

BOTTOMLINE TECHNOLOGIES INC /DE/

Form 10-Q

February 08, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number: 0-25259

Bottomline Technologies (de), Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

02-0433294
(I.R.S. Employer
Identification No.)

325 Corporate Drive

Portsmouth, New Hampshire
(Address of principal executive offices)
(603) 436-0700

03801-6808
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

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

The number of shares outstanding of the registrant's common stock as of January 31, 2017 was 40,559,177.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Bottomline Technologies (de), Inc.****Unaudited Condensed Consolidated Balance Sheets****(in thousands)**

	December 31, 2016	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 99,612	\$ 97,174
Marketable securities	15,609	35,209
Accounts receivable net of allowances for doubtful accounts of \$848 at December 31, 2016 and \$982 at June 30, 2016	58,032	61,773
Deferred tax assets		6,244
Prepaid expenses and other current assets	16,818	16,141
Total current assets	190,071	216,541
Property and equipment, net	53,665	51,029
Goodwill	188,983	202,028
Intangible assets, net	150,553	164,930
Other assets	18,207	16,682
Total assets	\$ 601,479	\$ 651,210
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,431	\$ 10,218
Accrued expenses	24,324	27,512
Deferred revenue	59,092	74,332
Convertible senior notes	176,657	
Total current liabilities	269,504	112,062
Convertible senior notes		169,857
Deferred revenue, non-current	21,197	19,086
Deferred income taxes	15,907	28,147
Other liabilities	26,612	27,271
Total liabilities	333,220	356,423
Stockholders' equity		
Preferred Stock, \$.001 par value:		
Authorized shares-4,000; issued and outstanding shares-none		

Common Stock, \$.001 par value:

Authorized shares-100,000; issued shares-42,238 at December 31, 2016 and 41,602 at June 30, 2016; outstanding shares-37,817 at December 31, 2016 and 37,770 at

June 30, 2016	42	42
Additional paid-in-capital	608,717	591,800
Accumulated other comprehensive loss	(46,608)	(37,668)
Treasury stock: 4,421 shares at December 31, 2016 and 3,832 shares at June 30, 2016, at cost	(89,483)	(75,832)
Accumulated deficit	(204,409)	(183,555)
Total stockholders' equity	268,259	294,787
Total liabilities and stockholders' equity	\$ 601,479	\$ 651,210

See accompanying notes.

Table of Contents**Bottomline Technologies (de), Inc.****Unaudited Condensed Consolidated Statements of Comprehensive Loss****(in thousands, except per share amounts)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Revenues:				
Subscriptions and transactions	\$ 55,644	\$ 48,632	\$ 107,776	\$ 94,829
Software licenses	3,492	5,862	5,613	9,977
Service and maintenance	25,920	29,913	53,593	60,697
Other	1,672	1,641	2,830	3,426
Total revenues	86,728	86,048	169,812	168,929
Cost of revenues:				
Subscriptions and transactions	24,782	21,373	48,668	42,107
Software licenses	196	288	324	576
Service and maintenance	13,416	13,291	26,701	26,269
Other	1,178	1,155	2,056	2,490
Total cost of revenues	39,572	36,107	77,749	71,442
Gross profit	47,156	49,941	92,063	97,487
Operating expenses:				
Sales and marketing	19,325	22,280	38,200	42,435
Product development and engineering	13,082	11,765	26,017	23,025
General and administrative	11,772	9,422	24,476	18,245
Amortization of intangible assets	6,090	7,215	12,375	14,494
Goodwill impairment charge	7,529		7,529	
Total operating expenses	57,798	50,682	108,597	98,199
Loss from operations	(10,642)	(741)	(16,534)	(712)
Other expense, net	(4,182)	(3,856)	(8,117)	(7,527)
Loss before income taxes	(14,824)	(4,597)	(24,651)	(8,239)
Income tax provision (benefit)	(4,478)	642	(3,797)	1,253
Net loss	\$ (10,346)	\$ (5,239)	\$ (20,854)	\$ (9,492)
Basic and diluted net loss per share:	\$ (0.27)	\$ (0.14)	\$ (0.55)	\$ (0.25)
Shares used in computing basic and diluted net loss per share:	37,769	37,774	37,854	37,889

