

BOTTOMLINE TECHNOLOGIES INC /DE/

Form 10-Q

November 12, 2013

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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 September 30, 2013**

**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  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 October 31, 2013 was 38,588,779.

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

	<b>September 30, 2013</b>	<b>June 30, 2013</b>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 173,588	\$ 283,552
Marketable securities	22,592	9,525
Accounts receivable, net of allowance for doubtful accounts of \$764 at September 30, 2013 and \$769 at June 30, 2013	49,936	44,430
Deferred tax assets	8,288	6,764
Prepaid expenses and other current assets	11,638	8,479
Total current assets	266,042	352,750
Property and equipment, net	28,509	23,631
Goodwill	169,591	109,196
Intangible assets, net	164,593	82,872
Other assets	13,821	17,073
Total assets	\$ 642,556	\$ 585,522
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 12,625	\$ 8,933
Accrued expenses	24,845	16,070
Deferred revenue	51,139	47,184
Total current liabilities	88,609	72,187
Convertible senior notes	141,067	138,582
Deferred revenue, non-current	9,111	9,104
Deferred income taxes	22,532	5,457
Other liabilities	13,869	3,443
Total liabilities	275,188	228,773
Stockholders equity:		
Preferred Stock, \$.001 par value:		

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Authorized shares	4,000; issued and outstanding shares	none	
Common Stock, \$.001 par value:			
Authorized shares	100,000; issued shares	38,231 at September 30, 2013, and 37,903 at June 30, 2013; outstanding shares	36,434 at September 30, 2013, and 36,045 at June 30, 2013
			38 38
Additional paid-in capital			505,206 499,182
Accumulated other comprehensive loss			(537) (10,460)
Treasury stock: 1,797 shares at September 30, 2013, and 1,858 shares at June 30, 2013, at cost			(21,168) (21,888)
Accumulated deficit			(116,171) (110,123)
Total stockholders' equity			367,368 356,749
Total liabilities and stockholders' equity			\$ 642,556 \$ 585,522

See accompanying notes.

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

	<b>Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>		
Subscriptions and transactions	\$ 31,549	\$ 28,547
Software licenses	4,738	4,699
Service and maintenance	29,322	26,455
Other	1,640	1,988
<b>Total revenues</b>	<b>67,249</b>	<b>61,689</b>
<b>Cost of revenues:</b>		
Subscriptions and transactions	15,344	13,986
Software licenses	366	409
Service and maintenance	12,519	12,294
Other	1,226	1,522
<b>Total cost of revenues</b>	<b>29,455</b>	<b>28,211</b>
<b>Gross profit</b>	<b>37,794</b>	<b>33,478</b>
<b>Operating expenses:</b>		
Sales and marketing	16,242	14,473
Product development and engineering	8,407	8,306
General and administrative	8,486	6,561
Amortization of intangible assets	5,705	4,312
<b>Total operating expenses</b>	<b>38,840</b>	<b>33,652</b>
<b>Loss from operations</b>	<b>(1,046)</b>	<b>(174)</b>
<b>Other income (expense), net</b>	<b>(4,040)</b>	<b>46</b>
<b>Loss before income taxes</b>	<b>(5,086)</b>	<b>(128)</b>
<b>Income tax provision (benefit)</b>	<b>962</b>	<b>(146)</b>
<b>Net (loss) income</b>	<b>\$ (6,048)</b>	<b>\$ 18</b>
<b>Basic net (loss) income per share attributable to common stockholders:</b>	<b>\$ (0.17)</b>	<b>\$ 0.00</b>
<b>Diluted net (loss) income per share attributable to common stockholders:</b>	<b>\$ (0.17)</b>	<b>\$ 0.00</b>

Shares used in computing basic net (loss) income per share attributable to common stockholders:	36,214	34,909
Shares used in computing diluted net (loss) income per share attributable to common stockholders:	36,214	35,626
Other comprehensive income, net of tax:		
Unrealized gain on available for sale securities, net of tax	17	
Foreign currency translation adjustments	9,906	2,393
Other comprehensive income, net of tax	9,923	2,393
Comprehensive income	\$ 3,875	\$ 2,411

See accompanying notes.

