BOTTOMLINE TECHNOLOGIES INC /DE/
Form 10-Q
November 08, 2010
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, 2010

OR

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

For the transition period from to

Commission file number: 0-25259

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

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

(603) 436-0700

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

The number of shares outstanding of the registrant's common stock as of October 31, 2010 was 32,301,612.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2010	June 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	$136,314	$122,758
Marketable securities	58	51
Accounts receivable, net of allowance for doubtful accounts of $490 at September 30, 2010 and $481 at June 30, 2010	26,807	26,019
Other current assets	9,274	8,910
Total current assets	172,453	157,738
Property, plant and equipment, net	14,434	14,561
Goodwill	65,969	64,294
Intangible assets, net	28,531	31,172
Other assets	1,488	1,617
Total assets	$282,875	$269,382
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$6,012	$5,857
Accrued expenses	10,449	9,715
Deferred revenue	35,160	37,461
Total current liabilities	51,621	53,033
Deferred revenue, non-current	2,661	2,738
Deferred income taxes	1,770	1,432
Other liabilities	1,860	1,788
Total liabilities	57,912	58,991
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—32,932 at September 30, 2010, and 32,376 at June 30, 2010; outstanding shares—30,966 at September 30, 2010, and 30,325 at June 30, 2010	33	32
Additional paid-in capital	383,263	375,700
Accumulated other comprehensive loss	(5,962)	(9,358)
Treasury stock: 1,966 shares at September 30, 2010, and 2,051 shares at June 30, 2010, at cost	(21,720)	(22,657)
Accumulated deficit	(130,651)	(133,326)
Total stockholders' equity	224,963	210,391

Total liabilities and stockholders' equity	$282,875	$269,382

See accompanying notes.

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

	Three Months Ended September 30,	
	2010	2009
Revenues:		
Software licenses	$3,461	$2,963
Subscriptions and transactions	11,534	8,281
Service and maintenance	25,052	23,135
Equipment and supplies	1,991	2,177
Total revenues	42,038	36,556
Cost of revenues:		
Software licenses	215	219
Subscriptions and transactions (1)	6,372	3,878
Service and maintenance (1)	10,429	9,720
Equipment and supplies	1,520	1,621
Total cost of revenues	18,536	15,438
Gross profit	23,502	21,118
Operating expenses:		
Sales and marketing (1)	8,553	7,883
Product development and engineering (1)	5,012	4,090
General and administrative (1)	4,735	4,290
Amortization of intangible assets	2,882	3,306
Total operating expenses	21,182	19,569
Income from operations	2,320	1,549
Other income, net	282	221
Income before income taxes	2,602	1,770
(Benefit) provision for income taxes	(73)	598
Net income	$2,675	$1,172
Basic net income per share attributable to common stockholders:	$0.09	$0.05
Diluted net income per share attributable to common stockholders:	$0.08	$0.05
Shares used in computing basic net income per share attributable to common stockholders:	30,754	24,401
Shares used in computing diluted net income per share attributable to common stockholders:	31,984	24,812

(1) Stock based compensation is allocated as follows:

	Three Months Ended September 30,	
	2010	2009
Cost of revenues: subscriptions and transactions	$107	$53
Cost of revenues: service and maintenance	408	305
Sales and marketing	850	649

Product development and engineering	359	204
General and administrative	846	697

See accompanying notes.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Operating activities:		
Net income	$2,675	$1,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	2,882	3,306
Stock compensation expense	2,570	1,908
Depreciation and amortization of property, plant and equipment	1,248	957
Deferred income tax (benefit) provision	(815)	138
Provision for allowances on accounts receivable	—	(99)
Provision for allowances for obsolescence of inventory	1	—
Excess tax benefits associated with stock compensation	(31)	(8)
Loss on disposal of equipment	23	—
Gain on foreign exchange	(35)	(96)
Changes in operating assets and liabilities:		
Accounts receivable	(190)	1,457
Inventory	(68)	26
Prepaid expenses and other current assets	(30)	172
Other assets	861	(1,358)
Accounts payable	(265)	202
Accrued expenses	525	(1,154)
Deferred revenue	(3,016)	(2,040)
Other liabilities	11	68
Net cash provided by operating activities	6,346	4,651
Investing activities:		
Acquisition of businesses and assets, net of cash acquired	—	(17,000)
Purchases of held-to-maturity securities	(54)	(50)
Proceeds from sales of held-to-maturity securities	54	50
Purchases of property and equipment, net	(723)	(1,201)
Net cash used in investing activities	(723)	(18,201)
Financing activities:		
Proceeds from sale of common stock, net	4,865	—
Proceeds from exercise of stock options and employee stock purchase plan	1,036	1,841
Excess tax benefits associated with stock compensation	31	8
Capital lease payments	(28)	(29)
Payment of bank financing fees	(3)	(12)
Net cash provided by financing activities	5,901	1,808
Effect of exchange rate changes on cash	2,032	(267)
Increase (decrease) in cash and cash equivalents	13,556	(12,009)
Cash and cash equivalents at beginning of period	122,758	50,255
Cash and cash equivalents at end of period	$136,314	$38,246
Supplemental disclosure of cash flow information:		

Non-cash investing and financing activities:		
Issuance of warrants in connection with acquisition of business	—	$10,520

See accompanying notes.

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Bottomline Technologies (de), Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2010

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, 2010 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2011. For further information, refer to the financial statements and footnotes included in the Annual Report on Form 10-K for Bottomline Technologies (de), Inc. (the Company) as filed with the Securities and Exchange Commission (SEC) on September 10, 2010.

Certain prior period amounts related to stock compensation expense have been reclassified to conform to the current year presentation.

Note 2—Recent Accounting Pronouncements

Revenue Recognition

In October 2009, the Financial Accounting Standards Board issued authoritative guidance on two issues related to revenue recognition: Revenue Arrangements with Multiple Deliverables and Certain Revenue Arrangements that Include Software Elements.

Revenue Arrangements with Multiple Deliverables applies to multiple-deliverable revenue arrangements and provides for two significant changes to existing multiple-element revenue recognition guidance. The first change relates to the determination of when individual deliverables within an arrangement should be treated as separate units of accounting. Broadly, a deliverable should be treated as a separate unit of accounting when it has value to the customer on a standalone basis and when delivery or performance of any undelivered items is considered to be probable and substantially within the control of the vendor. The second change relates to the manner in which arrangement consideration should be allocated to any separately identified deliverables and requires that the allocation of revenue among deliverables be based on vendor specific objective evidence (VSOE) or third-party evidence of selling price and, to the extent that neither of these levels of evidence exist, that the allocation be based on the vendor's best estimate of selling price for each deliverable. Use of the residual method of allocating revenue to arrangement deliverables is specifically prohibited unless the transaction is governed by software revenue recognition literature. Financial statement disclosure requirements have also been significantly expanded. The Company adopted this guidance on a prospective basis on July 1, 2010, which required the Company to apply this guidance to all revenue arrangements entered into, or materially modified, on or after that date. The adoption of this accounting standard did not have a material impact on the Company's condensed consolidated financial statements for the quarter ended September 30, 2010 and the Company does not believe it will have a material impact in the remainder of fiscal 2011.

Certain Revenue Arrangements that Include Software Elements focuses on redefining which revenue arrangements are within the scope of software revenue recognition literature and which are not. The issue provides guidance on determining whether tangible products containing non-software and software elements are governed by software revenue recognition literature and significantly narrows the definition of what constitutes a “software” transaction. In particular, non-software components of products that include software, software products bundled with tangible products where the non-software and software components function together to deliver the product’s essential functionality, and undelivered elements related to non-software components are, as a result of this issue, outside the scope of software revenue recognition rules. The issue also provides guidance on allocating revenue between non-software and software elements. The Company adopted the guidance on a prospective basis beginning July 1, 2010. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements for the interim period ended September 30, 2010 and the Company does not believe it will have a material impact in the remainder of fiscal 2011.

