BOTTOMLINE TECHNOLOGIES INC /DE/
Form 10-Q
May 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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	**02-0433294**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
325 Corporate Drive	
Portsmouth, New Hampshire	**03801-6808**
(Address of principal executive offices)	**(Zip Code)**

(603) 436-0700

(Registrant s telephone number, including area code)

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

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

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the registrant s common stock as of April 30, 2018 was 40,826,692.

BOTTOMLINE TECHNOLOGIES (de), INC.

FORM 10-Q

FOR THE FISCAL QUARTER ENDED MARCH 31, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Balance Sheets

(in thousands)

	March 31, 2018	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 92,101	$ 124,569
Cash and cash equivalents, held for customers	2,907	
Marketable securities	10,025	1,973
Accounts receivable net of allowances for doubtful accounts of $994 at March 31, 2018 and $923 at June 30, 2017	89,806	64,244
Prepaid expenses and other current assets	17,887	16,807
Total current assets	212,726	207,593
Property and equipment, net	27,682	26,195
Goodwill	205,362	194,700
Intangible assets, net	169,854	171,280
Other assets	19,546	17,671
Total assets	$ 635,170	$ 617,439
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,643	$ 9,013
Accrued expenses and other current liabilities	33,414	29,179
Customer account liabilities	2,907	
Deferred revenue	80,611	74,113
Convertible senior notes		183,682
Total current liabilities	127,575	295,987
Borrowings under credit facility	150,000	
Deferred revenue, non-current	23,766	22,047
Deferred income taxes	13,546	15,433
Other liabilities	22,495	22,016
Total liabilities	337,382	355,483
Stockholders equity		
Preferred Stock, $.001 par value:		
Authorized shares-4,000; issued and outstanding shares-none		

Common Stock, $.001 par value:		
Authorized shares-100,000; issued shares-44,316 at March 31, 2018 and 42,797 at June 30, 2017; outstanding shares-38,510 at March 31, 2018 and 37,443 at June 30, 2017	44	43
Additional paid-in-capital	669,331	624,001
Accumulated other comprehensive loss	(23,075)	(32,325)
Treasury stock: 5,806 shares at March 31, 2018 and 5,354 shares at June 30, 2017, at cost	(129,914)	(113,071)
Accumulated deficit	(218,598)	(216,692)
Total stockholders equity	297,788	261,956
Total liabilities and stockholders equity	$ 635,170	$ 617,439

See accompanying notes.

Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands, except per share amounts)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Revenues:				
Subscriptions and transactions	$ 67,378	$ 55,851	$ 191,279	$ 163,627
Software licenses	3,134	2,735	8,119	8,348
Service and maintenance	29,476	26,344	85,251	79,937
Other	1,148	1,169	2,978	3,999
Total revenues	101,136	86,099	287,627	255,911
Cost of revenues:				
Subscriptions and transactions	30,760	25,867	85,372	74,535
Software licenses	233	265	632	589
Service and maintenance	13,793	12,607	38,993	39,308
Other	930	835	2,298	2,891
Total cost of revenues	45,716	39,574	127,295	117,323
Gross profit	55,420	46,525	160,332	138,588
Operating expenses:				
Sales and marketing	22,418	18,976	63,119	57,176
Product development and engineering	14,131	13,057	41,838	39,074
General and administrative	12,755	10,863	35,565	35,339
Amortization of acquisition-related intangible assets	5,818	6,006	16,708	18,381
Goodwill impairment charge				7,529
Total operating expenses	55,122	48,902	157,230	157,499
Income (loss) from operations	298	(2,377)	3,102	(18,911)
Other expense, net	1,293	4,479	9,288	12,596
Loss before income taxes	(995)	(6,856)	(6,186)	(31,507)
Income tax provision (benefit)	7	(232)	(4,031)	(4,029)
Net loss	$ (1,002)	$ (6,624)	$ (2,155)	$ (27,478)
Basic and diluted net loss per share:	$ (0.03)	$ (0.17)	$ (0.06)	$ (0.73)
Shares used in computing basic and diluted net loss per share:	38,348	37,965	38,055	37,891

Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available for sale securities	(4)	2	(7)	(104)
Unrealized gain on interest rate hedging transactions (net of income tax provision of $378 for the three months ended March 31, 2018 and $626 for the nine months ended March 31, 2018)	1,004		1,373	
Minimum pension liability adjustments	(56)	(16)	86	609
Foreign currency translation adjustments	5,652	2,667	7,798	(6,792)
Other comprehensive income (loss), net of tax:	6,596	2,653	9,250	(6,287)
Comprehensive income (loss)	$ 5,594	$ (3,971)	$ 7,095	$ (33,765)

See accompanying notes.

Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended March 31,	
	2018	**2017**
Operating activities:		
Net loss	$ (2,155)	$ (27,478)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of acquisition-related intangible assets	16,708	18,381
Stock compensation expense	25,132	24,209
Depreciation and other amortization	14,638	12,925
Goodwill impairment charge		7,529
Deferred income tax benefit	(5,458)	(6,374)
Provision for allowances on accounts receivable	117	51
Amortization of debt issuance costs	819	1,022
Amortization of debt discount	5,574	9,396
Amortization of premium (discount) on investments	(32)	184
(Gain) loss on disposal of equipment	(10)	89
Gain on foreign exchange	(160)	(187)
Changes in operating assets and liabilities:		
Accounts receivable	(23,030)	(1,497)
Prepaid expenses and other current assets	(54)	(1,756)
Other assets	(337)	719
Accounts payable	(50)	(616)
Accrued expenses	2,884	1,984
Deferred revenue	6,053	6,220
Other liabilities	175	1,138
Net cash provided by operating activities	40,814	45,939
Investing activities:		
Acquisition of businesses, net of cash acquired	(13,747)	
Purchase of available-for-sale securities	(9,935)	(13,600)
Proceeds from sales of available-for-sale securities	1,903	31,374
Capital expenditures, including capitalization of software costs	(14,865)	(20,296)
Proceeds from disposal of property and equipment	10	
Net cash used in investing activities	(36,634)	(2,522)
Financing activities:		
Repurchase of common stock		(14,971)
Repayment of convertible senior notes	(189,750)	
Amounts borrowed under revolving credit facility	150,000	
Repayment of notes payable	(2,394)	
Debt issuance costs related to credit facility		(2,163)
Proceeds from exercise of stock options and employee stock purchase plan	3,357	2,774

Net cash used in financing activities	(38,787)	(14,360)
Effect of exchange rate changes on cash	2,139	(2,441)
Increase (decrease) in cash and cash equivalents	(32,468)	26,616
Cash and cash equivalents at beginning of period	124,569	97,174
Cash and cash equivalents at end of period	$ 92,101	$ 123,790
Supplemental disclosures of non-cash financing activities:		
Issuance of note payable to seller in connection with acquisition	$ 1,836	$
Issuance of common stock upon conversion of convertible senior notes	$ 19,736	$
Receipt of common stock upon settlement of Note Hedges	$ 19,964	$

See accompanying notes.