Other comprehensive loss, net of tax:				
Unrealized loss on available for sale securities	(49)	(76)	(106)	(68)
Minimum pension liability adjustments	610	63	625	179
Foreign currency translation adjustments	(8,402)	(3,943)	(9,459)	(10,528)
Other comprehensive loss, net of tax:	(7,841)	(3,956)	(8,940)	(10,417)
Comprehensive loss	\$ (18,187)	\$ (9,195)	\$ (29,794)	\$ (19,909)

See accompanying notes.

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

	Six Months Ended December 31,	
	2016	2015
Operating activities:		
Net loss	\$ (20,854)	\$ (9,492)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of acquired intangible assets	12,375	14,494
Stock compensation expense	16,855	15,466
Depreciation and amortization	8,241	6,325
Goodwill impairment charge	7,529	
Deferred income tax benefit	(5,200)	(1,816)
Provision for allowances on accounts receivable	14	232
Excess tax benefits associated with stock compensation	(64)	(76)
Amortization of debt issuance costs	618	592
Amortization of debt discount	6,208	5,782
Amortization of premium on investments	148	143
(Gain) loss on disposal of equipment	36	(1)
Write down of fixed assets		17
(Gain) loss on foreign exchange	(122)	116
Changes in operating assets and liabilities:		
Accounts receivable	2,519	1,118
Prepaid expenses and other current assets	(956)	347
Other assets	520	(2,074)
Accounts payable	(209)	(877)
Accrued expenses	305	77
Deferred revenue	(11,155)	(3,146)
Other liabilities	706	50
Net cash provided by operating activities	17,514	27,277
Investing activities:		
Acquisition of businesses and assets, net of cash acquired		(1,263)
Purchases of cost-method investments		(3,510)
Purchases of held-to-maturity securities		(105)
Proceeds from sales of held-to-maturity securities		105
Purchase of available-for-sale securities	(8,833)	(7,500)
Proceeds from sales of available-for-sale securities	28,178	6,736
Capital expenditures, including capitalization of software costs	(15,345)	(12,791)
Proceeds from disposal of property and equipment		7
Net cash provided by (used in) investing activities	4,000	(18,321)

Financing activities:

Repurchase of common stock	(14,971)	(23,938)
Debt issuance costs related to credit facility	(2,137)	
Proceeds from exercise of stock options and employee stock purchase plan	1,412	1,691
Excess tax benefits associated with stock compensation	64	76
Net cash used in financing activities	(15,632)	(22,171)
Effect of exchange rate changes on cash	(3,444)	(1,929)
Increase (decrease) in cash and cash equivalents	2,438	(15,144)
Cash and cash equivalents at beginning of period	97,174	121,163
Cash and cash equivalents at end of period	\$ 99,612	\$ 106,019

See accompanying notes.

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Bottomline Technologies (de), Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

December 31, 2016

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Bottomline Technologies (de), Inc. (referred to below as we, us, our, or Bottomline) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three and six months ended December 31, 2016 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2017 (fiscal year 2017). For further information, refer to the financial statements and footnotes included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) on August 29, 2016.

Note 2 Recent Accounting Pronouncements

Recently Adopted Pronouncements

Development Stage Entities: In June 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update which eliminated the definition of a development stage entity and the financial reporting requirements specific to development stage entities. The update also eliminated an exception that previously existed in the consolidation accounting standard for determining whether a development stage entity had sufficient equity at risk and therefore was a variable interest entity (VIE). We adopted this standard effective July 1, 2016. Upon adoption, we were required to re-assess whether one of the entities in which we have an equity investment is a VIE. Based on that re-assessment, we concluded that this entity is a VIE, but that we are not the primary beneficiary, and therefore not required to consolidate the VIE. Accordingly, the adoption of this standard did not have a material impact on our financial statements.

