

BOTTOMLINE TECHNOLOGIES INC /DE/

Form 10-Q

May 09, 2016

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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 March 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)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>  <b>incorporation or organization)</b>  <b>325 Corporate Drive</b>  <b>Portsmouth, New Hampshire</b> <b>(Address of principal executive offices)</b>	<b>02-0433294</b> <b>(I.R.S. Employer</b>  <b>Identification No.)</b>  <b>03801-6808</b> <b>(Zip Code)</b>  <b>(603) 436-0700</b>  <b>(Registrant's telephone number, including area code)</b>
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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 <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company <input type="checkbox"/>

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

The number of shares outstanding of the registrant's common stock as of April 30, 2016 was 40,925,732.

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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>March 31 2016</b> (unaudited)	<b>June 30, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 115,433	\$ 121,163
Marketable securities	33,387	23,225
Accounts receivable net of allowances for doubtful accounts of \$974 at March 31, 2016 and \$924 at June 30, 2015	61,444	65,140
Deferred tax assets	5,474	5,388
Prepaid expenses and other current assets	15,607	14,325
Total current assets	231,345	229,241
Property and equipment, net	58,156	47,579
Goodwill	207,613	215,360
Intangible assets, net	162,751	185,290
Other assets	18,695	11,014
Total assets	\$ 678,560	\$ 688,484
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 12,203	\$ 11,623
Accrued expenses	23,047	24,436
Deferred revenue	74,775	70,383
Total current liabilities	110,025	106,442
Convertible senior notes	168,512	159,760
Deferred revenue, non-current	20,486	17,624
Deferred income taxes	31,429	35,542
Other liabilities	19,399	20,578
Total liabilities	349,851	339,946
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- 41,295 at March 31, 2016 and 40,337 at June 30, 2015; outstanding shares-38,273 at March 31, 2016 and 38,105 at June 30, 2015		
	41	40
Additional paid-in-capital	584,250	560,083
Accumulated other comprehensive loss	(22,146)	(13,511)
Treasury stock: 3,022 shares at March 31, 2016 and 2,232 shares at June 30, 2015, at cost	(55,807)	(34,167)
Accumulated deficit	(177,629)	(163,907)
Total stockholders' equity	328,709	348,538
Total liabilities and stockholders' equity	\$ 678,560	\$ 688,484

See accompanying notes.

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

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues:				
Subscriptions and transactions	\$ 49,488	\$ 42,926	\$ 144,317	\$ 126,662
Software licenses	5,777	5,074	15,754	16,155
Service and maintenance	29,100	32,124	89,797	97,264
Other	1,868	1,827	5,294	5,438
Total revenues	86,233	81,951	255,162	245,519
Cost of revenues:				
Subscriptions and transactions	22,461	19,582	64,568	58,699
Software licenses	165	371	741	1,138
Service and maintenance	13,276	13,675	39,545	39,647
Other	1,317	1,285	3,807	3,855
Total cost of revenues	37,219	34,913	108,661	103,339
Gross profit	49,014	47,038	146,501	142,180
Operating expenses:				
Sales and marketing	20,419	20,248	62,854	58,995
Product development and engineering	11,934	12,716	34,959	35,427
General and administrative	9,790	8,882	28,035	25,962
Amortization of intangible assets	7,226	8,002	21,720	22,186
Total operating expenses	49,369	49,848	147,568	142,570
Loss from operations	(355)	(2,810)	(1,067)	(390)
Other expense, net	(3,882)	(4,600)	(11,409)	(11,834)
Loss before income taxes	(4,237)	(7,410)	(12,476)	(12,224)
Income tax (benefit) provision	(7)	420	1,246	836
Net loss	\$ (4,230)	\$ (7,830)	\$ (13,722)	\$ (13,060)
Basic and diluted net loss per share:	\$ (0.11)	\$ (0.21)	\$ (0.36)	\$ (0.35)
Shares used in computing basic and diluted net loss per share:	38,101	37,762	37,959	37,723

Other comprehensive loss, net of tax:				
Unrealized gain (loss) on available for sale securities	77	20	9	(1)
Minimum pension liability adjustments	(124)	(12)	55	(75)
Foreign currency translation adjustments	1,829	(3,138)	(8,699)	(25,105)
Other comprehensive income (loss), net of tax:	1,782	(3,130)	(8,635)	(25,181)
Comprehensive loss	\$ (2,448)	\$ (10,960)	\$ (22,357)	\$ (38,241)

See accompanying notes.

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

	<b>Nine Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in thousands)</b>	
Operating activities:		
Net loss	\$ (13,722)	\$ (13,060)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of intangible assets	21,720	22,186
Stock compensation expense	23,094	19,563
Depreciation and amortization of property and equipment	9,789	7,731
Deferred income tax benefit	(3,335)	(3,691)
Provision for allowances on accounts receivable	342	185
Excess tax benefits associated with stock compensation	(134)	(52)
Amortization of debt issuance costs	888	888
Amortization of debt discount	8,751	8,150
Amortization of premium on investments	226	313
Loss on disposal of equipment	2	4
Write down of fixed assets	17	
Loss on foreign exchange	77	348
Changes in operating assets and liabilities:		
Accounts receivable	1,623	(893)
Prepaid expenses and other current assets	(1,574)	329
Other assets	(4,370)	408
Accounts payable	230	(1,036)
Accrued expenses	(924)	(1,114)
Deferred revenue	9,599	9,341
Other liabilities	367	1,094
Net cash provided by operating activities	52,666	50,694
Investing activities:		
Acquisition of businesses and assets, net of cash acquired	(1,263)	(68,017)
Purchase of cost-method investments	(4,010)	
Purchases of held-to-maturity securities	(105)	(76)
Proceeds from sales of held-to-maturity securities	105	76
Purchase of available-for-sale securities	(20,424)	(10,543)
Proceeds from sales of available-for-sale securities	10,036	10,097
Purchases of property and equipment, net	(20,776)	(15,629)
Proceeds from disposal of property and equipment	7	
Net cash used in investing activities	(36,430)	(84,092)
Financing activities:		



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Repurchase of common stock	(23,938)	(12,612)
Proceeds from exercise of stock options and employee stock purchase plan	3,261	3,696
Excess tax benefits associated with stock compensation	134	52
Net cash used in financing activities	(20,543)	(8,864)
Effect of exchange rate changes on cash	(1,423)	(9,008)
Decrease in cash and cash equivalents	(5,730)	(51,270)
Cash and cash equivalents at beginning of period	121,163	167,673
Cash and cash equivalents at end of period	\$ 115,433	\$ 116,403

See accompanying notes.

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

**Notes to Unaudited Condensed Consolidated Financial Statements**

**March 31, 2016**

**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 and nine months ended March 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, 2016. 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 28, 2015.

**Note 2 Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (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 the vendor expects to receive for those goods or services. The new standard is expected to require more judgment and estimates 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 disclosures related to revenue recognition. This standard is currently effective for us in our first quarter of our 2019 fiscal year (July 1, 2018) using one of two methods of adoption: (i) retrospective to each prior reporting period presented, with the option to elect certain practical expedients as defined within the standard; or (ii) 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 we have not yet selected a method of adoption. 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, the absence of vendor specific objective evidence (VSOE) in certain software license arrangements will no longer result in strict revenue deferral, as instead fair value will be assigned to arrangement elements based on a fair value hierarchy no longer dependent on the presence of VSOE. 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 implementation 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 the financial reporting outcomes referred to above.

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. This standard is effective for us on July 1, 2016 (the first quarter of our 2017 fiscal year) with early application permitted. Upon adoption of this standard, deferred debt issuance costs will be reclassified from non-current assets and shown as a reduction to the debt carrying value in our consolidated balance sheet. Deferred debt issuance costs were approximately \$2.0 million at March 31, 2016. The adoption of this standard will be applied retrospectively and will not have an impact on our consolidated statement of comprehensive loss or cash flows.

In September 2015, the FASB issued an accounting standard update which requires that measurement-period adjustments related to the accounting for business combinations are to be recorded in the period in which the adjusted amounts are determined. This includes disclosure of any impact on current period earnings of amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. Disclosure of the adjustment amount included in current period earnings must be provided by line item or as a separate item on the face of our income statement. The standard is effective for us on July 1, 2016, with early adoption permitted. We elected to adopt this standard as of July 1, 2015; the adoption of the standard did not have a material impact on our consolidated balance sheet, statements of comprehensive loss or cash flows.

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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 (the first quarter of our 2018 fiscal year) with early adoption permitted and can be applied either prospectively or retrospectively. Upon adoption we anticipate that this will result in a reduction to our current deferred tax assets and an increase to our noncurrent deferred tax assets with no impact on our consolidated statement of comprehensive loss or cash flows.

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 today as available for sale as a component of other comprehensive income. For equity investments without readily determinable fair values the cost method of accounting is also eliminated, however subject to certain exceptions, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment and 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 2019 fiscal year). We are currently evaluating the anticipated impact of this standard on our financial statements.

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. This standard includes an optional policy election for short-term leases (i.e. leases with a term of 12 months or less that do not include options to purchase the underlying lease assets that the lessee is reasonably certain to exercise) under which a right-of-use asset and lease liability would not be recognized and the short-term lease payments would be expensed on a straight line basis over the term of the lease. The standard also requires new financial statement disclosures. This standard is effective for us on July 1, 2019 (the first quarter of our 2020 fiscal year) with early adoption permitted; adoption is on a modified retrospective basis. We anticipate that upon adoption 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 overall impact of this standard on our financial statements.

In March 2016, the FASB issued an accounting standard update intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact of excess tax benefits and tax deficiencies, accounting for forfeitures, statutory tax withholding requirements and the presentation of excess tax benefits in the statement of cash flows. This standard is effective for us on July 1, 2017 (the first quarter of our 2018 fiscal year) with early adoption permitted. We are currently evaluating the anticipated impact of this standard on our financial statements.

## **Note 3 Fair Value**

### *Fair Values of Assets and Liabilities*

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

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

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

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

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

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At March 31, 2016 and June 30, 2015, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	March 31, 2016				June 30, 2015			
	Fair Value				Fair Value			
	Measurements				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)	\$ 1,875	\$	\$	\$ 1,875	\$ 2,068	\$	\$	\$ 2,068
Available for sale securities								
Debt								
US Corporate	9,970			9,970	10,561			10,561
Residential mortgage-backed	10,808			10,808	7,733			7,733
Government - US	12,544			12,544	4,866			4,866
Total available for sale securities	\$ 33,322	\$	\$	\$ 33,322	\$ 23,160	\$	\$	\$ 23,160

*Fair Value of Financial Instruments*

We have certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and the convertible senior notes (the Notes) more fully described in Note 10. 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 March 31, 2016 and June 30, 2015, 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 income/(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 (\$1.5 million and \$1.8 million) related to deposits we have made to fund future requirements associated with Israeli severance arrangements approximated their fair values at March 31, 2016 and June 30, 2015, respectively.