Note 3—Revenue Recognition

Software Arrangements

The Company recognizes revenue on its software license arrangements when four basic criteria are met: persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed and determinable and collectability is deemed probable. The Company considers a fully executed, non-cancelable agreement or a customer purchase order to be persuasive evidence of an arrangement. Delivery is deemed to have occurred upon transfer of the product title to the customer or the completion of services rendered. The Company considers the arrangement fee to be fixed and determinable if it is not subject to adjustment and if the customer has not been granted extended payment terms. Excluding our long term contract arrangements for which revenue is recorded on a percentage of completion basis, extended payment terms are deemed to be present when any portion of the software license fee is due in excess of 90 days after the date of product delivery. In arrangements that contain extended payment terms, software revenue is recorded as customer payments become contractually due, assuming all other revenue recognition criteria have been met. The Company considers the arrangement fee to be probable of collection if its internal credit analysis indicates that the customer will be able to pay contractual amounts as they become due.

The Company's software arrangements may contain multiple revenue elements, such as software licenses, professional services, hardware and post-contract customer support. For multiple element software arrangements which qualify for separate element treatment, revenue is recognized for each element when each of the four basic criteria is met; excluding post-contract customer support, this is typically upon delivery or completion of professional services. Revenue for post-contract customer support agreements is recognized ratably over the term of the agreement, which is generally one year. Revenue is allocated to each element, excluding the software license, based on vendor specific objective evidence of fair value ("VSOE"). VSOE is limited to the price charged when the element is sold separately or, for an element not yet being sold separately, the price established by management having the relevant authority. The Company does not have VSOE for its software licenses since they are seldom sold separately. Accordingly, revenue is allocated to the software license according to the residual value method. Under the residual value method, revenue equal to VSOE of each undelivered element is deferred and recognized upon delivery of that element. Any "residual" arrangement fee is allocated to the software license. This has the effect of allocating any sales discount inherent in the arrangement to the software license fee.

Certain of the Company's software license arrangements require significant customization and modification and involve extended implementation periods and as such do not qualify for separate element treatment. These arrangements are typically accounted for using percentage of completion contract accounting. In such arrangements, since the Company is able to make reasonably reliable estimates of progress toward completion, revenue is recognized over the life of the project as work is performed. Revenue earned in each reporting period is determined based on the percentage of labor hours incurred on the project as a percentage of total estimated labor hours. Customer payment milestones for both software and professional services fees on these long-term arrangements typically occur on a periodic basis over the period of project completion.

Non-Software Arrangements

For arrangements governed by general revenue recognition literature, such as with the Company's hosted or SaaS offerings or equipment and supplies only sales, the Company recognizes revenue when four basic criteria are met; these criteria are similar to those governing software transactions: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the arrangement fee is fixed or determinable and collectability is reasonably assured.

For arrangements consisting of multiple elements, revenue is allocated to each element based on a selling price hierarchy. The selling price of each element is based on VSOE if available, third party evidence (“TPE”) if VSOE is not available or estimated selling price (“ESP”) if neither VSOE or TPE are available. TPE is determined based on selling prices charged by unrelated third party vendors for similar deliverables when sold separately. The residual method of allocation is no longer permitted and, instead, arrangement consideration is allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionately to each deliverable based on the relative proportion of each deliverable’s selling price to the total arrangement fee. The Company is typically unable to establish TPE as it is unable to obtain sufficient information on vendor selling prices to substantiate TPE. The objective of ESP is to estimate the price at which the Company would transact if the deliverable were sold separately rather than as part of a multiple element arrangement. The Company’s determination of ESP considers several factors including actual selling prices for similar transactions, gross margin expectations and ongoing pricing strategy. The Company plans to formally analyze its ESP determinations on at least an annual basis.

Whether a deliverable represents a separate unit of accounting, thus resulting in discrete revenue recognition as the revenue recognition criteria for that deliverable are met, is dependent on whether the deliverable has value to the customer on a standalone basis. A deliverable is deemed to have standalone value if it is sold separately by the Company or any other vendor or if the deliverable could be resold by the customer. Additionally, in an arrangement that includes a general right of return related to delivered items, delivery or performance of any undelivered items must be considered probable and substantially within the control of the Company.

Up-front fees paid by the customer, even if non-refundable, that do not have stand alone value are deferred and recognized as revenue over the period of performance. The Company periodically charges up-front fees, generally related to installation and integration services, in connection with certain of its hosted or SaaS offerings. These fees are deferred and recognized as revenue ratably over the estimated customer relationship period, which is generally five years, and the revenue recognition period associated with these fees normally commences upon customer implementation.

The Company expenses contract origination costs and incremental direct costs as incurred.

Arrangements Including Both Software and Non-Software Deliverables

Periodically, the Company will enter into an arrangement that contains both software and non-software deliverables. In such a transaction, the aggregate arrangement consideration is allocated to the software deliverables and non-software deliverables as a group, using the relative selling prices of each of the deliverables based on the aforementioned selling price hierarchy. After this allocation is completed, the arrangement consideration allocated to the software deliverables is further allocated using the residual value method described above.

Regardless of the allocation methodology or the nature of the deliverables, the Company limits the amount of revenue that can be recognized for delivered items to the amount that is not contingent on future deliverables or subject to customer specified return or refund rights.

Customer Returns

The sales value of customer returns are estimated and accrued for based upon return authorizations issued and past history. Actual returns, in the aggregate, have been consistent with management’s expectations and have historically not been significant.

Note 4—Fair Value

Fair Value of Assets and Liabilities

The Company measures fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 the Company to develop its 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, 2010, assets of the Company measured at fair value on a recurring basis were as follows:

	September 30, 2010 Fair Value Measurements Using Input Types			
(in thousands)	Level 1	Level 2	Level 3	Total
Money market funds (cash and cash equivalents)	$63,998	$—	$—	$63,998

	June 30, 2010 Fair Value Measurements Using Input Types			
(in thousands)	Level 1	Level 2	Level 3	Total
Money market funds (cash and cash equivalents)	$58,257	$—	$—	$58,257

Fair Value of Financial Instruments

The Company has certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable and accounts payable. The Company's marketable securities are classified as held to maturity and recorded at amortized cost which, at September 30, 2010 and June 30, 2010, approximated fair value. These investments all mature within one year. The fair value of the Company's other financial instruments approximate their carrying values, due to the short-term nature of those instruments.

Note 5 – Product and Business Acquisitions

PayMode

On September 14, 2009, the Company completed the purchase of substantially all of the assets and related operations of PayMode from Bank of America. PayMode facilitates the electronic exchange of payments and invoices between organizations and their suppliers and is operated as a Software as a Service (SaaS) offering. As a result of the acquisition the Company acquired the PayMode operations including the vendor network, application software, intellectual property rights and other assets, properties and rights used exclusively or primarily in the PayMode business.

To achieve a comprehensive solution for the Company's customers, the core features and functionality of PayMode and Bottomline Business eXchange, the Company's electronic invoicing solution, were combined and launched as a re-branded offering: Paymode-X. This solution offers an electronic order-to-pay network for businesses, and the Paymode-X supplier network currently encompasses 125,000 companies.

Pro-forma Information

The following unaudited pro-forma financial information presents the combined results of operations of the Company and PayMode as if that acquisition had occurred on July 1, 2009, after giving effect to certain adjustments such as decreased revenues formerly earned by PayMode from interest income allocated to PayMode through Bank of America's fund transfer process since, in general terms, the Company is not eligible to earn revenues in this manner. The pro-forma adjustments also reflect an increase in amortization expense as a result of acquired intangible assets and a decrease in interest income as a result of the cash paid for the acquisition. This pro-forma financial information does not necessarily reflect the results of operations that would have actually occurred had the Company and PayMode been a single entity during this period.

