BOTTOMLINE TECHNOLOGIES INC /DE/
Form 10-Q
November 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission file number: 0-25259

Bottomline Technologies (de), Inc.

(Exact name of registrant as specified in its charter)

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

(603) 436-0700

(Registrant s telephone number, including area code)

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

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

Large Accelerated Filer	¨	Accelerated Filer	x
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	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 x

The number of shares outstanding of the registrant s common stock as of October 31, 2011 was 36,024,277.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Balance Sheets

(in thousands)

	September 30, 2011	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 124,808	$ 111,953
Marketable securities	59	64
Accounts receivable, net of allowance for doubtful accounts of $452 at September 30, 2011 and $429 at June 30, 2011	38,722	41,535
Other current assets	18,942	15,308
Total current assets	182,531	168,860
Property, plant and equipment, net	17,050	16,098
Goodwill	96,083	98,524
Intangible assets, net	70,235	74,549
Other assets	3,407	5,303
Total assets	$ 369,306	$ 363,334
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 7,965	$ 8,971
Accrued expenses	15,364	18,706
Deferred revenue	38,879	40,510
Total current liabilities	62,208	68,187
Deferred revenue, non-current	4,003	5,438
Deferred income taxes	1,761	2,208
Other liabilities	1,766	1,827
Total liabilities	69,738	77,660
Stockholders equity:		
Preferred Stock, $.001 par value:		
Authorized shares 4,000; issued and outstanding shares none		
Common Stock, $.001 par value:		
Authorized shares 50,000; issued shares 35,884 at September 30, 2011, and 34,625 at June 30, 2011; outstanding shares 34,044 at September 30, 2011, and 32,744 at June 30, 2011	36	35
Additional paid-in capital	422,173	408,375
Accumulated other comprehensive loss	(6,628)	(4,524)
Treasury stock: 1,840 shares at September 30, 2011, and 1,881 shares at June 30, 2011, at cost	(20,321)	(20,779)
Accumulated deficit	(95,692)	(97,433)
Total stockholders equity	299,568	285,674

Total liabilities and stockholders equity	$ 369,306	$ 363,334

See accompanying notes.

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Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Revenues:		
Software licenses	$ 4,033	$ 3,461
Subscriptions and transactions	17,594	11,534
Service and maintenance	28,849	25,052
Equipment and supplies	2,000	1,991
Total revenues	52,476	42,038
Cost of revenues:		
Software licenses	435	215
Subscriptions and transactions	9,085	6,372
Service and maintenance	12,160	10,429
Equipment and supplies	1,571	1,520
Total cost of revenues	23,251	18,536
Gross profit	29,225	23,502
Operating expenses:		
Sales and marketing	11,242	8,553
Product development and engineering	5,932	5,012
General and administrative	4,933	4,735
Amortization of intangible assets	3,884	2,882
Total operating expenses	25,991	21,182
Income from operations	3,234	2,320
Other income (expense), net	(113)	282
Income before income taxes	3,121	2,602
Income tax provision (benefit)	1,380	(73)
Net income	$ 1,741	$ 2,675
Basic net income per share attributable to common stockholders:	$ 0.05	$ 0.09
Diluted net income per share attributable to common stockholders:	$ 0.05	$ 0.08
Shares used in computing basic net income per share attributable to common stockholders:	33,710	30,754
Shares used in computing diluted net income per share attributable to common stockholders:	34,841	31,984

See accompanying notes.

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Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended September 30, 2011	2010
Operating activities:		
Net income	$ 1,741	$ 2,675
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	3,884	2,882
Stock compensation expense	3,165	2,570
Depreciation and amortization of property, plant and equipment	1,374	1,248
Deferred income tax benefit	(269)	(815)
Provision for allowances on accounts receivable	50	
Provision for allowances for obsolescence of inventory		1
Excess tax benefits associated with stock compensation	(1,131)	(31)
Loss on disposal of equipment		23
Loss (gain) on foreign exchange	123	(35)
Changes in operating assets and liabilities:		
Accounts receivable	2,233	(190)
Inventory	6	(68)
Prepaid expenses and other current assets	174	(30)
Other assets	154	861
Accounts payable	(876)	(265)
Accrued expenses	(2,717)	525
Deferred revenue	(2,513)	(3,016)
Other liabilities	(10)	11
Net cash provided by operating activities	5,388	6,346
Investing activities:		
Purchases of held-to-maturity securities	(63)	(54)
Proceeds from sales of held-to-maturity securities	63	54
Purchases of property and equipment, net	(2,462)	(723)
Net cash used in investing activities	(2,462)	(723)
Financing activities:		
Proceeds from sale of common stock, net		4,865
Proceeds from exercise of warrants, net	8,452	
Proceeds from exercise of stock options and employee stock purchase plan	1,509	1,036
Excess tax benefits associated with stock compensation	1,131	31
Capital lease payments	(46)	(28)
Payment of bank financing fees		(3)
Net cash provided by financing activities	11,046	5,901
Effect of exchange rate changes on cash	(1,117)	2,032
Increase in cash and cash equivalents	12,855	13,556
Cash and cash equivalents at beginning of period	111,953	122,758
Cash and cash equivalents at end of period	$ 124,808	$ 136,314

See accompanying notes.

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Bottomline Technologies (de), Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three months ended September 30, 2011 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2012. For further information, refer to the financial statements and footnotes included in the Annual Report on Form 10-K for Bottomline Technologies (de), Inc. (the Company) as filed with the Securities and Exchange Commission (SEC) on September 9, 2011.

Note 2 Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued an accounting standards update regarding the presentation of comprehensive income in financial statements. The provisions of this standard provide an option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. We will be required to incorporate the provisions of this new standard effective with our first quarter filing for fiscal year 2013 and we have not yet determined which presentation methodology we will adopt.

Note 3 Fair Value

Fair Value 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 September 30, 2011 and June 30, 2011, our assets and liabilities measured at fair value on a recurring basis were as follows:

	September 30, 2011 Fair Value Measurements Using Input Types				June 30, 2011 Fair Value Measurements Using Input Types			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds (cash and cash equivalents)	$ 62,712	$	$	$ 62,712	$ 60,971	$	$	$ 60,971

Fair Value of Financial Instruments

We have certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable and accounts payable. Our marketable securities are classified as held to maturity and recorded at amortized cost which, at September 30, 2011 and June 30, 2011, approximated fair value. These investments all mature within one year. The fair value of our other financial instruments approximate their carrying values, due to the short-term nature of those instruments.

Note 4 Product and Business Acquisitions

Allegient

On April 1, 2011, we acquired LAS Holdings, Inc., a Delaware corporation doing business as Allegient Systems, Inc. (Allegient), a provider of advanced capabilities for legal e-billing, bill review and analytics. Allegient s proprietary Software as a Service (SaaS) platform and value-added turnkey solutions complement and extend our Legal eXchange® portfolio, offering the combined customer base of more than 100 leading insurers enhanced capabilities to effectively manage their legal expenses.

In the preliminary allocation of the purchase price, we recognized approximately $20.3 million of goodwill which arose due to the recognition of certain deferred tax liabilities in purchase accounting, anticipated acquisition synergies and due to the assembled workforce of Allegient. The goodwill is not deductible for income tax purposes. Identifiable intangible assets for Allegient, aggregating $39.7 million, are being amortized over a weighted average useful life of thirteen years. The acquired identifiable intangible assets include customer related assets, core technology, the Allegient tradename and below market lease agreements, and are being amortized over estimated useful lives of thirteen, twelve, one and six years, respectively. Allegient s operating results were included in our Outsourced Solutions segment from the date of the acquisition forward, and all of the Allegient goodwill was allocated to this segment.

