BOTTOMLINE TECHNOLOGIES INC /DE/
Form 10-Q
November 08, 2012
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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, 2012

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	**02-0433294**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
325 Corporate Drive	
Portsmouth, New Hampshire	**03801-6808**
(Address of principal executive offices)	**(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 31, 2012 was 37,380,763.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Bottomline Technologies (de), Inc.

Condensed Consolidated Balance Sheets

(in thousands)

	September 30, 2012 (unaudited)	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 107,073	$ 124,801
Marketable securities	62	61
Accounts receivable, net of allowance for doubtful accounts of $684 at September 30, 2012 and $586 at June 30, 2012	45,940	45,344
Inventory, net	455	480
Deferred tax assets	7,320	6,773
Prepaid expenses and other current assets	9,083	8,212
Total current assets	169,933	185,671
Property, plant and equipment, net	20,352	19,756
Goodwill	110,894	98,974
Intangible assets, net	98,859	78,967
Other assets	8,464	9,003
Total assets	$ 408,502	$ 392,371
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 8,873	$ 8,841
Accrued expenses	17,296	17,170
Deferred revenue	43,638	41,304
Total current liabilities	69,807	67,315
Deferred revenue, non-current	7,933	7,072
Deferred income taxes	6,883	1,641
Other liabilities	2,348	2,157
Total liabilities	86,971	78,185
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 36,972 at September 30, 2012, and 36,672 at June 30, 2012; outstanding shares 35,057 at September 30, 2012, and 34,741 at June 30, 2012	37	37
Additional paid-in capital	443,933	438,732
Accumulated other comprehensive loss	(4,171)	(6,564)
Treasury stock: 1,915 shares at September 30, 2012, and 1,931 shares at June 30, 2012, at cost	(22,558)	(22,291)
Accumulated deficit	(95,710)	(95,728)

Total stockholders equity		321,531	314,186
Total liabilities and stockholders equity	$	408,502	$ 392,371

See accompanying notes.

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Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands, except per share amounts)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Revenues:		
Subscriptions and transactions	$ 28,547	$ 17,594
Software licenses	4,699	4,033
Service and maintenance	26,455	28,849
Equipment and supplies	1,988	2,000
Total revenues	61,689	52,476
Cost of revenues:		
Subscriptions and transactions	14,271	9,085
Software licenses	409	435
Service and maintenance	12,294	12,160
Equipment and supplies	1,522	1,571
Total cost of revenues	28,496	23,251
Gross profit	33,193	29,225
Operating expenses:		
Sales and marketing	14,188	11,242
Product development and engineering	8,306	5,932
General and administrative	6,561	4,933
Amortization of intangible assets	4,312	3,884
Total operating expenses	33,367	25,991
(Loss) income from operations	(174)	3,234
Other income (expense), net	46	(113)
(Loss) income before income taxes	(128)	3,121
Income tax (benefit) provision	(146)	1,380
Net income	$ 18	$ 1,741
Basic net income per share attributable to common stockholders:	$ 0.00	$ 0.05
Diluted net income per share attributable to common stockholders:	$ 0.00	$ 0.05
Shares used in computing basic net income per share attributable to common stockholders:	34,909	33,710
Shares used in computing diluted net income per share attributable to common stockholders:	35,626	34,841
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	2,393	(2,104)

Comprehensive income (loss)	$ 2,411	$ (363)

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, 2012	Three Months Ended September 30, 2011
Operating activities:		
Net income	$ 18	$ 1,741
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	4,312	3,884
Stock compensation expense	4,207	3,165
Depreciation and amortization of property, plant and equipment	1,713	1,374
Deferred income tax benefit	(1,105)	(269)
Provision for allowances on accounts receivable	75	50
Provision for allowances for obsolescence of inventory	(1)	
Excess tax benefits associated with stock compensation	(82)	(1,131)
Loss on disposal of equipment	2	
Loss on foreign exchange	12	123
Changes in operating assets and liabilities:		
Accounts receivable	1,770	2,233
Inventory	40	6
Prepaid expenses and other current assets	(208)	174
Other assets	122	154
Accounts payable	(295)	(876)
Accrued expenses	(2,035)	(2,717)
Deferred revenue	1,422	(2,513)
Other liabilities	72	(10)
Net cash provided by operating activities	10,039	5,388
Investing activities:		
Acquisition of business, net of cash acquired	(28,253)	
Purchases of held-to-maturity securities	(62)	(63)
Proceeds from sales of held-to-maturity securities	62	63
Purchases of property and equipment, net	(1,782)	(2,462)
Net cash used in investing activities	(30,035)	(2,462)
Financing activities:		
Proceeds from exercise of warrants, net		8,452
Proceeds from exercise of stock options and employee stock purchase plan	1,623	1,509
Excess tax benefits associated with stock compensation	82	1,131
Capital lease payments	(28)	(46)
Repurchase of common stock	(933)	
Net cash provided by financing activities	744	11,046
Effect of exchange rate changes on cash	1,524	(1,117)
(Decrease) increase in cash and cash equivalents	(17,728)	12,855
Cash and cash equivalents at beginning of period	124,801	111,953
Cash and cash equivalents at end of period	$ 107,073	$ 124,808

See accompanying notes.

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Bottomline Technologies (de), Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2012

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, 2012 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2013. 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 27, 2012.

Note 2 Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update regarding the presentation of comprehensive income in financial statements. The provisions of this standard provide an option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. This will change the manner in which comprehensive income is presented in our overall financial statements, but will not result in any other accounting or financial reporting impact to us. We incorporated the continuous statement option of this standard effective for the period ending September 30, 2012.

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, 2012 and June 30, 2012, our assets and liabilities measured at fair value on a recurring basis were as follows:

	September 30, 2012		June 30, 2012	
	Fair Value Measurements Using Input Types		Fair Value Measurements Using Input Types	
(in thousands)		**Total**		**Total**

	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Money market funds (cash and cash equivalents)	$ 26,484	$	$	$ 26,484	$ 65,743	$	$	$ 65,743

Fair Value of Financial Instruments

We have certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable and accounts payable. Our marketable securities are classified as held to maturity and recorded at amortized cost which, at September 30, 2012 and June 30, 2012, approximated fair value. These investments all mature within one year. The fair value of our other financial instruments approximate their carrying values, due to the short-term nature of those instruments.

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Note 4 Product and Business Acquisitions

2013 Acquisition Activity

Albany Software

On September 11, 2012, we completed the acquisition of Albany Software Ltd. (Albany), a UK based corporation. We acquired, through a UK subsidiary, all of the Albany outstanding share capital from Albany s stockholders in exchange for a cash payment of £20 million (approximately $32 million based on exchange rates in effect at the acquisition date). Albany is one of the UK s leading BACS solution providers, and their solutions are used by more than 5,000 businesses to streamline, automate and manage processes involving the collection of direct debits and electronic payments.