We have certain other investments accounted for at cost. The carrying value of these investments was \$7.4 million and \$3.4 million at March 31, 2016 and June 30, 2015, respectively, 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 estimate the fair value of these investments for purposes of assessing impairment, we use available financial information related to the entities including information based on recent or pending third-party equity investments in these entities.

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 of the Notes, \$168.5 million at March 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 \$214.4 million as of March 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.

**Table of Contents***Marketable Securities*

The table below presents information regarding our marketable securities by major security type as of March 31, 2016 and June 30, 2015.

	March 31, 2016			June 30, 2015		
	Held to Maturity	Available for Sale	Total (in thousands)	Held to Maturity	Available for Sale	Total
Marketable securities:						
Corporate and other debt securities	65	33,322	33,387	65	23,160	23,225
Total marketable securities	\$ 65	\$ 33,322	\$ 33,387	\$ 65	\$ 23,160	\$ 23,225

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

	March 31, 2016 (in thousands)
Due within 1 year	\$ 19,791
Due in 1 year through 5 years	\$ 13,531
Total	\$ 33,322

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.

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

	At March 31, 2016 Less than 12 Months Unrealized	
	Fair Value (in thousands)	Loss
US Corporate	\$ 4,464	\$ 2
Residential mortgage-backed	\$ 5,791	\$ 6
Government US	\$ 1,035	\$ 1
Total	\$ 11,290	\$ 9



#### **Note 4 Product and Business Acquisitions**

##### ***Fiscal 2016 Asset Acquisition and Other Investment***

During the nine months ended March 31, 2016, we completed an asset acquisition through which we acquired core technology for \$1.5 million which is being amortized over a useful life of three years.

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 and it will be subject to periodic review for impairment. Impairment losses, to the extent occurring, would be recorded as an operating expense in the period incurred.

**Table of Contents*****Fiscal 2015 Acquisitions***

During the year ended June 30, 2015, we completed three business acquisitions for aggregate purchase consideration of \$70.9 million.

***Intellinx***

On January 12, 2015, we acquired all of the outstanding share capital of Intellinx Ltd. (Intellinx), an Israeli corporation for purchase consideration of approximately \$66.7 million in cash and 774,000 shares of our common stock. The shares were issued to certain former equity holders of Intellinx who became employees of Bottomline, and have vesting conditions tied to continued employment; as such the shares are compensatory and we will record share-based payment expense over the underlying stock vesting period which ranges from four to five years.

The final allocation of the Intellinx acquisition purchase price is as follows:

	<b>(in thousands)</b>
Current assets	\$ 9,828
Property and equipment	299
Other assets	2,171
Customer related intangible assets	2,273
Core technology	53,669
Other intangible assets	961
Goodwill	11,969
Current liabilities	(4,303)
Other liabilities	(10,217)
 Total purchase price	 \$ 66,650

In addition, during fiscal 2015, we completed the acquisition of Arian Software Limited (Arian) and Litco Systems Inc. (Litco). Please refer to our disclosures included in the Annual Report on Form 10-K as filed with the SEC on August 28, 2015.

The valuation of acquired intangible assets for our acquisitions as of their respective acquisition dates was estimated by performing projections of discounted cash flow, whereby revenues and costs associated with each intangible asset are estimated 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 projections.

**Note 5 Net Loss Per Share**

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands except per share data)			
Numerator - basic and diluted:				
Net loss	\$ (4,230)	\$ (7,830)	\$ (13,722)	\$ (13,060)
Denominator:				
Shares used in computing basic and diluted net loss per share attributable to common stockholders	38,101	37,762	37,959	37,723
Basic and diluted net loss per share attributable to common stockholders	\$ (0.11)	\$ (0.21)	\$ (0.36)	\$ (0.35)

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For the three and nine months ended March 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 the three and nine months ended March 31, 2015, approximately 3.3 million and 2.8 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.

As more fully discussed in Note 10, 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 quarter ended March 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 generally organized by the type of product or service offered and by geography.

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 incorporates our healthcare products and our payments automation software for direct debit and receivables management and provides a range of standard professional services and support and maintenance services 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. This segment includes the legacy operations of Intellinx, which we acquired in January 2015, however our cyber fraud and risk management solutions can be sold by any of our operating segments and, accordingly, the results of a different operating segment are affected when these products are sold by that segment.

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

*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 almost entirely on a subscription basis which has the effect of contributing to recurring subscription and transaction revenue and the revenue predictability of future periods, but which also delays revenue recognition over a longer period.

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),

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amortization of intangible assets, restructuring related charges, certain pension adjustments, amortization of debt issuance and debt discount costs, global ERP and related system implementation costs and other non-core or non-recurring gains and losses that arise from time to time that are excluded from how we measure our core operations. There are no inter-segment sales; accordingly, the measure of segment revenue and profit or loss reflects only revenues from external customers. The costs of certain corporate level expenses, primarily general and administrative expenses, are allocated to our operating segments based on a percentage of the segment's revenues.

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands)			
Segment revenue:				
Payments and Transactional Documents	\$ 34,179	\$ 31,154	\$ 100,077	\$ 94,607
Hosted Solutions	34,281	30,384	103,038	93,411
Digital Banking	17,773	20,413	52,047	57,501
	\$ 86,233	\$ 81,951	\$ 255,162	\$ 245,519
Segment measure of profit:				
Payments and Transactional Documents	\$ 8,985	\$ 6,819	\$ 24,255	\$ 25,788
Hosted Solutions	5,461	2,852	18,317	11,228
Digital Banking	1,512	4,741	4,630	8,429
Total measure of segment profit	\$ 15,958	\$ 14,412	\$ 47,202	\$ 45,445

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands)			
Total measure of segment profit	\$ 15,958	\$ 14,412	\$ 47,202	\$ 45,445
Less:				
Amortization of intangible assets	(7,226)	(8,002)	(21,720)	(22,186)
Stock-based compensation expense	(7,628)	(7,134)	(23,094)	(19,563)
Acquisition and integration related expenses	(305)	(846)	(574)	(2,553)
Restructuring expenses	(48)	(1,074)	(922)	(1,346)
Minimum pension liability and related adjustments	(66)	(21)	(140)	(42)
Other non-core expense		(145)		(145)
Global ERP system implementation costs	(1,040)		(1,819)	

Other expense, net	(3,882)	(4,600)	(11,409)	(11,834)
Loss before income taxes	\$ (4,237)	\$ (7,410)	\$ (12,476)	\$ (12,224)

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

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	2016	2015	2016	2015
	(in thousands)			
Depreciation expense:				
Payments and Transactional Documents	\$ 850	\$ 740	\$ 2,481	\$ 1,988
Hosted Solutions	1,540	1,304	4,429	3,790
Digital Banking	1,074	670	2,879	1,953
Total depreciation expense	\$ 3,464	\$ 2,714	\$ 9,789	\$ 7,731

**Table of Contents***Geographic Information*

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

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	2016	2015	2016	2015
	(in thousands)			
North America	\$ 49,328	\$ 48,465	\$ 147,290	\$ 142,820
United Kingdom	24,592	22,688	72,226	71,344
Continental Europe	9,728	9,189	28,863	27,775
Asia-Pacific and Middle East	2,585	1,609	6,783	3,580
Total revenues from unaffiliated customers	\$ 86,233	\$ 81,951	\$ 255,162	\$ 245,519

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

	At March 31, 2016	At June 30, 2015
	(in thousands)	
Long-lived assets:		
North America	\$ 63,280	\$ 45,350
United Kingdom	9,370	8,573
Continental Europe	2,106	2,390
Asia-Pacific and Middle East	2,095	2,280
Total long-lived assets	\$ 76,851	\$ 58,593

**Note 7 Income Taxes**

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

We recorded an income tax benefit of \$7,000 and income tax expense of \$0.4 million for the three months ended March 31, 2016 and 2015, respectively. The income tax benefit for the three months ended March 31, 2016 was principally due to a tax benefit associated with our Swiss and Israeli operations, offset by tax expense associated with our US and UK operations. Our US operations includes income tax expense for goodwill that is deductible for tax



purposes but not amortized for financial reporting purposes. The income tax expense for the three months ended March 31, 2015 was principally due to tax expense associated with our US and UK operations, which was offset in part by a tax benefit associated with our Swiss, Australian and Israeli operations.

We recorded income tax expense of \$1.2 million and \$0.8 million for the nine months ended March 31, 2016 and 2015, respectively. The income tax expense for the nine months ended March 31, 2016 was principally due to tax expense associated with our US and UK operations, which was offset in part by a tax benefit associated with our Swiss and Israeli operations. Our tax expense for the nine months ended March 31, 2016 was offset in part by a discrete tax benefit of approximately \$0.2 million from the enactment of legislation that decreased UK income tax rates. The US income tax expense was principally due to an increase in

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deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The income tax expense for the nine months ended March 31, 2015 was principally due to tax expense associated with our US and UK operations, which was offset in part by a tax benefit associated with our Swiss, Australian and Israeli operations and by a discrete tax benefit from the enactment of legislation that retroactively extended the US research and development credit for one year beginning January 1, 2014.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately \$0.2 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

We record a deferred tax asset if we believe that it is more likely than not that we will realize a future tax benefit. Ultimate realization of any deferred tax asset is dependent on our ability to generate sufficient future taxable income in the appropriate tax jurisdiction before the expiration of carryforward periods, if any. Our assessment of deferred tax asset recoverability considers many different factors including historical and projected operating results, the reversal of existing deferred tax liabilities that provide a source of future taxable income, the impact of current tax planning strategies and the availability of future tax planning strategies. We establish a valuation allowance against any deferred tax asset for which we are unable to conclude that recoverability is more likely than not. The process of assessing deferred tax asset recoverability is inherently judgmental, and we are required to assess many different factors and evaluate as much objective evidence as we can in reaching an overall conclusion. The particularly sensitive component of our evaluation is our projection of future operating results since this relies heavily on our estimates of future revenue and expense levels by tax jurisdiction.

At March 31, 2016 we have recorded a \$25.4 million valuation allowance against certain deferred tax assets given the uncertainty of recoverability of these amounts.

