

BOTTOMLINE TECHNOLOGIES INC /DE/
Form 10-K
August 29, 2016
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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, 2016

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

02-0433294
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

325 Corporate Drive

Portsmouth, New Hampshire
(Address of Principal Executive Offices)

03801
(Zip Code)

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

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

Title of each class:	Name of each exchange on which registered:
Common Stock, \$.001 par value per share	The NASDAQ Global Select 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 whether the registrant has submitted electronically and posted on its corporate Web site, 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 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
Non-Accelerated Filer

Accelerated Filer
Smaller Reporting Company

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(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, 2015 was \$1,177,292,421 (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.

There were 41,043,205 shares of common stock, \$.001 par value per share, of the registrant outstanding as of August 19, 2016.

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, 2016, a definitive proxy statement for our 2016 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 help businesses pay and get paid. We make complex business payments simple, secure and seamless by providing a trusted and easy-to-use set of cloud-based business payment, digital banking, fraud prevention, payment and financial document solutions. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer's location. The majority of our revenues are derived from offerings sold as SaaS-based solutions and paid for on a subscription and transaction basis.

We operate a cloud-based network that facilitates the exchange of electronic payments between businesses and their vendors. We offer hosted and on-premise solutions that banks use to provide payment, cash management and treasury capabilities to their business customers, as well as solutions that banks and credit unions use to facilitate customer acquisition and growth. We offer financial messaging solutions for banks and corporations around the world, via solutions that leverage the SWIFT global messaging network. We also offer legal spend management solutions that help manage and determine the right amount to pay for legal services and claims vendor expenditures for insurance companies and other large corporate consumers of outside legal services. 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. Our healthcare customers use our solutions to streamline financial processes, particularly the patient enrollment process. Our document automation solutions are used by organizations to automate paper-intensive processes for the generation of transactional and supply chain documents. We also offer comprehensive cyber fraud and risk management solutions that are designed to non-invasively monitor and analyze user behavior to flag behavioral and data anomalies and other suspicious activity.

Our solutions are designed to complement, leverage and extend our customers' existing information systems, accounting applications and banking relationships so that they can be deployed quickly and efficiently. To help our customers realize the maximum value from our products and meet their specific business requirements, 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 at www.bottomline.com. Our website includes links to our Code of Business Conduct and Ethics, and the charters of our Audit Committee, Leadership Development and Compensation Committee, and Nominations and Corporate Governance Committee. We are not including the information contained on 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 practicable 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.

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Our Strategy

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

providing solutions that allow businesses to make the complex and fragmented payment process simple, seamless and secure;

providing solutions which enable banks of all sizes to offer their business customers leading cash management and treasury capabilities;

developing innovative new technologies that will allow us to broaden our market footprint, enhance our competitive position in our current markets and capitalize on new market opportunities;

delivering an increasingly broad set of solutions via the cloud to provide ease of deployment and efficiency for our customers and increased recurring revenue to us;

continuing to add customers and functionality to our growing Paymode-X, legal spend management and financial messaging networks;

providing an intuitive, easy-to-use/easy-to-navigate experience, accessible via a variety of technology platforms including mobile devices;

attracting and retaining exceptional technical, industry and management talent who have experience in our markets and the capability to grow our business;

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

pursuing strategic acquisitions that expand our geographical footprint and market share or extend our product functionality.

Our Products and Services

Payment Network

Paymode-X is a cloud-based payment network that operates as a digital registry to allow businesses to easily transition from paper to electronic payments, maximizing cost-savings, efficiency and security. With more than 330,000 enrolled businesses, new Paymode-X customers gain immediate benefits because many of their vendors are already part of the Paymode-X network ready to be paid electronically on day one. Our vendor enrollment process leverages our Intelligent Engagement Model which includes predictive analytics tools and proprietary processes designed to maximize vendor adoption. As a complete payment automation solution, customers can easily optimize working capital and their payment mix by making card, ACH, wire and check payments with a single integrated payment file. We continually invest in features and services that add value and ease of use of Paymode-X, including: electronic payments and remittance delivery, online access to payment detail and reports, online payment approvals, electronic invoice delivery, and turnkey vendor enrollment and support. We partner with Visa to offer Paymode-X with Visa Payables.

Digital Banking

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We offer payments, cash management and online banking solutions to financial institutions, including banks and credit unions. Our solutions enable banks of all sizes to offer their customers a host of capabilities including ACH and BACS payments, wires, international payments, check production, customer acquisition, balance and information reporting and other features that facilitate enterprise-wide cash management and interaction with their customers. Our web payment fraud module integrates with our hosted payments and cash management platforms, providing real time security monitoring and automated transaction blocking for fraudulent activity. Our solutions allow our bank customers to attract and service a full range of client segments from small

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businesses to multi-nationals. These solutions feature an intuitive user interface designed to simplify all aspects of payments and cash management for customers of all sizes and sophistication, through both browser-based and mobile channels.

