In-process research and development	842				
Stock compensation expense	41	14	841	761	780
General and administrative	10,613	11,546	12,949	15,784	15,002
Stock compensation expense			3,180	3,536	4,195
Amortization of intangible assets	4,277	3,217	4,491	9,324	11,399
<b>Total operating expenses</b>	<b>46,745</b>	<b>49,048</b>	<b>59,214</b>	<b>76,367</b>	<b>79,711</b>
<b>Income (loss) from operations</b>	<b>(2,537)</b>	<b>5,801</b>	<b>(4,426)</b>		