**Note 8 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.

	As of March 31, 2016			
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Weighted Average Remaining Life (in years)
Amortized intangible assets:				
Customer related	\$ 195,431	\$ (109,608)	\$ 85,823	9.8
Core technology	131,859	(62,801)	69,058	9.6
Other intangible assets	20,628	(12,758)	7,870	6.2
<b>Total</b>	<b>\$ 347,918</b>	<b>\$ (185,167)</b>	<b>\$ 162,751</b>	
Unamortized intangible assets:				
Goodwill			207,613	
<b>Total intangible assets</b>			<b>\$ 370,364</b>	

	As of June 30, 2015			
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Weighted Average Remaining Life (in years)
Amortized intangible assets:				
Customer related	\$ 200,957	\$ (101,219)	\$ 99,738	10.4
Core technology	131,069	(55,374)	75,695	10.2
Other intangible assets	20,790	(10,933)	9,857	6.4
Total	\$ 352,816	\$ (167,526)	\$ 185,290	
Unamortized intangible assets:				
Goodwill			215,360	
Total intangible assets			\$ 400,650	

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Estimated amortization expense for fiscal year 2016 and subsequent fiscal years is as follows:

	(in thousands)
2016	\$ 29,007
2017	24,827
2018	20,876
2019	18,896
2020	16,780
2021 and thereafter	74,085

The following table represents a year-to-date rollforward of our goodwill balances, by reportable segment:

	Payments and Transactional Documents	Hosted Solutions	Digital Banking	Total
	(in thousands)			
Balance at June 30, 2015	\$ 81,619	\$ 97,861	\$ 35,880	\$ 215,360
Purchase accounting adjustments	(1,355)			(1,355)
Impact of foreign currency translation	(1,966)	(4,426)		(6,392)
Balance at March 31, 2016	\$ 78,298	\$ 93,435	\$ 35,880	\$ 207,613

Preliminary estimates of fiscal 2017 revenues for our Intellinx reporting unit are below the revenue estimates we made at the time of the acquisition. However, we have not finalized the complete revenue and expense forecasting process or analyzed reporting unit cash flows. During the quarter ending June 30, 2016 we will perform our annual impairment testing for goodwill and intangible assets for all of our reporting units using the most currently available financial projections and estimates. The carrying values of intangible assets and goodwill for the Intellinx reporting unit were \$51.2 million and \$12.0 million, respectively, at March 31, 2016. If in a future period we were to conclude that these assets were impaired, it would likely result in a material expense.

**Note 9 Contingencies**

We have agreed to indemnify a customer against costs it may incur as a result of a lawsuit filed against them for alleged patent infringement, related to certain technology licensed from us, that we license and resell from an outside supplier. We have in turn requested and have received indemnification from the outside supplier for costs that we may incur in respect of our indemnification obligations to our customer. In January 2016, this customer notified us that they had been served in a second lawsuit, also alleging patent infringement relating to the same underlying technology and the merits of this claim are still being assessed. Bottomline has not been named as a party to either lawsuit and we have certain indemnification limits in place with the affected customer. We do not currently believe that the resolution of this matter will have a material impact on our financial position, operating results or cash flows.

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

**Note 10 Convertible Senior Notes**

On December 12, 2012, we issued \$189.8 million aggregate principal amount of our 1.50% Convertible Senior Notes maturing on December 1, 2017 (the Notes). Cash interest at a rate of 1.50% per year is payable semi-annually on June 1 and December 1 of each year.

The Notes were issued under an indenture dated December 12, 2012, (the Base Indenture ) by and between us and The Bank of New York Mellon Trust Company, N.A., as Trustee and a First Supplemental Indenture dated December 12, 2012, (the First Supplemental Indenture ) by and between us and the Trustee (the Base Indenture and the First Supplemental Indenture are collectively referred to as the Indenture ). There are no financial or operating covenants relating to the Notes.

The Notes are senior unsecured obligations of ours and rank senior in right of payment to any future unsecured indebtedness that is expressly subordinated in right of payment to the Notes, and equal in right of payment to any of our existing and future unsecured indebtedness that is not subordinated. The Notes are effectively junior in right of payment to any of our secured indebtedness (to the extent of the value of assets securing such indebtedness) and structurally junior to all existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries. Prior to this offering, neither we nor our subsidiaries had any outstanding indebtedness for borrowed money. The Indenture does not limit the amount of debt that we or our subsidiaries may incur. The Notes are not guaranteed by us or any of our subsidiaries.

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Holders may convert their Notes at their option, prior to the close of business on the business day immediately preceding June 1, 2017, in multiples of \$1,000 principal amount, only under the following circumstances:

during any calendar quarter commencing after the calendar quarter ending on March 31, 2013, (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price per \$1,000 principal amount of the convertible notes for each trading day of the measurement period was less than 98% of the product of the last reported sales price of our common stock and the conversion rate on each trading day; or

upon the occurrence of specified corporate events, including a merger or a sale of all or substantially all of our assets.

On or after June 1, 2017, until the close of business on the second scheduled trading day immediately preceding the maturity date of December 1, 2017, holders may convert their Notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

The conversion rate for the Notes is initially 33.3042 shares per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$30.03 per share of our common stock). The conversion rate is subject to customary adjustment for certain events as described in the Indenture. The principal balance of the Notes is always required to be settled in cash. However, we are permitted at our election to settle any conversion obligation in excess of the principal portion in cash, shares of our common stock, or a combination of cash and shares of our common stock.

We may not redeem the Notes prior to their maturity date. If we undergo a fundamental change, (as described in the Indenture), subject to certain conditions, holders may require us to repurchase for cash all or part of their Notes in principal amounts of \$1,000 or an integral multiple thereof. The fundamental change repurchase price will be equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Indenture contains customary events of default with respect to the Notes and provides that upon certain events of default occurring and continuing the Trustee may, and the Trustee at the request of such holders of at least 25% in principal amount of the convertible notes shall, declare 100% of the principal of and accrued and unpaid interest, if any, on the Notes to be due and payable. In case of certain events of bankruptcy, insolvency or reorganization, involving us or a significant subsidiary, 100% of the principal of and accrued and unpaid interest on the Notes will automatically become due and payable. Upon such a declaration of acceleration, such principal and accrued and unpaid interest, if any, will be due and payable immediately.

Under limited circumstances, we may be required to pay contingent interest on the Notes as a result of failure to comply with the reporting obligations in the Indenture or failure to file required Securities and Exchange Commission documents and reports. When applicable, the contingent interest payable per \$1,000 principal amount is 0.25% per

annum over the applicable term as provided under the Indenture. The contingent interest features of the Notes are embedded derivative instruments. The estimated fair value of the contingent interest features of the Notes was zero at issuance and at March 31, 2016, as the likelihood of any liability being incurred under these provisions was deemed remote and, to the extent occurring, the time period during which a contingent interest charge would apply is projected to be short.

The carrying amount of the Notes will be accreted to the principal amount over the remaining term to maturity and we will record a corresponding charge to interest expense.

The net carrying amount of the convertible notes at March 31, 2016 was as follows:

	<b>(in thousands)</b>
Principal amount	\$ 189,750
Unamortized discount	(21,238)
Net carrying value	\$ 168,512

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We incurred certain third party costs in connection with our issuance of the Notes, principally related to underwriting and legal fees, which are being amortized to interest expense ratably over the five-year term of the Notes.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands)			
Contractual interest expense (cash)	\$ 712	\$ 712	\$ 2,135	\$ 2,135
Amortization of debt discount (non-cash)	2,969	2,765	8,751	8,150
Amortization of debt issue costs (non-cash)	296	296	888	888
	\$ 3,977	\$ 3,773	\$ 11,774	\$ 11,173
Effective interest rate of the liability component	7.76%	7.33%	7.65%	7.23%

*Note Hedges*

In December 2012, we entered into privately negotiated transactions to purchase hedge instruments (the Note Hedges), covering approximately 6.3 million shares of our common stock. The Note Hedges are subject to anti-dilution provisions substantially similar to those of the Notes, have a strike price that corresponds to the conversion price of the Notes, are exercisable by us upon any conversion under the Notes and expire on December 1, 2017.

The Note Hedges are generally expected to reduce the potential dilution to our common stock (or, in the event the Conversion Feature is settled in cash, to reduce our cash payment obligation) in the event that at the time of conversion our stock price exceeds the conversion price under the Notes. The cost of the Note Hedges, \$42.3 million, is expected to be tax deductible as an original issue discount over the life of the Notes, as the Notes and the Note Hedges represent an integrated debt instrument for tax purposes.

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

*Warrants*

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

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

**Note 11 Derivative Instruments**



Our derivative instruments for the quarter ended March 31, 2016 consisted of the Note Hedges, Conversion Feature and Warrants as discussed in Note 10. As of March 31, 2016 each of these instruments continued to meet the classification requirements for inclusion within stockholders' equity and as such they were not subject to fair value re-measurement. We are required, for the remaining term of the Notes, to assess whether we continue to meet the stockholders' equity classification requirements. If in any future period we failed to satisfy those requirements we would be required to reclassify the derivative instruments out of stockholders' equity, to either assets or liabilities depending on their nature, and record those instruments at fair value with changes in fair value reflected in earnings.

**Table of Contents****Note 12 Postretirement and Other Employee Benefits***Defined Benefit Pension Plan*

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

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

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(in thousands)</b>			
Components of net periodic cost				
Service cost	\$ 562	\$ 558	\$ 1,703	\$ 1,712
Interest cost	119	163	362	501
Prior service credit	(22)	(23)	(67)	(70)
Net actuarial loss	17		52	
Expected return on plan assets	(198)	(243)	(601)	(746)
Net periodic cost	\$ 478	\$ 455	\$ 1,449	\$ 1,397

**Note 13 Restructuring Costs**

During fiscal year 2016, in response to recent business events, we realigned our workforce and recorded pre-tax restructuring expenses associated with severance related benefits of approximately \$0.9 million.

Restructuring charges recorded for the three and nine months ended March 31, 2016 were expensed as follows:

	<b>Three Months Ended March 31, 2016</b>	<b>Nine Months Ended March 31, 2016</b>
	<b>(in thousands)</b>	
Subscriptions and transactions cost of sales	34	79
Service and maintenance cost of sales		75
Sales and marketing	15	391
Product development and engineering		108
General and administrative	(1)	269
	\$ 48	\$ 922

At March 31, 2016, our remaining liability for severance related benefits was as follows:

	(in thousands)
Accrued severance benefits at June 30, 2015	53
Additions charged to expense in fiscal 2016	922
Payments charged against the accrual	(838)
Accrued severance benefits at March 31, 2016	\$ 137

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### **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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Without limiting the foregoing, the words may, will, should, could, expects, plans, intends, 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 power mission-critical business transactions. We help our customers optimize financially-oriented operations and build deeper customer and partner relationships by providing a trusted and easy-to-use set of cloud-based digital banking, fraud prevention, payment, financial document, insurance and healthcare solutions. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer's location. The majority of our revenues are derived from offerings sold as SaaS-based solutions and paid for on a subscription and transaction basis.

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

Our solutions are designed to complement, leverage and extend our customers' existing information systems, accounting applications and banking relationships so that they can be deployed quickly and efficiently. To help our customers 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.