Going Concern: In August 2014, the FASB issued an accounting standard update which requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. This standard is applicable for our annual reporting in fiscal year 2017 and interim periods beginning July 1, 2017. We do not expect this standard to have a material effect on our financial statements, however, we may be required to provide additional disclosures required by the standard.

Cloud Computing Arrangements: In April 2015, the FASB issued an accounting standard update which provides guidance as to whether a cloud computing arrangement (e.g., software as a service, platform as a service, infrastructure as a service, and other similar arrangements) includes a software license and, based on that determination, how to account for such arrangements. We adopted this standard effective July 1, 2016 on a prospective basis. The adoption of this standard did not have a material impact on our financial statements.

Debt Issuance Costs - Classification: In April 2015, the FASB issued an accounting standard update which requires that debt issuance costs be presented in the balance sheet as a direct reduction to the carrying value of the debt. We retrospectively adopted this standard effective July 1, 2016 and reclassified debt issuance costs from non-current assets to convertible senior notes in our consolidated balance sheets in all periods presented. Deferred debt issuance costs were approximately \$1.1 million at December 31, 2016 and \$1.7 million at June 30, 2016. Debt issuance costs related to our credit facility are classified as other assets in our consolidated balance sheets for all periods presented.

Deferred Taxes - Classification: In November 2015, the FASB issued an accounting standard update which requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent in the balance sheet. As a result, each separate tax jurisdiction will have one net tax position, either a noncurrent deferred tax asset or a noncurrent deferred tax liability. The standard is effective for us on July 1, 2017, with early adoption permitted. We elected to adopt this standard as of July 1, 2016 on a prospective basis. If we had adopted the standard retrospectively, the impact would have resulted in a \$6.2 million reduction to current deferred tax assets and noncurrent deferred tax liabilities in our June 30, 2016 balance sheet. The adoption of this standard did not have an impact on our statements of comprehensive loss or cash flows.

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Accounting Pronouncements to be Adopted

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

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

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

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

However, we are unable to quantify the impact of these outcomes at this time, nor can we ensure that our continuing analysis and interpretation of the standard will result in these financial reporting outcomes.

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

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

Share-Based Compensation: In March 2016, the FASB issued an accounting standard update intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact of excess tax benefits and tax deficiencies, accounting for forfeitures, statutory tax withholding requirements and the presentation of excess tax benefits in the

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statement of cash flows. This standard is effective for us on July 1, 2017 (the first quarter of our fiscal year ending June 30, 2018) with early adoption permitted. We currently have significant excess tax benefits that have not been reflected as a component of our deferred tax assets since, under current accounting standards, these amounts are recognized only when they provide an actual reduction to currently payable income taxes. Under the new standard, we will be required to recognize excess tax benefits as a component of our deferred tax assets, subject to an assessment of whether such amounts are recoverable (a valuation allowance would be established against amounts assessed as non-recoverable). We are continuing to evaluate the impact of this standard on our financial statements.

Financial Instruments - Credit Losses: In June 2016, the FASB issued an accounting standard update that introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments including trade receivables. The estimate of expected credit losses will require entities to incorporate historical information, current information and reasonable and supportable forecasts. This standard also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating expected credit losses. This standard is effective for us on July 1, 2020 (the first quarter of our fiscal year ending June 30, 2021) with early application permitted. We are currently evaluating the anticipated impact of this standard on our financial statements.

Statement of Cash Flows: In August and November of 2016, the FASB issued updates to the accounting standard which addresses the classification and presentation of certain cash receipts, cash payments and restricted cash in the statement of cash flows. The standard is effective for us on July 1, 2018 (the first quarter of our fiscal year ending June 30, 2019) and requires a retrospective approach. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the anticipated impact of this standard on our financial statements.

Income Taxes: In October 2016, the FASB issued an accounting standard update that requires entities to recognize the income tax effect on intra-entity transfers of non-inventory items when the transfer occurs. The standard is effective for us on July 1, 2018 (the first quarter of our fiscal year ending June 30, 2019), with early adoption permitted; adoption is on a modified retrospective basis. We do not currently believe that the adoption of this standard will have a material impact on our financial statements.

