

BOTTOMLINE TECHNOLOGIES INC /DE/

Form 10-Q

November 08, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

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)

325 Corporate Drive

02-0433294
(I.R.S. Employer

Identification No.)

03801-6808

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Portsmouth, New Hampshire
(Address of principal executive offices)

(603) 436-0700

(Zip Code)

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

The number of shares outstanding of the registrant's common stock as of October 31, 2007 was 24,829,199.

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

(in thousands)

	September 30,	June 30,
	2007	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,239	\$ 38,997
Marketable securities	19,703	26,876
Accounts receivable, net of allowance for doubtful accounts and returns of \$1,586 at September 30, 2007 and \$1,590 at June 30, 2007	26,277	24,359
Other current assets	5,018	5,402
Total current assets	96,237	95,634
Property and equipment, net	8,159	8,270
Intangible assets, net	82,191	84,296
Other assets	1,736	1,784
Total assets	\$ 188,323	\$ 189,984
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 6,205	\$ 6,650
Accrued expenses	7,909	8,475
Deferred revenue and deposits	24,784	25,188
Total current liabilities	38,898	40,313
Deferred revenue and deposits, non-current	1,980	2,498
Deferred income taxes	5,676	6,258
Other liabilities	753	479
Total liabilities	47,307	49,548
Stockholders equity:		
Common stock	25	25
Additional paid-in capital	266,665	263,229
Accumulated other comprehensive income	9,363	8,292
Treasury stock	(14,505)	(11,285)
Accumulated deficit	(120,532)	(119,825)
Total stockholders equity	141,016	140,436
Total liabilities and stockholders equity	\$ 188,323	\$ 189,984

See accompanying notes.

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

	Three Months Ended September 30,	
	2007	2006
Revenues:		
Software licenses	\$ 3,365	\$ 1,851
Subscriptions and transactions	6,842	6,484
Service and maintenance	17,685	13,507
Equipment and supplies	3,470	3,380
Total revenues	31,362	25,222
Cost of revenues:		
Software licenses	188	197
Subscriptions and transactions	3,971	2,606
Service and maintenance ⁽¹⁾	7,831	6,362
Equipment and supplies	2,524	2,526
Total cost of revenues	14,514	11,691
Gross profit	16,848	13,531
Operating expenses:		
Sales and marketing ⁽¹⁾	7,519	6,591
Product development and engineering ⁽¹⁾	4,226	3,708
General and administrative ⁽¹⁾	4,459	4,219
Amortization of intangible assets	2,647	1,461
Total operating expenses	18,851	15,979
Loss from operations	(2,003)	(2,448)
Other income, net	897	969
Loss before provision for income taxes	(1,106)	(1,479)
Provision (benefit) for income taxes	(305)	1
Net loss	(801)	(1,480)
Basic and diluted net loss per share:	\$ (0.03)	\$ (0.06)
Shares used in computing basic and diluted net loss per share:	23,602	23,430

⁽¹⁾ Stock based compensation is allocated as follows:

	Three Months Ended September 30,	
	2007	2006
Cost of revenues: service and maintenance	\$ 232	\$ 118

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Sales and marketing	612	695
Product development and engineering	183	198
General and administrative	900	825
	\$ 1,927	\$ 1,836

See accompanying notes.

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

(in thousands)

	Three Months Ended	
	September 30, 2007	2006
Operating activities:		
Net loss	\$ (801)	\$ (1,480)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock compensation expense	1,927	1,836
Amortization of intangible assets	2,647	1,461
Depreciation and amortization of property and equipment	816	671
Deferred income tax benefit	(381)	(90)
Excess tax benefits associated with stock compensation	(59)	
Provision for allowances on accounts receivable		28
Provision for obsolete inventory	9	(11)
Gain on foreign exchange	(55)	(10)
Changes in operating assets and liabilities:		
Accounts receivable	(1,724)	1,018
Inventory, prepaid expenses and other current assets	350	(527)
Accounts payable, accrued expenses and deferred revenue and deposits	(1,727)	(249)
Net cash provided by operating activities	1,002	2,647
Investing activities:		
Purchases of available-for-sale securities	(225)	(9,050)
Proceeds from sales of available-for-sale securities	7,400	12,450
Purchases of held-to-maturity securities	(51)	
Proceeds from sales of held-to-maturity securities	51	
Purchases of property, plant and equipment, net	(636)	(645)
Net cash provided by investing activities	6,539	2,755
Financing activities:		
Repurchase of common stock	(3,690)	(1,636)
Proceeds from employee stock purchase plan and exercise of stock options	1,970	872
Excess tax benefits associated with stock compensation	59	
Capital lease payments	(8)	
Net cash used in financing activities	(1,669)	(764)
Effect of exchange rate changes on cash and cash equivalents	370	75
Increase in cash and cash equivalents	6,242	4,713
Cash and cash equivalents at beginning of period	38,997	38,752
Cash and cash equivalents at end of period	\$ 45,239	\$ 43,465