### *Financial Highlights*

For the nine months ended March 31, 2016, our revenue increased to \$255.2 million from \$245.5 million in the same period of the prior year. This revenue increase was attributable to revenue increases in our Hosted Solutions segment of \$9.6 million and our Payments and Transactional Documents segment of \$5.5 million, offset in part by decreased revenue in our Digital Banking segment of \$5.5 million. Increased revenue from our Paymode-X, financial messaging and legal spend management solutions accounted for the revenue increase in our Hosted Solutions segment. The revenue increase in our Payments and Transactional Documents segment was primarily related to increased North American service and maintenance revenue, offset in part by lower European service and maintenance revenue. The Digital Banking segment's revenue decrease was primarily due to lower professional services revenue as we have continued to de-emphasize large, highly customized banking projects in lieu of our cloud-based solutions.

We incurred a net loss of \$13.7 million in the nine months ended March 31, 2016 compared to a net loss of \$13.1 million in the same period of the prior year. The increase in our net loss for the nine months ended March 31, 2016 resulted from the impact of increased operating expenses of \$5.0 million, offset in part by increased gross margins of \$4.3 million. The increase in our operating expenses was due primarily to the effect of our recent acquisitions, including increased employee related costs as we continued to grow our business. The increase in our gross margin was primarily driven by revenue increases in our Hosted Solutions segment.

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In the nine months ended March 31, 2016, we derived approximately 42% of our revenue from customers located outside of North America, principally in the United Kingdom, continental Europe and the Asia-Pacific region.

We expect future revenue growth to be driven by our Paymode-X, digital banking, legal spend management, financial messaging and cyber fraud and risk management solutions.

Our customers operate in many different industries, a diversification that we believe helps us in a challenging economic climate. Additionally, we believe that our recurring and subscription revenue base helps position us defensively against any short term economic downturn. While we believe that we continue to compete favorably in all of the markets we serve, ongoing or worsening economic stresses could negatively impact our business in the future.

## **Critical Accounting Policies and Significant Judgments and Estimates**

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, 2015 related to revenue recognition, the valuation of goodwill and intangible assets, the valuation of acquired deferred revenue and income taxes. There have been no material changes to the critical accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015. 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 August 28, 2015.

## **Recent Accounting Pronouncements**

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 2, *Recent Accounting Pronouncements*, of the Notes to the Unaudited Condensed Consolidated Financial Statements.

## **Results of Operations**

### **Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015**

#### ***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 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. Similar operating segments have been aggregated into three reportable segments: Payments and Transactional Documents, Hosted Solutions and Digital Banking.

The following tables represent our segment revenues and our segment measure of profit:

	Three Months Ended March 31,		Increase (Decrease)	
	2016	2015	Between Periods	
	(in thousands)		2016 compared to 2015	
				%
Segment revenue:				
Payments and Transactional Documents	\$ 34,179	\$ 31,154	3,025	9.7
Hosted Solutions	34,281	30,384	3,897	12.8
Digital Banking	17,773	20,413	(2,640)	(12.9)
	\$ 86,233	\$ 81,951	\$ 4,282	5.2
Segment measure of profit:				
Payments and Transactional Documents	\$ 8,985	\$ 6,819	2,166	31.8
Hosted Solutions	5,461	2,852	2,609	91.5
Digital Banking	1,512	4,741	(3,229)	(68.1)
Total measure of segment profit	\$ 15,958	\$ 14,412	\$ 1,546	10.7

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A reconciliation of the measure of segment profit to our GAAP loss before the provision for income taxes for the three months ended March 31, 2016 and 2015, is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in thousands)</b>	
Total measure of segment profit	\$ 15,958	\$ 14,412
Less:		
Amortization of intangible assets	(7,226)	(8,002)
Stock-based compensation expense	(7,628)	(7,134)
Acquisition and integration related expenses	(305)	(846)
Restructuring expenses	(48)	(1,074)
Minimum pension liability and related adjustments	(66)	(21)
Other non-core expense		(145)
Global ERP system implementation costs	(1,040)	
Other expense, net	(3,882)	(4,600)
Loss before income taxes	\$ (4,237)	\$ (7,410)

*Payments and Transactional Documents.* Revenues from our Payments and Transactional Documents segment increased \$3.0 million, inclusive of the unfavorable impact of foreign currency exchange rates of \$1.0 million, for the three months ended March 31, 2016 as compared to the same period in the prior fiscal year. The overall increase was primarily attributable to revenue increases of \$1.6 million in subscriptions and transactions revenue, \$0.9 million in software license revenue and \$0.5 million in service and maintenance revenue. The segment profit increase of \$2.2 million for the three months ended March 31, 2016, as compared to the same period in the prior fiscal year, including an unfavorable impact of foreign currency exchange rates of \$0.3 million, was primarily the result of the increase in revenues discussed above, partially offset by increased cost of sales of \$0.3 million and increased operating expenses of \$0.5 million. The operating expense increase was primarily due to increased sales and marketing expenses within Europe. We expect revenue and profit for the Payments and Transactional Documents segment to remain consistent during the remainder of fiscal year 2016, primarily as a result of increased adoption of our payments and document automation products by new and existing customers.

*Hosted Solutions.* Revenues from our Hosted Solutions segment increased \$3.9 million for the three months ended March 31, 2016 as compared to the same period in the prior fiscal year, inclusive of an unfavorable impact of foreign currency exchange rates of \$0.6 million, due primarily to increased revenue from our Paymode-X, legal spend management and financial messaging solutions. Segment profit increased \$2.6 million as compared to the same period in the prior fiscal year, inclusive of an unfavorable impact of foreign currency exchange rates of \$0.1 million, due to the increased revenue as described above and decreased operating expenses of \$0.3 million. We expect revenue and profit for the Hosted Solutions segment to increase during the remainder of the fiscal year primarily as a result of the continued revenue contribution from our financial messaging and Paymode-X solutions.

*Digital Banking.* Revenues from our Digital Banking segment decreased \$2.6 million for the three months ended March 31, 2016 as compared to the same period in the prior fiscal year due to a decrease in professional services revenue of \$3.2 million, partially offset by an increase of \$0.8 million in subscription and transaction revenue. The decrease in professional services revenue was principally due to the continued de-emphasis of large, highly customized banking projects in lieu of standard product deployments and our cloud-based solutions. Segment profit



decreased \$3.2 million for the three months ended March 31, 2016 as compared to the same period in the prior fiscal year, due primarily to the decreased revenue described above and increased sales and marketing expenses. We expect revenue for the Digital Banking segment to increase slightly and profit to decrease slightly for the remainder of the fiscal year as we continue to transition customers to our hosted offerings.

**Table of Contents****Revenues by category**

	Three Months Ended March 31,				Increase (Decrease)	
	2016		2015		Between Periods	
	As % of		As % of		2016 Compared to 2015	
	total		total			
	(in thousands)	Revenues	(in thousands)	Revenues	(in thousands)	%
Revenues:						
Subscriptions and transactions	\$ 49,488	57.4	\$ 42,926	52.4	\$ 6,562	15.3
Software licenses	5,777	6.7	5,074	6.2	703	13.9
Service and maintenance	29,100	33.7	32,124	39.2	(3,024)	(9.4)
Other	1,868	2.2	1,827	2.2	41	2.2
Total revenues	\$ 86,233	100.0	\$ 81,951	100.0	\$ 4,282	5.2

*Subscriptions and Transactions.* Revenues for the three months ended March 31, 2016 were unfavorably impacted by \$0.6 million due to the impact of foreign currency exchange rates. The overall revenue increase of \$6.6 million, inclusive of the impact of unfavorable foreign currency exchange rates for the three months ended March 31, 2016 as compared to the same period in the prior fiscal year, was due principally to the increase in revenue contribution from our Payments and Transactional Documents segment of \$1.6 million, our Hosted Solutions segment of \$4.2 million largely due to increases in Paymode-X and legal spend management revenues and, to a lesser extent, revenue increases from our Digital Banking segment and financial messaging solutions. We expect subscriptions and transactions revenues to increase during the remainder of the fiscal year, primarily as a result of increased revenue from our legal spend management, financial messaging and Paymode-X solutions.

*Software Licenses.* Revenue from software licenses increased \$0.7 million in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, primarily as a result of an increase in revenue from European software licenses of \$0.9 million. We expect software license revenues to increase during the remainder of fiscal year 2016, principally as a result of increased software license revenue from our Payments and Transactional Documents segment.

*Service and Maintenance.* Service and maintenance revenues decreased \$3.0 million for the three months ended March 31, 2016, inclusive of an unfavorable impact of foreign exchange rates of \$0.9 million. The overall decrease in service and maintenance revenues, inclusive of the impact of foreign currency exchange rates, for the three months ended March 31, 2016 as compared to the same period in the prior fiscal year was primarily the result of decreases in our Digital Banking segment revenues of \$3.3 million and our Hosted Solutions segment revenues of \$0.3 million, offset in part by an increase in our Payments and Transactional Documents segment revenues of \$0.5 million. The decrease in revenue from our Digital Banking segment was principally related to decreases in professional services due to our continued de-emphasis of large, highly customized banking projects in lieu of standard product deployments and our cloud-based solutions. We expect that service and maintenance revenues will decrease during the remainder of the fiscal year primarily as a result of our continued de-emphasis of customized banking projects within our digital banking solutions.

*Other.* Our other revenues consist principally of equipment and supplies sales which remained relatively minor components of our overall revenue. We expect that other revenues will remain relatively consistent during the

remainder of 2016.

**Table of Contents****Cost of revenues by category**

	<b>Three Months Ended March 31,</b>		<b>2015</b>		<b>Increase (Decrease)</b>	
	<b>2016</b>		<b>2015</b>		<b>Between Periods</b>	
	<b>As %</b>		<b>As %</b>		<b>2016 Compared to 2015</b>	
	<b>of</b>		<b>of</b>		<b>%</b>	
	<b>total</b>		<b>total</b>			
	<b>(in thousands)Revenues</b>		<b>(in thousands)Revenues</b>		<b>(in thousands)</b>	
Cost of revenues:						
Subscriptions and transactions	\$ 22,461	26.1	\$ 19,582	23.9	\$ 2,879	14.7
Software licenses	165	0.2	371	0.5	(206)	(55.5)
Service and maintenance	13,276	15.4	13,675	16.7	(399)	(2.9)
Other	1,317	1.5	1,285	1.6	32	2.5
Total cost of revenues	\$ 37,219	43.2	\$ 34,913	42.6	\$ 2,306	6.6
Gross profit	\$ 49,014	56.8	\$ 47,038	57.4	\$ 1,976	4.2

*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 remained consistent at 45% of subscription and transactions revenues in the three months ended March 31, 2016 compared to 46% of subscriptions and transactions revenues in the three months ended March 31, 2015. We expect that subscriptions and transactions costs will decrease slightly as a percentage of subscriptions and transactions revenue during the remainder of the fiscal year.