At September 30, 2012, we were still finalizing our estimates of fair value for intangible assets acquired. Accordingly, the values disclosed for intangible assets and goodwill are subject to change as we finalize our fair value analysis, which we expect to complete during the quarter ending December 31, 2012. In the preliminary allocation of the purchase price set forth below, we recognized $10.8 million of goodwill. The goodwill arose due to the recognition of certain deferred tax liabilities in purchase accounting and the assembled workforce of Albany. The goodwill is not deductible for income tax purposes. Acquisition costs of $0.7 million were expensed during the three months ended September 30, 2012, principally as a component of general and administrative expenses, in connection with this acquisition.

Albany s operating results have been included in our operating results from the date of the acquisition forward, as a component of the Payments and Transactional Documents segment, and all of the Albany goodwill was allocated to this segment. Identifiable intangible assets aggregating $23.9 million are being amortized over a weighted average useful life of thirteen years. The identifiable intangible assets include customer related assets, core technology and other intangible assets (a tradename) and are being amortized over weighted average lives of fourteen years, five years and two years, respectively.

The preliminary allocation of the purchase price as of September 30, 2012 is as follows:

	(in thousands)
Current assets	$ 6,438
Property and equipment	334
Customer related intangible assets	21,786
Core technology	1,920
Other intangible assets	145
Goodwill	10,762
Current liabilities	(3,759)
Other liabilities	(5,489)
Total purchase price	$ 32,137

The valuation of the acquired intangible assets was estimated by performing projections of discounted cash flow, whereby revenues and costs associated with each intangible asset are forecast 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.

For the three months ended September 30, 2012, revenues attributable to the Albany acquisition represented less than 1% of our consolidated revenues. Albany was integrated into our existing business lines in a manner that makes tracking or reporting earnings specifically attributable to this acquisition impracticable. As this acquisition was not material to our financial results, pro forma results of operations have not been presented.

2012 Acquisition Activity

Intuit Commercial Banking

On March 9, 2012, we acquired substantially all of the assets and related operations of Intuit, Inc.   s commercial banking business. The acquisition allows us to extend our banking solutions to a broader set of customers, including medium-sized and small financial institutions which make up the majority of the banking market today. In the allocation of the

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purchase price set forth below, we recognized $1.9 million of goodwill which arose principally due to the assembled workforce we acquired. The goodwill is deductible over a 15 year period for US income tax purposes. The commercial banking operating results have been included in the results of the Banking Solutions segment from the date of the acquisition forward and all of the goodwill was allocated to this segment. Identifiable intangible assets aggregating $18.1 million are being amortized over a weighted average useful life of seven years. The identifiable intangible assets include customer related assets, core technology and other intangible assets and are being amortized over estimated weighted average useful lives of twelve, six and five years, respectively. The other intangible assets consist of assets arising from acquired contractual rights that include favorable economic terms, as compared to overall market rates, at the date of acquisition.

Set forth below is the allocation of the purchase price for the commercial banking acquisition as of September 30, 2012.

	(in thousands)
Current assets	$ 5
Property and equipment	359
Customer related intangible assets	4,422
Core technology	5,633
Other intangible assets	8,021
Goodwill	1,917
Current liabilities	(153)
Other liabilities	(204)
Total purchase price	$ 20,000

Note 5 Net Income Per Share

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

	Three Months Ended September 30, 2012	2011
	(in thousands)	
Numerator:		
Net income allocable to common stockholders	$ 18	$ 1,741
Denominator:		
Shares used in computing basic net income per share attributable to common stockholders	34,909	33,710
Effect of dilutive securities	717	1,131
Shares used in computing diluted net income per share attributable to common stockholders	35,626	34,841
Basic net income per share attributable to common stockholders	$ 0.00	$ 0.05
Diluted net income per share attributable to common stockholders	$ 0.00	$ 0.05

The calculation of basic net income per share excludes any dilutive effects of stock options, unvested restricted stock and stock warrants.

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 organized principally by the type of product or service offered and by geography.

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During 2012, we changed the segment classification of certain customers revenue. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

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 payments automation software for direct debit and receivables management and provides a range of standard professional services and equipment and supplies 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 our check printing solutions in Europe as well as 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.

Banking Solutions. The Banking Solutions segment provides solutions that are specifically designed for banking and financial institution customers. Our customized transaction banking solutions typically involve longer implementation periods and a significant level of professional services. Due to the customized nature of these products, revenue is generally recognized over the period of project performance on a percentage of completion basis. Periodically, we license these solutions on a subscription basis which has the effect of contributing to recurring revenue and the revenue predictability of future periods, but which also delays revenue recognition over a period that is longer than the period of project performance. This segment also includes our commercial banking business, which we acquired in March 2012. Our commercial banking products are Software as a Service (SaaS) offerings focused predominantly on medium-sized and small banks and financial institutions, and revenue for these products is typically recognized on a subscription or transaction basis or ratably over the estimated life of the customer relationship.

Outsourced Solutions. The Outsourced Solutions segment provides customers with outsourced and hosted SaaS 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 hosted and outsourced payments and accounts payable automation solutions, including Paymode-X and SWIFT Access Service. Revenue within this segment is generally recognized on a subscription or transaction basis or ratably over the estimated life of the customer relationship.

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 can 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-related expenses (including acquisition related contingent consideration), amortization of intangible assets, impairment losses on equity investments and restructuring related charges. 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 at predetermined rates that are established as a percentage of the segment s budgeted revenues.

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

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Segment information for the three months ended September 30, 2012 and 2011 according to the segment descriptions above, is as follows:

	Three Months Ended September 30, 2012 (in thousands)	Three Months Ended September 30, 2011 (in thousands)
Segment revenue:		
Payments and Transactional Documents	$ 26,149	$ 24,671
Banking Solutions	18,119	13,016
Outsourced Solutions	17,421	14,789
Total segment revenue	$ 61,689	$ 52,476
Segment measure of profit:		
Payments and Transactional Documents	$ 6,573	$ 5,976
Banking Solutions	2,015	2,610
Outsourced Solutions	1,768	1,848
Total measure of segment profit	$ 10,356	$ 10,434

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

	Three Months Ended September 30, 2012 (in thousands)	Three Months Ended September 30, 2011 (in thousands)
Segment measure of profit	$ 10,356	$ 10,434
Less:		
Amortization of intangible assets	(4,312)	(3,884)
Stock compensation expense	(4,207)	(3,165)
Acquisition related expenses	(1,715)	(124)
Restructuring expenses	(296)	(27)
Add:		
Other income (expense), net	46	(113)
(Loss) income before income taxes	$ (128)	$ 3,121

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

	Three Months Ended September 30, 2012 (in thousands)	Three Months Ended September 30, 2011 (in thousands)
Depreciation expense:		
Payments and Transactional Documents	$ 620	$ 384
Banking Solutions	518	234
Outsourced Solutions	575	756

Total depreciation expense	$ 1,713	$ 1,374

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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 and Canada for which the point of sale was the United States.