Bottomline Technologies (de), Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2018

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Bottomline Technologies (de), Inc. (referred to below as we, us, our or Bottomline) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (U.S. GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three and nine months ended March 31, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2018 (fiscal year 2018). For further information, refer to the financial statements and footnotes included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission on August 28, 2017.

Note 2 Recent Accounting Pronouncements

Recently Adopted Pronouncements

Cloud Computing Arrangements: In April 2015, the Financial Accounting Standards Board (FASB) issued an accounting standard update which provides guidance as to whether a cloud computing arrangement (e.g., software as a service, platform as a service, infrastructure as a service, and other similar arrangements) includes a software license and, based on that determination, how to account for such arrangements. We adopted this standard effective July 1, 2016 on a prospective basis. The adoption of this standard did not have a material impact on our financial statements. In December 2016, the FASB issued a technical update to this standard, clarifying that any software license within the scope of this accounting standard shall be accounted for as an intangible asset by the licensee. We adopted the technical update on July 1, 2017, and reclassified software licenses from property and equipment, net to intangible assets, net in our consolidated balance sheets for all periods presented. The total amount reclassified in our June 30, 2017 consolidated balance sheet was $29.1 million.

Share-Based Compensation: In March 2016, the FASB issued an accounting standard update intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact of excess tax benefits and tax deficiencies, accounting for forfeitures, statutory tax withholding requirements and the presentation of excess tax benefits in the statement of cash flows. We adopted this standard on July 1, 2017 (the first quarter of our fiscal year 2018). Upon adoption of this standard, excess tax benefits of $0.2 million were recognized as a component of our net deferred tax assets, with an offsetting cumulative effect adjustment recorded as a reduction to our accumulated deficit in our consolidated balance sheet. Please refer to *Note 7 Income Taxes* for additional discussion of the recognition of excess tax benefits.

We adopted the cash flow presentation of excess tax benefits retrospectively, which resulted in the reclassification of excess tax benefits associated with stock compensation of $0.1 million from financing activities to operating activities for the nine months ended March 31, 2017 in our consolidated statement of cash flows.

The new standard also allows companies to make an accounting policy election to either estimate expected forfeitures or account for them as they occur, and we have elected to continue to estimate forfeitures.

Consolidation: In October 2016, the FASB issued an accounting standard update to remove the requirement that a single decision maker consider, in its assessment of primary beneficiary, its indirect interest held through related parties under common control to be the equivalent of a direct interest in a variable interest entity (VIE). Instead, indirect interest held through related parties under common control will be included in the primary beneficiary assessment based on proportionate basis, consistent with the indirect interest held through other parties. We adopted this standard effective July 1, 2017. The adoption of this standard did not have an impact on our financial statements.

Accounting Pronouncements to be Adopted

Revenue Recognition: In May 2014, the FASB issued an accounting standard update which provides for new revenue recognition guidance, superseding nearly all existing revenue recognition guidance. The core principle of the new guidance is to recognize revenue when promised goods or services are transferred to customers, in an amount that reflects the consideration which the vendor expects to receive for those goods or services. The new standard is expected to require significantly more judgment and estimation within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to separate performance obligations. The new standard is also expected to significantly increase the financial statement disclosure related to revenue recognition. This standard is currently effective for us on July 1, 2018 (the first quarter of our fiscal year ending June 30, 2019) using one of two methods of adoption, subject to the election of certain practical expedients: (i) retrospective to each prior reporting period presented, with the option to elect certain practical expedients as defined within the standard; or (ii) modified retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application inclusive of certain additional disclosures.

We are continuing to evaluate the expected impact of this standard on our consolidated financial statements and will be adopting the standard using the modified retrospective method. While our assessment of the impact of this standard is not complete, we believe that the most significant impacts will be in certain areas:

- Under the new standard, vendor specific objective evidence (VSOE) will no longer be required to determine the fair value of elements in a software arrangement. As a result, the absence of VSOE in software arrangements will no longer result in strict revenue deferral. Absent a change in how we license our products, we believe that this will result in greater up-front recognition of software revenue for certain of our license arrangements.

- Under the new standard, certain expenses we incur will require deferral and recognition over the period in which revenue is recognized. This will result in the deferral of certain fulfillment costs associated with our SaaS offerings which would then be recognized as expense over a multi-year period; such costs are expensed directly as incurred today.

- Under the new standard, costs to obtain a contract, including sales commissions, will be capitalized and amortized on a basis that is consistent with the transfer of goods and services to its customer. This will result in the deferral of certain commission related costs that, today, are expensed as incurred.

- Significantly enhanced financial statement disclosures related to revenue, including information related to the allocation of transaction price across undelivered performance obligations, will be required.

We are unable to quantify the impact of these outcomes at this time and our continuing analysis and interpretation of the standard could identify additional financial reporting consequences in addition to those described here.

Financial Instruments - Classification and Measurement: In January 2016, the FASB issued an accounting standard update which requires, among other things, that entities measure equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value, with changes in fair value recognized in earnings. Under the standard, entities will no longer be able to recognize unrealized holding gains and losses on equity securities classified as available for sale as a component of other comprehensive income (OCI). Subject to certain exceptions, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, plus or minus adjustments for observable price changes, with all such changes recognized in earnings. This new standard does not change the guidance for classifying and measuring investments in debt securities and loans. The standard is effective for us on July 1, 2018 (the first quarter of our fiscal year 2019) on a prospective basis. We are currently evaluating the anticipated impact of this standard on our financial statements. We have certain cost method investments of $7.7 million at March 31, 2018 and to the extent that there are observable price changes following the date of adoption the accounting for these investments could be affected.