*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 decreased to 3% of software license revenue in the three months ended March 31, 2016 compared to 7% of software license revenue in the three months ended March 31, 2015. The decrease in costs as a percentage of revenue was primarily due to decreased costs in our North American and European payments solutions. We expect that software license costs will remain consistent, as a percentage of software license revenues, 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 increased to 46% of service and maintenance revenues in the three months ended March 31, 2016 as compared to 43% of service and maintenance revenues in the three months ended March 31, 2015. The increase in costs as a percent of service and maintenance revenues was driven principally by a decrease in professional services revenue and gross margins in our Digital Banking segment as we continue to de-emphasize large, highly customized banking projects in lieu of standard deployments and certain of our cloud-based products. We expect that service and maintenance costs will increase slightly as a percentage of service and maintenance revenues, during the remainder of the fiscal year.

*Other.* Other 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 and remain minor components of our business. We expect that other costs will remain relatively consistent as a percentage of other revenues for the remainder of the

fiscal year.

**Table of Contents****Operating Expenses**

	Three Months Ended March 31, 2016		2015		Increase (Decrease) Between Periods 2016 Compared to 2015	
		As % of total		As % of total		
	(in thousands)	Revenues	(in thousands)	Revenues	(in thousands)	%
Operating expenses:						
Sales and marketing	\$ 20,419	23.7	\$ 20,248	24.7	\$ 171	0.8
Product development and engineering	11,934	13.8	12,716	15.5	(782)	(6.1)
General and administrative	9,790	11.4	8,882	10.8	908	10.2
Amortization of intangible assets	7,226	8.4	8,002	9.8	(776)	(9.7)
Total operating expenses	\$ 49,369	57.3	\$ 49,848	60.8	\$ (479)	(1.0)

*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 slightly in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015 primarily as a result of an increase in contract employee related costs of \$0.2 million and an increase in advertising expenses of \$0.2 million, partially offset by a decrease in restructuring expenses of \$0.2 million. We expect that sales and marketing expenses will remain consistent over the remainder of the fiscal year.

*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. Product development and engineering expenses in the three months ended March 31, 2016 as compared to the three months ended March 31, 2015 decreased \$0.8 million principally as a result of a decrease in employee related expenses. We expect that product development and engineering expenses will increase slightly during the remainder of the fiscal year as we continue to invest in our SaaS-based solutions that we believe will drive future revenue growth, such as our Paymode-X and legal spend management solutions as well as our European product 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 March 31, 2016 as compared to the three months ended March 31, 2015 primarily due to an increase in costs associated with global internal system implementations and increased headcount related expenses. We expect general and administrative expenses will increase during the remainder of the fiscal year due primarily to our global system implementations.

*Amortization of Intangible Assets.* We amortize our intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us or on a straight line basis if the rate cannot be reliably predicted. Accordingly, amortization expense rates are often higher in the earlier periods of an asset's estimated life. We expect that total amortization expense for fiscal year 2016 will be approximately \$29.0 million.

**Other Expense, Net**

	Three Months Ended March 31,		Increase (Decrease) Between	
	2016	2015	Periods	
	(in thousands)		2016 Compared to 2015	%
Interest income	\$ 133	\$ 115	\$ 18	15.7
Interest expense	(3,906)	(3,711)	(195)	(5.3)
Other expense, net	(109)	(1,004)	895	89.1
Other expense, net	\$ (3,882)	\$ (4,600)	\$ 718	15.6

*Other Expense, Net.* For the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, interest income increased slightly as a result of higher average cash balances in the quarter ended March 31, 2016. The increase in interest expense is due to increased amortization of the debt discount on our convertible notes. The decrease in other expense is due to a decrease in foreign exchange rate losses incurred in the three months ended March 31, 2016 compared with the three months ended March 31, 2015.

**Table of Contents****Provision for Income Taxes**

We recorded an income tax benefit of \$7,000 and income tax expense of \$0.4 million for the three months ended March 31, 2016 and 2015, respectively. The income tax benefit for the three months ended March 31, 2016 was principally due to a tax benefit associated with our Swiss and Israeli operations, offset by tax expense associated with our US and UK operations. Our US operations includes income tax expense for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The income tax expense for the three months ended March 31, 2015 was principally due to tax expense associated with our US and UK operations, which was offset in part by a tax benefit associated with our Swiss, Australian and Israeli operations.

**Nine Months Ended March 31, 2016 Compared to the Nine Months Ended March 31, 2015*****Segment Information***

The following tables represent our segment revenues and our segment measure of profit:

			<b>Increase (Decrease)</b>	
	<b>Nine Months Ended March 31, 2016</b>	<b>2015 (in thousands)</b>	<b>Between Periods 2016 compared to 2015</b>	<b>%</b>
<b>Segment revenue:</b>				
Payments and Transactional Documents	\$ 100,077	\$ 94,607	5,470	5.8
Hosted Solutions	103,038	93,411	9,627	10.3
Digital Banking	52,047	57,501	(5,454)	(9.5)
	\$ 255,162	\$ 245,519	\$ 9,643	3.9
<b>Segment measure of profit:</b>				
Payments and Transactional Documents	\$ 24,255	\$ 25,788	(1,533)	(5.9)
Hosted Solutions	18,317	11,228	7,089	63.1
Digital Banking	4,630	8,429	(3,799)	(45.1)
Total measure of segment profit	\$ 47,202	\$ 45,445	\$ 1,757	3.9

A reconciliation of the measure of segment profit to our GAAP loss before the provision for income taxes for the nine months ended March 31, 2016 and 2015 is as follows:

	<b>Nine Months Ended March 31, 2016                      2015 (in thousands)</b>	
Total measure of segment profit	\$ 47,202	\$ 45,445
Less:		
Amortization of intangible assets	(21,720)	(22,186)



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Stock-based compensation expense	(23,094)	(19,563)
Acquisition and integration related expenses	(574)	(2,553)
Restructuring expenses	(922)	(1,346)
Minimum pension liability and related adjustments	(140)	(42)
Other non-core expense		(145)
Global ERP system implementation costs	(1,819)	
Other expense, net	(11,409)	(11,834)
Loss before income taxes	\$ (12,476)	\$ (12,224)

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*Payments and Transactional Documents.* Revenues from our Payments and Transactional Documents segment for the nine months ended March 31, 2016 were unfavorably impacted by \$3.8 million due to the impact of foreign currency exchange rates. The overall revenue increase of \$5.5 million, inclusive of the impact of unfavorable foreign currency exchange rates, was primarily attributable to increased subscription and transactional revenue of \$4.0 million and increased service and maintenance revenue of \$2.6 million, partially offset by decreases in software license revenue of \$1.0 million and other revenue of \$0.1 million. The segment profit decrease of \$1.5 million for the nine months ended March 31, 2016 as compared to the same period in the prior fiscal year, including an unfavorable impact of foreign currency exchange rates of \$1.3 million, was primarily the result of increased operating expenses of \$4.2 million, principally due to our European payments and transactional documents solutions and our acquired Intellinx operations partially offset by the increased revenue described above.

*Hosted Solutions.* Revenues from our Hosted Solutions segment increased \$9.6 million for the nine months ended March 31, 2016 as compared to the same period in the prior fiscal year, inclusive of an unfavorable impact of foreign currency exchange rates of \$2.3 million, due primarily to increased revenue contributions from our Paymode-X and financial messaging solutions of \$7.7 million and, to a lesser extent, from our legal spend management solution. The segment profit increase of \$7.1 million for the nine months ended March 31, 2016 as compared to the same period in the prior fiscal year, including an unfavorable impact of foreign currency exchange rates of \$0.6 million, was primarily the result of increased gross margins of \$6.2 million driven by the increase in revenues discussed above.

*Digital Banking.* Revenues from our Digital Banking segment decreased \$5.5 million for the nine months ended March 31, 2016 as compared to the same period in the prior fiscal year due to a decrease in professional services revenue of \$8.7 million partially offset by an increase in subscriptions and transactions revenue of \$2.4 million and an increase in software license revenue of \$0.6 million. The decrease in professional services revenue was a result of the continued de-emphasis of large, highly customized banking projects in lieu of standard product deployments and our cloud-based solutions. The segment profit decreased \$3.8 million principally as a result of the professional services revenue decrease described above.

**Revenues by category**

	Nine Months Ended March 31, 2016		2015		Increase (Decrease) Between Periods 2016 Compared to 2015	
	As % of total		As % of total			
	(in thousands)	Revenues	(in thousands)	Revenues	(in thousands)	%
<b>Revenues:</b>						
Subscriptions and transactions	\$ 144,317	56.6	\$ 126,662	51.6	\$ 17,655	13.9
Software licenses	15,754	6.1	16,155	6.6	(401)	(2.5)
Service and maintenance	89,797	35.2	97,264	39.6	(7,467)	(7.7)
Other	5,294	2.1	5,438	2.2	(144)	(2.6)
Total revenues	\$ 255,162	100.0	\$ 245,519	100.0	\$ 9,643	3.9

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*Subscriptions and Transactions.* Subscriptions and transactions revenues for the nine months ended March 31, 2016 as compared to the same period in the prior fiscal year were unfavorably impacted by \$1.9 million due to the impact of foreign currency exchange rates. The overall increase in subscriptions and transactions revenues of \$17.7 million, inclusive of the unfavorable impact of foreign exchange rates, was due to increased subscription and transaction revenue from our Hosted Solutions segment of \$11.2 million, our Payments and Transactional Documents segment of \$4.0 million and our Digital Banking segment of \$2.4 million. The overall increase in Hosted Solutions segment revenues includes increased revenue from our Paymode-X and financial messaging solutions of \$9.2 million and, to a lesser extent, our legal spend management solution.

*Software Licenses.* Software license revenues decreased \$0.4 million for the nine months ended March 31, 2016 as compared to the same period in the prior fiscal year. The decrease was primarily due to decreased revenue in our North American payments and transactional documents solutions offset in part by increased revenue in our European payments and transactional documents solutions and our Digital Banking segment.

*Service and Maintenance.* Service and maintenance revenues for the nine months ended March 31, 2016 as compared to the same period in the prior fiscal year were unfavorably impacted by \$3.7 million due to the impact of foreign currency exchange rates. The overall decrease in service and maintenance revenues of \$7.5 million, inclusive of the unfavorable impact of foreign exchange rates, was primarily the result of decreased professional services revenues from our Digital Banking segment of \$8.5 million as we continue to de-emphasize large and highly customized banking projects, partially offset by revenue increases of \$3.7 million in our North American payments and transactional document solutions.