Consolidation: In October 2016, the FASB issued an accounting standard update to remove the requirement that a single decision maker consider, in its assessment of primary beneficiary, its indirect interest held through related parties under common control to be the equivalent of a direct interest in the VIE. Instead, indirect interest held through related parties under common control will be included in the primary beneficiary assessment based on proportionate basis, consistent with the indirect interest held through other parties. The standard is effective for us on July 1, 2017 (the first quarter of our fiscal year ending June 30, 2018), with early application permitted. We do not currently believe that the adoption of this standard will have a material impact on our financial statements.

Business Combinations: In January 2017, the FASB issued an accounting standard update to clarify the definition of a business and to provide guidance on determining whether an integrated set of assets and activities constitutes a business. The standard is effective for us July 1, 2018 (the first quarter of our fiscal year ending June 30, 2019), on a prospective basis. We do not currently believe that the adoption of this standard will have a material impact on our financial statements.

Goodwill Impairment: In January 2017, the FASB issued an accounting standard update to simplify the test for goodwill impairment which removes step 2 from the goodwill impairment test. Under the revised standard, an entity will perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carry amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The loss should not exceed the total amount of goodwill allocated to the reporting unit. The standard

is effective for us on July 1, 2020 (the first quarter of our fiscal year ending June 30, 2021) on a prospective basis, with early adoption permitted for periods beginning on or after January 1, 2017. We are currently evaluating the anticipated impact of this standard on our financial statements and the timing of adoption.

Note 3 Fair Value

Fair Values of Assets and Liabilities

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

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

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

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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 December 31, 2016 and June 30, 2016, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	December 31, 2016				June 30, 2016			
	Fair Value Measurements Using Input				Fair Value Measurements Using Input			
	Types				Types			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money market funds (cash and cash equivalents)	\$ 1,858	\$	\$	\$ 1,858	\$ 117	\$	\$	\$ 117
Available for sale securities								
Debt								
US Corporate	\$ 5,580	\$	\$	\$ 5,580	\$ 9,580	\$	\$	\$ 9,580
Residential mortgage-backed	4,730			4,730	9,604			9,604
Government - US	5,237			5,237	15,962			15,962
Total available for sale securities	\$ 15,547	\$	\$	\$ 15,547	\$ 35,146	\$	\$	\$ 35,146

Fair Value of Financial Instruments

We have certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and our 1.5% Convertible Senior Notes maturing on December 1, 2017 (the Notes) as more fully described in Note 10 Indebtedness. Fair value information for each of these instruments is as follows:

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

Marketable securities classified as held to maturity are recorded at amortized cost, which at December 31, 2016 and June 30, 2016, approximated fair value.

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

The carrying value of assets related to deposits we have made to fund future requirements associated with Israeli severance arrangements was \$1.4 million at both December 31, 2016 and June 30, 2016, which approximated their fair value.

We have certain other investments accounted for at cost. The carrying value of these investments was \$7.7 million at both December 31, 2016 and June 30, 2016 and they are reported as a component of our other assets. These investments are recorded at cost, less any write-downs for other-than-temporary impairment charges. To determine the fair value of these investments, we use all available financial information including information based on recent or pending third-party equity investments in these entities. In certain instances, a cost method investment's fair value may not be estimated if there are no identified events or changes in circumstances that would indicate a significant adverse effect on the fair value of the investment and to do so would be impractical.

The Notes were recorded at \$133.3 million upon issuance, which reflected their principal value less the fair value of the embedded conversion option (Conversion Feature). The carrying value (net of debt issuance costs) of the Notes, \$176.7 million at December 31, 2016, will be accreted over the remaining term to maturity to their principal value of \$189.8 million. The fair value of the Notes (inclusive of the Conversion Feature) was approximately \$197.0 million as of December 31, 2016. We estimated the fair value of the Notes by reference to quoted market prices; however, the Notes have only a limited trading volume and as such this fair value estimate is not necessarily the value at which the Notes could be retired or transferred.