Set forth below is the preliminary allocation of the Allegient purchase price at September 30, 2011.

Current assets	$ 6,942
Property and equipment	1,370
Other assets	2,617
Customer related intangible assets	30,553
Core technology	8,837
Other intangible assets	278
Goodwill	20,250
Current liabilities	(5,028)
Other liabilities	(16,167)
Total purchase price	$ 49,652

The purchase price for the Allegient acquisition was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition, with any remaining unallocated purchase price recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was estimated by performing projections of discounted cash flow, whereby revenues and costs associated with the assets are forecast to derive expected cash flow which is discounted to present value at discount rates commensurate with perceived risk. The valuation and projection process is inherently subjective and relies on significant unobservable inputs (Level 3 inputs). The valuation assumptions also take into consideration our estimates of contract renewal, technology attrition and revenue growth projections.

Allegient Pro forma information

The following unaudited pro forma financial information presents the combined results of operations of Bottomline and Allegient as if the acquisition had occurred on July 1, 2010. The pro forma financial information presented includes the accounting effects resulting from certain adjustments such as an increase in amortization expense as a result of acquired intangible assets, an increase in depreciation expense as a result of acquired property and equipment and a decrease in interest income as a result of the cash paid for the acquisition. This pro forma information does not necessarily reflect the results of operations that would have actually occurred had we and Allegient been a single entity during these periods.

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	Pro Forma (unaudited) Three months ended September 30, 2010	
Revenues	$	45,781
Net income	$	2,342
Net income per basic share attributable to common stockholders	$	0.08
Net income per diluted share attributable to common stockholders	$	0.07

Global Commission Payments

On February 24, 2010, we acquired certain customer contracts associated with Bank of America s Global Commission Payments business. The initial consideration paid by us was $1.0 million in cash. For acquired contracts that we successfully migrate to our Paymode-X® solution, additional consideration is due to Bank of America based on a trailing revenue multiple of the underlying customer. During the year ended June 30, 2011 we recognized, as an increase to the cost of the acquired contracts, additional consideration of $4.4 million which is payable no later than December 31, 2011. This amount represents our estimate of the additional consideration that will be due to Bank of America based on the ultimate customer migration to Paymode-X. The total acquisition cost of $5.4 million has been classified as a component of our customer related intangible assets and is being amortized over an estimated life of seven years. The final customer migration to Paymode-X is currently targeted for completion in the second half of fiscal year 2012.

Note 5 Net Income Per Share

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

	Three Months Ended September 30, 2011	2010
	(in thousands)	
Numerator:		
Net income allocable to common stockholders	$ 1,741	$ 2,675
Denominator:		
Shares used in computing basic net income per share attributable to common stockholders	33,710	30,754
Effect of dilutive securities	1,131	1,230
Shares used in computing diluted net income per share attributable to common stockholders	34,841	31,984
Basic net income per share attributable to common stockholders	$ 0.05	$ 0.09
Diluted net income per share attributable to common stockholders	$ 0.05	$ 0.08

The calculation of basic net income per share excludes any dilutive effects of stock options, unvested restricted stock and stock warrants.

For the three months ended September 30, 2011, all shares of unvested restricted stock and stock options were included in the calculation of diluted earnings per share. For the three months ended September 30, 2010, 45,000 shares 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 Comprehensive Income or Loss

Comprehensive income or loss represents our net income plus the results of certain stockholders equity changes not reflected in the unaudited condensed consolidated statements of operations. The components of comprehensive income or loss are as follows:

	Three Months Ended September 30,	
	2011	**2010**
	(in thousands)	
Net income	$ 1,741	$ 2,675
Other comprehensive income (loss):		
Foreign currency translation adjustments	(2,104)	3,396
Comprehensive income (loss)	$ (363)	$ 6,071

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Note 7 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.

As of July 1, 2011, we revised the methodology used for allocating general and administrative costs to our reportable segments. We also changed the classification of one customer from the Outsourced Solutions segment to the Banking 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 three reportable segments as follows:

Payments and Transactional Documents. Our Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also provides a range of standard professional services and equipment and supplies that complement and enhance our core software products. Revenue associated with this segment is typically recorded upon delivery or, if extended payment terms have been granted to the customer, as payments become contractually due. This segment incorporates our check printing solutions in Europe, revenue for which is typically recorded on a per transaction basis or ratably over the expected life of the customer relationship, as well as certain solutions that are licensed on a subscription basis, revenue for which is typically recorded ratably over the contractual term. This segment also incorporates our payments automation software for direct debit and receivables management for corporations, banks, financial institutions and government organizations, revenue for which is primarily recognized upon delivery.

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

Outsourced Solutions. The Outsourced Solutions segment provides customers with outsourced and hosted Software as a Service (SaaS) 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 budgeting, expense monitoring and outside counsel performance, are included within this segment. This segment also incorporates our hosted and outsourced payments and accounts payable automation solutions, including Paymode-X and SWIFT Access Service. Revenue within this segment is generally recognized on a subscription or transaction basis or proportionately over the estimated life of the customer relationship.

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 can include segment revenue and a segment measure of profit or loss. Each segment s measure of profit or loss is on a pre-tax basis and

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excludes stock compensation expense, acquisition-related expenses (including acquisition related contingent consideration), amortization of intangible assets, impairment losses on equity investments and restructuring related charges. There are no inter-segment sales; accordingly, the measure of segment revenue and profit or loss reflects only revenues from external customers. The costs of certain corporate level expenses, primarily general and administrative expenses, are allocated to our operating segments at predetermined rates that are established as a percentage of the segment s budgeted revenues.

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

Segment information for the three months ended September 30, 2011 and 2010 according to the segment descriptions above, is as follows:

	Three Months Ended September 30,	
	2011	2010
	(in thousands)	
Revenues:		
Payments and Transactional Documents	$ 24,751	$ 23,501
Banking Solutions	13,016	11,180
Outsourced Solutions	14,709	7,357
Total revenues	$ 52,476	$ 42,038
Segment measure of profit:		
Payments and Transactional Documents	$ 6,057	$ 5,395
Banking Solutions	2,610	2,809
Outsourced Solutions	1,767	9
Total measure of segment profit	$ 10,434	$ 8,213

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

	Three Months Ended September 30,	
	2011	2010
	(in thousands)	
Total measure of segment profit	$ 10,434	$ 8,213
Less:		
Amortization of intangible assets	(3,884)	(2,882)
Stock-based compensation expense	(3,165)	(2,570)
Acquisition related expenses	(124)	(441)
Restructuring expenses	(27)	
Add:		
Other income (loss), net	(113)	282
Income before income taxes	$ 3,121	$ 2,602

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

	Three Months Ended September 30, 2011	2010
	(in thousands)	
Depreciation expense:		
Payments and Transactional Documents	$ 384	$ 419
Banking Solutions	234	168
Outsourced Solutions	756	661
Total depreciation expense	$ 1,374	$ 1,248

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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 and Canada for which the point of sale was the United States.