*Other.* Our other revenues consist principally of equipment and supplies sales which remained relatively minor components of our overall revenue.

**Cost of revenues by category**

	Nine Months Ended March 31, 2016		2015		Increase (Decrease) Between Periods 2016 Compared to 2015	
		As % of total		As % of total		
	(in thousands)	Revenues	(in thousands)	Revenues	(in thousands)	%
Cost of revenues:						
Subscriptions and transactions	\$ 64,568	25.3	\$ 58,699	23.9	\$ 5,869	10.0
Software licenses	741	0.3	1,138	0.5	(397)	(34.9)
Service and maintenance	39,545	15.5	39,647	16.1	(102)	(0.3)
Other	3,807	1.5	3,855	1.6	(48)	(1.2)
Total cost of revenues	\$ 108,661	42.6	\$ 103,339	42.1	\$ 5,322	5.2
Gross profit	\$ 146,501	57.4	\$ 142,180	57.9	\$ 4,321	3.0

*Subscriptions and Transactions.* Subscriptions and transactions costs decreased to 45% of subscriptions and transactions revenues in the nine months ended March 31, 2016, as compared to 46% in the nine months ended March 31, 2015, primarily as a result of increased revenues in our Paymode-X and financial messaging solutions,

partially offset by an increase in costs in our legal spend management solutions.

*Software Licenses.* Software license costs decreased slightly to 5% of software license revenues in the nine months ended March 31, 2016 as compared to 7% in the nine months ended March 31, 2015.

*Service and Maintenance.* Service and maintenance costs increased to 44% of service and maintenance revenue in the nine months ended March 31, 2016, as compared to 41% for the nine months ended March 31, 2015. The increase in costs as a percent of service and maintenance revenues was driven by a decrease in professional services revenues and gross margins in our Digital Banking segment as we continue to de-emphasize large, highly customized banking projects in lieu of standard deployments.

*Other.* Other cost of revenues remained relatively consistent as a percentage of other revenue in the nine months ended March 31, 2016, as compared to the nine months ended March 31, 2015.

**Table of Contents****Operating Expenses**

	Nine Months Ended March 31, 2016		2015		Increase (Decrease) Between Periods 2016 Compared to 2015	
	As % of total		As % of total			
	(in thousands)	Revenues	(in thousands)	Revenues	(in thousands)	%
Operating expenses:						
Sales and marketing	\$ 62,854	24.6	\$ 58,995	24.0	\$ 3,859	6.5
Product development and engineering	34,959	13.7	35,427	14.4	(468)	(1.3)
General and administrative	28,035	11.0	25,962	10.6	2,073	8.0
Amortization of intangible assets	21,720	8.5	22,186	9.0	(466)	(2.1)
Total operating expenses	\$ 147,568	57.8	\$ 142,570	58.1	\$ 4,998	3.5

*Sales and Marketing.* Sales and marketing expenses increased \$3.9 million in the nine months ended March 31, 2016, as compared to the nine months ended March 31, 2015, primarily as a result of an increase in employee related costs largely due to the impact of our recent acquisitions and increased advertising and promotional expenses. Sales and marketing expenses were favorably impacted by foreign currency exchange rates of \$1.2 million for the nine months ended March 31, 2016 as compared to the same period of the prior fiscal year.

*Product Development and Engineering.* The decrease in product development and engineering expenses of \$0.5 million was primarily attributable to a net decrease in employee related costs.

*General and Administrative.* The increase in general and administrative expenses of \$2.1 million was principally attributable to an increase in costs associated with global internal system implementations, increased employee related costs and increased facilities related expenses offset in part by reduced merger and acquisition costs.

*Amortization of Intangible Assets.* We amortize our intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us or on a straight line basis if the rate cannot be reliably predicted. Amortization rates are often higher during early periods of an asset's estimated life. The decrease in amortization expense in the nine months ended March 31, 2016, as compared to the nine months ended March 31, 2015, occurred naturally as a result of amortization rates decreasing over the underlying assets' lives.

**Other Expense, Net**

	Nine Months Ended March 31, 2016		2015		Increase (Decrease) Between Periods 2016 Compared to 2015	
	(in thousands)					
						%
Interest income	\$ 382		\$ 379		\$ 3	0.8
Interest expense	(11,615)		(11,040)		(575)	(5.2)

Other expense, net	(176)	(1,173)	997	85.0
Other expense, net	\$ (11,409)	\$ (11,834)	\$ 425	3.6

*Other Expense, Net.* For the nine months ended March 31, 2016, as compared to the nine months ended March 31, 2015, interest income remained consistent. The increase in interest expense is due to increased amortization of the debt discount on our convertible notes. The decrease in other expense, net is the result of a decrease in foreign exchange losses in the nine months ended March 31, 2016 as compared to the nine months ended March 31, 2015.

### **Provision for Income Taxes**

We recorded income tax expense of \$1.2 million and \$0.8 million for the nine months ended March 31, 2016 and 2015, respectively. The income tax expense for the nine months ended March 31, 2016 was principally due to tax expense associated with our US and UK operations, which was offset in part by a tax benefit associated with our Swiss and Israeli operations. Our tax expense

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for the nine months ended March 31, 2016 was offset in part by a discrete tax benefit of approximately \$0.2 million from the enactment of legislation that decreased UK income tax rates. The US income tax expense was principally due to an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The income tax expense for the nine months ended March 31, 2015 was principally due to tax expense associated with our US and UK operations, which was offset in part by a tax benefit associated with our Swiss, Australian and Israeli operations and by a discrete tax benefit from the enactment of legislation that retroactively extended the US research and development credit for one year beginning January 1, 2014.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately \$0.2 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 and, with the issuance of the Notes in December 2012, with debt proceeds. We have generated positive operating cash flows in each of our last fourteen completed fiscal years. 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.

In addition to our operating cash requirements, we will require cash to pay interest on the Notes and to make principal payments on the Notes at maturity or upon conversion. We are permitted to settle any conversion obligation under the Notes in excess of the principal balance in either cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. We intend to satisfy any conversion premium by issuing shares of our common stock. 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 future cash obligations. If our existing cash resources along with cash generated from operations is insufficient to satisfy our funding requirements we may need to sell additional equity or debt securities or seek other financing arrangements. Although we believe based on our operations today that we would be successful in obtaining additional financing, we cannot be certain that financing alternatives will be available in amounts or at terms that are acceptable to us, or available to us at all.

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 nine months ended March 31, 2016 and 2015 are summarized in the tables below:

	<b>March 31, 2016</b>	<b>June 30, 2015</b>
	(in thousands)	
Cash and cash equivalents	\$ 115,433	\$ 121,163
Marketable securities	33,387	23,225
Long-term Debt <sup>(1)</sup>	168,512	159,760

- (1) Our long-term debt consists of our convertible notes. The convertible notes are shown on our Consolidated Balance Sheets at their carrying value, which represents the principal balance of \$189.8 million less unamortized discount and debt issuance costs.

	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
	(in thousands)	
Cash provided by operating activities	\$ 52,666	\$ 50,694
Cash used in investing activities	(36,430)	(84,092)
Cash used in financing activities	(20,543)	(8,864)
Effect of exchange rates on cash	(1,423)	(9,008)

*Cash, cash equivalents and marketable securities.* At March 31, 2016 our cash and cash equivalents of \$115.4 million consisted primarily of cash deposits held at major banks and money market funds. The \$5.7 million decrease in cash and cash equivalents at March 31, 2016 from June 30, 2015 was primarily due to cash used to repurchase shares of our common stock for \$23.9 million, cash



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used to purchase property and equipment of \$20.8 million, net cash used for purchase of available-for-sale securities of \$10.4 million, cash used for business and asset acquisitions and cost methods investments of \$5.3 million and the unfavorable effect of foreign exchange rates on cash of \$1.4 million, offset in part by cash generated from operations of \$52.7 million.

At March 31, 2016 our marketable securities of \$33.4 million consisted primarily of residential mortgage-backed securities, US corporate debt securities and US treasury notes.

Cash, cash equivalents and marketable securities included approximately \$36.7 million held by our foreign subsidiaries as of March 31, 2016. Our current intention is to reinvest these amounts in the growth of our foreign operations. If our reinvestment plans change based on future events and we decide to repatriate these amounts to fund our domestic operations, the amounts would generally become subject to tax in the US to the extent there were cumulative profits in the foreign subsidiary from which the distribution to the US was made.

Cash and cash equivalents held by our foreign subsidiaries are denominated in currencies other than US Dollars. Decreases in the foreign currency exchange rates of the British Pound, European Euro, Swiss Franc, and Australian Dollar to the US Dollar decreased our overall cash balances by approximately \$1.4 million in the quarter ended March 31, 2016. 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 frequently experience, are adequate to meet our operating requirements for the foreseeable future.

*Operating Activities.* Cash generated from operating activities primarily relates to our net loss less the impact of non-cash expenses and changes in working capital. Cash generated from operations increased by \$2.0 million in the nine months ended March 31, 2016 versus the same period of the prior year. The increase was primarily the result of an increase in non-cash expenses of \$5.8 million, a decrease in cash used for accounts payable of \$1.3 million, and an increase in cash provided by accounts receivable of \$2.5 million, partially offset by a decrease in cash provided by prepaid expenses and other assets of \$6.7 million and a decrease in cash provided by other liabilities of \$0.7 million.

At March 31, 2016, we had US net operating loss carryforwards of \$82.1 million, which expire at various times through fiscal year 2036, Canadian net operating loss carryforwards of \$0.4 million, which expire principally in fiscal year 2035, and other foreign net operating loss carryforwards of \$13.0 million, primarily in Europe, which have no statutory expiration date. We also have approximately \$5.2 million of research and development tax credit carryforwards available which expire at various points through fiscal year 2036. Our operating losses and tax credit carryforwards may be subject to limitations under provisions of the Internal Revenue Code.

At March 31, 2016, the deferred tax assets associated with our US operations and a portion of the deferred tax assets associated with our European, Australian and Canadian 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.

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*Investing Activities.* The \$47.7 million decrease in net cash used in investing activities for the nine months ended March 31, 2016 versus the same quarter of the prior fiscal year was primarily due to a decrease in cash used to fund acquisitions and cost method equity investments of \$62.7 million partially offset by an increase in net cash used for the purchase of marketable securities of \$9.9 million and cash used for the purchase of property and equipment of \$5.1 million.

*Financing Activities.* The \$11.7 million increase in cash used by financing activities for the nine months ended March 31, 2016 as compared to the same period of the prior year was due to an increase in cash used to repurchase our common stock of \$11.3 million during the nine months ended March 31, 2016.

