BOTTOMLINE TECHNOLOGIES INC /DE/
Form 10-Q
November 06, 2015
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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 September 30, 2015

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

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

The number of shares outstanding of the registrant s common stock as of October 30, 2015 was 40,342,568.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Bottomline Technologies (de), Inc.

Condensed Consolidated Balance Sheets

(in thousands)

	September 30, 2015 (unaudited)	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 104,137	$ 121,163
Marketable securities	24,159	23,225
Accounts receivable net of allowances for doubtful accounts of $988 at September 30, 2015 and $924 at June 30, 2015	60,584	65,140
Deferred tax assets	5,916	5,388
Prepaid expenses and other current assets	14,234	14,325
Total current assets	209,030	229,241
Property and equipment, net	50,008	47,579
Goodwill	209,714	215,360
Intangible assets, net	175,847	185,290
Other assets	11,810	11,014
Total assets	$ 656,409	$ 688,484
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 11,259	$ 11,623
Accrued expenses	22,835	24,436
Deferred revenue	62,527	70,383
Total current liabilities	96,621	106,442
Convertible senior notes	162,626	159,760
Deferred revenue, non-current	18,127	17,624
Deferred income taxes	34,203	35,542
Other liabilities	19,328	20,578
Total liabilities	330,905	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-40,701 at September 30, 2015 and 40,337 at June 30, 2015; outstanding shares-37,715 at September 30, 2015 and 38,105 at June 30, 2015		41		40
Additional paid-in-capital		568,013		560,083
Accumulated other comprehensive loss		(19,972)		(13,511)
Treasury Stock: 2,986 shares at September 30, 2015 and 2,232 shares at June 30, 2015, at cost		(54,418)		(34,167)
Accumulated deficit		(168,160)		(163,907)
Total stockholders equity		325,504		348,538
Total liabilities and stockholders equity	$	656,409	$	688,484

See accompanying notes.

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Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Comprehensive Loss

(in thousands, except per share amounts)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
Revenues:		
Subscriptions and transactions	$ 46,197	$ 40,871
Software licenses	4,115	5,658
Service and maintenance	30,784	32,960
Other	1,785	1,854
Total revenues	82,881	81,343
Cost of revenues:		
Subscriptions and transactions	20,734	19,328
Software licenses	288	395
Service and maintenance	12,978	13,284
Other	1,335	1,306
Total cost of revenues	35,335	34,313
Gross profit	47,546	47,030
Operating expenses:		
Sales and marketing	20,155	19,202
Product development and engineering	11,260	11,681
General and administrative	8,823	8,277
Amortization of intangible assets	7,279	7,184
Total operating expenses	47,517	46,344
Income from operations	29	686
Other expense, net	(3,671)	(3,647)
Loss before income taxes	(3,642)	(2,961)
Income tax provision	611	307
Net loss	$ (4,253)	$ (3,268)

Basic and diluted net loss per share:	$ (0.11)	$ (0.09)
Shares used in computing basic and diluted net loss per share:	38,004	37,647
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on available for sale securities	8	(12)
Minimum pension liability adjustments	116	(37)
Foreign currency translation adjustments	(6,585)	(13,820)
Other comprehensive loss, net of tax:	(6,461)	(13,869)
Comprehensive loss	$ (10,714)	$ (17,137)

See accompanying notes.

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Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
	(in thousands)	
Operating activities:		
Net loss	$ (4,253)	$ (3,268)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of intangible assets	7,279	7,184
Stock compensation expense	7,588	6,331
Depreciation and amortization of property and equipment	3,077	2,509
Deferred income tax benefit	(822)	(1,241)
Provision for allowances on accounts receivable	161	79
Excess tax benefits associated with stock compensation	(27)	(51)
Amortization of debt issuance costs	296	296
Amortization of debt discount	2,865	2,669
Amortization of premium on investments	68	111
Write down of fixed assets	17	
Loss on foreign exchange	130	11
Changes in operating assets and liabilities:		
Accounts receivable	3,390	6,894
Prepaid expenses and other current assets	(137)	2,020
Other assets	(1,123)	17
Accounts payable	(592)	(3,950)
Accrued expenses	(1,026)	1,399
Deferred revenue	(5,625)	(6,496)
Other liabilities	(340)	375
Net cash provided by operating activities	10,926	14,889
Investing activities:		
Acquisition of businesses, net of cash acquired		(685)
Purchases of held-to-maturity securities	(44)	(55)
Proceeds from sales of held-to-maturity securities	44	55
Purchase of available-for-sale securities	(4,790)	(4,282)
Proceeds from sales of available-for-sale securities	3,790	2,952
Purchases of property and equipment, net	(5,830)	(5,897)
Net cash used in investing activities	(6,830)	(7,912)
Financing activities:		
Repurchase of common stock	(21,354)	
Proceeds from exercise of stock options and employee stock purchase plan	1,435	1,307

Excess tax benefits associated with stock compensation	27	51
Net cash (used in) provided by financing activities	(19,892)	1,358
Effect of exchange rate changes on cash	(1,230)	(4,430)
Increase (decrease) in cash and cash equivalents	(17,026)	3,905
Cash and cash equivalents at beginning of period	121,163	167,673
Cash and cash equivalents at end of period	$ 104,137	$ 171,578

See accompanying notes.

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Bottomline Technologies (de), Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2015

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, 2015, 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 may 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 this financial reporting outcome.

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 $2.6 million at September 30, 2015. The adoption of this standard will be applied retrospectively and will not have an impact on our consolidated statement of comprehensive income (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 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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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.

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

	September 30, 2015 Fair Value Measurements Using Input Types				**June 30, 2015 Fair Value Measurements Using Input Types**			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds (cash and cash equivalents)	$ 1,181	$	$	$ 1,181	$ 2,068	$	$	$ 2,068
Available for sale securities								
Debt								
US Corporate	9,902			9,902	10,561			10,561
Residential mortgage-backed	8,425			8,425	7,733			7,733
Government - US	5,773			5,773	4,866			4,866
Total available for sale securities	$ 24,100	$	$	$ 24,100	$ 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 September 30, 2015 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 value at September 30, 2015 and June 30, 2015, respectively.

The Notes were recorded at $133.3 million upon issuance, which reflected their principal value less the fair value of the embedded conversion option (Conver