	Three Months Ended September 30,	
	2011	2010
	(in thousands)	
Revenues from unaffiliated customers:		
United States	$ 35,594	$ 28,937
Europe	16,182	12,608
Asia-Pacific	700	493
Total revenues from unaffiliated customers	$ 52,476	$ 42,038

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

	September 30, 2011	June 30, 2011
	(in thousands)	
Long-lived assets, net		
United States	$ 15,056	$ 14,053
Europe	3,286	3,469
Asia-Pacific	146	167
Total long-lived assets, net	$ 18,488	$ 17,689

Note 8 Income Taxes

We recorded income tax expense of $1.4 million and an income tax benefit of $0.1 million for the three months ended September 30, 2011 and 2010, respectively. The income tax expense for the quarter ended September 30, 2011 was primarily attributable to our UK and US operations, which was offset in part by a tax benefit of $0.1 million resulting from the enactment of legislation during the quarter that decreased the statutory tax rates in the UK. This benefit is not expected to recur in subsequent quarters.

The income tax benefit for the quarter ended September 30, 2010 was substantially due to the impact of a discrete tax benefit of $0.9 million arising from the release of a portion of our valuation allowance that had previously been recorded against our UK deferred tax assets. The ability to release a portion of the UK valuation allowance was attributable to continued improvement in the UK operations including the attainment of three years of cumulative profitability on a pre-tax basis during the quarter ended September 30, 2010. The tax benefit was offset in part by tax expense attributable to our UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately $0.1 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

Note 9 Goodwill and Other Intangible Assets

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

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	As of September 30, 2011			
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Weighted Average Remaining Life (in years)
Amortized intangible assets:				
Customer related	$ 104,857	$ (50,829)	$ 54,028	11.1
Core technology	42,468	(28,470)	13,998	8.9
Other intangible assets	3,696	(1,487)	2,209	10.2
Total	$ 151,021	$ (80,786)	$ 70,235	
Unamortized intangible assets:				
Goodwill			96,083	
Total intangible assets			$ 166,318	

	As of June 30, 2011			
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Weighted Average Remaining Life (in years)
Amortized intangible assets:				
Customer related	$ 106,013	$ (48,495)	$ 57,518	11.1
Core technology	42,797	(28,084)	14,713	9.1
Other intangible assets	3,699	(1,381)	2,318	10.2
Total	$ 152,509	$ (77,960)	$ 74,549	
Unamortized intangible assets:				
Goodwill			98,524	
Total intangible assets			$ 173,073	

Estimated amortization expense for fiscal year 2012 and subsequent fiscal years is as follows:

	(in thousands)
2012	$ 13,861
2013	11,489
2014	8,516
2015	7,777
2016	6,638
2017 and thereafter	25,838

Note 10 Restructuring Costs

During fiscal 2011 we realigned our workforce and the workforce of certain of our fiscal 2011 acquisitions, and recorded pre-tax restructuring expenses of approximately $1.1 million.

A rollforward of the restructuring activity for the quarter ended September 30, 2011 is as follows:

		(in thousands)
Accrued severance benefits at June 30, 2011	$	134
Charged to general and administrative expense		27
Payments charged against the accrual		(149)
Accrued severance benefits at September 30, 2011	$	12

Note 11 Warrant Exercise

In July 2011, Bank of America exercised their warrant to purchase 1,000,000 shares of our common stock and, pursuant to that exercise, we received $8.5 million in cash. The warrant had been issued to Bank of America in connection with our September 2009 acquisition of PayMode and, as provided in the warrant agreement, Bank of America may not sell the shares issued to it upon exercise in an amount in excess of 200,000 shares per month.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Without limiting the foregoing, the words may, will, should, could, expects, plans, anticipates, believes, estimates, predicts, potential and similar expressions are intended to identify forward-looking statements. All forward-looking statements included in this Quarterly Report on Form 10-Q are based on information available to us up to, and including, the date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth below under Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 1A. Risk Factors and elsewhere in this Form 10-Q. You should carefully review those factors and also carefully review the risks outlined in other documents that we file from time to time with the Securities and Exchange Commission.

In the management discussion that follows we have highlighted those changes and operating factors that were the primary factors affecting period to period fluctuations. The remainder of the change in period to period fluctuations from that which is specifically disclosed is arising from various individually insignificant items.

Overview

We provide collaborative payment, invoice and document management solutions to corporations, insurance companies, healthcare organizations, financial institutions and banks around the world. Our solutions are used to streamline, automate and manage processes and transactions involving global payments, invoice receipt and approval, collections, cash management, risk mitigation, document management, reporting and document archive. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer s location. A growing portion of our offerings are being sold as SaaS-based solutions and paid for on a subscriptions and transactions basis. Historically, however, our software has been sold predominantly on a perpetual license basis.

Our corporate customers rely on our solutions to automate their payment and accounts payable processes and to streamline and manage the production and retention of electronic documents. We offer SaaS-based legal spend management solutions that automate receipt and review of legal invoices for insurance companies and other large corporate consumers of outside legal services. We also offer a SaaS-based offering that facilitates the exchange of electronic payments and invoices between buyers and their suppliers. Our offerings also include software solutions that banks use to provide Web-based payment and reporting capabilities to their corporate customers. Our document automation solutions are used by organizations to automate paper-intensive processes for the generation of transactional and supply chain documents.

Our solutions complement, leverage and extend our customers existing information systems, accounting applications and banking relationships and can be deployed quickly and efficiently. To help our customers receive the maximum value from our products and meet their specific business requirements, we also provide professional services for installation, training, consulting and product enhancement.

For the first three months of fiscal year 2012, our revenue increased to \$52.5 million from \$42.0 million in the same period of fiscal year 2011. This revenue increase was attributable to revenue increases of \$7.4 million in our Outsourced Solutions segment, \$1.8 million in our Banking Solutions segment and \$1.3 million in our Payments and Transactional Documents segment. The revenue contribution from our legal spend management solutions, our SWIFT Access Service solution and increased revenue from our Paymode-X® solution accounted for the majority of the revenue increase in our Outsourced Solutions segment. The Banking Solutions segment s increased revenue related to both new and ongoing projects. The increased revenue in our Payments and Transactional Documents segment was related to increased European revenue in our payment and document automation products principally due to increased revenue from our fiscal 2011 acquisition of Direct Debit Limited (DDL). These increases include a favorable effect of foreign exchange rates of \$0.6 million primarily associated with the British Pound Sterling, which appreciated against the US Dollar when compared to the same period in the prior fiscal year.

We had net income of \$1.7 million in the three months ended September 30, 2011 compared to net income of \$2.7 million in the three months ended September 30, 2010. The decrease in net income was due largely to \$1.4 million of income tax expense recognized in the three months ended September 30, 2011 as compared to an income tax benefit of \$0.1 million recognized in the three months ended September 30, 2010. Our gross margin increased \$5.7 million in the first three months of fiscal year 2012 related primarily to our increased revenue across all segments as compared to the same period in the prior year. The increased gross margin was partially offset by increased operating expense of \$4.8 million which was primarily due to increased employee related costs and increased intangible asset amortization expense related to our fiscal 2011 acquisitions as compared to the same period in the prior year.

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In the first three months of fiscal 2012, we derived approximately 38% of our revenue from customers located outside of North America, principally in the UK and Australia. We expect future revenue growth to be driven by increased purchases of our products, including legal spend management solutions, SWIFT Access Service solution, Paymode-X and our WebSeries® products, by new and existing bank and financial institution customers in both North America and international markets and from increased sales of our payments and transactional documents products.