See accompanying notes.

Table of Contents**Bottomline Technologies (de), Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****September 30, 2007****Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three months ended September 30, 2007 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2008. 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, 2007.

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

Note 2 Business Acquisitions

On October 13, 2006 the Company, through its U.K. subsidiary, acquired all of the outstanding share capital of Formscape Group, Ltd. (Formscope). Formscope is a U.K. headquartered company with operations in the United States, the United Kingdom and Germany that provides software solutions for automating purchase-to-pay, document and financial transaction processes.

In connection with the acquisition, the Company accrued costs associated with Formscope facility exit activities, which were finalized during the quarter ended September 30, 2007. A summary of the exit accrual activity from the acquisition date through September 30, 2007 is presented below.

	Exit Accrual
Initial estimate, included in preliminary purchase price allocation for Formscope	\$ 913
Adjustments to original estimate, recorded through goodwill	(141)
Payments charged against the accrual	(359)
Impact of changes in foreign currency exchange rates	53
Remaining accrual at September 30, 2007	\$ 466

The following unaudited pro-forma financial information presents the combined results of operations of the Company and Formscope as if that acquisition had occurred as of July 1, 2006 after giving effect to certain adjustments such as increased amortization expense of acquired intangible assets, a decrease in interest income as a result of cash paid for the acquisition and the dilutive effect of common stock issued by the Company as part of the purchase consideration. This pro-forma financial information does not necessarily reflect the results of operations that would have actually occurred had the Company and Formscope been a single entity during this period.

	Pro Forma Three Months Ended September 30, 2006 (in thousands, except per share amounts)
Revenues	\$ 29,768
Net loss	\$ (3,138)
Net loss per basic and diluted share	\$ (0.13)

Table of Contents**Note 3 Net Loss Per Share**

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

		Three Months Ended	
		September 30, 2007	2006
		(in thousands, except per share amounts)	
Numerator:			
Net loss		\$ (801)	\$ (1,480)
Denominator			
Weighted average shares outstanding used in computing basic and diluted net loss per share:		23,602	23,430
Basic and diluted net loss per share:		\$ (0.03)	\$ (0.06)

Note 4 Comprehensive Income or Loss

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

		Three Months Ended	
		September 30, 2007	2006
		(in thousands)	
Net loss		\$ (801)	\$ (1,480)
Other comprehensive income:			
Foreign currency translation adjustments		1,071	506
Comprehensive income (loss)		\$ 270	\$ (974)

Note 5 Operations by Segments and Geographic Areas*Segment Information*

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company's operating segments are organized principally by the type of product or services offered and by geography. As of July 1, 2007, the Company revised the structure of its internal operating segments and changed the nature of the financial information that is provided to and used by the Company's chief operating decision makers. The change in segment structure as of July 1, 2007 resulted in the Company's accounts payable automation product offerings being included as a component of its Outsourced Solutions segment rather than its Payment and Transactional Documents segment. This change is reflected for all periods presented. In accordance with SFAS 131, the Company has aggregated similar operating segments into three reportable segments as follows:

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Payments and Transactional Documents. The Company's Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also provides a range of standard professional services and equipment and supplies that complement and enhance the Company's core software products. Revenue associated with this segment is typically recorded upon delivery. This segment also incorporates the Company's check printing solutions in the U.K., revenue for which is typically recorded on a per transaction basis or ratably over the expected life of the customer relationship.

Banking Solutions. The Banking Solutions segment