	Three Months Ended September 30, 2012	2011
	(in thousands)	
Revenues from unaffiliated customers:		
United States	$ 42,710	$ 35,594
United Kingdom	17,178	15,299
Continental Europe	1,047	883
Asia-Pacific	754	700
Total revenues from unaffiliated customers	$ 61,689	$ 52,476

Long-lived assets, which are based on geographical location, were as follows:

	September 30, 2012	June 30, 2012
	(in thousands)	
Long-lived assets		
United States	$ 19,407	$ 19,189
United Kingdom	4,623	4,332
Continental Europe	4	5
Asia-Pacific	120	128
Total long-lived assets	$ 24,154	$ 23,654

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. The calculation of our estimated effective tax rate requires an estimate of pretax income by tax jurisdiction, as well as total tax expense for the fiscal year. Accordingly, this tax rate is subject to adjustment if, in later periods, there are changes to our initial estimates of total tax expense or pretax income, including income by jurisdiction.

We recorded an income tax benefit of $0.1 million and income tax expense of $1.4 million for the three months ended September 30, 2012 and 2011, respectively. The income tax benefit for the quarter ended September 30, 2012 was principally due to the impact of discrete tax benefits recorded in the quarter, including the favorable impact of approximately $0.1 million from the enactment of legislation that decreased UK income tax rates. These discrete tax benefits offset tax expense associated with our UK, Australian and US operations. These benefits are not expected to recur in subsequent quarters. The income tax expense for the quarter ended September 30, 2011 was primarily attributable to our UK and US operations, which was offset in part by a tax benefit of $0.1 million resulting from the enactment of legislation during the quarter that decreased the statutory tax rates in the UK.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately $0.1 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

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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. Other intangible assets consist of acquired tradenames, backlog, patents and below market lease arrangements.

	As of September 30, 2012			
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Weighted Average Remaining Life (in years)
Amortized intangible assets:				
Customer related	$ 133,846	$ (61,796)	$ 72,050	11.5
Core technology	50,790	(32,594)	18,196	7.1
Other intangible assets	11,950	(3,337)	8,613	5.7
Total	$ 196,586	$ (97,727)	$ 98,859	
Unamortized intangible assets:				
Goodwill			110,894	
Total intangible assets			$ 209,753	

	As of June 30, 2012			
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Weighted Average Remaining Life (in years)
Amortized intangible assets:				
Customer related	$ 111,159	$ (58,653)	$ 52,506	10.7
Core technology	48,534	(31,179)	17,355	7.5
Other intangible assets	11,801	(2,695)	9,106	5.9
Total	$ 171,494	$ (92,527)	$ 78,967	
Unamortized intangible assets:				
Goodwill			98,974	
Total intangible assets			$ 177,941	

Estimated amortization expense for fiscal year 2013 and subsequent fiscal years is as follows:

	(in thousands)
2013	$ 19,547
2014	15,837
2015	13,711
2016	11,637
2017	9,288
2018 and thereafter	33,151

The following table represents a rollforward of our goodwill balances, by reportable segment, as follows:

	Payments and Transactional Documents	Banking Solutions	Outsourced Solutions
		(in thousands)	
Balance at June 30, 2012	$ 54,329	$ 8,420	$ 36,225
Goodwill acquired during the period	10,762		
Impact of foreign currency translation	974		184
Balance at September 30, 2012	$ 66,065	$ 8,420	$ 36,409

Note 9 Restructuring Costs

During the quarter ended September 30, 2012 and in fiscal year 2012, in response to recent acquisitions, we realigned our workforce and recorded pre-tax restructuring expenses associated with severance related benefits to employees.

A rollforward of the restructuring activity for the quarter ended September 30, 2012 is as follows:

	(in thousands)	
Accrued severance benefits at June 30, 2012	$	228
Charged to expense		296
Payments charged against the accrual		(342)
Accrued severance benefits at September 30, 2012	$	182

Note 10 Contingencies

On June 29, 2012, ACI Worldwide, Inc. (ACI) filed a lawsuit in the Superior Court of Fulton County, Georgia against us and one of our employees alleging, among other things, tortious interference with contract and business relations, unjust enrichment and violation of the Georgia Trade Secrets Act of 1990, in connection with our hiring of several former ACI employees. The complaint seeks injunctive relief, costs and unspecified monetary damages. This lawsuit was subsequently removed to the U.S. District Court for the Northern District of Georgia, Atlanta Division. We believe the allegations made against us by ACI are without merit and intend to vigorously defend ourselves in this matter. We do not currently believe that the outcome of this action will have a material adverse effect on our financial statements.

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 provide cloud-based payment, invoice and banking solutions to corporations, insurance companies, financial institutions and banks around the world. Our solutions are used to streamline, automate and manage processes and transactions involving global payments, invoice receipt and approval, collections, cash management, risk mitigation, document management, reporting and document archive. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer s location. A growing portion of our offerings are being sold as SaaS-based solutions and paid for on a subscription and transaction basis. Historically, however, our software has been sold predominantly on a perpetual license basis.

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. We offer legal spend management solutions that automate receipt and review of legal invoices for insurance companies and other large corporate consumers of outside legal services. We operate a cloud-based network that facilitates the exchange of electronic payments and invoices between buyers and their suppliers. We also offer solutions that banks use to provide cash management and treasury capabilities to their business customers. Our document automation solutions are used by organizations to automate paper-intensive processes for the generation of transactional and supply chain documents.

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Our solutions complement, leverage and extend our customers existing information systems, accounting applications and banking relationships and 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.

On September 11, 2012, we completed the acquisition of Albany Software Ltd. (Albany), a UK based corporation. We acquired, through a UK subsidiary, all of the Albany outstanding share capital from Albany s stockholders in exchange for a cash payment of £20 million (approximately $32 million based on exchange rates in effect at the acquisition date). Albany is one of the UK s leading BACS solution providers, and their solutions are used by more than 5,000 businesses to streamline, automate and manage processes involving the collection of direct debits and electronic payments.

For the first three months of fiscal year 2013, our revenue increased to $61.7 million from $52.5 million in the same period of fiscal year 2012. This revenue increase was attributable to revenue increases of $5.1 million in our Banking Solutions segment, $2.6 million in our Outsourced Solutions segment and $1.5 million in our Payments and Transactional Documents segment. The Banking Solutions segment s revenue increase was primarily the result of our fiscal year 2012 commercial banking acquisition. The revenue contribution from our legal spend management solutions, our SWIFT Access Service solution and increased revenue from our Paymode-X solution accounted for the majority of the revenue increase in our Outsourced Solutions segment. The increased revenue in our Payments and Transactional Documents segment was related to increased revenue in both North America and Europe. These increases were offset by an unfavorable effect of foreign exchange rates of $0.3 million primarily associated with the British Pound Sterling, which depreciated against the US Dollar when compared to the same period in the prior fiscal year.