Critical Accounting Policies

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

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended June 30, 2011 related to stock based compensation, revenue recognition, the valuation of goodwill and intangible assets and the valuation of acquired intangible assets and acquired deferred revenue. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed in our Annual Report on Form 10-K, as filed with the SEC on September 9, 2011. There have been no changes to our critical accounting policies during the three months ended September 30, 2011.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued an accounting standards update regarding the presentation of comprehensive income in financial statements. The provisions of this standard provide an option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. We will be required to incorporate the provisions of this new standard effective with our first quarter filing for fiscal year 2013 and we have not yet determined which presentation methodology we will adopt.

Results of Operations

Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010

Segment Information

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

As of July 1, 2011, we revised the methodology used for allocating general and administrative costs to our reportable segments. We also changed the classification of one customer from the Outsourced Solutions segment to the Banking segment. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

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

	Three Months Ended September 30,		Increase (Decrease) Between Periods 2011 Compared to 2010	
	2011	2010		
	(in thousands)		(in thousands)	%
Segment revenue:				
Payments and Transactional Documents	$ 24,751	$ 23,501	$ 1,250	5.3
Banking Solutions	13,016	11,180	1,836	16.4
Outsourced Solutions	14,709	7,357	7,352	99.9
	$ 52,476	$ 42,038	$ 10,438	24.8
Segment measure of profit:				
Payments and Transactional Documents	$ 6,057	$ 5,395	$ 662	12.3
Banking Solutions	2,610	2,809	(199)	(7.1)
Outsourced Solutions	1,767	9	1,758	19,533.3
Total measure of segment profit	$ 10,434	$ 8,213	$ 2,221	27.0

A reconciliation of the measure of segment profit to our GAAP income for the three months ended September 30, 2011 and 2010, before the provision for income taxes, is as follows:

	Three Months Ended September 30,	
	2011	2010
	(in thousands)	
Total measure of segment profit	$ 10,434	$ 8,213
Less:		
Amortization of intangible assets	(3,884)	(2,882)
Stock-based compensation expense	(3,165)	(2,570)
Acquisition related expenses	(124)	(441)
Restructuring expenses	(27)	
Add:		
Other income (loss), net	(113)	282
Income before income taxes	$ 3,121	$ 2,602

Payments and Transactional Documents. The revenue increase for the three months ended September 30, 2011 was primarily attributable to increases of $0.6 million in software license revenue and $0.7 million in subscriptions and transactions revenue, both of which were attributable to increased European revenue as a result of our fiscal 2011 acquisition of DDL. These increases include a favorable effect of foreign exchange rates of $0.5 million primarily associated with the British Pound Sterling which appreciated against the US Dollar when compared to the same period in the prior fiscal year. The segment profit increase of $0.7 million for the three months ended September 30, 2011 was primarily attributable to increased gross margins related to increased European revenue from our payment and document automation products, partially offset by increased sales and marketing expenses as compared to the three months ended September 30, 2010. The segment profit increase includes a favorable effect of foreign exchange rates of $0.1 million primarily associated with the British Pound Sterling. We expect revenue and profit for the Payments and Transactional Documents segment to increase during the remaining three quarters of fiscal 2012 as a result of increased sales of our payment and document automation solutions and improvements in gross margins.

Banking Solutions. Revenues from our Banking Solutions segment increased as compared to the same period in the prior fiscal year due to an increase in professional services revenue of $3.4 million associated with both new and ongoing banking projects, partially offset by a decrease in subscriptions and transactions revenue of $1.4 million. Segment profit decreased $0.2 million for the three months ended September 30, 2011 as compared to the same period in the prior fiscal year. Operating expenses increased by $1.0 million associated with increased sales and marketing and product development related costs. The increased sales and marketing costs were primarily related to increased headcount costs and increased trade show costs. The increased operating expenses were partially offset by improved gross margins of $0.8 million primarily

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associated with the increase in professional services revenue. We expect revenue and profit for the Banking Solutions segment to increase during the remainder of the fiscal year as a result of the contribution of revenue from ongoing projects and from additional purchases from new and existing bank and financial institution customers.

Outsourced Solutions. Revenues from our Outsourced Solutions segment increased as compared to the same period in the prior fiscal year due primarily to the revenue contribution from our legal spend management solutions of $4.6 million, our SWIFT Access Service solution of $1.8 million and our Paymode-X solution of $0.9 million. The legal spend management solutions revenue growth was driven principally by our April 2011 acquisition of Allegient and the SWIFT Access Service revenue growth was driven by our October 2010 acquisition of SMA Financial Ltd. (SMA). Segment profit increased $1.8 million as compared to the same period in the prior fiscal year due primarily to our increased profitability from our fiscal 2011 acquisitions and improved gross margins from our Paymode-X solution. We expect revenue and profit for the Outsourced Solutions segment to increase during the remainder of the fiscal year as a result of the revenue contribution from our legal spend management and Paymode-X solutions and from our SWIFT Access Service solution.

Revenues by category

	Three Months Ended September 30,				Increase Between Periods	
	2011		2010		2011 Compared to 2010	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Revenues:						
Software licenses	$ 4,033	7.7	$ 3,461	8.2	$ 572	16.5
Subscriptions and transactions	17,594	33.5	11,534	27.4	6,060	52.5
Service and maintenance	28,849	55.0	25,052	59.6	3,797	15.2
Equipment and supplies	2,000	3.8	1,991	4.8	9	0.5
Total revenues	$ 52,476	100.0	$ 42,038	100.0	$ 10,438	24.8

Software Licenses. The increase in software license revenues was due to an increase in European revenue of approximately $0.7 million in our Payments and Transactional Documents segment principally attributable to our February 2011 acquisition of DDL. We expect software license revenues to increase during the remainder of fiscal year 2012, principally as a result of increased software license revenue from our Payments and Transactional Documents and Banking Solutions segments.

Subscriptions and Transactions. The increase in subscriptions and transactions revenues was due principally to the revenue contribution from our legal spend management solutions of $4.5 million, SWIFT Access Service solution of $1.3 million, Paymode-X solution of $0.9 million and payments and document automation products of $0.7 million. The increases in legal spend management and SWIFT Access Service revenues were due to our fiscal 2011 acquisitions of Allegient and SMA, respectively. These revenue increases were partially offset by a decrease in revenue from our Banking Solutions segment of $1.4 million as compared to the same period in the prior fiscal year. We expect subscriptions and transactions revenues to increase during the remainder of the fiscal year, primarily as a result of the revenue contribution from our legal spend management, Paymode-X and SWIFT Access Service solutions.

Service and Maintenance. The increase in service and maintenance revenues was primarily the result of an increase in professional services revenues of $3.3 million associated with both new and ongoing banking projects and increased revenues from our SWIFT Access Service solution of $0.6 million, partially offset by a decrease in European service and maintenance revenue from our payment and document automation products of $0.2 million. The increased revenue includes a favorable effect of foreign exchange rates of $0.3 million primarily associated with the British Pound Sterling which appreciated against the US Dollar when compared to the same period in the prior fiscal year. We expect that service and maintenance revenues will increase during the remainder of the fiscal year as a result of new and existing projects within our Banking Solutions segment.