Leases: In February 2016, the FASB issued an accounting standard update which requires balance sheet recognition of a lease liability and a corresponding right-of-use asset for all leases with terms longer than twelve months. The pattern of recognition of lease related revenue and expenses will be dependent on its classification. The updated standard requires additional disclosures to enable users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This standard is effective for us on July 1, 2019 (the first quarter of our fiscal year ending June 30, 2020) with early adoption permitted; adoption is on a modified retrospective basis. We anticipate that the adoption of this standard will have a material impact to our consolidated balance sheet due to the recognition of right of use assets and lease liabilities; however, we are still evaluating the anticipated impact of this standard on our

financial statements.

Financial Instruments - Credit Losses: In June 2016, the FASB issued an accounting standard update that introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments including trade receivables. The estimate of expected credit losses will require entities to incorporate historical information, current information and reasonable and supportable forecasts. This standard also expands the disclosure requirements to enable users of financial statements to understand the entity s assumptions, models and methods for estimating expected credit losses. This standard is effective for us on July 1, 2020 (the first quarter of our fiscal year 2021) with early application permitted. We are currently evaluating the anticipated impact of this standard on our financial statements.

Statement of Cash Flows: In August and November of 2016, the FASB issued updates to the accounting standard which addresses the classification and presentation of certain cash receipts, cash payments and restricted cash in the statement of cash flows. The standard is effective for us on July 1, 2018 (the first quarter of our fiscal year 2019) and requires a retrospective approach. Early adoption is permitted, including adoption in an interim period. We do not anticipate the adoption of this standard will have an impact on our consolidated statements of cash flows.

Goodwill Impairment: In January 2017, the FASB issued an accounting standard update to simplify the test for goodwill impairment which removes step 2 from the goodwill impairment test. Under the revised standard, an entity will perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. The loss should not exceed the total amount of goodwill allocated to the reporting unit. The standard is effective for us on July 1, 2020 (the first quarter of our fiscal year 2021) on a prospective basis, with early adoption permitted for periods beginning on or after January 1, 2017. We are currently evaluating the impact of this standard on our financial statements and the timing of adoption.

Defined Benefit Plan Expenses: In March 2017, the FASB issued an accounting standard update that changes the income statement presentation of defined benefit plan expense by requiring separation between operating expense (service cost component) and non-operating expense (all other components of net periodic defined benefit cost). Under the revised standard, the operating expense component will be reported with similar compensation costs, while the non-operating components will be reported in Other Income and Expense. In addition, only the service cost component is eligible for capitalization as part of an asset such as property, plant and equipment. This standard is effective for us on July 1, 2018 (the first quarter of our fiscal year 2019). We do not currently believe that the adoption of this standard will have a material impact on our financial statements.

Note 3 Fair Value

Fair Values of Assets and Liabilities

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

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

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

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

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

At March 31, 2018 and June 30, 2017, our assets and liabilities measured at fair value on a recurring basis were as follows:

	March 31, 2018 Fair Value Measurements Using Input Types				June 30, 2017 Fair Value Measurements Using Input Types			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in thousands)							
Assets								
Money market funds (cash and cash equivalents)	$ 100	$	$	$ 100	$ 593	$	$	$ 593
Available for sale securities - Debt								
U.S. Corporate	$	$ 3,489	$	$ 3,489	$	$ 1,906	$	$ 1,906
Government - U.S.		6,469		6,469				
Total available for sale securities	$	$ 9,958	$	$ 9,958	$	$ 1,906	$	$ 1,906
Short-term derivative interest rate swap	$	$ 169	$	$ 169	$	$	$	$

Long-term derivative interest rate swap	$	$ 1,830	$	$ 1,830	$	$	$	$

Fair Value of Financial Instruments

We have certain financial instruments which consist of cash and cash equivalents, cash and cash equivalents held for customers, marketable securities, accounts receivable, accounts payable, customer account liabilities, a derivative interest rate swap as more fully described in *Note 11 Derivative Instruments* and debt drawn on our Credit Facility as more fully described in *Note 10 Indebtedness*. Fair value information for each of these instruments is as follows:

Cash and cash equivalents, cash and cash equivalents held for customers, accounts receivable, accounts payable and customer account liabilities fair value approximates their carrying values, due to the short-term nature of these instruments.

Marketable securities classified as held to maturity, all of which mature within one year, are recorded at amortized cost, which at March 31, 2018 and June 30, 2017, approximated fair value.

Marketable securities classified as available for sale are recorded at fair value. Unrealized gains and losses are included as a component of accumulated other comprehensive loss in stockholders equity, net of tax. We use the specific identification method to determine any realized gains or losses from the sale of our marketable securities classified as available for sale.

The fair value of our derivative interest rate swap is based on the present value of projected cash flows that will occur over the life of the instrument, after considering certain contractual terms of the arrangement.

The carrying value of assets related to deposits we have made to fund future requirements associated with Israeli severance arrangements was $1.5 million at both March 31, 2018 and June 30, 2017, which approximated their fair value.

We have certain other investments accounted for at cost. The carrying value of these investments was $7.7 million at both March 31, 2018 and June 30, 2017 and are reported as a component of our other assets. These investments are recorded at cost, less any write-downs for other-than-temporary impairment charges. To determine the fair value of these investments, we use readily available financial information including information based on recent or pending third-party equity investments in these entities. In certain instances, a cost method investment s fair value may not be estimated if there are no identified events or changes in circumstances that would indicate a significant adverse effect on the fair value of the investment and to do so would be impractical, and as a result, we have not estimated the fair value of these investments.

We have borrowings of $150 million against our Credit Facility (refer to *Note 10 Indebtedness* for a discussion of this credit agreement). The fair value of these borrowings, which are classified as Level 2, approximates their carrying value at March 31, 2018, as the instrument carries a variable rate of interest which reflects current market rates.

Marketable Securities

The table below presents information regarding our marketable securities by major security type as of March 31, 2018 and June 30, 2017.

	March 31, 2018			**June 30, 2017**		
	Held to Maturity	**Available for Sale**	**Total**	**Held to Maturity**	**Available for Sale**	**Total**
			(in thousands)			
Marketable securities:						
Corporate and other debt securities	$ 67	$ 9,958	$ 10,025	$ 67	$ 1,906	$ 1,973
Total marketable securities	$ 67	$ 9,958	$ 10,025	$ 67	$ 1,906	$ 1,973

The following table summarizes the estimated fair value of our investments in available for sale marketable securities classified by the contractual maturity date of the securities:

	March 31, 2018 (in thousands)
Due within 1 year	$ 9,958
Due in 1 year through 5 years	

Total	$	9,958

All of our available for sale marketable securities are included in current assets as we do not have the positive intent to hold these investments until maturity and view these investments as available to fund current operations. At March 31, 2018, the difference between the fair value of our available for sale securities and their amortized cost was not significant.