We had net income of $18 thousand in the three months ended September 30, 2012 compared to net income of $1.7 million in the three months ended September 30, 2011. Our gross margin increased $4.0 million in the first three months of fiscal year 2012 related primarily to revenue increases across all segments. The increased gross margin was offset by increased operating expense of $7.4 million which was primarily due to increased acquisition related expenses, including increased employee related costs, and increased intangible asset amortization expense as compared to the same period in the prior year.

In the first three months of fiscal year 2013, we derived approximately 36% of our revenue from customers located outside of North America, principally in the UK, continental Europe and Australia. We expect future revenue growth to be driven by increased purchases of our products, including our legal spend management solutions, SWIFT Access Service solution, Paymode-X and WebSeries, by new and existing bank and financial institution customers in both North America and international markets and from increased sales of our payments and transactional documents products.

Critical Accounting Policies

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, 2012 related to stock based compensation, revenue recognition, the valuation of goodwill and intangible assets and the valuation of acquired deferred revenue. 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 27, 2012 and in conjunction with the discussion of income taxes which follows below.

Income Taxes

We are subject to the income tax laws of the United States (including its states and municipalities) as well as the tax laws of the foreign jurisdictions in which we operate. Our annual tax rate is determined based on our income, statutory tax rates and the tax impact of items treated differently for tax purposes than for financial statement purposes. The income tax expense we record in any interim period is based on our estimated tax rate for the full fiscal year, which requires us to estimate our annual pretax income and tax expense by jurisdiction. This process is inherently subjective and requires us to make estimates relative to our business plans, planning opportunities and operating results. An interim tax rate is subject to adjustment if, in later periods, there are changes to our estimate of total tax expense or pretax income, including income by jurisdiction. We update these estimates on a quarterly basis, to ensure that our interim financial statements always reflect our most current projections for the full fiscal year.

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Our income tax expense consists of two components: current and deferred. Current tax expense represents our estimate of taxes to be paid for the current period, including income tax expense arising from uncertain tax positions. Deferred tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets and liabilities arise due to differences between when certain transactions are reflected in our financial statements and when those same items are included in a tax return. Deferred tax assets generally reflect the impact of a tax deduction, tax credit or operating loss carryforward that we have available for use in future year tax returns. Deferred tax liabilities generally reflect the impact of a deduction or expenditure that has already been taken in a tax return but that has not yet been reflected in our financial statements.

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 historical and projected operating results, the reversal of existing deferred tax liabilities that provide a source of future taxable income and the availability of 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 particularly sensitive component of this evaluation is our projection of future operating results since this relies heavily on our estimates of future revenue and expense levels by tax jurisdiction.

We establish reserves to remove some or all of the tax benefit we would have otherwise recorded if a tax position is uncertain. In evaluating whether a tax position is uncertain, we base our assessment on existing tax legislation, case law and legal statute. We also presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. We recognize tax benefits related to uncertain tax positions at the largest amount deemed more likely than not will be realized upon tax examination. We review our tax positions quarterly and adjust the balances as necessary.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update regarding the presentation of comprehensive income in financial statements. The provisions of this standard provide an option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. This will change the manner in which comprehensive income is presented in our overall financial statements, but will not result in any other accounting or financial reporting impact to us. We incorporated the continuous statement option of this standard effective for the period ending September 30, 2012.

Results of Operations

Three Months Ended September 30, 2012 Compared to the Three Months Ended September 30, 2011

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, or decision making group, in deciding how to allocate resources and in assessing performance.

During fiscal year 2012, we changed the segment classification of certain customers revenue. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

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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, Banking Solutions and Outsourced Solutions. The following tables represent our segment revenues and our segment measure of profit:

	Three Months Ended September 30, 2012	2011	Increase (Decrease) Between Periods 2012 Compared to 2011	
	(in thousands)		(in thousands)	%
Segment revenue:				
Payments and Transactional Documents	$ 26,149	$ 24,671	$ 1,478	6.0
Banking Solutions	18,119	13,016	5,103	39.2
Outsourced Solutions	17,421	14,789	2,632	17.8
	$ 61,689	$ 52,476	$ 9,213	17.6
Segment measure of profit:				
Payments and Transactional Documents	$ 6,573	$ 5,976	$ 597	10.0
Banking Solutions	2,015	2,610	(595)	(22.8)
Outsourced Solutions	1,768	1,848	(80)	(4.3)
Total measure of segment profit	$ 10,356	$ 10,434	$ (78)	(0.7)

A reconciliation of the measure of segment profit to our GAAP (loss) income for the three months ended September 30, 2012 and 2011, before the provision for income taxes, is as follows:

	Three Months Ended September 30, 2012	2011
	(in thousands)	
Segment measure of profit	$ 10,356	$ 10,434
Less:		
Amortization of intangible assets	(4,312)	(3,884)
Stock compensation expense	(4,207)	(3,165)
Acquisition related expenses	(1,715)	(124)
Restructuring expenses	(296)	(27)
Add:		
Other income (expense), net	46	(113)
(Loss) income before income taxes	$ (128)	$ 3,121

Payments and Transactional Documents. The revenue increase for the three months ended September 30, 2012 was primarily attributable to North American and European revenue increases of $0.9 million in software licenses, $0.5 million in service and maintenance and $0.2 million in subscriptions and transactions. The revenue increases were partially offset by an unfavorable effect of foreign exchange rates of $0.2 million primarily associated with the British Pound Sterling which depreciated against the US Dollar when compared to the same period in the prior fiscal year. The segment profit increase of $0.6 million for the three months ended September 30, 2012 was primarily attributable to the revenue increases described above, partially offset by increased sales and marketing expenses as compared to the three months ended September 30, 2011. We expect revenue and profit for the Payments and Transactional Documents segment to increase during the remaining three quarters of fiscal year 2013 primarily as a result of our recent acquisition of Albany.