Legal Spend Management

Our cloud-based legal spend management solutions and services integrate 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. The 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 insight into important legal spend factors including expense monitoring and outside counsel performance. We continue to expand the capabilities of these offerings to leverage predictive analytics to forecast claim settlement and litigation expense, facilitate the selection and retention of counsel and augment the management and budgeting of litigation matters.

Cyber Fraud and Risk Management

Our cyber fraud and risk management solutions (CFRM) non-invasively monitor, replay and analyze user behavior to flag and even stop suspicious activity in real time. The solutions are highly configurable and create accountability by recording and analyzing each application interaction and screen view, reducing the risk of theft, information leakage, internal fraud and payments fraud, as well as decreasing the cost of regulatory compliance. Case management capabilities centralize risk management, speed investigations, and facilitate compliance with regulations pertaining to Anti Money Laundering (AML), the Health Insurance Portability and Accountability Act (HIPAA), and Know Your Customer (KYC).

Financial Messaging Solutions

Our cloud-based financial messaging solutions leverage the SWIFT global messaging network to allow corporations to exchange financial information including payment instructions, cash reporting and other messages related to financial transactions with their banks and counterparties around the world. Our solutions allow banks and corporations to achieve lower costs, rapid implementation, greater security and improved risk management while avoiding costly internal infrastructure.

Payment and Document Automation

Our payment automation solutions can generate a wide variety of domestic and international payment instructions along with consolidated bank reporting of cash activity. Our web fraud and security module is designed to identify and track fraudulent activity that occurs in a customer's platform. Our solutions can reduce administrative expenses and strengthen compliance and anti-fraud controls. Users are able to gather and access data via the web related to 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 workflow and delivery, we also offer a number of solutions designed to automate a wide variety of business documents and supply chain processes as well as related web-based delivery and document archive. Our products offer advanced design, output formatting and delivery capabilities to replace paper-based forms, as well as automating the labor-intensive accounts payable processing of invoices.

Healthcare Solutions

Our solutions for patient registration, electronic signature, mobile document and payments allow healthcare organizations to improve business efficiencies, reduce costs and improve care quality. Leveraging our extensive experience optimizing document-driven processes, our solutions are utilized across the acute care hospital enterprise and broader healthcare systems, accelerating the paper-to-electronic transition while helping our customers streamline data flows.

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We also extend our CFRM platform to provide privacy and data security for healthcare organizations enabling them to better protect themselves and their patients' data from the growing threat posed by the misuse of valid user credentials. Combining our healthcare domain experience with the use of user behavior analytics, profiling and a powerful risk scoring engine allows healthcare organizations to more effectively detect user behavior changes, showing the shift from appropriate use to inappropriate reconnaissance with data collection and alerting in real-time.

Professional Services

Our teams of service professionals draw on extensive experience to provide consulting, project implementation and training services to our customers. 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.

Our Customers

Our customers are in diverse industries including financial services, insurance, healthcare, technology, retail, communications, education, media, manufacturing and government. Our customers include leading organizations such as Bank of America Merrill Lynch, BBVA Compass, British Airways, Catholic Health Initiatives, Cedars-Sinai Medical Center, Cigna Corporation, Franklin Templeton, Fidelity, Lloyds Bank, Capital One, Deere and Company, Target Corporation, Johnson Controls, Inc., State Farm Insurance, Sutter Health, Vodafone and Zurich American Insurance Company.

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:

our ability to develop new, innovative technology solutions that meet the evolving needs of our customers and the shifting dynamics of the markets we participate in;

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

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

our industry knowledge and expertise;

the execution of our sales and services organizations; 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.

For our Paymode-X solutions, our principal competitors include AvidXchange, American Express and Wells Fargo in addition to ACH capabilities offered by banks.

For our digital banking payments and cash management solutions, we primarily compete with companies such as ACI Worldwide, Fiserv, FIS, Q2, Jack Henry, Backbase, Digital Insight, Online Banking Solutions, Infosys, D+H Corporation, MeridianLink, nCino, Bill.com, IBM, SAP, Oracle, Polaris, Avoka, Intellect Design Arena, Wipro and Patni, that offer a wide range of financial services, including electronic banking applications. We also encounter competition in our digital banking customer acquisition offerings from MeridianLink and D+H Corporation.

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For our legal spend management solutions, we compete with a number of companies, including Wolters Kluwer ELM Solutions, LexisNexis and Computer Sciences Corporation (CSC).

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Our cyber fraud and risk management products compete with NICE Actimize, Norkom-Deitca, SAS, Guardian Analytics and FairWarning, among others.

For our financial messaging solutions, our principal competitors are D+H Corporation, Eastnets, SunGard and SWIFT.

For our healthcare solutions, our primary competitors are Access, FairWarning, FormFast, Iatric Systems and Standard Register.

Our payment and document automation products compete primarily with products from companies that provide solutions to create, publish, manage and archive electronic documents and companies that offer payments software and services. Our products also compete with companies that provide a diverse array of accounts payable automation and workflow capabilities. We also compete with providers of enterprise resource planning (ERP) 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.

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 Segments

Operating segments are the components of our business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our chief executive officer. Our operating segments are generally organized by the type of product or service offered and by geography.

