BOTTOMLINE TECHNOLOGIES INC /DE/
Form 10-Q
February 06, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2008

OR

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

For the transition period from to

Commission file number: 0-25259

Bottomline Technologies (de), Inc.
(Exact name of registrant as specified in its charter)

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

(603) 436-0700

(Registrant's telephone number, including area code)

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

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

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

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

The number of shares outstanding of the registrant's common stock as of January 30, 2009 was 25,062,306.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Bottomline Technologies (de), Inc.
Unaudited Condensed Consolidated Balance Sheets
(in thousands)

	December 31, 2008	June 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 34,717	$ 35,316
Marketable securities	42	57
Accounts receivable, net of allowance for doubtful accounts and returns of $929 at December 31, 2008 and $1,433 at June 30, 2008	26,798	28,747
Other current assets	4,501	6,157
Total current assets	66,058	70,277
Property and equipment, net	10,721	11,840
Intangible assets, net	93,752	115,414
Other assets	2,757	1,235
Total assets	$ 173,288	$ 198,766
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,095	$ 8,856
Accrued expenses	9,040	10,997
Deferred revenue	31,520	30,621
Total current liabilities	46,655	50,474
Deferred revenue, non-current	7,281	3,856
Deferred income taxes	2,386	4,179
Other liabilities	1,606	1,992
Total liabilities	57,928	60,501
Stockholders' equity:		
Preferred Stock, $.001 par value:		
Authorized shares—4,000; issued and outstanding shares—none	---	---
Common Stock, $.001 par value:		
Authorized shares—50,000; issued shares—25,854 at June 30, 2008, and 26,213 at December 31, 2008; outstanding shares—23,939 at June 30, 2008, and 24,058 at December 31, 2008	26	26
Additional paid-in capital	282,405	277,660
Accumulated other comprehensive (loss) income	(11,143)	7,766
Treasury stock: 1,915 shares at June 30, 2008, and 2,155 shares at December 31, 2008, at cost	(24,218)	(22,195)
Accumulated deficit	(131,710)	(124,992)
Total stockholders' equity	115,360	138,265

Total liabilities and stockholders' equity	$ 173,288	$ 198,766

See accompanying notes.

Bottomline Technologies (de), Inc.
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Revenues:		
Software licenses	$ 3,597	$ 3,393
Subscriptions and transactions	7,744	7,342
Service and maintenance	20,527	18,083
Equipment and supplies	2,466	3,014
Total revenues	34,334	31,832
Cost of revenues:		
Software licenses	207	237
Subscriptions and transactions	3,743	3,913
Service and maintenance (1)	9,562	7,556
Equipment and supplies	1,824	2,091
Total cost of revenues	15,336	13,797
Gross profit	18,998	18,035
Operating expenses:		
Sales and marketing (1)	8,150	7,847
Product development and engineering (1)	5,238	4,226
General and administrative (1)	4,619	4,727
Amortization of intangible assets	3,948	2,682
Total operating expenses	21,955	19,482
Loss from operations	(2,957)	(1,447)
Other income, net	615	896
Loss before income taxes	(2,342)	(551)
Provision for income taxes	527	123
Net loss	(2,869)	(674)
Basic and diluted net loss per share:	$ (0.12)	$ (0.03)
Shares used in computing basic and diluted net loss per share:	24,033	23,887

(1) Stock based compensation is allocated as follows:

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Cost of revenues: service and maintenance	$ 261	$ 236
Sales and marketing	648	686
Product development and engineering	197	200
General and administrative	1,097	980
	$ 2,203	$ 2,102

See accompanying notes.

Bottomline Technologies (de), Inc.
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)

	Six Months Ended December 31, 2008	Six Months Ended December 31, 2007
Revenues:		
Software licenses	$ 7,203	$ 6,758
Subscriptions and transactions	15,973	14,184
Service and maintenance	41,676	35,768
Equipment and supplies	4,988	6,484
Total revenues	69,840	63,194
Cost of revenues:		
Software licenses	407	425
Subscriptions and transactions	7,860	7,884
Service and maintenance (1)	19,434	15,388
Equipment and supplies	3,679	4,614
Total cost of revenues	31,380	28,311
Gross profit	38,460	34,883
Operating expenses:		
Sales and marketing (1)	16,788	15,366
Product development and engineering (1)	10,660	8,452
General and administrative (1)	9,792	9,185
Amortization of intangible assets	8,384	5,330
Total operating expenses	45,624	38,333
Loss from operations	(7,164)	(3,450)
Other income, net	763	1,793
Loss before income taxes	(6,401)	(1,657)
Provision (benefit) for income taxes	317	(182)
Net loss	(6,718)	$ (1,475)
Basic and diluted net loss per share	$ (0.28)	$ (0.06)
Shares used in computing basic and diluted net loss per share:	23,958	23,745

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(1) Stock based compensation is allocated as follows:

	Six Months Ended December 31, 2008	Six Months Ended December 31, 2007
Cost of revenues: service and maintenance	$ 521	$ 468
Sales and marketing	1,343	1,297
Product development and engineering	400	383

General and administrative	2,149	1,880
	$ 4,413	$ 4,028

See accompanying notes.