The following table presents the aggregate fair values and gross unrealized losses for those available for sale investments that were in an unrealized loss position as of March 31, 2018 and June 30, 2017, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	At March 31, 2018		**At June 30, 2017**	
	Less than 12 Months			
	Fair Value	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
	(in thousands)			
U.S. Corporate	$ 3,489	$ (2)	$ 1,628	$ (1)
Government U.S.	6,469	(9)		
Total	$ 9,958	$ (11)	$ 1,628	$ (1)

Note 4 Acquisitions and Other Investments

First Capital Cashflow Ltd.

On October 4, 2017, we acquired First Capital Cashflow Ltd. (FCC) for 10.5 million British Pound Sterling (approximately $13.9 million based on the exchange rate in effect at the acquisition date) in cash and 42,080 shares of our common stock. The shares, which were issued to the selling stockholders of FCC who became employees of Bottomline, have vesting conditions tied to continued employment; as such the shares are compensatory and we will record share-based payment expense over the underlying stock vesting period of five years. FCC is headquartered and operates in the United Kingdom and is a provider of transaction settlement solutions. The acquisition is expected to strengthen our payment solution capabilities and further enhance our ability to provide secure, scalable technology solutions that enable customers to adapt to and leverage changes in the business payments environment.

For the period ended March 31, 2018, our consolidated balance sheet reflects $2.9 million of cash and cash equivalents held for customers and a corresponding liability in the same amount. Cash and cash equivalents held for customers and customer account liabilities arise as a by-product of FCC s operations as it is customary to collect client funds and hold them for a short transient period before ultimately disbursing the amounts and settling the corresponding liability. Cash we hold on behalf of clients is segregated from our other corporate cash accounts and is not available for use by us other than to settle the corresponding client liability.

In the allocation of the purchase price, which is preliminary at March 31, 2018, we recorded $4.8 million of goodwill. The goodwill is not deductible for income tax purposes and arose principally due to anticipated future benefits arising from the acquisition. Identifiable intangible assets of $10.5 million, consisting of customer related and other intangible assets, are being amortized over a weighted average estimated useful life of eleven years. FCC s operating results are included in the Payments and Transactional Documents segment from the date of the acquisition forward and did not have a material impact on our revenue or earnings.

Decillion

On August 14, 2017, we acquired Singapore-based Decillion Group (Decillion) for total consideration of 6.2 million Singapore Dollars (approximately $4.6 million based on the exchange rate in effect at the acquisition date), consisting of cash of $2.8 million and a note payable of $1.8 million. The note is payable in equal installments over ten quarters starting during the three months ended September 30, 2017. Decillion is a financial messaging solution provider in the Asia Pacific region. Headquartered in Singapore, Decillion has offices in Australia, China, Indonesia, Malaysia and Thailand and they operate a SWIFT service bureau which connects more than 130 financial institutions and corporations to the SWIFT community. This acquisition expands the depth and breadth of our financial messaging solutions, particularly in the Asia Pacific region.

In the allocation of the purchase price, which is preliminary at March 31, 2018, we recorded $1.3 million of goodwill. The goodwill is not deductible for income tax purposes and arose principally due to anticipated future benefits arising from the acquisition. Identifiable intangible assets of $2.4 million, consisting of customer related intangible assets, are being amortized over their estimated useful life of twelve years. Decillion s operating results have been included in our Cloud Solutions segment from the date of the acquisition forward and did not have a material impact on our revenue or earnings.

Acquisition expenses of approximately $0.9 million were expensed during the nine months ended March 31, 2018 related to the Decillion and FCC acquisitions, principally as a component of general and administrative expense.

Other Investments

We have an investment in preferred stock of a privately held, early-stage technology company over which we have the ability to exercise significant influence; however, we have no ability to exercise control. The preferred stock underlying our investment is not in-substance common stock. Accordingly, we account for this investment under the cost method of accounting, subject to periodic review for impairment. Our maximum investment exposure, which is determined based on the cost of our investment, was $3.5 million as of March 31, 2018 and is classified as a component of other assets on our consolidated balance sheet. There were no indicators of impairment identified as of March 31, 2018.

We concluded that this company is a VIE as it lacks sufficient equity to finance its activities. However, we also concluded that we are not the primary beneficiary of the VIE as we do not have the power to exert control or direct the activities that most significantly impact the VIE s economic performance. As we have determined we are not the primary beneficiary, consolidation of the VIE is not required.

Note 5 Net Loss Per Share

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Numerator - basic and diluted:				
Net loss	$ (1,002)	$ (6,624)	$ (2,155)	$ (27,478)
Denominator:				
Shares used in computing basic and diluted net loss per share attributable to common stockholders	38,348	37,965	38,055	37,891
Basic and diluted net loss per share attributable to common stockholders	$ (0.03)	$ (0.17)	$ (0.06)	$ (0.73)

For the three and nine months ended March 31, 2018, approximately 2.5 million and 2.7 million shares, respectively, of unvested restricted stock and stock options were excluded from the calculation of diluted earnings per share as their effect on the calculation would have been anti-dilutive.

For the three and nine months ended March 31, 2017, approximately 2.7 million and 3.0 million shares, respectively, of unvested restricted stock and stock options were excluded from the calculation of diluted earnings per share as their effect on the calculation would have been anti-dilutive.

Note 6 Operations by Segments and Geographic Areas

Segment Information

Operating segments are the components of our business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our chief executive officer. Our operating segments are organized principally by the type of product or service offered and by geography. During the quarter ended December 31, 2017, we changed the name of one of our reportable segments to Banking Solutions from Digital Banking, and that name change is reflected in the discussion that follows.

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

Cloud Solutions. Our Cloud 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 settlement network solutions (financial messaging and Paymode-X). Our settlement network solutions are highly scalable, secure and cost effective and facilitate cash payment and transaction settlement between businesses, their vendors and banks. Revenue within this segment is generally recognized on a subscription or transaction basis or ratably over the estimated life of the customer

relationship.

Banking Solutions. Our Banking Solutions segment provides solutions that are specifically designed for banking and financial institution customers. Our Banking Solutions products are now sold predominantly 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.