		Pro Forma Three Months Ended September 30, 2009 (unaudited) (in thousands)
Revenues	$	37,759
Net loss	$	(88)
Net loss per basic and diluted share attributable to common stockholders	$	(0.00)

Global Commission Payments

On February 24, 2010, the Company acquired certain customer contracts associated with Bank of America's Global Commission Payments business. The initial consideration paid by the Company was $1.0 million in cash; this cost has been classified as a component of the Company's customer related intangible assets and is being amortized over an estimated life of seven years. For acquired contracts that the Company successfully migrates to its Paymode-X solution, additional consideration is due to Bank of America based on a trailing revenue multiple of the underlying customer. The Company anticipates that additional consideration of up to $5 million may be contingently payable to Bank of America, based on the outcome of customer migration to Paymode-X. The migration exercise is currently targeted for completion in the first half of calendar year 2011; any additional consideration will be recorded by the Company as an increase to the cost of the acquired contracts in the period in which payment to Bank of America becomes probable and the amount of payment is reasonably estimable.

Note 6—Net Income Per Share

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

	Three Months Ended September 30, 2010 (in thousands)	2009
Numerator:		
Net income	$2,675	$1,172
Less: Net income allocable to participating securities	----	(48)
Net income allocable to common stockholders	$2,675	$1,124
Denominator:		
Shares used in computing basic net income per share attributable to common stockholders	30,754	24,401
Effect of dilutive securities	1,230	411
Shares used in computing diluted net income per share attributable to common stockholders	31,984	24,812
Basic net income per share attributable to common stockholders	$0.09	$0.05

Diluted net income per share attributable to common stockholders	$0.08	$0.05

The calculation of basic net income per share excludes any dilutive effects of stock options, unvested restricted stock and stock warrants. During the prior fiscal year, certain of the Company's unvested restricted stock awards were considered to be participating securities as they entitled the holder to receive non-forfeitable rights to cash dividends at the same rate as common stock. Accordingly, for the three months ended September 30, 2009, basic earnings per share was computed pursuant to the two-class method which calculates earnings for common stock and participating securities based on their proportionate participation rights in undistributed earnings.

Diluted net income per share is calculated using the more dilutive of the treasury stock method (which assumes full exercise of in-the-money stock options and warrants and full vesting of restricted stock) or, for periods in which there are participating securities, the two-class method described above.

At September 30, 2010 and 2009, 45,000 and 1,851,000 shares of unvested restricted stock and stock options were excluded from the calculation of diluted earnings per share, respectively, as their effect on the calculation would have been anti-dilutive.

Note 7—Comprehensive Income or Loss

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

	Three Months Ended September 30,	
	2010	2009
	(in thousands)	
Net income	$2,675	$1,172
Other comprehensive income (loss):		
Foreign currency translation adjustments	3,396	(1,011)
Comprehensive income	$6,071	$161

Note 8—Operations by Segments and Geographic Areas

Segment Information

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company's operating segments are organized principally by the type of product or service offered and by geography; similar operating segments have been aggregated into three reportable segments as follows:

Payments and Transactional Documents. The Company's Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also provides a range of standard professional services and equipment and supplies that complement and enhance the Company's core software products. Revenue associated with this segment is typically recorded upon delivery or, if extended payment terms have been granted to the customer, as payments become contractually due. This segment incorporates the Company’s check printing solutions in the UK, revenue for which is typically recorded on a per transaction basis or ratably over the expected life of the customer relationship, as well as certain solutions that are licensed on a subscription basis, revenue for which is typically recorded ratably over the contractual term.

Banking Solutions. The Banking Solutions segment provides solutions that are specifically designed for banking and financial institution customers. These solutions typically involve longer implementation periods and a significant level of professional resources. 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, the Company licenses 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.

Outsourced Solutions. The Outsourced Solutions segment provides customers with outsourced and hosted solution offerings that facilitate invoice receipt and presentment and spend management. The Company's Legal eXchange solution, which provides the opportunity to create more efficient processes for managing invoices generated by outside law firms while offering access to important legal spend factors such as budgeting, expense monitoring and outside counsel performance, is included within this segment. This segment also incorporates the Company's hosted and outsourced accounts payable automation solutions, including Paymode-X. Revenue within this segment is generally recognized on a subscription or transaction basis or proportionately over the estimated life of the customer relationship.

Each operating segment has separate sales forces and 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.

The Company's 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, 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 the Company's operating segments at predetermined rates that approximate cost.

The Company does not track or assign its assets by operating segment.

Segment information for the three months ended September 30, 2010 and 2009 according to the segment descriptions above, is as follows:

	Three Months Ended September 30,	
	2010	2009
	(in thousands)	
Revenues:		
Payments and Transactional Documents	$23,501	$22,767
Banking Solutions	10,924	7,108
Outsourced Solutions	7,613	6,681
Total revenues	$42,038	$36,556
Segment measure of profit:		
Payments and Transactional Documents	$5,086	$4,976
Banking Solutions	2,818	985
Outsourced Solutions	309	1,204
Total measure of segment profit	$8,213	$7,165

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

	Three Months Ended September 30,	
	2010	2009
	(in thousands)	
Segment measure of profit	$8,213	$7,165
Less:		
Amortization of intangible assets	(2,882)	(3,306)
Stock-based compensation expense	(2,570)	(1,908)
Acquisition related expenses	(441)	(402)
Add:		
Other income, net	282	221
Income before income taxes	$2,602	$1,770

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

	Three Months Ended September 30,	
	2010	2009
	(in thousands)	
Depreciation expense:		
Payments and Transactional Documents	$419	$374
Banking Solutions	168	165
Outsourced Solutions	661	418
Total depreciation expense	$1,248	$957

Geographic Information

The Company has presented geographic information about its revenues, below. This presentation allocates revenue based on the point of sale not the location of the customer. Accordingly, the Company derives revenues from geographic locations based on the location of the customer that would vary from the geographic areas listed here, particularly in respect of a financial institution customer located in Australia for which the point of sale was the United States.

	Three Months Ended September 30,	
	2010	2009
	(in thousands)	
Revenues from unaffiliated customers:		
North America	$28,937	$23,769

Europe	12,608	12,377
Australia	493	410
Total revenues from unaffiliated customers	$42,038	$36,556

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

	September 30, 2010	June 30, 2010
	(in thousands)	
Long-lived assets, net		
North America	$12,057	$13,593
Europe	3,730	2,464
Australia	135	121
Total long-lived assets, net	$15,922	$16,178

Note 9—Income Taxes

The Company recorded an income tax benefit of $0.1 million and income tax expense of $0.6 million for the three months ended September 30, 2010 and 2009, respectively. The income tax benefit for the quarter ended September 30, 2010 was substantially due to the impact of a discrete tax benefit of $0.9 million arising from the release of a portion of the Company's valuation allowance that had previously been recorded against its UK deferred tax assets. The ability to release a portion of the UK valuation allowance was attributable to continued profitability in the UK operations, which the Company expects will continue, including the attainment of three years of cumulative profitability on a pre-tax basis during the quarter ended September 30, 2010. The tax benefit was offset in part by tax expense attributable to the Company's UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes.

The Company's income tax expense recorded for the quarter ended September 30, 2009 was due to tax expense associated with the Company's UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses and due to an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. Income tax expense was partially offset by the benefit associated with a US tax refund claim for a portion of unused research and development credit carryforwards.

The Company currently anticipates that its unrecognized tax benefits will decrease within the next twelve months by approximately $0.3 million as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

Note 10—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 and below market lease arrangements.