**Contractual Obligations**

Following is a summary of future payments that we are required to make under existing contractual obligations as of March 31, 2016:

	Payment Due by Fiscal Year				Total
	2016	2017-2018	2019-2020 (in thousands)	Thereafter	
Long-term debt:					
Principal payment	\$	\$ 189,750	\$	\$	\$ 189,750
Interest payments	1,423	4,270			5,693
Operating leases	1,543	9,882	7,906	11,967	31,298
Purchase commitments	1,913	8,617	1,864		12,394
Total contractual obligations	\$ 4,879	\$ 212,519	\$ 9,770	\$ 11,967	\$ 239,135

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.

Our estimate of unrecognized tax benefits for which cash settlement may be required, in the amount of \$1.3 million, has been excluded from the table above. These amounts have been excluded because, as of March 31, 2016, 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.

The contractual obligations table above also excludes our estimate of the contributions we will make to our Swiss defined benefit pension plan in fiscal year 2016 which is \$1.7 million based on foreign exchange rates in effect on March 31, 2016. We are unable to estimate contribution amounts for periods after fiscal year 2016.

**Off-Balance Sheet Arrangements**

During the three months ended March 31, 2016 we did not have any off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to a variety of risks, including interest rate changes, foreign currency exchange rate fluctuations, and derivative instruments classification. 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 August 28, 2015, which is incorporated herein by reference.

**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 March 31, 2016. The term disclosure controls and procedures, as defined in Rules 13a-5(e)

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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 March 31, 2016, 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 occurred during the fiscal quarter ended March 31, 2016 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**

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

### **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 impact 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 have not changed materially 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, 2015.*

### **Risks Related To Owning Our Common Stock**

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

The market price of our common stock has recently experienced and may continue to experience significant fluctuations due to a variety of factors, including:

changes in or our failure to meet analysts' or investors' estimates or expectations;

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 our operating results;

public announcements concerning us, our competitors or our industry;

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.

**If our operating results are below analyst or investor expectations or if our revenues are below anticipated levels, the market price of our common stock could be adversely affected**

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 adversely 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.

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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:

a change in customer demand for our products, which is highly dependent on our ability to continue to offer innovative technology solutions in very competitive markets;

overall economic conditions, which may affect our customers' and potential customers' budgets for information technology expenditures;

foreign exchange rate volatility, which can have a significant effect on our total revenues and costs when our foreign operations are translated to US dollars;

the timing of customer orders;

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.

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

The gross margins for our products and services vary considerably. Our software license revenues generally yield significantly higher gross margins than do our subscriptions and transactions, service and maintenance and other revenue streams. If software license revenues or our recurring revenues 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.

## **Risks Related To Our Business**

### **The markets in which we compete are extremely competitive and we may not be able to compete effectively**

The markets in which we compete are intensely competitive and characterized by rapid technological change. There is no assurance that we will be able to maintain our current market share or our customer base.

We compete with a wide range of companies ranging from small start-up enterprises with limited resources, which we compete with principally on the basis of technology features or specific customer relationships, to large companies which can leverage significantly larger customer bases and greater financial resources. Many of our competitors have longer operating histories, significantly greater financial, technical, and sales and marketing resources, greater brand

recognition and a larger customer base than we do. We anticipate that the markets in which we compete will continue to attract new competitors and new technologies and we may not be able to compete successfully with them.

To compete successfully, we need to maintain a successful research and development function. If we fail to enhance our current products and develop new, innovative solutions or if we fail to bring new solutions to market quickly enough, our products could become less competitive or obsolete.

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

Given the highly competitive and rapidly evolving technology environment we operate within, we believe that it is important to constantly enhance our existing product offerings as well as to develop new product offerings to meet strategic opportunities as they evolve. This includes developing and enhancing our products to include what we believe is necessary to meet the future needs of our customers.

Our operating results have been affected by increases in product development expenses in recent years as we have continued to make investments in a number of our products, and as we have funded new product development based on market opportunities. We expect to continue to make these investments and we may at any time, based on product need or marketplace demand, decide to significantly increase our product development expenditures in these or other products.

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 for us.

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**Acquisitions could disrupt our business and harm our financial condition**

An active acquisition program is an important element of our corporate strategy. We have been a highly acquisitive company and we expect to continue to make acquisitions in the future. 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;

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

failure to realize anticipated revenue increases for any number of reasons, including if a larger than expected number of acquired customers decline to renew software maintenance contracts or subscription based contracts, if we are unsuccessful in selling the acquired products into our existing customer base or if the terms of the acquired contracts do not permit us to recognize revenue on a timely basis;

costs incurred to combine the operations of companies we acquire, such as integrations costs, transitional employee expenses and employee retention or relocation expenses may be higher than expected;

write-offs related to existing or acquired assets such as deferred tax assets, goodwill or other intangible assets;

inability to retain key personnel of the acquired company;

inadequacy of existing operating, financial and management information systems to support the combined organization, including the difficulty in integrating an acquired company's accounting, financial reporting and other administrative systems to permit effective management;

difficulties implementing controls, procedures and policies appropriate for a public company at companies that, prior to the acquisition, may have lacked such controls, policies and procedures;

in the case of foreign acquisitions, challenges integrating operations across different cultures and languages and addressing the particular regulatory, economic, currency and political risks associated with different countries or regions;

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

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**

The carrying value of our intangible assets, including goodwill, represents a significant portion of our total assets. We periodically review our goodwill and our other intangible assets for impairment and could, in any future period, be subject to impairment charges with respect to these 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.

**The failure of our cyber-fraud and risk management products to prevent a security breach or detect a cyber-fraud, or the failure of our customers to take action based on the risks identified by these products could harm our reputation and adversely impact our operating results**

Our cyber-fraud and risk management products provide our customers the ability to configure a multitude of settings and establish certain rule-based alerts and it is possible that a customer could misconfigure these products or fail to configure these products in an optimal manner, which could cause threats to go undetected. Similarly, if our cyber-fraud and risk management products detect threats or otherwise alert a customer to suspicious activity but the customer does not take action to investigate those threats or alerts, customers may erroneously believe that our products were not effective.

Any real or perceived defects, errors or vulnerabilities in our cyber-fraud and risk management products or any failure of these products to prevent, detect or alert a customer to a threat could result in:

a loss of customers or potential customers;

delayed or lost revenue and harm to our financial condition and results or operations;

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a delay in attaining, or the failure to attain, market acceptance for our cyber-fraud and risk management solutions;

an increase in warranty claims;

harm to our reputation;

litigation, regulatory inquiries, or investigations that may be expensive and that would further harm our reputation.

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

Our business, financial condition and operating results are significantly affected by general economic conditions. The US and global economies have experienced deterioration in the recent past and prospects for sustained economic recovery remain uncertain. Prolonged economic weakness or any 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 as a result of their inability to access the liquidity necessary to engage in purchasing initiatives;

pricing pressures for our products and services, including reductions in the duration or renewal rates for our subscription contracts and software maintenance contracts;

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

impairment of our goodwill or other assets.

To the extent that economic conditions remain uncertain or deteriorate, or any of the above risks occur, our business and operating results could be significantly and 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. 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, particularly with the British Pound Sterling, the Swiss Franc, the European Euro, the Israeli Shekel and the Australian Dollar;

difficulties and costs of staffing and managing foreign operations;

differing regulatory and industry standards and certification requirements;

the complexities of tax laws in foreign jurisdictions;

reduced protection for intellectual property rights in some countries; and

import or export licensing requirements.

**We are subject to the political, economic and security conditions in Israel**

In January 2015 we acquired Intellinx, which is headquartered in Tel Aviv, Israel. Since the establishment of the State of Israel, a number of armed conflicts have taken place between Israel and its neighbors. During the past several years, Israel has experienced periodic armed conflicts which have involved missile strikes into Israel and which at times have disrupted day-to-day civilian activity in Israel.

There can be no assurance that future attacks will not occur and that such attacks will not hit our premises or major infrastructure and transport facilities in the country, which could have an adverse effect on our ability to conduct business in Israel. In addition, acts of terrorism, armed conflicts or political instability in the region could negatively affect global as well as local economic conditions and adversely impact our operating results.

**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 the United Kingdom and in continental Europe and, to a lesser extent in the Asia-Pacific and Middle East regions. During the nine months ended March 31, 2016,

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approximately 43% of our revenues and 45% of our operating expenses were attributable to customers or operations located outside of North America. During the three months ended March 31, 2016 as compared to the same period in the prior year, the foreign currency exchange rates of the British Pound Sterling to the US Dollar decreased. Future appreciation of the US Dollar against the British Pound Sterling, Swiss Franc, European Euro or Australian Dollar will have the impact of reducing both our revenues and operating expenses associated with our operations in those regions.

### **We may have larger than anticipated tax liabilities**

The determination of our provision for income taxes requires significant judgment and estimation and there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to tax in multiple US and foreign tax jurisdictions and the determination of our tax liability is always subject to audit and review by the applicable domestic or foreign taxing authority. In light of fiscal challenges in US federal and state governments and in many international locations, taxing authorities are increasingly focused on ways to increase revenues which may make resolving tax disputes more difficult. While we have established tax reserves using assumptions and estimates that we believe to be reasonable, these reserves may prove insufficient in the event that a taxing authority asserts a tax position that is contrary to our position.

### **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 demonstrate the value of our solutions as compared to solutions from other vendors such as enterprise resource planning software vendors that offer a broader enterprise application solution; and

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

### **Our future financial results will be affected by our success in selling our products in a subscription and transaction model, which carries with it certain risks**

A substantial portion of our revenues and profitability were historically generated from perpetual software license revenues; however, we are offering a growing number of our products, including our newer cyber fraud and risk management products, under a subscription and transaction based revenue model. We believe a subscription based revenue 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 subscription basis generally delay the timing of revenue recognition and can require the incurrence of up-front costs, which may be significant;

subscription 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 subscription arrangement may elect not to renew their contract 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 subscription basis, including new revenue models or new products that we may introduce, will receive broad marketplace acceptance.

**Because we recognize subscription revenue from our customers over the term of their agreements, downturns or upturns in sales of our subscription based offerings will not be immediately reflected in our operating results and may adversely affect revenue in the future**

We recognize subscription revenue over the term of our customer agreements. As a result, most of our subscription revenue arises from agreements entered into during previous periods. A shortfall in orders for our subscription based solutions in any one

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period would most likely not significantly reduce our subscription revenue for that period, but could adversely affect revenue in future periods. In addition, we may be unable to quickly reduce our cost structure in response to a decrease in these orders. Accordingly, the effect of downturns in sales of our subscription based solutions will not be fully reflected in our operating results until future periods. A subscription revenue model also makes it difficult for us to rapidly increase our revenue through additional subscription sales in any one period, as revenue is generally recognized over the applicable customer term.