Payments and Transactional Documents. Our Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions, including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also provides a range of standard professional services and equipment and supplies that complement and enhance our core software products. Revenue associated with the aforementioned products and services is typically recorded upon delivery. However, if we license products on a subscription basis, revenue is typically recorded ratably over the subscription period or the expected life of the customer relationship.

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, software revenue for our cyber fraud and risk management and healthcare products is typically recorded upon delivery, with software maintenance revenue recorded ratably over a twelve-month period. When 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 certain items as presented in our reconciliation of the measure of total segment profit to GAAP loss before income taxes that follows. 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.

Segment information for the three and nine months ended March 31, 2018 and 2017 according to the segment descriptions above, is as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
	(in thousands)			
Segment revenue:				
Cloud Solutions [1]	$ 46,486	$ 39,248	$ 133,448	$ 112,837
Banking Solutions	22,900	18,294	65,175	55,944
Payments and Transactional Documents	27,124	24,107	75,516	73,768
Other	4,626	4,450	13,488	13,362
Total segment revenue	$ 101,136	$ 86,099	$ 287,627	$ 255,911
Segment measure of profit (loss):				
Cloud Solutions	$ 9,308	$ 7,116	$ 28,342	$ 19,347
Banking Solutions	1,630	388	4,939	1,456
Payments and Transactional Documents	7,661	7,451	21,755	22,644
Other	(627)	(570)	(2,014)	(1,928)
Total measure of segment profit	$ 17,972	$ 14,385	$ 53,022	$ 41,519

[1] Revenues from our legal spend management solutions were $16.1 million and $14.9 million for the three months ended March 31, 2018 and 2017, respectively. Revenues from our settlement network solutions were $30.4 million and $24.3 million for the three months ended March 31, 2018 and 2017, respectively. Revenues from our legal spend management solutions were $47.6 million and $42.6 million for the nine months ended March 31, 2018 and 2017, respectively. Revenues from our settlement network solutions were $85.8 million and $70.2 million for the nine months ended March 31, 2018 and 2017, respectively.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
	(in thousands)			
Total measure of segment profit	$ 17,972	$ 14,385	$ 53,022	$ 41,519
Less:				
Amortization of acquisition-related intangible assets	(5,818)	(6,006)	(16,708)	(18,381)
Goodwill impairment charge				(7,529)
Stock-based compensation expense	(8,592)	(7,354)	(25,132)	(24,209)
Acquisition and integration-related expenses	(224)	(501)	(1,596)	(2,272)
Restructuring expenses	(1,485)	(561)	(1,476)	(561)
Minimum pension liability adjustments	3	(264)	(35)	(805)
Global ERP system implementation and other costs	(1,558)	(2,076)	(4,973)	(6,673)
Other expense, net	(1,293)	(4,479)	(9,288)	(12,596)
Loss before income taxes	$ (995)	$ (6,856)	$ (6,186)	$ (31,507)

The following depreciation and other amortization expense amounts are included in the measure of segment profit (loss):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
	(in thousands)			
Depreciation and other amortization expense:				
Cloud Solutions	$ 2,671	$ 2,274	$ 7,649	$ 5,974
Banking Solutions	1,605	1,498	4,634	4,304
Payments and Transactional Documents	722	803	2,066	2,357
Other	97	109	289	290
Total depreciation and other amortization expense	$ 5,095	$ 4,684	$ 14,638	$ 12,925

Geographic Information

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	**2017**	**2018**	**2017**
	(in thousands)			
North America	$ 61,400	$ 54,073	$ 178,006	$ 160,785
United Kingdom	24,388	20,096	66,927	60,240
Continental Europe	11,607	9,475	32,138	28,009
Asia-Pacific and Middle East	3,741	2,455	10,556	6,877
Total revenues from unaffiliated customers	$ 101,136	$ 86,099	$ 287,627	$ 255,911

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

	At March 31, 2018	At June 30, 2017
	(in thousands)	
Long-lived assets:		
North America	$ 37,872	$ 35,569
United Kingdom	5,738	5,188
Continental Europe	1,297	1,208
Asia-Pacific and Middle East	2,321	1,901
Total long-lived assets	$ 47,228	$ 43,866

Note 7 Income Taxes

The income tax expense we record in any interim period is based on our estimated effective tax rate for the fiscal year for those tax jurisdictions in which we can reliably estimate that rate. The calculation of our estimated effective tax rate requires an estimate of pre-tax income by tax jurisdiction as well as total tax expense for the fiscal year. Accordingly, this tax rate is subject to adjustment if, in subsequent interim periods, there are changes to our initial estimates of total tax expense or pre-tax income, including the mix of income by jurisdiction. For those tax jurisdictions for which we are unable to reliably estimate an overall effective tax rate we calculate income tax expense based upon the actual effective tax rate for the year-to-date period.

The Tax Cuts and Jobs Act (the Tax Act) was signed into U.S. law on December 22, 2017 and made broad and complex changes to the U.S. tax code. This legislation contains a variety of income tax changes, including a reduction to the federal corporate income tax rate from 35% to 21%, a repeal of the corporate alternative minimum tax, a one-time transition tax on accumulated foreign earnings (if any), a move to a territorial tax system, a limitation on the tax deductibility of interest expense and an acceleration of tax deductions for qualifying capital expenditures. As discussed in more detail below, at March 31, 2018, we had not completed our accounting for the effects of enactment of the Tax Act.

The Tax Act resulted in three immediate consequences to us, as follows:

Assessing whether we would incur any tax liability under the one-time transition tax. Under the Tax Act, un-repatriated foreign earnings post-1986 are subject to a one-time transition tax, at rates that vary depending on the composition of foreign assets. Based on our calculations and estimates to date, we do not expect to incur any transition tax liability as we believe we are in an accumulated deficit position with respect to our foreign subsidiaries. Accordingly, we have not provided for any such tax liability as of March 31, 2018.

Re-valuing our U.S. deferred tax balances to reflect lower income tax rates. Deferred tax assets and deferred tax liabilities are recorded based on the income tax rates expected to be in effect when book and tax basis differences reverse. We are in a net U.S. deferred tax liability position. As such, in the quarter ended December 31, 2017, we wrote down the carrying value of our net deferred tax liabilities to reflect the impact of lower future income tax rates and recognized a non-recurring income tax benefit of $3.7 million.