Equipment and Supplies. Equipment and supplies revenue remained relatively unchanged as compared to the same period in the prior fiscal year. We expect that equipment and supplies revenues will remain relatively consistent during the remainder of 2012.

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Cost of revenues by category

	Three Months Ended September 30,				Increase Between Periods 2011 Compared to 2010	
	2011		2010			
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Cost of revenues:						
Software licenses	$ 435	0.8	$ 215	0.5	$ 220	102.3
Subscriptions and transactions	9,085	17.3	6,372	15.2	2,713	42.6
Service and maintenance	12,160	23.2	10,429	24.8	1,731	16.6
Equipment and supplies	1,571	3.0	1,520	3.6	51	3.4
Total cost of revenues	$ 23,251	44.3	$ 18,536	44.1	$ 4,715	25.4
Gross profit	$ 29,225	55.7	$ 23,502	55.9	$ 5,723	24.4

Software Licenses. Software license costs consist of expenses incurred by us to manufacture, package and distribute our software products and related documentation and costs of licensing third party software that is incorporated into or sold with certain of our products. Software license costs increased to 11% of software license revenues in the three months ended September 30, 2011 as compared to 6% for the three months ended September 30, 2010. The increase in software license costs of $ $0.2 million was primarily due to the cost of third party software that accompanies certain of our European sales and increased third party costs related to new and ongoing banking projects. We expect that software license costs will remain relatively consistent, as a percentage of software license revenues, during the remainder of the fiscal year.

Subscriptions and Transactions. Subscriptions and transactions costs include salaries and other related costs for our professional services teams as well as costs related to our hosting infrastructure such as depreciation and facilities related expenses. Subscriptions and transactions costs decreased to 52% of subscriptions and transactions revenues in the three months ended September 30, 2011 as compared to 55% in the same period of 2010. The decrease in subscriptions and transactions costs as a percentage of revenue was due primarily to higher gross margins associated with our legal spend management solutions as a result of our April 2011 acquisition of Allegient and improved gross margins with our Paymode-X solution. We expect that subscriptions and transactions costs will decline slightly as a percentage of subscriptions and transactions revenue during the remainder of the fiscal year.

Service and Maintenance. Service and maintenance costs include salaries and other related costs for our customer service, maintenance and help desk support staffs, as well as third party contractor expenses used to complement our professional services team. Service and maintenance costs remained consistent at 42% of service and maintenance revenues in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. We expect that service and maintenance costs will remain relatively consistent, as a percentage of service and maintenance revenues, during the remainder of the fiscal year.

Equipment and Supplies. Equipment and supplies costs include the costs associated with equipment and supplies that we resell, as well as freight, shipping and postage costs associated with the delivery of our products. Equipment and supplies costs increased slightly to 79% of equipment and supplies revenues in the three months ended September 30, 2011 as compared to 76% for the three months ended September 30, 2010. The cost increase as a percentage of revenues is primarily related to a higher mix of lower margin transactions. We expect that equipment and supplies costs will remain relatively consistent as a percentage of equipment and supplies revenues for the remainder of the fiscal year.

Operating Expenses

Three Months Ended September 30,				Increase Between Periods 2011 Compared to 2010	
2011		2010			
(in thousands)	As % of total	(in thousands)	As % of total	(in thousands)	%

		revenues		revenues		
Operating expenses:						
Sales and marketing	$ 11,242	21.4	$ 8,553	20.3	$ 2,689	31.4
Product development and engineering	5,932	11.3	5,012	11.9	920	18.4
General and administrative	4,933	9.4	4,735	11.3	198	4.2
Amortization of intangible assets	3,884	7.4	2,882	6.9	1,002	34.8
Total operating expenses	$ 25,991	49.5	$ 21,182	50.4	$ 4,809	22.7

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Sales and Marketing. Sales and marketing expenses consist primarily of salaries and other related costs for sales and marketing personnel, sales commissions, travel, public relations and marketing materials and trade show participation. Sales and marketing expenses increased in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 as a result of an increase in employee related costs of $1.9 million and increased travel costs primarily due to the impact of our fiscal 2011 acquisitions and increased trade show costs. We expect that sales and marketing expenses will increase over the remainder of the fiscal year as we continue to focus on our marketing initiatives to support our new and existing products.

Product Development and Engineering. Product development and engineering expenses consist primarily of personnel costs to support product development which consists of enhancements and revisions to our products based on customer feedback and general marketplace demands. The increase in product development and engineering expenses in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 was primarily attributable to an increase in costs associated with contract employees of $0.9 million which augmented existing resources to drive increased product development and enhancement initiatives. We expect that product development and engineering expenses will increase during the remainder of the fiscal year as we continue to invest in solutions that we believe will drive future revenue growth, such as our Paymode-X, legal spend management and transaction banking offerings.

General and Administrative. General and administrative expenses consist primarily of salaries and other related costs for operations and finance employees and legal and accounting services. General and administrative expenses increased in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 primarily due to increases in employee related costs of $0.3 million and an increase in costs associated with contract employees of $0.1 million, partially offset by a reduction in acquisition related expenses of $0.3 million. We expect that general and administrative expenses will remain relatively consistent during the remainder of the fiscal year.

Amortization of Intangible Assets. We amortize our intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us. Accordingly, amortization expense rates are often higher in the earlier periods of an asset s estimated life. The increase in amortization expense in the quarter ended September 30, 2011 as compared to the quarter ended September 30, 2010 occurred as a result of increased expense from intangible assets associated with our fiscal 2011 acquisitions. We expect that total amortization expense for fiscal 2012 will approximate $13.9 million.

Other Income (Expense), Net

	Three Months Ended September 30,		Increase (Decrease) Between Periods	
	2011	2010	2011 Compared to 2010	
		(in thousands)		%
Interest income	$ 114	$ 117	$ (3)	(2.6)
Interest expense	(16)	(15)	(1)	(6.7)
Other income (expense), net	(211)	180	(391)	(217.2)
Other income (expense), net	$ (113)	$ 282	$ (395)	(140.1)

Other Income (Expense), Net. In the three months ended September 30, 2011 as compared to the three months ended September 30, 2010, interest income decreased slightly as a result of decreased cash balances. Interest expense remained insignificant during the three months ended September 30, 2011 and 2010. The decline in other income (expense) is the result of foreign exchange losses in the three months ended September 30, 2011 compared with foreign exchange gains in the three months ended September 30, 2010. We expect that the individual components of other income and expense will continue to represent minor components of our overall operations during the remainder of fiscal 2012.

Provision for Income Taxes

We recorded income tax expense of $1.4 million and an income tax benefit of $0.1 million for the three months ended September 30, 2011 and 2010, respectively. The income tax expense for the quarter ended September 30, 2011 was primarily attributable to our UK and US operations, which was offset in part by a tax benefit of $0.1 million resulting from the enactment of legislation during the quarter that decreased the statutory tax rates in the UK. This benefit is not expected to recur in subsequent quarters.

The income tax benefit for the quarter ended September 30, 2010 was substantially due to the impact of a discrete tax benefit of $0.9 million arising from the release of a portion of a valuation allowance that had previously been recorded against our UK deferred tax assets. Our ability to release a portion of the UK valuation allowance was attributable to continued improvement in our UK operations, including the attainment of three years of cumulative profitability on a pre-tax

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basis during the quarter ended September 30, 2010. The tax benefit was offset in part by tax expense attributable to our UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately $0.1 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

Liquidity and Capital Resources

We have financed our operations primarily from cash provided by operating activities and the sale of our common stock. We have generated positive operating cash flows in each of our last ten completed fiscal years. Other than for insignificant amounts due under capital lease obligations, we have no long-term debt. Accordingly, we believe that the cash generated from our operations and the cash and cash equivalents we have on hand will be sufficient to meet our operating requirements for the foreseeable future.