### **Large and complex customer contracts, or contracts that involve the delivery of services over contractually committed periods, can delay 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**

Large and complex customer contracts can delay the timing of our revenue recognition. These arrangements require significant implementation work, product customization and modification, 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. Large customer opportunities are very competitive and take significant time and effort to consummate. When competing for these customer opportunities, we face greater sales costs, longer sales cycles and less predictability with respect to these orders than with orders in other areas of our business. 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.

### **If our products and services do not comply with laws, regulations and industry standards to which we and our customers are subject, our business could be adversely affected**

Our software products and SaaS offerings facilitate the transmission of cash, business documents and confidential information including, in some cases, personally identifiable information related to individuals and corporations. Our software products and certain of our SaaS offerings store and transmit this data electronically, and therefore our products must operate within the laws, regulations and industry standards regarding security, data protection and electronic commerce. While we believe that our products comply with current regulatory requirements, the interpretation and application of these requirements continues to evolve and may evolve in ways that we cannot predict; so there can be no assurance that future legal or regulatory actions will not adversely 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 or our customers 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 how we operate our business, including any 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.

### **Security or data breaches could have an adverse effect on our business**

In the course of providing services to our customers, we collect, store, process and transmit highly sensitive and confidential information. Certain of our solutions also facilitate the actual transfer of cash or transmit instructions that initiate cash transfer. Our products and services, particularly our SaaS and Web-based offerings, may be vulnerable to unauthorized access, computer viruses, cyber-attacks, distributed denial of service attacks and other disruptive problems which could result in the theft, destruction or misappropriation of confidential information. Security risks in recent years have increased significantly given the increased sophistication and activities of hackers, organized crime and other external parties. We may need to spend significant capital or allocate significant resources to ensure

effective ongoing protection against the threat of security breaches or to address security related concerns. Despite our efforts, a security breach or computer virus could still occur which could have a significant negative impact on our business, including reputational harm, the loss of customers and material financial liability to us.

**Defects or disruptions in our products or services could diminish demand for our solutions and have a material adverse effect on our future financial results**

Our software products are complex. Despite testing prior to their release and throughout the lifecycle of a product or service, software and SaaS offerings can contain undetected errors or defects that can impact their function, performance and security. Any unanticipated performance problems or defects in our products or services could result in additional development costs, diversion of technical and other resources from our other development efforts, service disruptions for our SaaS offerings, negative publicity and reputational harm to us and our products and exposure to potential liability claims. As a result, any error or defect in our products or services could adversely affect our future financial results.

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### **We rely on certain third-party hardware and software which could cause errors, interruptions or failures to our solutions or be difficult to replace**

We rely on third party hardware and software to deliver certain of our solutions. These third party products may not continue to be available to us on commercially reasonable terms, or at all. The loss of the right to use any of these products 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 products used in conjunction with our solutions could adversely affect the operation of our products.

### **Catastrophic events may disrupt our business, including our third party data centers**

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 third party data center facilities in different US and international locations over which we have no control. 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 and hosted 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.

### **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 normally 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.

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 harm our reputation, result in substantial financial costs or divert management's attention, 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 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, there is no assurance 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 for our technology or any commercial advantage to us. Further, we



cannot be certain that our 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 is 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 result in reputational harm to us, require us to spend significant sums in litigation costs or damages, delay product implementations, or require us to develop non-infringing intellectual property or acquire licenses to intellectual property that is the subject of the infringement claim. In addition, under many of our customer contracts, we are required to indemnify our customers for third-party intellectual property infringement claims, which would increase the costs to us of any such claims. These claims could have a material adverse effect on our business, operating results and financial condition.

**Our ability to attract and retain qualified employees is critical to the success of our business and failure to do so could adversely affect our operating results**

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, business banking technologies, and web, database and network technologies. Our success and future growth depends to a significant degree on the skills and continued services of our management team. Our current

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key employees and 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, including base salary, bonus and equity incentives. The loss of one or more of our key employees or our failure to consistently attract and retain sufficient qualified employees to grow our operations could have a material adverse effect on our business. 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.

### **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 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 including:

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;

misappropriation of intellectual property, 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.

### **Changes in financial accounting standards may cause unexpected financial reporting fluctuations and affect our reported results of operations**

Changes in accounting standards or practices could adversely affect our reported results of operations. New accounting pronouncements, such as the upcoming changes in US GAAP related to revenue recognition, accounting for lease arrangements and accounting for share-based compensation arrangements, and varying interpretations of accounting pronouncements, have occurred and will occur in the future. Changes to existing accounting rules or practices may adversely affect our reported results of operations or the way we conduct our business in future periods.

**If we fail to maintain appropriate and effective internal control over financial reporting, our ability to produce accurate and timely financial statements could be impaired, which could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price**

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that we re-evaluate regularly. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. However, despite our efforts, any failure to maintain or implement the necessary internal controls could cause us to fail to meet our financial reporting obligations or result in misstatements in our financial statements, either of which could cause investors to lose confidence in our reported financial information and lead to a decline in the trading price of our common stock.

**Certain 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 limitation 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.

**Risks Related to our Indebtedness**

In December 2012, we issued, at par value, \$189.8 million aggregate principal amount of 1.50% convertible senior notes due in December 2017. In connection with the pricing of the notes, we purchased convertible note hedge transactions with a strike price equal to the initial conversion price of the notes and we sold warrants with a strike price of \$40.04 per share with certain counterparties. The note hedges and the warrants each cover approximately 6.3 million shares of our common stock.

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### **Servicing the notes or future indebtedness will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our obligations under the notes or future indebtedness, resulting in a default under such indebtedness**

Our ability to make scheduled payments of interest and, upon maturity or early conversion, the principal balance of the notes, depends on our future performance which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional debt or equity financing on terms that may not be favorable to us or available to us at all. Our ability to refinance the notes will depend on the capital markets and our financial condition at that time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the notes or future indebtedness.

### **Our level of indebtedness may limit our financial flexibility**

Our level of indebtedness affects our operations in several ways, including:

a portion of our cash flows from operating activities must be used to service our indebtedness and is not available for other purposes;

we may be at a competitive disadvantage as compared to similar companies that have less debt; and

additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may have higher costs and contain restrictive covenants, or may not be available to us.

The factors that will affect our ability to obtain additional financing may be beyond our control and include financial market conditions, the value of our assets and our performance at the time we need financing.

### **The accounting for the notes will result in our having to recognize interest expense significantly more than the stated interest rate of the notes and may result in volatility to our consolidated statement of operations**

Upon issuance of the notes we were required to establish a separate initial value for the conversion option and to bifurcate this value from the value attributable to the balance of the notes, or the debt component. As a result, for accounting purposes, we were required to treat the notes as having been issued with a discount to their face principal amount, which is referred to as an original issue discount. We are accreting the original issue discount to interest expense ratably over the term of the notes, which results in an effective interest rate in our consolidated statement of operations that is in excess of the stated coupon rate of the notes. This will reduce our earnings and could adversely affect the price at which our common stock trades, but will have no effect on the amount of cash interest paid to holders or on our cash flows.

Certain derivative instruments issued in connection with the notes were classified within stockholders' equity at March 31, 2016. However, if we do not continue to satisfy all of the criteria required for equity classification, these instruments would be reclassified out of equity and be subject to re-measurement at fair value. Changes in fair value resulting from any such re-measurement would be reflected in earnings which could have a material impact on our financial statements.

**The conditional conversion feature of the notes, if triggered, and the requirement to repurchase the notes upon a fundamental change may adversely affect our financial condition and operating results**

In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert the notes at their option during specified periods. If one or more holders elect to convert their notes, we would be required to settle the principal portion of the notes in cash. Additionally, if we undergo a fundamental change, (as described in the Indenture), subject to certain conditions, holders of the notes may require us to repurchase for cash all or part of their notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest. Either of these events could adversely affect our liquidity. Even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal balance of the notes to a current rather than long-term liability, which would result in a material reduction of our working capital.

**We may be subject to significant future write-offs with respect to intangible assets or deferred tax assets**

Certain of our assets, such as intangible assets and deferred tax assets, are subject to periodic tests of recoverability based on a variety of factors. Those factors typically include, at a minimum, projections of future income levels and cash flows. The accounting for the notes will result in the recognition of a significant level of interest expense, particularly non-cash interest expense, as the

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carrying value of debt is accreted to par and as we amortize our debt issue costs, including the underwriters' discount. During the year ended June 30, 2015, we established a reserve against a portion of our US-based deferred tax assets, resulting in an expense charge of \$16.0 million. We could be subject to future impairment charges with respect to these assets which would have a material adverse effect on our consolidated statement of operations.

**The convertible note hedge and warrant transactions may affect the value of the notes and our common stock**

The outstanding warrants could have a dilutive effect on our earnings per share to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants. However, subject to certain conditions, we may elect to settle the warrants in cash.

From time to time, the counterparties to the convertible note hedge transactions or their affiliates may modify their respective hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions (and are likely to do so during any observation period related to a conversion of notes). This activity could cause or avoid an increase or a decrease in the market price of our common stock or the notes.

**Table of Contents****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 quarter ended March 31, 2016:

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs</b>
January 1, 2016 - January 31, 2016		\$		\$ 20,000,000
February 1, 2016 - February 29, 2016		\$		\$ 20,000,000
March 1, 2016 - March 31, 2016		\$		\$ 20,000,000
Total		\$		\$ 20,000,000

- <sup>(1)</sup> On November 19, 2015, our board of directors announced that it had authorized a repurchase program of our common stock for an aggregate repurchase price not to exceed \$20 million. This program expires on November 19, 2017 and we are not obligated to purchase any shares under the program.

**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: May 9, 2016

By: /s/ RICHARD D. BOOTH  
**Richard D. Booth**  
**Chief Financial Officer and Treasurer**  
**(Principal Financial and Accounting Officer)**



**Table of Contents****EXHIBIT INDEX**

<b>Exhibit</b>		<b>Incorporate by Reference</b>					<b>Filed</b>
		<b>Filer</b>	<b>Date</b>	<b>Herewith</b>	<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>
<b>Number</b>	<b>Description</b>						
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer						X
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer						X
32.1	Section 1350 Certification of Principal Executive Officer						X
32.2	Section 1350 Certification of Principal Financial Officer						X
101.INS**	XBRL Instance Document						X
101.SCH**	XBRL Taxonomy Extension Schema Document						X
101.CAL**	XBRL Taxonomy Calculation Linkbase Document						X
101.DEF**	XBRL Taxonomy Definition Linkbase Document						X
101.LAB**	XBRL Taxonomy Label Linkbase Document						X
101.PRE**	XBRL Taxonomy Presentation Linkbase Document						X

\*\* submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2016 (unaudited) and June 30, 2015, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended March 31, 2016 and 2015, (iii) Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2016 and 2015 and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.