Recognizing the ability to recover amounts paid for alternative minimum tax. The Tax Act eliminated the alternative minimum tax calculation and provided for the ability to recover certain amounts previously paid for such tax. Based on our preliminary calculations, we expect to receive a tax refund of $0.7 million and in the quarter ended December 31, 2017 we recognized a non-recurring income tax benefit for this amount.

All of our accounting calculations, estimates and financial reporting positions for consequences arising from the Tax Act are incomplete and preliminary as of March 31, 2018. In particular, we are completing our assessment of un-repatriated foreign earnings, our calculation of refundable alternative minimum tax, our permanent reinvestment assertions and our assessment of the required valuation allowance against our U.S. deferred tax assets due to the impact of the indefinite nature of net operating losses arising after January 1, 2018. Our on-going analysis could result in subsequent period adjustments to the preliminary amounts recorded to-date. In addition, our financial reporting conclusions may also be affected as we gain a more thorough understanding of the tax law. Any required future adjustment would be recorded in the subsequent period in which we determine that an adjustment is required.

We have not changed our permanent reinvestment assertions as of the period ended March 31, 2018.

We recorded income tax expense of $7,000 and an income tax benefit of $0.2 million for the three months ended March 31, 2018 and 2017, respectively. We recorded income tax expense principally associated with our UK operations, offset by an income tax benefit principally associated with our Swiss, Israeli and U.S. operations. The income tax benefit associated with our U.S. operations arose by an income tax benefit recorded in continuing operations resulting from a corresponding intraperiod allocation of income tax expense to other comprehensive income, offset in part primarily as a result of deferred tax expense for goodwill that

is deductible for tax purposes but not amortized for financial reporting purposes. The income tax benefit for the three months ended March 31, 2017 was principally due to a tax benefit associated with our Swiss and Israeli operations, offset by tax expense associated with our U.S. and UK operations.

We recorded an income tax benefit of $4.0 million for each of the nine months ended March 31, 2018 and 2017. The income tax benefit for the nine months ended March 31, 2018 includes the discrete tax benefit of $4.4 million relating to the consequences of the Tax Act as discussed above. Additionally, we recorded income tax expense principally associated with our U.S. and UK operations, offset in part by a tax benefit associated with our Swiss and Israeli operations. Tax expense associated with our U.S. operations arose primarily as a result of deferred tax expense for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes, offset in part by an income tax benefit in continuing operations that resulted from a corresponding intraperiod allocation of income tax expense to other comprehensive income. The income tax benefit for the nine months ended March 31, 2017 was due to a discrete tax benefit in Switzerland of $4.5 million related to the impairment of its investment in Intellinx Ltd. We also recorded tax expense associated with our U.S. and UK operations, offset by a tax benefit associated with our Swiss and Israeli operations.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately $0.4 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

We record a deferred tax asset if we believe that it is more likely than not that we will realize a future tax benefit. Ultimate realization of any deferred tax asset is dependent on our ability to generate sufficient future taxable income in the appropriate tax jurisdiction before the expiration of carryforward periods, if any. Our assessment of deferred tax asset recoverability considers many different factors including historical and projected operating results, the reversal of existing deferred tax liabilities that provide a source of future taxable income, the impact of current tax planning strategies and the availability of future tax planning strategies. We establish a valuation allowance against any deferred tax asset for which we are unable to conclude that recoverability is more likely than not.

Effective July 1, 2017, we adopted a new accounting standard intended to simplify certain aspects of accounting for share-based compensation arrangements, including the associated income tax consequences. Upon adoption, excess tax benefits associated with share-based compensation arrangements that previously were only recognized for financial reporting purposes when they actually reduced currently payable income taxes were recognized as deferred tax assets, net of any required valuation allowance. Accordingly, after adoption, we recognized the following:

	(in thousands)	
Increase to deferred tax assets for excess tax benefits	$	17,393
Increase to deferred tax asset valuation allowance		(17,144)
Net increase to deferred tax assets	$	249

This net increase to our deferred tax assets was recorded as a cumulative effect adjustment, reducing the accumulated deficit in our consolidated balance sheet.

During the quarter ended December 31, 2017 we reduced the carrying value of our U.S. deferred tax assets (including the corresponding impact to the valuation allowance) and our U.S. deferred tax liabilities to reflect the impact of lower income tax rates under the Tax Act.

At March 31, 2018, we had a total valuation allowance of $39.6 million against our deferred tax assets given the uncertainty of recoverability of these amounts. The change in our valuation allowance during the nine months ended March 31, 2018 includes the valuation allowance provided against excess tax benefits associated with share-based payment arrangements and the preliminary reduction to valuation allowance due to the change in the U.S. federal corporate income tax rate, as discussed above.

Note 8 Goodwill and Other Intangible Assets

Goodwill and acquired intangible assets are initially recorded at fair value and tested periodically for impairment. We perform an impairment test of goodwill during the fourth quarter of each fiscal year or sooner, if indicators of potential impairment arise.

At March 31, 2018, the carrying value of goodwill for all of our reporting units was $205.4 million, and the carrying value of goodwill in our Intellinx reporting unit was $4.4 million, which we believe to be at a heightened risk of impairment. Please refer to *Note 7. Goodwill and Other Intangible Assets* to our consolidated financial statements included in Item 8 of our Annual Report in Form 10-K for the fiscal year ended June 30, 2017 for more information regarding our accumulated impairment losses and goodwill balances.

Effective July 1, 2017, we adopted an accounting standard update requiring that software be classified as an intangible asset rather than an element of property and equipment. Intangible asset information as of June 30, 2017 has been recast in the table that follows, to reflect this change.

The following tables set forth the information for intangible assets subject to amortization and for intangible assets not subject to amortization.

	As of March 31, 2018			
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Weighted Average Remaining Life (in years)
Amortized intangible assets:				
Customer related	$ 206,583	$ (134,470)	$ 72,113	8.6
Core technology	131,630	(81,850)	49,780	8.3
Other intangible assets	22,304	(17,065)	5,239	5.4
Capitalized software development costs	18,796	(5,495)	13,301	4.3
Software [1]	61,061	(31,640)	29,421	4.6
Total	$ 440,374	$ (270,520)	$ 169,854	
Unamortized intangible assets:				
Goodwill			205,362	
Total intangible assets			$ 375,216	

	As of June 30, 2017			
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Weighted Average Remaining Life (in years)
Amortized intangible assets:				
Customer related	$ 190,965	$ (122,698)	$ 68,267	8.7
Core technology	130,572	(74,452)	56,120	8.8
Other intangible assets	20,591	(15,691)	4,900	6.6
Capitalized software development costs	16,304	(3,423)	12,881	5.0
Software [1]	54,489	(25,377)	29,112	3.5
Total	$ 412,921	$ (241,641)	$ 171,280	
Unamortized intangible assets:				
Goodwill			194,700	
Total intangible assets			$ 365,980	

(1) Software includes purchased software and software developed for internal use.