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The table below presents information regarding our marketable securities by major security type as of December 31, 2016 and June 30, 2016.

	December 31, 2016			June 30, 2016		
	Held to Maturity	Available for Sale	Total (in thousands)	Held to Maturity	Available for Sale	Total
Marketable securities:						
Corporate and other debt securities	\$ 62	\$ 15,547	\$ 15,609	\$ 63	\$ 35,146	\$ 35,209
Total marketable securities	\$ 62	\$ 15,547	\$ 15,609	\$ 63	\$ 35,146	\$ 35,209

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

	December 31, 2016 (in thousands)
Due within 1 year	\$ 9,420
Due in 1 year through 5 years	6,127
Total	\$ 15,547

All of our available for sale marketable securities are included in current assets as we do not have the positive intent to hold these investments until maturity and view these investments as available to fund current operations. At December 31, 2016, the difference between the fair value of our available for sale securities and their amortized cost was not significant.

The following table presents the aggregate fair values and gross unrealized losses for those available for sale investments that were in an unrealized loss position as of December 31, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	At December 31, 2016 Less than 12 Months	
	Fair Value	Unrealized Loss
	(in thousands)	
US Corporate	\$ 3,751	\$ (7)
Residential mortgage-backed	4,230	(14)
Government US	4,235	(17)

Total	\$ 12,216	\$	(38)
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Note 4 Other Investments

In December 2015, we made a \$3.5 million investment in preferred stock of a privately held, early-stage technology company. We have the ability to exercise significant influence over this company; however, we have no ability to exert control. Investments in common stock or in-substance common stock, through which an investor has the ability to exercise significant influence over the operating or financial policies of the investee, are accounted for under the equity method of accounting. In-substance common stock is an investment that has risk and reward characteristics that are substantially similar to an entity's common stock. The preferred stock underlying our investment is not in-substance common stock as its terms include a substantive liquidation preference not available to common stockholders. Accordingly, we accounted for our investment under the cost method of accounting, subject to periodic review for impairment. Impairment losses, to the extent occurring, would be recorded as an operating expense in the period incurred. Our maximum investment exposure, which is determined based on the cost of our investment, is \$3.5 million as of December 31, 2016. There were no indicators of impairment identified as of December 31, 2016.

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

Note 5 Net Loss Per Share

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

	Three Months Ended December 31, 2016 2015		Six Months Ended December 31, 2016 2015	
	(in thousands, except per share amounts)			
Numerator - basic and diluted:				
Net loss	\$ (10,346)	\$ (5,239)	\$ (20,854)	\$ (9,492)
Denominator:				
Shares used in computing basic and diluted net loss per share attributable to common stockholders	37,769	37,774	37,854	37,889
Basic and diluted net loss per share attributable to common stockholders	\$ (0.27)	\$ (0.14)	\$ (0.55)	\$ (0.25)

For the three and six months ended December 31, 2016, approximately 3.0 million and 3.1 million shares of unvested restricted stock and stock options, respectively, were excluded from the calculation of diluted earnings per share as their effect on the calculation would have been anti-dilutive.

For both the three and six months ended December 31, 2015, approximately 3.2 million 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.

As more fully discussed in Note 10 Indebtedness, in December 2012 we issued the Notes maturing in December 2017. We intend, upon conversion or maturity of the Notes, to satisfy any conversion premium by issuing shares of our common stock. We have also issued warrants for up to 6.3 million shares of our common stock at an exercise price of \$40.04 per share. For the three and six months ended December 31, 2016, shares potentially issuable upon conversion or maturity of the Notes or upon exercise of the warrants were excluded from our earnings per share calculations as their effect would have been anti-dilutive.

Note 6 Operations by Segments and Geographic Areas*Segment Information*

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

principally by the type of product or service offered and by geography.