Banking Solutions. Revenues from our Banking Solutions segment increased as compared to the same period in the prior fiscal year due to an increase in subscriptions and transactions revenue of $8.1 million, primarily due to our 2012 commercial banking acquisition, partially offset by a decrease in professional services revenue of $3.0 million associated with the completion of certain large banking projects. Segment profit decreased $0.6 million for the three months ended September 30, 2012 as compared to the same period in the prior fiscal year, due primarily to increased sales and marketing and product development related costs. The increased sales and marketing and product development costs were primarily related to increased headcount costs related to our commercial banking acquisition. We expect revenue and profit for the Banking Solutions segment to decrease during the remainder of the fiscal year as a result of customer losses and increased expenses related to the hosted infrastructure and sales and marketing efforts associated with our commercial banking business. The customer losses have been anticipated as the acquired commercial banking business had been experiencing customer attrition prior to our acquisition, due in large part to customers views that the business s solutions required further investment and improvement. The increased infrastructure and sales and marketing expenses are attributable to investments we are making to support, improve and grow the commercial banking business.

Outsourced Solutions. Revenues from our Outsourced Solutions segment increased $2.6 million as compared to the same period in the prior fiscal year due primarily to increased revenue contribution from our legal spend management solutions of $0.8 million, our Paymode-X solution of $1.2 million and our SWIFT Access Service solution of $0.7 million. Segment profit decreased $0.1 million as compared to the same period in the prior fiscal year as lower margins related to our Paymode-X solution and increased operating expenses offset improved margins in our European solutions. We expect revenue and profit for the Outsourced Solutions segment to increase during the remainder of the fiscal year as a result of the revenue contribution from our legal spend management, Paymode-X and SWIFT Access Service solutions.

Revenues by category

	Three Months Ended September 30,				Increase (Decrease) Between Periods	
	2012		2011		2012 Compared to 2011	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Revenues:						
Subscriptions and transactions	$ 28,547	46.3	$ 17,594	33.5	$ 10,953	62.3
Software licenses	4,699	7.6	4,033	7.7	666	16.5
Service and maintenance	26,455	42.9	28,849	55.0	(2,394)	(8.3)
Equipment and supplies	1,988	3.2	2,000	3.8	(12)	(0.6)
Total revenues	$ 61,689	100.0	$ 52,476	100.0	$ 9,213	17.6

Subscriptions and Transactions. The increase in subscriptions and transactions revenues of $11.0 million was due principally to the increase in revenue contribution from our banking products of $8.1 million, Paymode-X solutions of $1.2 million, legal spend management solutions of $0.8 million and European outsourced solutions of $0.7 million. The increase in banking products revenue was principally the result of our commercial banking acquisition in fiscal year 2012. We expect subscriptions and transactions revenues to increase during the remainder of the fiscal year, primarily as a result of the revenue contribution from our legal spend management, Paymode-X and SWIFT Access Service solutions.

Software Licenses. The increase in software license revenues was due to an increase in North American revenue of $0.6 million and increased European revenue of approximately $0.2 million. These increases occurred within our Payments and Transactional Documents segment. This increase was offset by a decrease of $0.2 million in our Banking Solutions segment. We expect software license revenues to increase during the remainder of fiscal year 2013, principally as a result of increased software license revenue from our Payments and Transactional Documents segment.

Service and Maintenance. The decrease in service and maintenance revenues was primarily the result of a decrease in professional services revenues of $3.0 million associated with the completion of certain large banking projects, offset by an increase in service and maintenance revenue from our payment and document automation products of $0.5 million. The increase in revenue from our payment and document automation products includes an unfavorable effect of foreign exchange rates of $0.1 million primarily associated with the British Pound Sterling which depreciated against the US Dollar when compared to the same period in the prior fiscal year. We expect that service and maintenance revenues will remain relatively consistent during the remainder of the fiscal year.

Equipment and Supplies. Equipment and supplies revenue remained relatively unchanged as compared to the same period in the prior fiscal year. We expect that equipment and supplies revenues will remain relatively consistent during the remainder of 2013.

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Cost of revenues by category

	Three Months Ended September 30, 2012 (in thousands)	As % of total Revenues	2011 (in thousands)	As % of total Revenues	Increase (Decrease) Between Periods 2012 Compared to 2011 (in thousands)	%
Cost of revenues:						
Subscriptions and transactions	$ 14,271	23.1	$ 9,085	17.3	$ 5,186	57.1
Software licenses	409	0.7	435	0.8	(26)	(6.0)
Service and maintenance	12,294	19.9	12,160	23.2	134	1.1
Equipment and supplies	1,522	2.5	1,571	3.0	(49)	(3.1)
Total cost of revenues	$ 28,496	46.2	$ 23,251	44.3	$ 5,245	22.6
Gross profit	$ 33,193	53.8	$ 29,225	55.7	$ 3,968	13.6

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 decreased to 50% of subscriptions and transactions revenues in the three months ended September 30, 2012 as compared to 52% in the same period of 2011. The decrease in subscriptions and transactions costs as a percentage of revenue was due primarily to improved margins related to our European solutions. We expect that subscriptions and transactions costs will increase 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 remained consistent at 9% of software license revenues in the three months ended September 30, 2012 as compared to 11% for the three months ended September 30, 2011. We expect that software license costs will increase, as a percentage of software license revenues, during the remainder of the fiscal year primarily the result of increased third party software costs sold with certain of our banking products.

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 September 30, 2012 as compared to 42% of service and maintenance revenues in the three months ended September 30, 2011. The increased costs as a percentage of revenue were primarily related to lower gross margins associated with certain of our banking products and European payment and transactional document products. We expect that service and maintenance costs will decrease slightly, as a percentage of service and maintenance revenues, during the remainder of the fiscal year.

Equipment and Supplies. Equipment and supplies 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 remained consistent at 77% of equipment and supplies revenues in the three months ended September 30, 2012 as compared to 79% for the three months ended September 30, 2011. We expect that equipment and supplies costs will remain relatively consistent as a percentage of equipment and supplies revenues for the remainder of the fiscal year.

Operating Expenses

Three Months Ended September 30, 2012 (in thousands)	2011 (in thousands)	Increase Between Periods 2012 Compared to 2011 (in thousands)	%

		As % of total revenues		As % of total revenues		
Operating expenses:						
Sales and marketing	$ 14,188	23.0	$ 11,242	21.4	$ 2,946	26.2
Product development and engineering	8,306	13.5	5,932	11.3	2,374	40.0
General and administrative	6,561	10.6	4,933	9.4	1,628	33.0
Amortization of intangible assets	4,312	7.0	3,884	7.4	428	11.0
Total operating expenses	$ 33,367	54.1	$ 25,991	49.5	$ 7,376	28.4

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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 in the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 as a result of an increase in employee related costs of $2.4 million and increased travel costs primarily due to the impact of our fiscal year 2012 and 2013 acquisitions. We expect that sales and marketing expenses will increase over the remainder of the fiscal year as we continue to focus on our marketing initiatives to support our new and existing products, particularly our commercial banking products and Paymode-X.