Estimated amortization expense for the remainder of fiscal year 2018 and subsequent fiscal years for acquired intangible assets, capitalized software development costs and software is as follows:

	Acquired Intangible Assets	Capitalized Software Development Costs (in thousands)	Software
Remaining 2018	$ 5,821	$ 738	$ 2,223
2019	20,708	2,955	7,992
2020	18,341	2,955	6,277
2021	16,569	2,955	4,002
2022	14,353	2,955	2,679
2023 and thereafter	51,340	97	3,562

Each period, for capitalized software development costs, we evaluate whether amortization expense using a ratio of revenue in the period to total expected revenue over the product s expected useful life would result in greater amortization than as calculated under a straight-line methodology and, if that were to occur, amortization in that period would be accelerated accordingly.

The following table represents a rollforward of our goodwill balances, by reportable segment, as follows:

	Cloud Solutions	Banking Solutions	Payments and Transactional Documents (in thousands)	Other	Total
Balance at June 30, 2017 [1]	$ 90,069	$ 35,880	$ 60,557	$ 8,194	$ 194,700
Goodwill acquired during the period	1,326		4,757		6,083
Impact of foreign currency translation	2,823		1,756		4,579
Balance at March 31, 2018[1]	$ 94,218	$ 35,880	$ 67,070	$ 8,194	$ 205,362

[1] Other goodwill balance is net of $7.5 million accumulated impairment losses.

There can be no assurance that there will not be impairment charges in future periods as a result of future impairment reviews. To the extent that future impairment charges occur it would likely have a material impact on our financial results.

Note 9 Commitments and Contingencies

Legal Matters

In May 2017, we received notification from a customer alleging a warranty claim associated with software we licensed to them in September 2013. Their claim seeks recovery of $1.269 million in software, professional services and support fees, inclusive of related sales tax. On September 22, 2017, the customer commenced arbitration proceedings in connection with the claim and an arbitration date has been set for May 2018. We believe the claim is without merit and intend to vigorously defend ourselves. At March 31, 2018 we had not accrued for any losses associated with this matter as we do not believe a loss is probable.

We are, from time to time, a party to legal proceedings and claims that arise out of the ordinary course of our business. We are not currently a party to any material legal proceedings.

During the three months ended March 31, 2018, we recorded restructuring expenses associated with a facility closure and severance related benefits of $1.5 million, primarily within our general and administrative and sales and marketing expense lines, which will be substantially paid by the end of fiscal year 2018. We also recorded accelerated stock compensation expense of $0.2 million, primarily within general and administrative expenses.

Note 10 Indebtedness

Credit Agreement

On December 9, 2016, we (as borrower) and certain of our existing and future domestic material restricted subsidiaries (the Guarantors) entered into a credit agreement (the Credit Agreement) with Bank of America, N.A. and certain other lenders (the Lenders) that provides for a five-year revolving credit facility in the amount of up to $300 million (the Credit Facility).

Under the Credit Agreement, we also have the right to request an increase of the aggregate commitments under the Credit Facility by up to $150 million without the consent of any Lenders not participating in such increase, subject to specified conditions.

The proceeds of the Credit Facility may be used for lawful corporate purposes of Bottomline and its subsidiaries, including acquisitions, share buybacks, capital expenditures, the repayment or refinancing of indebtedness and general corporate purposes. The Credit Facility is available for the issuance of up to $20 million of letters of credit and up to $20 million of swing line loans. The Credit Facility will terminate on December 8, 2021.

Loans outstanding under the Credit Facility will bear interest, at our option, at either (i) a Eurodollar rate plus a margin of between 1.50% and 2.25% based on the Consolidated Net Leverage Ratio (as defined in the Credit Agreement), or (ii) a base rate plus a margin of between 0.50% and 1.25% based on the Consolidated Net Leverage Ratio. Loans under the Credit Agreement may be prepaid at par and commitments under the Credit Agreement may be reduced at any time, in whole or in part, without premium or penalty (except for LIBOR breakage costs).

The Credit Facility is guaranteed by the Guarantors and is secured by substantially all of our domestic assets and those of the Guarantors, including a pledge of all of the shares of capital stock of the Guarantors and 65% of the shares of the capital stock of our first-tier foreign subsidiaries or those of any Guarantor, in each case subject to certain exceptions as set forth in the Credit Agreement. The collateral does not include, among other things, any real property or the capital stock or any assets of any unrestricted subsidiary.

The Credit Agreement contains customary representations, warranties and covenants, including, but not limited to, material adverse events, specified restrictions on indebtedness, liens, investments, acquisitions, sales of assets, dividends and other restricted payments, and transactions with affiliates. We are required to comply with (a) a maximum consolidated net leverage ratio of 3.75 to 1.00, stepping down to 3.50 to 1.00 for the quarter ending June 30, 2018; and (b) a minimum consolidated interest coverage ratio of 3.00 to 1.00.

The Credit Agreement also contains customary events of default and related cure provisions. In the case of a continuing event of default, the administrative agent would be entitled to exercise various remedies on behalf of the Lenders, including the acceleration of any outstanding loans.

During the three months ended December 31, 2017, we borrowed $150 million against the Credit Facility to finance the repayment of a portion of the principal balance of the 1.5% Convertible Senior Notes that matured on December 1, 2017 (the Notes).

As of March 31, 2018, we were in compliance with the covenants associated with the Credit Facility.

Convertible Senior Notes

On December 1, 2017, we repaid the aggregate principal balance of $189.8 million of the Notes. We borrowed $150 million under our Credit Facility and used $39.8 million of cash on hand to fund the settlement of the Notes.

The principal balance of the Notes was required to be settled in cash. However, we were permitted at our election to settle any conversion obligation in excess of the principal portion in cash, shares of our common stock, or a combination of cash and shares of our common stock. Upon the maturity of the Notes, we elected to settle the conversion premium with shares of our common stock and, accordingly, issued approximately 0.6 million shares with a fair value of $33.54 per share. The impact of the share issuance was recorded entirely within stockholder s equity in our consolidated balance sheet and we recorded no gain or loss on the settlement of the Notes.