One of our goals is to maintain and improve our capital structure. The key metrics we focus on in assessing the strength of our liquidity and a summary of our cash activity for the three months ended September 30, 2011 and 2010 are summarized in the tables below:

	September 30, 2011	June 30, 2011
	(in thousands)	
Cash, cash equivalents and marketable securities	$ 124,867	$ 112,017
Long-term debt (capital leases)	$ 67	$ 96

	Three Months Ended September 30,	
	2011	2010
	(in thousands)	
Cash provided by operating activities	$ 5,388	$ 6,346
Cash used in investing activities	(2,462)	(723)
Cash provided by financing activities	11,046	5,901
Effect of exchange rates	(1,117)	2,032

Cash, cash equivalents and marketable securities. At September 30, 2011 our cash and cash equivalents consisted primarily of cash deposits held at major banks, money market funds and marketable securities. The increase in cash, cash equivalents and marketable securities at September 30, 2011 from June 30, 2011 was primarily due to $8.5 million of cash generated from the exercise of warrants in our common stock, $5.4 million of cash generated from operations and $1.5 million of cash generated from the exercise of stock options and the purchase of our stock by participants in our employee stock purchase plan. These increases were offset by the use of $2.5 million of cash to purchase property and equipment.

Cash, cash equivalents and marketable securities included $27.5 million held by our foreign subsidiaries as of September 30, 2011 that were denominated in currencies other than US Dollars. Accordingly, decreases in the foreign currency exchange rates of the British Pound, European Euro, and Australian Dollar to the US Dollar decreased our overall cash balances by approximately $1.1 million in the three months ended September 30, 2011. Further changes in the foreign currency exchange rates of these currencies could have a significant effect on our overall cash balances. However, we continue to believe that our existing cash balances, even in light of the foreign currency volatility we have recently experienced, are adequate to meet our operating requirements for the foreseeable future.

Operating Activities. Cash generated from operating activities primarily relates to our net income, less the impact of non-cash expenses and changes in working capital. Cash generated from operations decreased by $1.0 million during the three months ended September 30, 2011 as compared to the same period in the prior year. The decrease was primarily due to an increase in cash used for accrued expenses of $3.2 million offset in part by an increase in cash provided by accounts receivable of $2.4 million.

At September 30, 2011, a portion of the deferred tax assets associated with our US and European operations have been reserved since, given the available evidence, it was deemed more likely than not that these deferred tax assets would not be realized.

At September 30, 2011, we had US net operating loss carryforwards of $55.7 million, which expire at various times through the year 2031 and European net operating loss carryforwards of $9.3 million, which have no statutory expiration date. We also currently have approximately $2.6 million of research and development tax credit carryforwards available, which expire at various points through year 2032. Our operating losses and tax credit carryforwards may be subject to limitations under provisions of the Internal Revenue Code.

Investing Activities. The increase in net cash used in investing activities for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 was due to $2.5 million of cash used for the purchase of property and equipment in the three months ended September 30, 2011 as compared to $0.7 million in the same period in the prior year.

Financing Activities. The increase in cash inflows from financing activities relates primarily to the proceeds from the exercise of common stock warrants issued to Bank of America in connection with our acquisition of PayMode®. During fiscal 2011 we generated net proceeds of $4.9 million from the partial exercise of an over-allotment option from our June 2010 common stock offering.

Off-Balance Sheet Arrangements

During the three months ended September 30, 2011, we did not engage in material off-balance sheet activities, including the use of structured finance, special purpose or variable interest entities, material trading activities in non-exchange traded commodity contracts or transactions with persons or entities that benefit from their non-independent relationship with us.

Contractual Obligations

Following is a summary of future payments that we are required to make under existing contractual obligations as of September 30, 2011:

		Payments Due by Period *			
	Total	Less Than 1 Year	1-3 Years (in thousands)	4-5 Years	More Than 5 Years
Operating lease obligations	$ 17,919	$ 2,903	$ 7,949	$ 2,300	$ 4,767
Capital lease obligations	209	111	98		
Estimated acquisition contingent consideration (see Note 4)	4,400	4,400			
Other contractual obligations	1,134	521	613		
Total	$ 23,662	$ 7,935	$ 8,660	$ 2,300	$ 4,767

* Payment due dates are calculated from our most recent fiscal year end of June 30, 2011.

Purchase orders are not included in the table above. Our purchase orders represent authorizations to purchase rather than binding agreements. The contractual obligation amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum services to be used; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Obligations under contract that we can cancel without a significant penalty are not included in the table above. Also excluded from the table is our estimate of unrecognized tax benefits as of September 30, 2011 in the amount of $0.5 million. These amounts have been excluded because as of September 30, 2011 we are unable to estimate the timing of future cash outflows, if any, associated with these liabilities as we do not currently anticipate settling any of these tax positions with cash payment in the foreseeable future.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a variety of risks, including foreign currency exchange rate fluctuations and changes in the market value of our investments in marketable securities primarily due to changes in interest rates. We have not entered into any foreign currency hedging transactions or other instruments to minimize our exposure to foreign currency exchange rate fluctuations nor do we presently plan to in the future. Also, we have not entered into any interest rate swap agreements, or other instruments to minimize our exposure to interest rate fluctuations. There has been no material change to our exposure to market risk from that which was disclosed in our Annual Report on Form 10-K as filed with the SEC on September 9, 2011.

Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2011. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2011, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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

In July 2002, we and Optio joined in an omnibus motion to dismiss, which challenged the legal sufficiency of plaintiffs claims. The motion was filed on behalf of hundreds of issuer and individual defendants named in similar lawsuits. On February 19, 2003, the court issued an order denying the motion to dismiss as to Bottomline and denying in part the motion to dismiss as to Optio. In addition, in October 2002, Daniel M. McGurl, Robert A. Eberle, C. Wayne Cape and F. Barron Hughes were dismissed from this case without prejudice. Both Bottomline and Optio authorized the negotiation of a