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. The increase in product development and engineering expenses in the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 was primarily attributable to an increase in employee related costs of $1.5 million and an increase of $0.6 million related to development of our legal spend management and Paymode-X solutions. This increase was partially offset by a decrease in costs associated with contract employees of $0.4 million. We expect that product development and engineering expenses will increase 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 commercial banking, Paymode-X and legal spend management solutions.

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 September 30, 2012 as compared to the three months ended September 30, 2011 primarily due to increases in acquisition related expenses of $0.9 million, employee related costs of $0.6 million and an increase in professional services fees of $0.2 million. We expect that general and administrative expenses will remain relatively consistent during the remainder of the fiscal year.

Amortization of Intangible Assets. We amortize our intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us. Accordingly, amortization expense rates are often higher in the earlier periods of an asset s estimated life. The increase in amortization expense in the quarter ended September 30, 2012 as compared to the quarter ended September 30, 2011 occurred as a result of increased expense from intangible assets associated with our fiscal year 2012 acquisitions. We expect that total amortization expense for fiscal year 2013 will approximate $19.5 million.

Other Income (Expense), Net

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Increase Between Periods 2012 Compared to 2011	%
	(in thousands)			
Interest income	$ 125	$ 114	$ 11	9.6
Interest expense	(1)	(16)	15	93.8
Other income (expense), net	(78)	(211)	133	63.0
Other income (expense), net	$ 46	$ (113)	$ 159	140.7

Other Income (Expense), Net. In the three months ended September 30, 2012 as compared to the three months ended September 30, 2011, interest income and interest expense remained inconsequential components of our overall operating results. The decrease in other expense is due to the absence of certain foreign exchange losses in the three months ended September 30, 2012 compared with the three months ended September 30, 2011. We expect that the individual components of other income and expense will continue to represent minor components of our overall operations during the remainder of fiscal year 2013.

Provision for Income Taxes

The income tax expense we record in any interim period is based on our estimated effective tax rate for the fiscal year. The calculation of our estimated effective tax rate requires an estimate of pretax income by tax jurisdiction, as well as total tax expense for the fiscal year. Accordingly, this tax rate is subject to adjustment if, in later periods, there are changes to our initial estimates of total tax expense or pretax income, including income by jurisdiction.

We recorded an income tax benefit of $0.1 million and income tax expense of $1.4 million for the three months ended September 30, 2012 and 2011, respectively. The income tax benefit for the quarter ended September 30, 2012 was principally due to the impact of discrete tax benefits recorded in the quarter, including the favorable impact of approximately $0.1 million from the enactment of legislation that decreased UK income tax rates. These discrete tax benefits offset tax expense associated with our UK, Australian and US operations. These benefits are not expected to recur in subsequent quarters. The income tax expense for the quarter ended September 30, 2011 was primarily attributable to our UK and US operations, which was offset in part by a tax benefit of $0.1 million resulting from the enactment of legislation during the quarter that decreased the statutory tax rates in the UK.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately $0.1 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. We have generated positive operating cash flows in each of our last eleven completed fiscal years. We have no long-term debt. 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.

On September 11, 2012, we completed the acquisition of Albany for a cash payment of £20 million (approximately $32 million based on exchange rates in effect at the acquisition date).

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 three months ended September 30, 2012 and 2011 are summarized in the tables below:

	September 30, 2012	June 30, 2012
	(in thousands)	
Cash, cash equivalents and marketable securities	$ 107,135	$ 124,862

	Three Months Ended September 30,	
	2012	2011
	(in thousands)	
Cash provided by operating activities	$ 10,039	$ 5,388
Cash used in investing activities	(30,035)	(2,462)
Cash provided by financing activities	744	11,046
Effect of exchange rates on cash	1,524	(1,117)

Cash, cash equivalents and marketable securities. At September 30, 2012 our cash and cash equivalents consisted primarily of cash deposits held at major banks, money market funds and marketable securities. The decrease in cash, cash equivalents and marketable securities at September 30, 2012 from June 30, 2012 was primarily due to $28.3 million of cash used to fund the acquisition of Albany, net of cash acquired, partially offset by cash provided from operations of $10.0 million.

Cash, cash equivalents and marketable securities included $50.2 million held by our foreign subsidiaries as of September 30, 2012 that were denominated in currencies other than US Dollars. Increases in the foreign currency exchange rates of the British Pound, European Euro, and Australian Dollar to the US Dollar increased our overall cash balances by approximately $1.5 million in the three months ended September 30, 2012. 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 have recently experienced, are adequate to meet our operating requirements for the foreseeable future.

Operating Activities. Cash generated from operating activities primarily relates to our net income, adjusted for the impact of non-cash expenses and changes in working capital. Cash generated from operations increased by $4.7 million during the three months ended September 30, 2012 as compared to the same period in the prior year. The increase was primarily the result of an increase in cash provided from deferred revenue of $3.9 million.

At September 30, 2012, a portion of the deferred tax assets associated with our US and European 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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At September 30, 2012, we had US net operating loss carryforwards of $46.7 million, which expire at various times through the year 2031 and foreign net operating loss carryforwards (primarily in Europe) of $8.7 million, which have no statutory expiration date. We also have approximately $2.7 million of research and development tax credit carryforwards available which expire at various points through the year 2032. The research and development tax credit expired on December 31, 2011 for US federal income tax purposes. Accordingly, absent a change in US tax law, we will not generate research and development tax credits beyond the approximately $2.7 million we had recorded as of December 31, 2011. Our operating losses and tax credit carryforwards may be subject to limitations under provisions of the Internal Revenue Code.

Investing Activities. The increase in net cash used in investing activities for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 was due to $28.3 million of cash used to fund the acquisition of Albany, net of cash acquired.

Financing Activities. The decrease in cash inflows from financing activities relates primarily to the absence of proceeds of $8.5 million from the exercise of common stock warrants that occurred during the quarter ended September 30, 2011, and the use of $0.9 million of cash to repurchase shares of our common stock and a decrease in the excess tax benefit associated with stock compensation during the three months ended September 30, 2012.

Off-Balance Sheet Arrangements

During the three months ended September 30, 2012, we did not engage in material off-balance sheet activities, including the use of structured finance, special purpose or variable interest entities, material trading activities in non-exchange traded commodity contracts or transactions with persons or entities that benefit from their non-independent relationship with us.

Contractual Obligations

Following is a summary of future payments that we are required to make under existing contractual obligations as of September 30, 2012:

		Payments Due by Period *			
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
			(in thousands)		
Operating lease obligations	$ 21,788	$ 2,772	$ 7,929	$ 4,377	$ 6,710
Capital lease obligations (inclusive of interest)	68	68			
Other contractual obligations	6,379	2,340	3,280	759	
Total	$ 28,235	$ 5,180	$ 11,209	$ 5,136	$ 6,710

* Payment due dates are calculated from our most recent fiscal year end of June 30, 2012.