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

	<b>Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
Operating activities:		
Net income	\$ (6,048)	\$ 18
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	5,705	4,312
Stock compensation expense	5,032	4,207
Depreciation and amortization of property and equipment	1,832	1,713
Deferred income tax benefit	(544)	(1,105)
Provision for allowances on accounts receivable	47	75
Provision for allowances for obsolescence of inventory	7	(1)
Excess tax benefits associated with stock compensation	(116)	(82)
Amortization of debt issuance costs	296	
Amortization of debt discount	2,486	
Amortization of premium on investments	92	
Loss on disposal of equipment	1	2
(Gain) loss on foreign exchange	(35)	12
Changes in operating assets and liabilities:		
Accounts receivable	2,903	1,770
Inventory	748	40
Prepaid expenses and other current assets	(1,181)	(208)
Other assets	(342)	122
Accounts payable	775	(295)
Accrued expenses	(1,847)	(2,035)
Deferred revenue	(1,639)	1,422
Other liabilities	369	72
Net cash provided by operating activities	8,541	10,039
Investing activities:		
Acquisition of business, net of cash acquired	(108,918)	(28,253)
Purchases of held-to-maturity securities	(55)	(62)
Proceeds from sales of held-to-maturity securities	55	62
Purchase of available-for-sale securities	(13,629)	
Proceeds from sales of available-for-sale securities	500	
Proceeds from sale of property and equipment	28	
Purchases of property and equipment, net	(3,346)	(1,782)
Net cash used in investing activities	(125,365)	(30,035)
Financing activities:		



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Proceeds from exercise of stock options and employee stock purchase plan	1,596	1,623
Excess tax benefits associated with stock compensation	116	82
Capital lease payments		(28)
Repurchase of common stock		(933)
Net cash provided by financing activities	1,712	744
Effect of exchange rate changes on cash	5,148	1,524
Decrease in cash and cash equivalents	(109,964)	(17,728)
Cash and cash equivalents at beginning of period	283,552	124,801
Cash and cash equivalents at end of period	\$ 173,588	\$ 107,073

See accompanying notes.

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**Bottomline Technologies (de), Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**September 30, 2013**

**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, 2013 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2014. 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, 2013.

The classification of certain personnel costs were reclassified from cost of sales to sales and marketing expense during fiscal year 2013. This reclassification changed our gross profit and total operating expenses but did not affect our consolidated revenues, operating (loss) income, or net (loss) income. For the first three months of fiscal year 2013 the reclassification was \$0.3 million. To provide consistent presentation of the measurement of cost of revenues and operating expenses, these changes, while not significant, are reflected for all periods presented.

**Note 2 Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standards update which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. We adopted this guidance effective July 1, 2013 and it did not have a significant impact on our consolidated financial statements.

In March 2013, the FASB issued an accounting standards update which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard is effective for fiscal years beginning after December 15, 2013; however, early adoption is permitted. We do not expect the adoption of this standard to significantly impact our consolidated financial statements.

In June 2013, the Emerging Issues Task Force (EITF) reached final consensus on the presentation of an unrecognized tax benefit when a net operating loss carryforward or tax credit carryforward exists. This topic addresses the balance sheet presentation of a liability for an unrecognized tax benefit when settlement of the liability with the taxing

authority would otherwise reduce a deferred tax asset for a net operating loss or tax credit carryforward under the provisions of the tax law. The EITF affirmed that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss or other tax credit carryforward when settlement in this manner is permissible under the tax law. This standard is applicable for annual periods beginning after December 31, 2013, and for interim periods within those annual periods. Accordingly, we will apply this standard beginning July 1, 2014, the first quarter of our 2015 fiscal year. We anticipate that this will result in a reduction to non-current deferred tax assets and non-current other liabilities in our consolidated balance sheet. We do not believe this will have an impact on our consolidated statements of comprehensive income (loss) or cash flows.

### **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 September 30, 2013 and June 30, 2013, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	September 30, 2013				June 30, 2013			
	Fair Value Measurements				Fair Value Measurements			
	Using Input Types				Using Input Types			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money market funds (cash and cash equivalents)	\$ 62,832	\$	\$	\$ 62,832	\$ 85,880	\$	\$	\$ 85,880
Available for sale securities								
Debt								
US Corporate	10,679			10,679	4,125			4,125
Residential mortgage-backed	6,346			6,346	2,846			2,846
Government US	5,511			5,511	2,499			2,499
Total available for sale securities	\$ 22,536	\$	\$	\$ 22,536	\$ 9,470	\$	\$	\$ 9,470