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settlement of the pending claims, and the parties negotiated a settlement, which was subject to approval by the court. On August 31, 2005, the court issued an order preliminarily approving the settlement. On December 5, 2006, the United States Court of Appeals for the Second Circuit overturned the District Court s certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc with the Second Circuit on January 5, 2007 in response to the Second Circuit s decision. On April 6, 2007, plaintiffs Petition for Rehearing of the Second Circuit s decision was denied. On June 25, 2007, the District Court signed an order terminating the settlement. On September 27, 2007, plaintiffs filed a motion for class certification in certain designated focus cases in the District Court. That motion was withdrawn. Neither Bottomline nor Optio s cases are part of the designated focus case group. On November 13, 2007, the issuer defendants in the designated focus cases filed a motion to dismiss the second consolidated amended class action complaints that were filed in those cases. On March 26, 2008, the District Court issued an Opinion and Order denying, in large part, the motions to dismiss the amended complaints in these focus cases. On April 2, 2009, the plaintiffs filed a motion for preliminary approval of a new proposed settlement between plaintiffs, the underwriter defendants, the issuer defendants and the insurers for the issuer defendants. On June 10, 2009, the Court issued an opinion preliminarily approving the proposed settlement, and scheduling a settlement fairness hearing for September 10, 2009. On August 25, 2009, the plaintiffs filed a motion for final approval of the proposed settlement, approval of the plan of distribution of the settlement fund, and certification of the settlement classes. The settlement fairness hearing was held on September 10, 2009. On October 5, 2009, the Court issued an opinion granting plaintiffs motion for final approval of the settlement, approval of the plan of distribution of the settlement fund, and certification of the settlement classes. An order and final judgment was entered on November 25, 2009. Various notices of appeal of the Court s order have been filed. On October 7, 2010, all but two parties who had filed a notice of appeal filed a stipulation with the court withdrawing their appeals with prejudice, and the two remaining objectors filed briefs in support of their appeals. On December 8, 2010, the plaintiffs moved to dismiss with prejudice the appeal filed by one of the two objectors based on alleged violations of the Second Circuit s rules, including failure to serve, falsifying proofs of service, and failure to include citations to the record. On May 17, 2011, the Second Circuit dismissed one of the appeals and remanded the one remaining appeal to the District Court for further proceedings to determine whether the remaining objector has standing. On August 25, 2011, the District Court concluded that the remaining objector lacked standing. On September 23, 2011, the remaining objector filed a Notice of Appeal of the District Court s August 25, 2011 Order. That appeal remains pending.

We, and our subsidiary Optio, intend to vigorously defend ourselves in these actions. We do not currently believe that the outcome of these proceedings will have a material adverse impact on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

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

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

The risk factors below do not reflect material changes from the risk factors disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended June 30, 2011.

Continuing weakness or further deterioration in domestic and global economic conditions could have a significant adverse impact on our business, financial condition and operating results

Our business and operating results could be significantly affected by general economic conditions. The US and global economies have experienced a significant prolonged downturn and prospects for sustained economic recovery remain uncertain. Prolonged economic weakness or a further downturn in the US and global economies could result in a variety of risks to our business, including:

- increased volatility in our stock price;

- increased volatility in foreign currency exchange rates;

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

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

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- impairment of our goodwill or other assets.

To the extent that economic conditions remain uncertain or deteriorate further, or any of the above risks occur, our business and operating results could be significantly and adversely affected.

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

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

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

Our future financial results will be affected by our success in selling our products in a subscriptions and transactions or SaaS-based revenue model, which carries with it certain risks

A substantial portion of our revenues and profitability were historically generated from perpetual software license revenues. We are offering a growing number of our products under a subscriptions and transactions based revenue model. We believe this model has certain advantages over a perpetual license model, including better predictability of revenue; however, it also presents a number of risks to us, including the following:

- arrangements entered into on a subscriptions and transactions basis generally delay the timing of revenue recognition and often require the incurrence of up-front costs, which can be significant;

subscriptions and transactions based revenue arrangements often include specific performance requirements or service levels that we may be unable to consistently achieve, subjecting us to penalties or other costs. Further, a material breach by us, such as a persistent failure to achieve required service levels, might permit the customer to exit the contract prior to its expiration, without additional compensation to us;

customer retention is critical to our future growth rates. Customers in a subscriptions and transactions arrangement may elect not to renew their contractual arrangement with us upon expiration, or they may attempt to renegotiate pricing or other contractual terms at the point of (or prior to) renewal on terms that are less favorable to us; and

there is no assurance that the solutions we offer on a subscriptions and transactions basis, including new revenue models that we may introduce, will receive broad marketplace acceptance, in which case our financial results could be materially and adversely affected.

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Security breaches could have a significant adverse effect on our business

Our SaaS-based offerings receive, process, transmit and store highly sensitive customer information. Certain of our solutions also facilitate the transfer of cash. Unauthorized access to our systems, such as by outside hacking, could result in the theft, destruction or misappropriation of confidential information. Any such occurrence could have a long and significant impact on our business including damage to our reputation and financial liability to us, such as through the imposition of fines or monetary damages. Any such event would likely have a material adverse impact on our business and operating results.

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

Due to an increasing number of large and more complex customer contracts, particularly in our Banking Solutions segment, we have experienced, and will likely continue to experience, delays in the timing of our revenue recognition. These arrangements generally require significant implementation work, product customization and modification and systems integration and user acceptance testing. This results in the recognition of revenue over the period of project completion which normally spans several quarters. Delays in revenue recognition on these contracts, including delays that result from customer decisions to halt or slow down a long-term project due to their own staffing or other challenges, could adversely affect our operating results, financial condition and the market price of our common stock. Additionally, large bank and financial institution customer opportunities are very competitive and take significant time and effort to consummate. Accordingly, we could in the future face greater sales costs, longer sales cycles and less predictability with respect to these orders. If we are unable to continue to generate new large orders on a regular basis, our business operating results and financial condition could be adversely affected.

We continue to make significant investments in existing products and new product offerings which can adversely affect our operating results; these investments may not be successful

We operate in a highly competitive and rapidly evolving technology environment and believe that it is important to enhance our existing product offerings as well as to develop new product offerings to meet strategic opportunities as they evolve. Our operating results have recently been affected by increases in product development expenses as we have continued to make investments in our hosted, banking and accounts payable automation products, principally Paymode-X. We may at any time, based on product needs or marketplace demands, decide to significantly increase our product development expenditures. We expect to continue to make significant investments in our Paymode-X, legal spend management and transaction banking solutions during fiscal year 2012. Investments in existing products and new product offerings can have a negative impact on our operating results and any new product enhancement or offering may not be accepted in the marketplace or generate material revenues.

Acquisitions could disrupt our business and harm our financial condition

Part of our operating strategy is to identify and pursue strategic acquisitions that can expand our geographical footprint or complement our existing product functionality. During fiscal year 2011, we acquired Allegient, with operations in the United States and Canada, SMA and DDL, which are both UK-based businesses and substantially all of the assets of Business Information Technology Group (BITG), which has locations in Australia and New Zealand. We may in the future acquire or make investments in other businesses, products or technologies. Any acquisition or strategic investment we have made or may make in the future may entail numerous risks, including the following:

- difficulties integrating acquired operations, personnel, technologies or products;
- inability to retain key personnel of the acquired company;
- inadequacy of existing operating, financial and management information systems to support the combined organization or new operations;
- write-offs related to impairment of goodwill and other acquired assets;

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

diversion of management s focus from our core business concerns;

dilution to existing stockholders and our earnings per share;

incurrence of substantial debt;

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

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- failure to realize anticipated benefits of the transaction due to the above factors or other factors.

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

As a result of our acquisitions, we could be subject to significant future write-offs with respect to intangible assets, which may adversely affect our future operating results

We review our intangible assets periodically for impairment. At September 30, 2011, the carrying value of our goodwill and our other intangible assets was approximately $96.1 million and $70.2 million, respectively. While we reviewed our goodwill and our other intangible assets during the fourth quarter of fiscal year 2011 and concluded that there was no impairment, we could be subject to future impairment charges with respect to these intangible assets or intangible assets arising as a result of acquisitions in future periods. Any such charges, to the extent occurring, would likely have a material adverse effect on our operating results.