	As of September 30, 2010			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying	Weighted Average

			Value	Remaining Life (in years)
		(in thousands)		
Amortized intangible assets:				
Customer related	$59,921	$ (40,965)	$18,956	8.7
Core technology	32,746	(25,459)	7,287	5.3
Patent	953	(332)	621	8.8
Other intangible assets	2,338	(671)	1,667	12.4
Total	$95,958	$ (67,427)	$28,531	
Unamortized intangible assets:				
Goodwill			65,969	
Total intangible assets			$94,500	

	As of June 30, 2010			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Life
		(in thousands)		(in years)
Amortized intangible assets:				
Customer related	$58,747	$ (37,981)	$20,766	8.5
Core technology	32,224	(24,210)	8,014	5.3
Patent	953	(314)	639	9.0
Other intangible assets	2,338	(585)	1,753	12.3
Total	$94,262	$ (63,090)	$31,172	
Unamortized intangible assets:				
Goodwill			64,294	
Total intangible assets			$95,466	

Estimated amortization expense for fiscal year 2011 and subsequent fiscal years, excluding the impact of the Company's October 2010 acquisition of SMA Financial, Ltd., is as follows:

	(in thousands)
2011	$ 10,194
2012	5,351
2013	3,785
2014	1,922
2015	1,810
2016 and thereafter	8,351

Note 11—Contingencies

In April 2010, the Company received notification from an outside software consortium alleging that the Company may have installed unlicensed versions of certain third-party software on its computers. The notification requested that the Company undertake an internal review to assess the merits of such claims and this review is in process. While the outcome of this review is still uncertain, the Company does not believe it will have a material impact on its financial position or operating results.

In August 2010, the Company received notification from HM Revenue and Customs (HMRC) advising that Tranmit Plc. (Tranmit), a wholly owned subsidiary of the Company, had an unsettled tax liability of approximately £0.1 million (approximately $0.2 million based on September 30, 2010 foreign exchange rates) inclusive of interest. This tax relates to transactions occurring before the Company's acquisition, which occurred in January 2006. The Company and the former stockholders of Tranmit are currently parties to a tax indemnification arrangement providing for the recovery by the Company, from the selling stockholders, of certain tax liabilities arising for periods prior to Bottomline's ownership of Tranmit. The Company believes that it would be indemnified and recover from the former Tranmit stockholders substantially all of the amounts that might be payable to HMRC for this matter. While the ultimate resolution of this claim is uncertain, the Company does not believe it will have a material impact on its financial statements or cash flows.

Note 12—Stock Offering

In June, 2010, the Company completed an underwritten public offering of 4.2 million shares of its common stock. In July, 2010, the underwriters exercised an over-allotment option to purchase 354,000 additional shares of the Company's common stock, resulting in an additional $4.9 million of net proceeds to the Company. The additional shares issued and proceeds received by the Company were recorded by the Company in July 2010.

The offering was made pursuant to a registration statement previously filed and declared effective by the Securities and Exchange Commission on March 25, 2010.

Note 13—Subsequent Event

On October 26, 2010, the Company acquired SMA Financial, Ltd., ("SMA") for a cash payment of £5.0 million (approximately $7.9 million, based on foreign exchange rates at the time of the acquisition). SMA is a London-based provider of SaaS connectivity to SWIFT for the automation of payments and financial messaging. As a result of the acquisition, the Company expects to offer next-generation treasury and cash management solutions to a range of bank and corporate customers.

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 and Section 21E of the Securities Exchange Act of 1934. Without limiting the foregoing, the words "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "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 electronic payment, invoice and document management solutions to corporations, 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 software designed to run on-site at the customer's location as well as hosted or Software as a Service (SaaS) solutions. Historically, our software has been sold predominantly on a perpetual license basis. Today however, a growing portion of our offerings are being sold as SaaS and paid for on a subscription and transaction 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 eXchange®, a SaaS offering that receives, manages and controls legal invoices and the related spend management for insurance companies and other large corporate consumers of outside legal services. We also offer Paymode-X, a SaaS offering that facilitates the exchange of electronic payments and invoices between organizations and suppliers and which is offered to customers of Bank of America and Bottomline. Our offerings also include software solutions that banks use to provide web-based payment and reporting capabilities to their corporate customers.

Our solutions complement and leverage our customers' existing information systems, accounting applications and banking relationships. As a result, our solutions can be deployed quickly and efficiently. To help our customers receive the maximum value from our products and meet their own particular needs, we also provide professional services for installation, training, consulting and product enhancement.

For the first three months of fiscal year 2011, our revenue increased to $42.0 million from $36.6 million in the same period of fiscal year 2010. This revenue increase was attributable to revenue increases of $3.8 million in our Banking Solutions segment, $0.9 million in our Outsourced Solutions segment and $0.7 million in our Payments and Transactional Documents segment. The Banking Solutions segment's increased revenue related to large new and ongoing banking projects. The increased contribution of revenue from our Paymode-X solution, which we acquired in September 2009, accounted for substantially all of the revenue increase in the Outsourced Solutions segment. These increases include an unfavorable effect of foreign exchange rates of $0.7 million primarily associated with the British Pound Sterling, which depreciated against the US Dollar compared to the same period in the prior fiscal year.

We had net income of $2.7 million in the three months ended September 30, 2010 compared to net income of $1.2 million in the three months ended September 30, 2009. The increase in net income was due largely to improved gross margins of $2.4 million and a discrete income tax benefit in the three months ended September 30, 2010 of $0.9 million. These effects were partially offset by an increase in operating expenses of $1.6 million. The increased gross margin related primarily to our increased revenue across all segments. The increases in our operating expense categories were primarily due to increased employee related costs, partially associated with a full quarter of Paymode-X operations, offset by a decrease of $0.4 million in intangible asset amortization.

In the first three months of fiscal 2011, we derived approximately 38% of our revenue from customers located outside of North America, principally in the UK and Australia. We expect future revenue growth to be driven by increased purchases of our products, including 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, 2010 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 September 10, 2010. There have been no changes to our critical accounting policies during the three months ended September 30, 2010. As discussed below in "Recent Accounting Policies" and in Note 3 to our condensed consolidated financial statements, we adopted the guidance of two issues related to revenue recognition: Revenue Arrangements with Multiple Deliverables and Certain Revenue Arrangements that Include Software Elements. The adoption of these accounting standards did not have a material impact on our condensed consolidated financial statements for the quarter ended September 30, 2010 and we do not believe they will have a material impact in the remainder of fiscal 2011.

Recent Accounting Pronouncements

Revenue Recognition

In October 2009, the FASB issued authoritative guidance on two issues related to revenue recognition: Revenue Arrangements with Multiple Deliverables and Certain Revenue Arrangements that Include Software Elements.

Revenue Arrangements with Multiple Deliverables applies to multiple-deliverable revenue arrangements and provides for two significant changes to existing multiple-element revenue recognition guidance. The first change relates to the determination of when individual deliverables within an arrangement should be treated as separate units of accounting. Broadly, a deliverable should be treated as a separate unit of accounting when it has value to the customer on a standalone basis and when delivery or performance of any undelivered items is considered to be probable and substantially within the control of the vendor. The second change relates to the manner in which arrangement consideration should be allocated to any separately identified deliverables and requires that the allocation of revenue among deliverables be based on vendor specific objective evidence (VSOE) or third-party evidence of selling price and, to the extent that neither of these levels of evidence exist, that the allocation be based on the vendor's best estimate of selling price for each deliverable. Use of the residual method of allocating revenue to arrangement deliverables is specifically prohibited unless the transaction is governed by software revenue recognition literature. Financial statement disclosure requirements have also been significantly expanded. We adopted this guidance on a prospective basis on July 1, 2010, which required us to apply this guidance to all revenue arrangements entered into or materially modified on or after that date. The adoption of this accounting standard did not have a material impact on our condensed consolidated financial statements for the quarter ended September 30, 2010 and we do not believe it will have a material impact in the remainder of fiscal 2011.