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. Also excluded from the table is our estimate of unrecognized tax benefits as of September 30, 2012 in the amount of $0.6 million. These amounts have been excluded because, as of September 30, 2012, 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a variety of risks, including foreign currency exchange rate fluctuations. 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 27, 2012.

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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 September 30, 2012. The term disclosure controls and procedures, as defined in Rules 13a-15(e) 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 September 30, 2012, 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 (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2012 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

On June 29, 2012, ACI Worldwide, Inc. (ACI) filed a lawsuit in the Superior Court of Fulton County, Georgia against us and one of our employees alleging, among other things, tortious interference with contract and business relations, unjust enrichment and violation of the Georgia Trade Secrets Act of 1990, in connection with our hiring of several former ACI employees. The complaint seeks injunctive relief, costs and unspecified monetary damages. This lawsuit was subsequently removed to the U.S. District Court for the Northern District of Georgia, Atlanta Division. We believe the allegations made against us by ACI are without merit and intend to vigorously defend ourselves in this matter. We do not currently believe that the outcome of this action will have a material adverse effect on our financial statements.

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 impair 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 do not reflect material changes 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, 2012.

Continuing weakness or further 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 could be significantly affected by general economic conditions. The US and global economies have experienced a significant prolonged downturn and prospects for sustained economic recovery remain uncertain. In particular, the European Union continues to face significant economic challenges, which could impede the recovery of the worldwide economy. Prolonged economic weakness or a 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 anxiety or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives;

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- pricing pressures for our products and services, including reductions in the duration or renewal rates for our subscription and transaction based customer 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 further, or any of the above risks occur, our business and operating results could be significantly and adversely affected.

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

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

- 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 operating results, including those arising as a result of any impairment of goodwill or other intangible assets related to past or future acquisitions;

- public announcements concerning us, including announcements regarding litigation, our competitors or our industry;

- publication of research by securities or industry analysts about us and our business;

- introductions of new products or services or announcements of significant contracts by us or our competitors;

- 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.

As a result of our commercial banking acquisition in March 2012, we are entering into new customer markets and broadening our solution set to address the unique customer demands of this market; these initiatives will require significant investment and may not be successful

In March 2012, we acquired substantially all of the assets and related operations of Intuit Inc. s (Intuit) commercial banking business. In connection with this acquisition, we are broadening our overall banking business in a number of important ways, including:

- broadening our overall solution set to include a focus on medium-sized and small banks and financial institutions, an initiative that will require significant product investment;

- accelerating the development of our overall solution set to SaaS-based offerings, which will require ongoing investment in our hosted infrastructure, including data security and disaster recovery capabilities; and

- growing our global sales and marketing resources to be able to capitalize on the significant customer opportunity that we see in these markets.

The investment required to support these initiatives may adversely affect our operating results, particularly in the short term.

In addition, the commercial banking business that we acquired has been experiencing customer attrition over recent periods due in large part to customers views that the product required further investment and improvement. While we believe that the investment we are making in the commercial banking business will ultimately address this underlying concern, there is a risk that customer attrition will continue to occur, particularly in the short term. If we are unable to bring to market a commercial banking solution that addresses these concerns, or if the initiatives described above are unsuccessful in retaining existing customers, securing new customers and growing our revenues, our operating results would likely be adversely affected.

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

We operate in a highly competitive and rapidly evolving technology environment and believe that it is important to enhance our existing product offerings as well as to develop new product offerings to meet strategic opportunities as they

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evolve. Our operating results have recently been affected by increases in product development expenses as we have continued to make investments in our hosted, banking and accounts payable automation products. We may at any time, based on product needs or marketplace demands, decide to significantly increase our product development expenditures. We expect to continue to make significant investments in our Paymode-X, legal spend management, transaction banking and our newly acquired commercial banking products during fiscal year 2013. 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.

Our future financial results will be affected by our success in selling our products in a subscription and transaction or SaaS-based revenue 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 under a subscription and transaction based revenue model. We believe this 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 and transaction basis generally delay the timing of revenue recognition and often require the incurrence of up-front costs, which can be significant;

- subscription and transaction 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 and transaction arrangement may elect not to renew their contractual arrangement with us 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 and transaction basis, including new revenue models that we may introduce, will receive broad marketplace acceptance, in which case our financial results could be materially and adversely affected.

Security breaches could have a significant 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 transfer of cash. Our products, particularly our SaaS and Web-based offerings, may be vulnerable to unauthorized access, computer viruses, cyber-attacks and other disruptive problems, which could result in the theft, destruction or misappropriation of confidential information.

We may need to spend significant capital or other resources to ensure effective ongoing protection against the threat of security breaches or to alleviate problems caused by security concerns. Despite our precautions, a security breach or computer virus could occur, which could have a significant negative impact on our business, including damage to our reputation, the loss of customers and potential customers and material financial liability to us. Any such event would likely have a material adverse impact on our business, operating results and financial condition.

An increasing number of large and more complex customer contracts, or contracts that involve the delivery of services over contractually committed periods, generally delays 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

Due to an increasing number of large and more complex customer contracts, particularly in our Banking Solutions segment, we have experienced, and will likely continue to experience, delays in the timing of our revenue recognition. These arrangements generally 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. Additionally, large bank and financial institution 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.

Acquisitions could disrupt our business and harm our financial condition

Part of our operating strategy is to identify and pursue strategic acquisitions that can expand our geographical footprint or complement our existing product functionality. In September 2012, we acquired Albany Software, Ltd., a UK-based company. In March 2012 we acquired substantially all of the assets and related operations of Intuit s commercial banking business. In November 2011, we acquired IDT, Ltd. (IDT), with operations in the UK. In fiscal year 2011, we acquired Allegient Systems, Inc., with operations in the United States and Canada, SMA Financial Limited (SMA) and Direct Debit Limited (DDL), which are both UK-based businesses, and substantially all of the assets of Business Information Technology Group (BITG), with locations in Australia and New Zealand. We may in the future acquire or make investments in other businesses, products or technologies. 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;
- inability to retain key personnel of the acquired company;
- inadequacy of existing operating, financial and management information systems to support the combined organization or new operations;
- write-offs related to impairment of goodwill and other acquired assets;
- entrance into markets in which we have no or limited prior experience or knowledge;
- 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

We review our intangible assets periodically for impairment. At September 30, 2012, the carrying value of our goodwill and our other intangible assets was approximately $111 million and $99 million, respectively. While we reviewed our goodwill and our other intangible assets during the fourth quarter of fiscal year 2012 and concluded that there was no impairment, we could be subject to future impairment charges with respect to these intangible 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.

Our fixed costs may lead to operating results below analyst or investor expectations if our revenues are below anticipated levels, which could adversely affect the market price of our common stock

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 negatively 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.