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

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

Payments and Transactional Documents. Our Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also incorporates our payments automation software for direct debit and receivables management and provides a range of standard professional services and equipment and

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supplies that complement and enhance our core software products. Revenue associated with the aforementioned products and services is typically recorded upon delivery. This segment also incorporates certain other solutions that are licensed on a subscription basis, revenue for which is typically recorded on a subscription or transaction basis, or ratably over the expected life of the customer relationship.

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

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

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

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

Our chief operating decision maker assesses segment performance based on a variety of factors that normally include segment revenue and a segment measure of profit or loss. Each segment's measure of profit or loss is on a pre-tax basis and excludes stock compensation expense, acquisition and integration related expenses (including acquisition related contingent consideration), amortization of acquired intangible assets, impairment of goodwill, restructuring related charges, minimum pension liability adjustments, non-core charges related to our convertible notes, global enterprise resource planning (ERP) system implementation costs, charges related to reserves established or released against our deferred tax assets and other non-core or non-recurring gains and losses that arise from time to time. There are no inter-segment sales; accordingly, the measure of segment revenue and profit or loss reflects only revenues from external customers. The costs of certain corporate level expenses, primarily general and administrative expenses, are allocated to our operating segments based on a percentage of the segment's revenues.

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

Segment information for the three and six months ended December 31, 2016 and 2015 according to the segment descriptions above, is as follows:

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	Three Months Ended December 31, 2016		Six Months Ended December 31, 2016	
	2015	2015	2016	2015
	(in thousands)			
Segment revenue:				
Payments and Transactional Documents	\$ 24,815	\$ 28,970	\$ 49,661	\$ 56,386
Hosted Solutions	38,032	34,887	73,589	68,757
Digital Banking	19,464	16,943	37,650	34,274
Other	4,417	5,248	8,912	9,512
Total segment revenue	\$ 86,728	\$ 86,048	\$ 169,812	\$ 168,929
Segment measure of profit (loss):				
Payments and Transactional Documents	\$ 7,617	\$ 8,362	\$ 15,193	\$ 16,152
Hosted Solutions	6,778	6,282	12,231	12,856
Digital Banking	1,043	1,255	1,068	3,118
Other	(913)	26	(1,358)	(882)
Total measure of segment profit	\$ 14,525	\$ 15,925	\$ 27,134	\$ 31,244

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

	Three Months Ended December 31, 2016		Six Months Ended December 31, 2016	
	2015	2015	2016	2015
	(in thousands)			
Total measure of segment profit	\$ 14,525	\$ 15,925	\$ 27,134	\$ 31,244
Less:				
Amortization of acquired intangible assets	(6,090)	(7,215)	(12,375)	(14,494)
Goodwill impairment charge	(7,529)		(7,529)	
Stock-based compensation expense	(8,656)	(7,878)	(16,855)	(15,466)
Acquisition and integration related expenses	(522)	(159)	(1,771)	(269)
Restructuring expenses		(854)		(874)
Minimum pension liability and related adjustments	(264)	(38)	(541)	(74)
Global ERP system implementation costs	(2,106)	(522)	(4,597)	(779)
Other expense, net	(4,182)	(3,856)	(8,117)	(7,527)
Loss before income taxes	\$ (14,824)	\$ (4,597)	\$ (24,651)	\$ (8,239)

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
	(in thousands)			
Depreciation and other amortization expense:				
Payments and Transactional Documents	\$ 749	\$ 715	\$ 1,554	\$ 1,407
Hosted Solutions	1,860	1,465	3,700	2,889
Digital Banking	1,436	947	2,806	1,805
Other	109	121	181	224
Total depreciation and other amortization expense	\$ 4,154	\$ 3,248	\$ 8,241	\$ 6,325

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
	(in thousands)			
North America	\$ 56,190	\$ 49,366	\$ 106,712	\$ 97,962
United Kingdom	19,313	24,802	40,144	47,634
Continental Europe	9,182	9,683	18,534	19,135
Asia-Pacific and Middle East	2,043	2,197	4,422	4,198