Certain Revenue Arrangements that Include Software Elements focuses on redefining which revenue arrangements are within the scope of software revenue recognition literature and which are not. The issue provides guidance on determining whether tangible products containing non-software and software elements are governed by software revenue recognition literature and significantly narrows the definition of what constitutes a “software” transaction. In particular, non-software components of products that include software, software products bundled with tangible products where the non-software and software components function together to deliver the product’s essential functionality, and undelivered elements related to non-software components are, as a result of this issue, outside the scope of software revenue recognition rules. The issue also provides guidance on allocating revenue between non-software and software elements. We adopted the guidance on a prospective basis beginning July 1, 2010. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements for the interim period ended September 30, 2010 and we do not believe it will have a material impact in the remainder of fiscal 2011.

Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009

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.

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,		Increase (Decrease) Between Periods 2010 Compared to 2009	
	2010	2009		
Segment revenue:	(in thousands)		(in thousands)	%
Payments and Transactional Documents	$23,501	$22,767	$734	3.2
Banking Solutions	10,924	7,108	3,816	53.7
Outsourced Solutions	7,613	6,681	932	14.0
	$42,038	$36,556	$5,482	15.0
Segment measure of profit:				
Payments and Transactional Documents	$5,086	$4,976	$110	2.2
Banking Solutions	2,818	985	1,833	186.1
Outsourced Solutions	309	1,204	(895)	(74.3)
Total measure of segment profit	$8,213	$7,165	$1,048	14.6

A reconciliation of the measure of segment profit to our GAAP income for the three months ended September 30, 2010 and 2009, before the provision for income taxes, is as follows:

	Three Months Ended September 30,	
	2010	2009
	(in thousands)	
Segment measure of profit	$8,213	$7,165
Less:		

Amortization of intangible assets	(2,882)	(3,306)
Stock compensation expense	(2,570)	(1,908)
Acquisition related expenses	(441)	(402)
Add:		
Other income, net	282	221
Income before income taxes	$2,602	$1,770

Payments and Transactional Documents. The revenue increase for the three months ended September 30, 2010 was primarily attributable to an increase of $0.3 million in software license revenue, an increase of $0.2 million in subscriptions and transactions revenue and an increase of $0.5 million in service and maintenance revenue from our European payments and document automation products. These increases include an unfavorable effect of foreign exchange rates of $0.6 million associated with the British Pound Sterling. The segment profit increase of $0.1 million for the three months ended

September 30, 2010 was primarily attributable to increases in both software license revenues and services and maintenance revenues worldwide. We expect revenue and profit for the Payments and Transactional Documents segment to increase during the remaining three quarters of fiscal 2011 as a result of increased sales of our payment and document automation solutions and improvements in gross margins.

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 professional services revenue of $1.8 million associated with large new and ongoing projects and due to the revenue contribution of $1.8 million for an arrangement for which revenue recognition commenced in the prior fiscal year. Segment profit increased $1.8 million for the three months ended September 30, 2010 compared to the same period in the prior fiscal year. The profit increase was due to higher professional services gross margins of $1.0 million associated with large ongoing projects and due to the profit contribution of $1.0 million from a revenue arrangement commencing during the prior fiscal year. We expect revenue and profit for the Banking Solutions segment to increase during the remainder of the fiscal year as a result of the contribution of revenue from ongoing projects and from additional purchases from existing bank and financial institution customers.

Outsourced Solutions. Revenues from our Outsourced Solutions segment increased as compared to the same period in the prior fiscal year due primarily to the revenue contribution from Paymode-X. Segment profit decreased $0.9 million as compared to the same period in the prior fiscal year due primarily to our continued investment in our Paymode-X solution, including costs to service the customers, product development costs and sales and marketing costs. 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 Paymode-X and Legal eXchange solutions.

Revenues by category

	Three Months Ended September 30,				Increase (Decrease) Between Periods	
	2010		2009		2010 Compared to 2009	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Revenues:						
Software licenses	$3,461	8.2	$2,963	8.1	$498	16.8
Subscriptions and transactions	11,534	27.4	8,281	22.6	3,253	39.3
Service and maintenance	25,052	59.6	23,135	63.3	1,917	8.3
Equipment and supplies	1,991	4.8	2,177	6.0	(186)	(8.5)
Total revenues	$42,038	100.0	$36,556	100.0	$5,482	15.0

Software Licenses. The increase in software license revenues was due to an increase in revenue of approximately $0.2 million from our US and European payment products and increases of approximately $0.3 million in software license revenue from our Banking Solutions segment. We expect software license revenues to increase during the remainder of fiscal year 2011, principally as a result of increased software license revenue from our domestic and international payments and transactional documents products and our outsourced solutions products.

Subscriptions and Transactions. The increase in subscription and transaction revenues was due principally to the revenue contribution from Paymode-X and the revenue contribution of $1.8 million associated with a subscription based revenue arrangement that commenced in the prior fiscal year. We expect subscription and transaction revenues to increase during the remainder of the fiscal year, primarily as a result of the revenue contribution from Paymode-X.

Service and Maintenance. The increase in service and maintenance revenues was primarily the result of an increase in professional services revenues of $1.8 million associated with several large banking projects and increased professional service revenues in Europe of $0.5 million, offset in part by decreases in software maintenance revenues of $0.1 million in Europe and a decrease of $0.3 million as a result of a decrease in foreign exchange rates associated with the British Pound Sterling. We expect that service and maintenance revenues will increase during the remainder of the fiscal year as a result of new and existing projects within our Banking Solutions segment and as a result of additional revenues from our domestic and international payments and documents products.

Equipment and Supplies. The decrease in equipment and supplies revenues was principally due to a decrease in revenue associated with our European equipment sales. We expect that equipment and supplies revenues will remain relatively consistent during the remainder of 2011.

Cost of revenues by category

	Three Months Ended September 30,				Increase (Decrease) Between Periods	
	2010		2009		2010 Compared to 2009	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Cost of revenues:						
Software licenses	$215	0.5	$219	0.6	$(4)	(1.8)
Subscriptions and transactions	6,372	15.2	3,878	10.6	2,494	64.3
Service and maintenance	10,429	24.8	9,720	26.6	709	7.3
Equipment and supplies	1,520	3.6	1,621	4.4	(101)	(6.2)
Total cost of revenues	$18,536	44.1	$15,438	42.2	$3,098	20.1
Gross profit	$23,502	55.9	$21,118	57.8	$2,384	11.3

Software Licenses. Software license costs consist of expenses incurred by us to manufacture, package and distribute our software products and related documentation and costs of licensing third party software that is incorporated into or sold with certain of our products. Software license costs decreased slightly to 6% of software license revenues in the three months ended September 30, 2010 as compared to 7% for the three months ended September 30, 2009. We expect that software license costs will remain relatively consistent, as a percentage of software license revenues, during the remainder of the fiscal year.

Subscriptions and Transactions. Subscriptions and transaction 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 increased to 55% of subscription and transaction revenues in the three months ended September 30, 2010 as compared to 47% in the same period of 2009. The increase in subscription and transaction costs of approximately $2.5 million was due principally to the costs associated with Paymode-X, and the costs associated with a subscription based revenue arrangement that commenced in the prior fiscal year. We expect that subscription and transaction costs will remain relatively consistent as a percentage of subscription and transaction revenue during the remainder of the fiscal year due to our continued investment in Paymode-X.