The following table sets forth total interest expense related to the Notes:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
	(in thousands)			
Contractual interest expense (cash)	$	$ 711	$ 1,194	$ 2,135
Amortization of debt discount (non-cash)		3,188	5,574	9,396
Amortization of debt issue costs (non-cash)		296	494	888
	$	$ 4,195	$ 7,262	$ 12,419
Effective interest rate of the liability component	%	8.22%	8.45%	8.10%

Note Hedges

In December 2012, we entered into privately negotiated transactions to purchase hedge instruments (the Note Hedges), covering approximately 6.3 million shares of our common stock. The Note Hedges, subject to anti-dilution provisions substantially similar to those of the Notes, had a strike price that corresponds to the conversion price of the Notes, were exercisable by us upon any conversion under the Notes and expired on December 1, 2017. On December 1, 2017, in connection with the maturity of the Notes, we redeemed a portion of the Note Hedges and received from the Note Hedge counterparties approximately 0.6 million shares of our common stock with a fair value $33.54 per share. The impact of the share redemption was recorded as treasury stock in our consolidated balance sheet and we recorded no gain or loss on the redemption of these shares. The redemption of these shares offset the dilution that otherwise would have occurred as a result of the common stock we issued upon the settlement of the Notes.

Warrants

In December 2012, we received aggregate proceeds of $25.8 million, net of issue costs, from the sale of warrants (the Warrants), for the purchase of up to 6.3 million shares of our common stock, subject to antidilution adjustments, at a strike price of $40.04 per share. The Warrants are exercisable in equal tranches over a period of 150 days beginning on March 1, 2018 and ending on October 18, 2018.

The Warrants are transactions that are separate from the terms of the Notes and the Note Hedges, and holders of the Notes and Note Hedges have no rights with respect to the Warrants.

Note Payable

We financed a portion of the Decillion purchase price by entering into a note payable for 2.5 million Singapore Dollars (approximately $1.8 million based on the exchange rate in effect at the acquisition date). The note is payable in equal installments over ten quarters starting during the three months ended September 30, 2017. Please refer to *Note 4 Acquisitions and Other Investments* for additional discussion of our Decillion acquisition.

Note 11 Derivative Instruments

Note Hedges, Conversion Feature and Warrants

During the three months ended December 31, 2017, in connection with the maturity of the Notes, we settled the Note Hedges and Conversion Feature as discussed in *Note 10 Indebtedness*. The remaining derivative instruments related to the Notes at March 31, 2018 consist of the Warrants, also discussed in *Note 10 Indebtedness*. The Warrants continue to meet the classification requirements for inclusion within stockholders equity and as such they were not subject to fair value re-measurement. We are required to assess whether we continue to meet the stockholders equity classification requirements. If in any future period we failed to satisfy those requirements, we would be required to reclassify the derivative instruments out of stockholders equity, to either assets or liabilities depending on their nature, and record those instruments at fair value with changes in fair value reflected in earnings.

Cash Flow Hedges

Interest Rate Swap

On July 10, 2017, we entered into an interest rate swap to hedge our exposure to interest rate risk. The agreement has a notional value of $100.0 million, was effective as of December 1, 2017 and expires on December 1, 2021. The notional amount of the swap matches the corresponding principal amount of a portion of our borrowings under the Credit Agreement with the Lenders. During the term of the agreement, we have a fixed interest rate of 1.9275 percent on the notional amount and Citizens Bank, National Association, as counterparty to the agreement, will pay us interest at a floating rate based on the 1 month USD-LIBOR-BBA swap rate on the notional amount. Interest payments are made quarterly on a net settlement basis.

We designated the interest rate swap as a hedging instrument and it qualified for hedge accounting upon inception and at March 31, 2018. To continue to qualify for hedge accounting, the instrument must retain a highly effective ability to hedge interest rate risk for borrowings under the Credit Agreement. We are required to test hedge effectiveness at the end of each financial reporting period. If a derivative qualifies for hedge accounting, changes in fair value of the hedge instrument will be recognized in accumulated other comprehensive income (loss) (AOCI) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The reclassification into earnings will be recorded as a component of our interest expense within other expense, net. If the instrument were to lose some or all of its hedge effectiveness, changes in fair value for the ineffective portion of the instrument would be recorded immediately in earnings.

The fair values of the gross asset and gross liability of our interest rate swap and their respective locations in our consolidated balance sheet at March 31, 2018 were as follows:

Description	Balance Sheet Location	March 31, 2018 (in thousands)
Derivative interest rate swap		
Short-term derivative asset	Prepaid expenses and other current assets	$ 169
Long-term derivative asset	Other assets	$ 1,830

The following tables present the effect of the derivative interest rate swap in our consolidated statement of comprehensive income (loss) for the three and nine months ended March 31, 2018.

	Amount of Gain (Loss) Recognized in OCI on Derivative Instruments (Effective Portion) Three Months Ended March 31,		Amount of Gain (Loss) Reclassified from AOCI into Net Income (Loss) (Effective Portion) Three Months Ended March 31,	
	2018	**2017**	**2018**	**2017**
	(in thousands)			
Derivative interest rate swap	$ 1,300	$	$ (82)	$

	Amount of Gain (Loss) Recognized in OCI on Derivative Instruments (Effective Portion) Nine Months Ended March 31,		Amount of Gain (Loss) Reclassified from AOCI into Net Income (Loss) (Effective Portion) Nine Months Ended March 31,	
	2018	**2017**	**2018**	**2017**
	(in thousands)			
Derivative interest rate swap	$ 1,869	$	$ (130)	$

During the three and nine months ended March 31, 2018, we concluded that no portion of the hedge was ineffective.

As of March 31, 2018, there was $2.0 million of gross unrealized gain in accumulated other comprehensive loss. We expect to reclassify approximately $0.2 million of this unrealized gain from accumulated other comprehensive loss to earnings over the next twelve months.

Note 12 Postretirement and Other Employee Benefits

Defined Benefit Pension Plan

We sponsor a retirement plan for our Swiss-based employees that is governed by local regulatory requirements. This plan includes certain minimum benefit guarantees that, under U.S. GAAP, require defined benefit plan accounting.

Net periodic pension costs for the Swiss pension plan included the following components:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
	(in thousands)			
Components of net periodic cost				
Service cost	$ 650	$ 729	$ 1,914	$ 2,211
Interest cost				