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

	Six Months Ended December 31, 2008	Six Months Ended December 31, 2007
Operating activities:		
Net loss	$ (6,718)	$ (1,475)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock compensation expense	4,413	4,028
Amortization of intangible assets	8,384	5,330
Depreciation and amortization of property and equipment	1,995	1,610
Deferred income tax benefit	(179)	(408)
Excess tax benefits associated with stock compensation	(10)	(108)
Provision for allowances on accounts receivable	11	---
Provision for obsolete inventory	7	10
Gain on foreign exchange	(222)	(112)
Loss on disposal of equipment	12	---
Changes in operating assets and liabilities:		
Accounts receivable	(820)	(231)
Inventory, prepaid expenses and other current assets	(810)	1,160
Accounts payable, accrued expenses and deferred revenue	4,371	(1,343)
Net cash provided by operating activities	10,434	8,461
Investing activities:		
Purchases of available-for-sale securities	---	(225)
Proceeds from sales of available-for-sale securities	---	26,050
Purchases of held-to-maturity securities	(53)	(51)
Proceeds from sales of held-to-maturity securities	53	51
Purchases of property, plant and equipment, net	(2,060)	(1,270)
Net cash (used in) provided by investing activities	(2,060)	24,555
Financing activities:		
Repurchase of common stock	(2,603)	(6,708)
Proceeds from employee stock purchase plan and exercise of stock optionsoceeds	961	4,988
Excess tax benefits associated with stock compensation	10	108
Payment of bank financing fees	(20)	(20)
Capital lease payments	(65)	(15)
Net cash used in financing activities	(1,717)	(1,647)
Effect of exchange rate changes on cash and cash equivalents	(7,256)	(206)
(Decrease) increase in cash and cash equivalents	(599)	31,163
Cash and cash equivalents at beginning of period	35,316	38,997
Cash and cash equivalents at end of period	$ 34,717	$ 70,160

See accompanying notes.

Bottomline Technologies (de), Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
December 31, 2008

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 six month periods ended December 31, 2008 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2009. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) on September 12, 2008.

Certain prior period amounts have been reclassified to conform to the current year presentation.

Note 2—Fair Values of Assets and Liabilities

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," or SFAS 157, effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Company adopted SFAS 157 effective July 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Statement applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, which defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 (July 1, 2009 for the Company) for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis.

The adoption of SFAS No. 157 did not have an impact on the Company's financial position or results of operations. The Company's nonfinancial assets and liabilities that meet the deferral criteria set forth in FSP No. 157-2 include goodwill, intangible assets, and property, plant and equipment. The Company does not expect that the adoption of SFAS No. 157 for these nonfinancial assets and liabilities will have a material impact on its financial position or results of operations.

In accordance with the provisions of SFAS No. 157, the Company measures 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. SFAS 157 prioritizes the assumptions that market participants would use in pricing the asset or liability (the "inputs") into a three-tier fair value hierarchy, 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 the Company to develop its own assumptions about how market participants would price the asset or liability.

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

At December 31, 2008, assets and liabilities of the Company measured at fair value on a recurring basis included marketable securities of $42,000. These were valued based on reference to quoted prices in active markets (Level 1 inputs).

Note 3 – Business Acquisitions

Optio Software, Inc.

On April 21, 2008, the Company acquired Optio Software, Inc. (Optio). Optio is a US based company with operations in the United States, the United Kingdom, Germany and France that provides software solutions dedicated to automating, managing and controlling the entire lifecycle of document intensive processes. The purchase consideration and acquisition-related costs for Optio were approximately $46.5 million, consisting of approximately $44.7 million in cash and $1.8 million in acquisition-related costs. Optio operating results are included in the Company's operating results from the date of acquisition forward, as a component of the Payments and Transactional Documents operating segment.

In connection with the acquisition, the Company recorded costs associated with the involuntary termination of certain Optio employees and costs associated with Optio facility exit activities. At December 31, 2008, certain estimated costs were still being finalized. Accordingly, the preliminary estimate of these costs might require adjustment in a subsequent quarter. The Company expects to finalize these estimates no later than March 31, 2009, with any required adjustment resulting in a corresponding adjustment to goodwill. A summary of the severance and facility exit accrual activity through December 31, 2008 is presented below.

	Facility Exit Costs	Severance Costs
	(in thousands)	
Initial estimate, included in preliminary purchase price allocation for Optio	$ 1,220	$ 1,415
Adjustments to original estimate, recorded through goodwill	(11)	103
Payments charged against the accrual	(389)	(931)
Impact of changes in foreign currency exchange rates	(26)	(114)
Remaining accrual at December 31, 2008	$ 794	$ 473

Pro-forma Information

The following unaudited pro-forma financial information presents the combined results of operations of the Company and Optio as if the acquisition had occurred as of July 1, 2007, after giving effect to certain adjustments such as increased amortization expense of acquired intangible assets, purchase accounting reductions to acquired deferred revenue based on the Company's estimates of fair value, and a decrease in interest income as a result of the net cash paid for the acquisition. This pro-forma financial information does not necessarily reflect the results of operations that would have actually occurred had the Company and Optio been a single entity during these periods.

	Pro Forma Three Months Ended December 31, 2007 (unaudited)	Pro Forma Six Months Ended December 31, 2007 (unaudited)

	(in thousands)	(in thousands)
Revenues	$ 37,173	$ 73,283
Net loss	$ (4,475)	$ (10,442)
Net loss per basic and diluted share	$ (0.19)	$ (0.44)

Note 4—Net Loss Per Share

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
	(in thousands, except per share amounts)			
Numerator:				
Net loss	$ (2,869)	$ (674)	$ (6,718)	$ (1,475)
Denominator: Weighted average shares outstanding used in computing basic and diluted net loss per share:	24,033	23,887	23,958	23,745
Basic and diluted net loss per share	$ (0.12)	$ (0.03)	$ (0.28)	$ (0.06)

Note 5—Comprehensive Income or Loss

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
	(in thousands)			
Net loss	$ (2,869)	$ (674)	$ (6,718)	$ (1,475)
Other comprehensive loss:				
Foreign currency translation adjustments	(10,884)	(1,814)	(18,909)	(743