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 remained unchanged at 42% of service and maintenance revenues in the three months ended September 30, 2010 as compared to the three months ended September 30, 2009. The increase in service and maintenance costs of approximately $0.7 million was due primarily to increased costs in our Banking Solutions segment that we incurred to support customer demand. We expect that service and maintenance costs will remain relatively consistent, 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. Equipment and supplies costs increased to 76% of equipment and supplies revenues in the three months ended September 30, 2010 as compared to 74% for the three months ended September 30, 2009. The cost increase as a percentage of revenues is primarily related to a higher mix of lower margin transactions. 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,				Increase (Decrease) Between Periods	
	2010		2009		2010 Compared to 2009	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Operating expenses:						
Sales and marketing	$8,553	20.3	$7,883	21.6	$670	8.5
Product development and engineering	5,012	11.9	4,090	11.2	922	22.5
General and administrative	4,735	11.3	4,290	11.7	445	10.4
Amortization of intangible assets	2,882	6.9	3,306	9.0	(424)	(12.8)
Total operating expenses	$21,182	50.4	$19,569	53.5	$1,613	8.2

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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, 2010 as compared to the three months ended September 30, 2009 as a result of an increase in employee related costs of $0.6 million primarily due to the impact of Paymode-X. 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 products, including 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, as well as development of our newer accounts payable automation products. The increase in product development and engineering expenses in the three months ended September 30, 2010 as compared to the three months ended September 30, 2009 was primarily attributable to an increase in employee related costs of $0.7 million driven by increased Paymode-X development and enhancement initiatives and due to an increase in costs associated with the use of contract resources of $0.2 million. We expect that product development and engineering expenses will increase during the remainder of the fiscal year related to increased investment in our Banking Solutions segment and as we continue to invest in the enhancement of the Paymode-X solution.

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, 2010 as compared to the three months ended September 30, 2009 primarily due to increases in employee related costs of $0.2 million and acquisition related expenses of $0.1 million. We expect that general and administrative expenses will remain 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 decrease in amortization expense in the quarter ended September 30, 2010 as compared to the quarter ended September 30, 2009 occurred as expense from intangible assets arising in prior acquisitions decreased as those assets aged, offset in part by an increase in amortization expense from intangible assets associated with Paymode-X. We expect that total amortization expense for fiscal 2011, excluding the impact of the Company's October 2010 acquisition of SMA Financial, Ltd., will approximate $10.2 million.

Other Income, Net

	Three Months Ended September 30,		Increase (Decrease) Between Periods	
	2010	2009	2010 Compared to 2009	
	(in thousands)			%
Interest income	$117	$59	$58	98.3
Interest expense	(15)	(8)	(7)	(87.5)
Other income, net	180	170	10	5.9
Other income, net	$282	$221	$61	27.6

Other Income, Net. In the three months ended September 30, 2010 as compared to the three months ended September 30, 2009, interest income increased as a result of increased cash balances. Interest expense remained insignificant during the three months ended September 30, 2010 and 2009. Other income, net increased slightly as a result of realized foreign exchange gains. 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 2011.

Provision for Income Taxes. We recorded an income tax benefit of $0.1 million and income tax expense of $0.6 million for the three months ended September 30, 2010 and 2009, respectively. The income tax benefit for the quarter ended September 30, 2010 was substantially due to the impact of a discrete tax benefit of $0.9 million arising from the release of a portion of our valuation allowance that had previously been recorded against our UK deferred tax assets. Our ability to release a portion of the UK valuation allowance was attributable to continued profitability in our UK operations, which we expect will continue, including the attainment of three years of cumulative profitability on a pre-tax basis during the quarter ended September 30, 2010. The tax benefit was offset in part by tax expense attributable to our UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses, state tax expense, and an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes.

Our income tax expense recorded for the quarter ended September 30, 2009 was due to tax expense associated with our UK, Australian and US operations. The US income tax expense was principally due to alternative minimum tax arising from the utilization of net operating losses and due to an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. Income tax expense was partially offset by the benefit associated with a US tax refund claim for a portion of unused research and development credit carryforwards.

We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately $0.3 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 nine completed fiscal years. Other than for insignificant amounts due under capital lease obligations, 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.

In October 2010, we acquired SMA Financial, Ltd., (“SMA”) for a cash payment of £5.0 million (approximately $7.9 million, based on foreign exchange rates at the time of the acquisition). SMA is a London-based provider of SaaS connectivity to SWIFT for the automation of payments and financial messaging. As a result of the acquisition, we expect to offer next-generation treasury and cash management solutions to a range of bank and corporate customers. We also may receive investments from, and make investments in, customers or other companies. However, any such transactions would require the approval of our board of directors, and in some cases, stockholders and potentially bank or regulatory approval.

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, 2010 and 2009 are summarized in the tables below:

	September 30, 2010	June 30, 2010
	(in thousands)	
Cash, cash equivalents and marketable securities	$136,372	$122,809
Long-term debt (capital leases)	$14	$20

	Three Months Ended September 30,	
	2010	2009
	(in thousands)	

Cash provided by operating activities	$6,346	$4,651
Cash used in investing activities	(723)	(18,201)
Cash provided by financing activities	5,901	1,808
Effect of exchange rates	2,032	(267)

Cash, cash equivalents and marketable securities. At September 30, 2010 our cash and cash equivalents consisted primarily of cash deposits held at major banks, money market funds and marketable securities. The increase in cash, cash equivalents and marketable securities at September 30, 2010 from June 30, 2010 was primarily due to $6.3 million of cash generated from operations, $4.9 million generated from the public offering of our common stock and $1.0 million in cash generated from the exercise of stock options and the purchase of our stock by participants in our employee stock purchase plan. These increases were offset slightly by the use of $0.7 million to purchase property and equipment.

Cash, cash equivalents and marketable securities included $35.4 million held by our foreign subsidiaries as of September 30, 2010 that were denominated in currencies other than US Dollars. Accordingly, 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 $2.0 million in the three months ended September 30, 2010. 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, less the impact of non-cash expenses and changes in working capital. Cash generated from operations increased by $1.7 million during the three months ended September 30, 2010 as compared to the same period in the prior year. The increase was primarily due to our net income of $2.7 million in the three months ended September 30, 2010 versus net income of $1.2 million in the same period in the prior year and a decrease in cash used for other assets of $2.2 million, offset in part by a decrease in cash provided by accounts receivable of $1.6 million and a decrease in cash provided by deferred revenue of $1.0 million.

At September 30, 2010, the deferred tax assets associated with our US operations and a portion of the deferred tax assets associated with our 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.

At September 30, 2010, we had US net operating loss carryforwards of $47.0 million, which expire at various times through the year 2028 and European net operating loss carryforwards of $9.2 million, which have no statutory expiration date. We also currently have approximately $3.0 million of research and development tax credit carryforwards available, which expire at various points through year 2030. The Company’s operating losses and tax credit carryforwards may be subject to limitations under provisions of the Internal Revenue Code.

Investing Activities. The decrease in net cash used in investing activities for the three months ended September 30, 2010 versus the three months ended September 30, 2009 was predominantly due to $17.0 million of cash used to fund our prior year acquisition of PayMode.

Financing Activities. The increase in cash inflows from financing activities relates primarily to the July 2010 partial exercise of an over-allotment option from our June 2010 common stock offering. This offering generated net proceeds of $4.9 million and was offset in part by a decrease in proceeds received from the exercise of stock options and the purchase of our stock by participants in our employee stock purchase plan of approximately $0.8 million.

Off-Balance Sheet Arrangements

During the three months ended September 30, 2010, 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, 2010:

	Payments Due by Period *				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
			(in thousands)		
Operating lease obligations	$19,949	$2,492	$8,941	$2,590	$ 5,926
Capital lease obligations	100	79	21	----	----
Other contractual obligations	1,848	445	1,403	----	----
Total	$21,897	$3,016	$10,365	$2,590	$ 5,926

*Payment due dates are calculated from our most recent fiscal year end of June 30, 2010.

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, 2010 in the amount of $0.7 million. These amounts have been excluded because as of September 30, 2010 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 and changes in the market value of our investments in marketable securities primarily due to changes in interest rates. 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 September 10, 2010.