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 the following:

- economic conditions, which may affect our customers and potential customers budgets for information technology expenditures;
- the timing of orders and longer sales cycles;
- 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.

Because of these factors, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful.

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

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

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. We have operations in the US, Canada, UK, Australia, New Zealand, France and Germany. 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;
- 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.

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, Continental Europe and the Asia-Pacific region. During the three months ended September 30, 2012, approximately 36% of our revenues and 29% of our operating expenses were attributable to customers or operations located outside of North America. During the three months ended September 30, 2012 as compared to the same period in the prior year, the foreign currency exchange rates of the British Pound Sterling to the US Dollar increased slightly. We anticipate that foreign currency exchange rates may continue to fluctuate in the near term. Appreciation of the US Dollar against the British Pound Sterling, European Euro or Australian Dollar will have the impact of reducing both our revenues and operating expenses.

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;

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

acceptance of our solutions that are offered on a SaaS basis.

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

We recognize subscription revenue over the term of our customer agreements. As a result, most of our quarterly subscription revenue results from agreements entered into during previous quarters. Consequently, a shortfall in orders for our subscription based solutions in any quarter may not significantly reduce our subscription revenue for that quarter, but could negatively affect revenue in future quarters. 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

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not be fully reflected in our results of operations 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.

We face significant competition in our targeted markets, including competition from companies with significantly greater resources, which may result in price reductions and decreased demand for our products

The markets in which we compete are intensely competitive and characterized by rapid technological change. We compete with a wide range of companies ranging from small start-up enterprises with limited resources which compete principally on the basis of technology features or specific customer relationships, to large companies which can leverage significant customer bases and financial resources. Some competitors in our targeted markets have longer operating histories, significantly greater financial, technical, and sales and marketing resources, greater brand recognition and a larger installed customer base than we do. We expect to face additional competition as other established and emerging companies enter the markets we address. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships to expand their product offerings and to offer more comprehensive solutions. This growing competition may result in price reductions of our products and services, reduced revenues and gross margins and loss of market share, any one of which could have a material adverse effect on our business, operating results and financial condition.

We depend on employees who are skilled in payment, cash and document management and invoice presentment methodologies, business banking solutions and Web and other technologies

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 current key employees and potential 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. The loss of one or more of our key employees or our failure to attract and retain sufficient qualified employees to grow our operations could have a material adverse effect on our business. In addition, 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.

Our success depends on our ability to develop new and enhanced products, services and strategic partner relationships

The markets in which we compete are subject to rapid technological change and our success is dependent on our ability to develop new and enhanced products, services and strategic partner relationships that meet evolving market needs. Trends that could have a critical impact on us include:

- evolving industry standards, mandates and laws, such as those mandated by the National Automated Clearing House Association, the Association for Payment Clearing Services;
- rapidly changing technology, which could cause our software to become suddenly outdated or could require us to make our products compatible with new database or network systems;
- developments and changes relating to the Web, cloud computing and mobile applications that we must address as we maintain existing products and introduce new products; and
- the loss of any of our key strategic partners who serve as a valuable network from which we can leverage industry expertise and respond to changing marketplace demands.

There can be no assurance that technological advances will not cause our products to become obsolete or uneconomical. If we are unable to develop and introduce new products or enhancements to existing products in a timely and successful manner, our business, operating results and financial condition could be materially adversely affected. Similarly, if our new products do not receive general marketplace acceptance, or if the sales cycle of any of our new products significantly delays the timing of revenue recognition, our results could be negatively affected.

We rely on certain third-party software and data center hosting facilities, which could cause errors, interruptions or failures to our solutions or be difficult to replace

We rely on software licensed from third parties in order to deliver certain of our solutions. This software may not continue to be available to us on commercially reasonable terms, or at all. The loss of the right to use any of this software 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 software that is used in conjunction with our solutions could adversely affect the operation of our products.

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Our SaaS offerings provide services to our customers from data center facilities in several different US and international locations. Some of these data centers are operated by third parties, and we have limited control over those facilities. We evaluate and select our data center providers carefully, and we have developed certain disaster recovery plans and maintain backup systems to reduce the risk and adverse effects of any disruption or failure at these data centers. However, such an event could occur despite our precautions and cause system interruptions, reputational harm, delays in product development, breaches of data security, failure to maintain service level requirements and the loss of critical data, any of which could adversely affect our business, financial condition and results of operations.

Our business could be subject to future legal or regulatory actions, which could have a material adverse effect on our operating results

Our software products and SaaS offerings facilitate the transmission of business documents and information including, in some cases, confidential data related to payments, invoices and cash management. Our Web-based software products and certain of our SaaS offerings transmit this data electronically, and we are therefore subject to laws, regulations and industry standards regarding security, data protection and electronic commerce. While we believe that we are in compliance with applicable current regulatory requirements, there can be no assurance that future legal or regulatory actions will not 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 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 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.

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

If the products that we offer and introduce do not sustain marketplace acceptance, our future financial results could be adversely affected. Any unanticipated performance problems, defects or bugs 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 regarding us and our products, harm to our customer relationships and exposure to potential liability claims.

Catastrophic events may disrupt our business

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 data center facilities in several different US and international locations. Some of these data centers are operated by third parties, and we have limited control over those facilities. 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.

Our products are used to facilitate the transmission of sensitive business documents and other confidential data related to payments, cash management and invoices. Further, some of our products facilitate the actual transfer of cash or transmit instructions that initiate cash transfer. 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 result in substantial costs and a diversion of management s attention and our resources, 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, we cannot assure 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 to our technology or any commercial advantage to us, or that the 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 can be 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 require us to spend significant sums in litigation, pay damages, delay product implementations, 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.

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 in India and elsewhere 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 that include, but are not limited to, the following:

- 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 around the world;

- misappropriation of intellectual property from departing personnel, 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.

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Some 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.

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 three months ended September 30, 2012:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under The Plans or Programs [1]
July 1, 2012 July 31, 2012				$ 17,496,000
August 1, 2012 August 31, 2012				$ 17,496,000
September 1, 2012 September 30, 2012	40,000	23.34	40,000	$ 16,562,000
Total	40,000	23.34	40,000	$ 16,562,000

(1) In May 2012, our board of directors authorized a repurchase program for up to $20.0 million of our common stock. This repurchase program replaces the program that had been in place since April 2008.

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: November 8, 2012	By:	/s/ KEVIN M. DONOVAN
		Kevin M. Donovan
		Chief Financial Officer and Treasurer
		(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Definition Linkbase Document
101.LAB**	XBRL Taxonomy Label Linkbase Document
101.PRE**	XBRL Taxonomy Presentation Linkbase Document

** 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 September 30, 2012 (unaudited) and June 30, 2012, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended September 30, 2012 and 2011, (iii) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2012 and 2011 and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.