During the fiscal year ended June 30, 2016, we re-examined the aggregation of our operating segments and reclassified our cyber fraud and risk management and healthcare operating segments from the Payments and Transactional Documents reportable segment into the new Other reportable segment. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

Similar operating segments have been aggregated into four 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 includes our payments automation software for direct debit and receivables management and provides a range of standard professional services and equipment and supplies that complement and enhance our core software products. Revenue associated with the aforementioned products and services is typically recorded upon delivery. This segment also incorporates certain other solutions that are licensed on a subscription basis, revenue for which is typically recorded on a subscription or transaction basis, or ratably over the expected life of the customer relationship.

Hosted Solutions. Our Hosted Solutions segment provides customers predominately with SaaS technology offerings that facilitate electronic payment, electronic invoicing, and spend management. Our legal spend management solutions, which enable customers to create more efficient processes for managing invoices generated by outside law firms while offering insight into important legal spend factors such as expense monitoring and outside counsel performance, are included within this segment. This segment also incorporates our global financial messaging and Paymode-X solutions. Revenue within this segment is generally recognized on a subscription or transaction basis or ratably over the estimated life of the customer relationship.

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Digital Banking. Our Digital Banking segment provides solutions to banking and financial institution customers. Our Digital Banking products are now sold almost entirely on a subscription basis which has the effect of contributing to recurring subscription and transaction revenue and the revenue predictability of future periods, but which also delays revenue recognition over a longer period.

Other. Our Other segment consists of our healthcare and cyber fraud and risk management operating segments. Our cyber fraud and risk management solutions non-invasively monitor, replay and analyze user behavior to flag and even stop suspicious activity in real time. Our healthcare solutions for patient registration, electronic signature, mobile document and payments allow healthcare organizations to improve business efficiencies, reduce costs and improve care quality. When licensed on a perpetual license basis, revenue for our cyber fraud and risk management and healthcare products is typically recorded upon delivery, with the exception of software maintenance which is normally recorded ratably over a twelve month period. When products are licensed on a subscription basis, revenue is normally recorded ratably over the subscription period.

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

Our chief operating decision maker assesses segment performance based on a variety of factors that normally 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 and integration related expenses (including acquisition related contingent consideration), amortization of acquired intangible assets, restructuring related charges, minimum pension liability adjustments, non-core charges related to our convertible notes, global ERP system implementation costs, charges related to reserves established or released against our deferred tax assets and other non-core or non-recurring gains and losses that arise from time to time. 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 based on a percentage of the segment's revenues.

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

The following represents a summary of our reportable segments.

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(in thousands)		
Segment revenue:			
Payments and Transactional Documents	\$ 115,213	\$ 116,685	\$ 118,098
Hosted Solutions	138,641	126,178	107,360
Digital Banking	70,747	77,184	67,769
Other	18,673	10,842	7,358
Total segment revenue	\$ 343,274	\$ 330,889	\$ 300,585
Segment measure of profit:			
Payments and Transactional Documents	\$ 34,225	\$ 36,010	\$ 37,249
Hosted Solutions	23,380	15,329	8,344
Digital Banking	5,696	12,440	7,045
Other	(1,795)	(2,870)	212
Total measure of segment profit	\$ 61,506	\$ 60,909	\$ 52,850

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(in thousands)		
Total measure of segment profit	\$ 61,506	\$ 60,909	\$ 52,850
Less:			
Amortization of acquired intangible assets	(28,978)	(30,383)	(26,242)
Stock-based compensation expense	(30,279)	(27,025)	(22,821)
Acquisition and integration related expenses	(741)	(2,835)	(4,563)
Restructuring expenses	(850)	(1,297)	(1,371)
Minimum pension liability and related adjustments	(203)	(56)	(331)
Other non-core income (expense)	246	(76)	
Global ERP system implementation costs	(4,252)		
Other expense, net	(15,312)	(15,553)	(14,544)
Loss before income taxes	\$ (18,863)	\$ (16,316)	\$ (17,022)

Financial Information About Geographic Areas

We have presented geographic information about our revenues below. This presentation allocates revenue based on the point of sale, not the location of the customer. Accordingly, we derive revenues from geographic locations based on the location of the customer that would vary from the geographic areas listed here; particularly with respect to financial institution customers located in Australia for which the point of sale was the United States and customers located in Africa for which the point of sale was Israel.

	Fiscal Year Ended June 30,					
	2016		2015		2014	
	(in thousands)					
North America	\$ 199,765	58.2%	\$ 193,286	58.4%	\$ 171,641	57.1%
United Kingdom	96,244	28.0%	93,735	28.3%	96,719	32.2%
Continental Europe	38,849	11.3%	38,053	11.5%	29,047	9.7%
Asia-Pacific and Middle East	8,416	2.5%	5,815	1.8%	3,178	1.0%
Total revenues from unaffiliated customers	\$ 343,274	100.0%	\$ 330,889	100.0%	\$ 300,585	100.0%

Long-lived assets, excluding deferred tax assets and intangible assets, which are based on geographical location, were as follows:

Fiscal Year Ended June 30,	
2016	2015
(in thousands)	