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, 2010. 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, 2010, 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, 2010 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 August 10, 2001, a class action complaint was filed against the Company in the United States District Court for the Southern District of New York: Paul Cyrek v. Bottomline Technologies, Inc.; Daniel M. McGurl; Robert A. Eberle; FleetBoston Robertson Stephens, Inc.; Deutsche Banc Alex Brown Inc.; CIBC World Markets; and

J.P. Morgan Chase & Co. A consolidated amended class action complaint, In re Bottomline Technologies Inc. Initial Public Offering Securities Litigation, was filed on April 20, 2002.

On November 13, 2001, a class action complaint was filed against Optio in the United States District Court for the Southern District of New York: Kevin Dewey v. Optio Software, Inc.; Merrill Lynch, Pierce, Fenner & Smith, Inc.; Bear, Stearns & Co., Inc.; FleetBoston Robertson Stephens, Inc.; Deutsche Bank Securities, Inc.; Dain Rauscher Inc.; U.S. Bancorp Piper Jaffray, Inc.; C. Wayne Cape; and F. Barron Hughes. A consolidated amended class action complaint, In re Optio Software, Inc. Initial Public Offering Securities Litigation, was filed on April 22, 2002.

The amended complaints filed in both the actions against the Company and Optio assert claims under Sections 11, 12(2) and 15 of the Securities Act of 1933, as amended, and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The amended complaints assert, among other things, that the descriptions in the Company's and Optio's prospectuses for their initial public offerings were materially false and misleading in describing the compensation to be earned by the underwriters of the offerings, and in not describing certain alleged arrangements among underwriters and initial purchasers of the common stock from the underwriters. The amended complaints seek damages (or, in the alternative, tender of the plaintiffs' and the class's common stock and rescission of their purchases of the common stock purchased in the initial public offering), costs, attorneys' fees, experts' fees and other expenses.

In July 2002, the Company and Optio joined in an omnibus motion to dismiss, which challenged the legal sufficiency of plaintiffs' claims. The motion was filed on behalf of hundreds of issuer and individual defendants named in similar lawsuits. On February 19, 2003, the court issued an order denying the motion to dismiss as to Bottomline and denying in part the motion to dismiss as to Optio. In addition, in October 2002, Daniel M. McGurl, Robert A. Eberle, C. Wayne Cape and F. Barron Hughes were dismissed from this case without prejudice. Both Bottomline and Optio authorized the negotiation of a settlement of the pending claims, and the parties negotiated a settlement, which was subject to approval by the court. On August 31, 2005, the court issued an order preliminarily approving the settlement. On December 5, 2006, the United States Court of Appeals for the Second Circuit overturned the District Court's certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc with the Second Circuit on January 5, 2007 in response to the Second Circuit's decision. On April 6, 2007, plaintiffs' Petition for Rehearing of the Second Circuit's decision was denied. On June 25, 2007, the District Court signed an order terminating the settlement. On September 27, 2007, plaintiffs filed a motion for class certification in certain designated "focus cases" in the District Court. That motion was withdrawn. Neither Bottomline nor Optio's cases are part of the designated focus case group. On November 13, 2007, the issuer defendants in the designated focus cases filed a motion to dismiss the second consolidated amended class action complaints that were filed in those cases. On March 26, 2008, the District Court issued an Opinion and Order denying, in large part, the motions to dismiss the amended complaints in these focus cases. On April 2, 2009, the plaintiffs filed a motion for preliminary approval of a new proposed settlement between plaintiffs, the underwriter defendants, the issuer defendants and the insurers for the issuer defendants. On June 10, 2009, the Court issued an opinion preliminarily approving the proposed settlement, and scheduling a settlement fairness hearing for September 10, 2009. On August 25, 2009, the plaintiffs filed a motion for final approval of the proposed settlement, approval of the plan of distribution of the settlement fund, and certification of the settlement classes. The settlement fairness hearing was held on September 10, 2009. On October 5, 2009, the Court issued an opinion granting plaintiffs' motion for final approval of the settlement, approval of the plan of distribution of the settlement fund, and certification of the settlement classes. An order and final judgment was entered on November 25, 2009. Various notices of appeal of the Court's order have been filed. On October 7, 2010, all but two parties who had filed a notice of appeal filed a stipulation with the court withdrawing their appeals with prejudice, and the two remaining objectors filed briefs in support of their appeals.

The Company, and its subsidiary Optio, intend to vigorously defend themselves in these actions. Bottomline does not currently believe that the outcome of these proceedings will have a material adverse impact on its financial condition, results of operations or cash flows.

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 our company. 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, 2010.

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 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. 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;
- increased credit risk associated with our customers or potential customers, particularly those that may operate in industries most affected by the economic downturn, such as financial services; and
- impairment of our goodwill or other assets.

During the three months ended September 30, 2010, as compared to the same period in the prior year, we experienced a slight decline in the foreign currency exchange rates associated with the British Pound Sterling which negatively impacted our overall revenue growth. To the extent that the current economic downturn worsens or persists, 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 extreme market price and volume fluctuations

The NASDAQ Global Market often experiences extreme price and volume fluctuations. Broad market fluctuations of this type may adversely affect the market price of our common stock. The stock prices for many companies in the technology sector have experienced wide fluctuations that often have been unrelated to their operating performance. 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 of litigation, our competitors or our industry;
- 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.

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 Europe and Australia. During the three months ended September 30, 2010, approximately 38% of our revenues and 32% of our operating expenses, respectively, were attributable to customers or operations located outside of North America. During the three months ended September 30, 2010, as compared to the same period in the prior year, the foreign currency exchange rates of the British Pound to the US Dollar declined slightly. We anticipate that foreign currency exchange rates may continue to fluctuate in the near term. As we experienced in fiscal 2010, appreciation of the US Dollar against the British Pound or future appreciation of the US Dollar against the European Euro and Australian Dollar will have the impact of reducing both our revenues and operating expenses.

Our future financial results will be affected by our success in selling new products in a subscription and transaction based revenue model

A substantial portion of our revenues and profitability were historically generated from perpetual software license revenues. We are offering a growing number of our products under a subscription and transaction based revenue model, which we believe has certain advantages over a perpetual license model, including better predictability of revenue. A subscription and transaction based revenue model typically results in no up-front revenue. Additionally, there can be no assurance that our customers, or the markets in which we compete, will respond favorably to the approach we have taken with our newer offerings. To the extent that our subscription and transaction based offerings do not receive general marketplace acceptance our financial results could be materially and adversely affected.

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 and user acceptance and systems integration testing, resulting 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 otherwise slow down a long-term project due to their own staffing or other challenges, could affect our operating results, financial condition and the market price of our common stock. Similarly, 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.

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 existing product offerings and to develop new product offerings to meet strategic opportunities as they 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, principally Paymode-X. 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 Paymode-X during the remainder of fiscal year 2011. Investments in existing products and new product offerings can have a negative impact on our operating results, and any existing product enhancements or new product offerings may not be accepted in the marketplace or generate material revenues.

Integration of acquisitions could interrupt our business and our financial condition could be harmed

Part of our operating strategy is to identify and pursue strategic acquisitions that can expand our geographical footprint or complement our existing product functionality. We may in the future continue to acquire or make investments in other businesses, products or technologies. Any acquisition or strategic investment we have made in the past 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; and
- exposure to litigation from third parties, including claims related to intellectual property or other assets acquired or liabilities assumed.

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, 2010, the carrying value of our goodwill and our other intangible assets was approximately $66.0 million and $28.5 million, respectively. While we reviewed our goodwill and our other intangible assets during the fourth quarter of fiscal year 2010 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. In recent years, we have experienced slowing growth rates with certain of our licensed software products. During the three months ended September 30, 2010, as compared to the same period in the prior year, we experienced a decline in the foreign currency exchange rates applicable to our UK based revenues which negatively impacted our overall revenue growth. 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.