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

A significant percentage of our expenses, particularly personnel and facilities costs, are relatively fixed and based in part on anticipated revenue levels which can be difficult to predict. A decline in revenues without a corresponding and timely slowdown in expense growth could negatively affect our business. Significant revenue shortfalls in any quarter may cause significant declines in operating results since we may be unable to reduce spending in a timely manner.

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

- economic conditions, which may affect our customers and potential customers budgets for information technology expenditures;
- the timing of orders and longer sales cycles;
- the timing of product implementations, which are highly dependent on customers resources and discretion;
- the incurrence of costs relating to the integration of software products and operations in connection with acquisitions of technologies or businesses; and
- the timing and market acceptance of new products or product enhancements by either us or our competitors.

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

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

The gross margins for our products and services vary considerably. Our software revenues generally yield significantly higher gross margins than do our subscriptions and transactions, service and maintenance and equipment and supplies revenue streams. If software license revenues or recurring revenues were to significantly decline in any future period, or if the mix of our products and services in any given period did not match our expectations, our results of operations and the market price of our common stock could be significantly adversely affected.

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

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

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

import or export licensing requirements.

Our business and operating results are subject to fluctuations in foreign currency exchange rates

We conduct a substantial portion of our operations outside of the US, principally in Europe and the Asia-Pacific region. During the three months ended September 30, 2011, approximately 38% of our revenues and 31% of our operating expenses, respectively, were attributable to customers or operations located outside of North America. During the three months ended September 30, 2011 as compared to the same period in the prior year, the foreign currency exchange rates of the British Pound to the US Dollar increased slightly. We anticipate that foreign currency exchange rates may continue to fluctuate in the near term. Appreciation of the US Dollar against the British Pound, European Euro and Australian Dollar will have the impact of reducing both our revenues and operating expenses.

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

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

retaining and expanding our software maintenance and subscriptions and transactions customer bases, which are significant sources of our recurring revenue;

continued market acceptance of our payment and document management offerings;

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

acceptance of our solutions that are offered on a SaaS basis.

Because we recognize subscriptions and transactions revenue from our customers over the term of their agreements, downturns or upturns in sales of our subscriptions and transactions based offerings may not be immediately reflected in our operating results

We recognize subscriptions and transactions revenue over the terms of our customer agreements. As a result, most of our quarterly subscriptions and transactions revenue results from agreements entered into during previous quarters. Consequently, a shortfall in orders for our subscriptions and transactions based solutions in any quarter may not significantly reduce our subscriptions and transactions revenue for that quarter, but could negatively affect revenue in future quarters. In addition, we may be unable to quickly reduce our cost structure in response to a decrease in subscriptions and transactions orders. Accordingly, the effect of downturns in sales of our subscriptions and transactions based solutions may not be fully reflected in our results of operations until future periods. A subscriptions and transactions model also makes it difficult for us to rapidly increase our subscriptions and transactions revenue through additional sales in any one period, as revenue is generally recognized over the applicable subscription term.

We face significant competition in our targeted markets, including competition from companies with significantly greater resources, which may result in price reductions and decreased demand for our products

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

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

Our success depends upon the efforts and abilities of our executive officers and technical and sales employees who are skilled in e-commerce, payment methodology and regulation, and Web, database and network technologies. Our current key employees and potential employees whom we seek to hire in order to support our growth are in high demand within the marketplace and many competitors, customers and industry organizations are able to offer considerably higher compensation packages than we currently provide. The loss of one or more of our key employees or our failure to attract and retain sufficient qualified employees to grow our business could have a material adverse effect on our business. In addition, we do not maintain key man life insurance policies on any of our employees and our employees are generally free to terminate their employment with us at any time. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, operating results and financial condition.

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

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

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

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

We rely on certain third-party computer software, which may be difficult to replace or could cause errors or failures to our solutions

We rely on computer software licensed from third-parties in order to deliver certain of our solutions. This software may not continue to be available to us on commercially reasonable terms, or at all. The loss of the right to use any of this software could result in delays in our ability to provide our solutions until equivalent technology is either developed by us or acquired from another third-party, if available, which may not be possible on a cost effective basis. In addition, errors or defects in third-party software that is used in conjunction with our solutions could adversely affect the operation of our products.

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

Our software products and SaaS offerings facilitate the transmission of business documents and information including, in some cases, confidential data related to payments, invoices and cash management. Our Web-based software products and certain of our SaaS offerings transmit this data electronically, and we are therefore subject to laws, regulations and industry standards regarding security, data protection and electronic commerce. While we believe that we are in material compliance with applicable current regulatory requirements, there can be no assurance that future legal or regulatory actions will not impact us. To the extent that current or future regulatory or legal developments mandate a change in any of our products or services, require us to comply with any industry specific licensing or compliance requirements, alter the demand for or the competitive environment of our products and services or require us to make material changes to our internal operating, financial or management information systems, we might not be able to respond to such requirements in a timely or cost effective manner. If this were to occur, our business, operating results and financial condition could be materially adversely affected.

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

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

Catastrophic events may disrupt our business

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

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

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

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

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

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

Our products are used to facilitate the transmission of sensitive business documents and other confidential data related to payments, cash management and invoices. Further, some of our products facilitate the actual transfer of cash or transmit instructions that initiate cash transfer. Although we have not experienced any material warranty or product liability claims to date, a warranty or product liability claim, whether or not meritorious, could result in substantial costs and a diversion of management s attention and our resources, which could have an adverse effect on our business, operating results and financial condition.

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

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

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

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

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

- less efficient and less accurate communication and information flow as a consequence of time, distance and language barriers between our primary development organization and the off-shore resources, resulting in delays or deficiencies in development efforts;
- disruption due to political or military conflicts around the world;
- misappropriation of intellectual property from departing personnel, which we may not readily detect; and
- currency exchange rate fluctuations that could adversely impact the cost advantages intended from these agreements.

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

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

We are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware prohibiting, under some circumstances, publicly-held Delaware corporations from engaging in business combinations with some stockholders for a specified period of time without the approval of the holders of substantially all of our outstanding voting stock. Such provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial, in the short-term, to the interests of our stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation and bylaws contain provisions relating to the limitations of liability and indemnification of our directors and officers, dividing our board of directors into three classes of directors serving three-year terms and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders.

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

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

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

The following table provides information about purchases by us of our common stock during the three months ended September 30, 2011:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under The Plans or Programs [1]
July 1, 2011 July 31, 2011				$ 4,401,000
August 1, 2011 August 31, 2011				$ 4,401,000
September 1, 2011 September 30, 2011				$ 4,401,000
Total				$ 4,401,000

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

Item 6. Exhibits

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

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SIGNATURE

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

	Bottomline Technologies (de), Inc.
Date: November 8, 2011	By: /s/ KEVIN M. DONOVAN **Kevin M. Donovan** **Chief Financial Officer and Treasurer** **(Principal Financial and Accounting Officer)**

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EXHIBIT INDEX

Exhibit Number	Description
10.1	Fourth Amendment to Services Agreement dated September 15, 2011 between the Registrant and Bank of America, N.A.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Label Linkbase Document
101.PRE**	XBRL Taxonomy Presentation Linkbase Document

** submitted electronically herewith
Indicates confidential treatment requested as to certain portions, which portions were omitted and filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Request.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Statements of Operations for the three months ended September 30, 2011 and 2010, (ii) Unaudited Condensed Consolidated Balance Sheets as of September 30, 2011 and June 30, 2011, (iii) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2011 and 2010 and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.