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 subscription and transaction, 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, UK, Australia, 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 foreign tax jurisdictions;
- reduced protection for intellectual property rights in some countries; and
- import or export licensing requirements.

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 introduce enhancements to meet the market's evolving needs for secure payments and cash management solutions; and
- acceptance of software solutions offered on a SaaS basis.

A growing number of our customer arrangements involve selling our products and services on a SaaS basis, which may have the effect of delaying revenue recognition and increasing development or start-up expenses

An increasing number of our customer arrangements involve offering certain of our products and services on a SaaS basis. Such arrangements typically include a contractually defined service period as well as performance criteria that our products or services are required to meet over the duration of the service period. Arrangements entered into on a SaaS basis generally delay the timing of revenue recognition and often require the incurrence of up-front costs, which can be significant. We are continuing to make investments in many of our offerings, particularly Paymode-X, and there can be no assurance that these products will ultimately gain broad market acceptance. Additionally, we might be unable to consistently maintain the performance requirements or service levels called for under any such arrangements. Any such events, to the extent occurring, could have a material and adverse effect on our operating results.

A growing portion of our revenue is derived from subscription and transaction based revenue arrangements

A growing portion of our revenue is being derived from subscription and transaction based arrangements. We believe that these arrangements have several advantages over perpetual license arrangements, including better predictability of revenue. However, there are also certain risks inherent with these transactions. For example, there is a risk that customers may elect not to renew these arrangements upon expiration or that they may aggressively attempt to renegotiate pricing or other significant contractual terms, either at or prior to the point of renewal, based on economic conditions that exist at that time. Further, in respect of our hosted and SaaS product offerings, customers often negotiate contractual termination rights in the event of a contractual breach by us which, to the extent occurring, might permit the customer to exit the contract prior to the end of its term, generally without additional compensation to us. Our future revenue and overall growth rates depend significantly upon customer retention. To the extent we were unable to achieve desired customer retention rates, or in the event we were unable to retain or renew customers on favorable economic terms, our business, operating results and financial condition could be adversely affected.

Our future financial results will depend on our ability to manage growth effectively

Our ability to manage growth effectively will depend in part on our ability to continue to enhance our operating, financial and management information systems. If we are unable to manage growth effectively, the quality of our services, our ability to retain key personnel and our business, operating results and financial condition could be materially adversely affected.

We face significant competition in our targeted markets, including competition from companies with significantly greater resources

In recent years, we have encountered increasing competition in our targeted markets. 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. Given the size and nature of the markets we target, the implementation of our growth strategy and our success in competing for market share is dependent on our ability to grow our sales and marketing capabilities and maintain an appropriate level of financial resources.

We depend on key employees who are skilled in e-commerce, payment, cash and document management and invoice presentment methodology and Internet and other technologies

Our success depends upon the efforts and abilities of our executive officers and key technical and sales employees who are skilled in e-commerce, payment methodology and regulation, and Internet, database and network technologies. Our key employees 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 these individuals could have a material adverse effect on our business. In addition, we currently do not maintain "key man" life insurance policies on any of our employees. While some of our executive officers have employment or retention agreements with us, 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.

Increased competition 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. Some competitors in our targeted markets have longer operating histories, significantly greater financial, technical, 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.

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 and 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 Internet that we must address as we maintain existing products and introduce any 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.

Our products 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 financial data related to payments, invoices and cash management. Our web-based software products, and certain of our SaaS offerings, transmit this data electronically. While we believe that all of our product and service offerings comply with current regulatory and security requirements, there can be no assurance that future legal or regulatory actions will not impact our product and service offerings. 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 or alter the demand for or the competitive environment of our products and services, 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.

Any unanticipated performance problems or bugs in our product offerings could have a material adverse effect on our future financial results

If the products that we offer and continue to introduce do not sustain marketplace acceptance, our future financial results could be adversely affected. Since certain of our offerings are still in early stages of adoption and since most of our products are continually being enhanced or further developed in response to general marketplace demands, any unanticipated performance problems or bugs that we have not been able to detect could result in additional development costs, diversion of technical and other resources from our other development efforts, negative publicity regarding us and our products, harm to our customer relationships and exposure to potential liability claims. In addition, if our products do not enjoy wide commercial success, our long-term business strategy will be adversely affected, which could have a material adverse effect on our business, operating results and financial condition.

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 rely on certain of these systems from the perspective of the ongoing provision of services to our customers and potential customers. A disruption or failure of these systems in the event of a natural disaster, telecommunications failure, 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 our customer orders or maintaining certain service level requirements, particularly in respect of our SaaS offerings. While we have developed certain disaster recovery plans and 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.

Security breaches or computer viruses could harm our business by disrupting the delivery of services, damaging our reputation, or resulting in material liability to us

Our products, particularly our SaaS or web-based offerings, may be vulnerable to unauthorized access, computer viruses and other disruptive problems. In the course of providing services to our customers, we may collect, store, process or transmit sensitive and confidential information. A security breach affecting us could damage our reputation and result in the loss of customers and potential customers. Such an event could also result in material financial liability to us.

Privacy, security, and compliance concerns have continued to increase as technology has evolved to facilitate e-commerce. We may need to spend significant capital or other resources to ensure ongoing protection against the threat of security breaches or to alleviate problems caused by security concerns. Additionally, computer viruses could infiltrate our systems and disrupt our business and our provision of services, particularly our SaaS offerings. Any such event could have an adverse effect on our business, operating results, and financial condition.

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 typically 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 were 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 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 our intellectual property rights, causing 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 you 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.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. 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. 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.

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 limitations 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.

We may incur significant costs from class action litigation as a result of expected volatility in our common stock

In the past, companies that have experienced market price volatility of their stock have been the targets of securities class action litigation. In August 2001, we were named as a party in one of the so-called “laddering” securities class action suits relating to the underwriting of our initial public offering. In April 2008, we acquired Optio Software, which is also a party in a “laddering” securities class action suit. We could incur substantial costs and experience a diversion of our management’s attention and resources in connection with any such litigation, which could have a material adverse effect on our business, financial condition and results of operations.

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, 2010:

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, 2010 — July 31, 2010	----	----	----	$ 4,401,000
August 1, 2010 — August 31, 2010	----	----	----	$ 4,401,000
September 1, 2010 — September 30, 2010	----	----	----	$ 4,401,000
Total	----	----	----	$ 4,401,000

(1) In April 2008, our board of directors authorized a repurchase program for the repurchase of up to $10.0 million of our common stock.

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.

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, 2010	By:	/s/ KEVIN M. DONOVAN Kevin M. Donovan Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
10.1	Nigel Savory Service Agreement
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.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) Unaudited Condensed Consolidated Statements of Operations for the three months ended September 30, 2010 and 2009, (ii) Unaudited Condensed Consolidated Balance Sheets as of September 30, 2010 and June 30, 2010, (iii) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2010 and 2009 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.

Exhibit 31.1

CERTIFICATIONS

I, Robert A. Eberle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bottomline Technologies (de), Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

	Bottomline Technologies (de), Inc.	
Date: November 8, 2010	By:	/s/ ROBERT A. EBERLE Robert A. Eberle Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Kevin M. Donovan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bottomline Technologies (de), Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

	Bottomline Technologies (de), Inc.	
Date: November 8, 2010	By:	/s/ KEVIN M. DONOVAN Kevin M. Donovan Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

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Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Bottomline Technologies (de), Inc. (the “Company”) for the period ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Robert A. Eberle, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	Bottomline Technologies (de), Inc.	
Date: November 8, 2010	By:	/s/ ROBERT A. EBERLE Robert A. Eberle Chief Executive Officer (Principal Executive Officer)

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Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Bottomline Technologies (de), Inc. (the "Company") for the period ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Kevin M. Donovan, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	Bottomline Technologies (de), Inc.	
Date: November 8, 2010	By:	/s/ KEVIN M. DONOVAN Kevin M. Donovan Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)