

BOTTOMLINE TECHNOLOGIES INC /DE/  
Form 10-K  
September 12, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-K**

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(Mark One)

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

For the fiscal year ended June 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-25259

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**BOTTOMLINE TECHNOLOGIES (de), INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of

Incorporation or Organization)

325 Corporate Drive

Portsmouth, New Hampshire

**02-0433294**  
(I.R.S. Employer

Identification No.)

03801

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(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (603) 436-0700

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class:</b>	<b>Name of each exchange on which registered:</b>
Common Stock, \$.001 par value per share	The NASDAQ Global Market
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the last sale price of the registrant's common stock at the close of business on December 31, 2006 was \$264,628,793 (reference is made to Part II, Item 5 herein for a statement of assumptions upon which this calculation is based). The registrant has no non-voting stock.

There were 24,614,538 shares of common stock, \$.001 par value per share, of the registrant outstanding as of August 31, 2007.

**DOCUMENTS INCORPORATED BY REFERENCE**

Items 10, 11, 12, 13 and 14 of Part III (except for information required with respect to our executive officers, which is set forth under Part I Executive Officers and Other Key Employees of the Registrant) have been omitted from this report, as we expect to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended June 30, 2007, a definitive proxy statement for our 2007 annual meeting of stockholders. The information required by Items 10, 11, 12, 13 and 14 of Part III of this report, which will appear in our definitive proxy statement, is incorporated by reference into this report.

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### **PART I**

*This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Any statements (including statements to the effect that we believe, expect, anticipate, plan and similar expressions) that are not statements relating to historical matters should be considered forward-looking statements. Our actual results may differ materially from the results discussed in the forward-looking statements as a result of numerous important factors, including those discussed in Item 1A. Risk Factors .*

#### **Item 1. Business. Our Company**

We provide electronic payment and invoice 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, reporting and document archive. We offer software designed to run on-site at the customer's location as well as hosted solutions. Historically, our software has been sold predominantly on a perpetual license basis. Today, however, many of our newer offerings are sold on a subscription and transaction basis.

Our offerings include software solutions that banks use to provide web-based payment and reporting capability to their corporate customers. We also provide a hosted solution, Legal eXchange, that receives, manages and controls legal invoices and the related spend management for insurance companies and other large consumers of outside legal services. 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.

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. Additionally, we offer our customers a broad range of equipment and supplies that complement our software products.

Bottomline was originally organized as a New Hampshire corporation in 1989 and was reincorporated as a Delaware corporation in August 1997. We maintain our corporate headquarters in Portsmouth, New Hampshire and our international headquarters in Reading, England. We maintain a website with the address [www.bottomline.com](http://www.bottomline.com). Our website includes links to our Code of Business Conduct and Ethics, and our Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee charters. We are not including the information contained in our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge, through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practical after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC).

#### **Our Strategy**

Our objective is to be the leading global provider of business payment and invoice management software solutions and services. Key elements of our strategy include the following:

Providing software and services which enable banks to offer their corporate customers leading global payment capability and functionality;

Continuing to add customers and functionality to our growing Legal eXchange network;

Leveraging our leading payment and document management software solutions for enterprise customers;

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Increasing the investment in our AP Automation solutions to capitalize on the new and significant market opportunity for that offering;

Increasing the deployment of our hosted solutions, as well as subscription and transaction based pricing, in order to increase our recurring revenue contribution;

Continuing to expand our presence outside of North America and Europe by leveraging our experience with changing global payment standards;

Broadening our relationships with our customer base by selling existing applications, as well as new product offerings, into that base; and

Pursuing strategic acquisitions that expand our geographical footprint or complement our product functionality.

## **Our Products and Services**

### ***Payment and Document Automation***

The payments automation capabilities inherent in our WebSeries® and PayBase® solutions can produce a wide variety of domestic and international payment instructions along with consolidated bank reporting of cash activity including ACH, EDI, Fedwire transfer, BACSTEL-IP and SWIFT messaging and paper checks in most currencies. Through our payments automation capabilities, customers can reduce administrative expenses and strengthen compliance and anti-fraud controls. Users are able to gather and access data via the Internet on payment and bank account information, including account totals and detailed transaction data, providing improved workflow, financial reporting and bank communications.

To help augment financial document composition and delivery we offer Formscape, a suite of software solutions for automating purchase-to-pay, document and financial transaction processes and also Create!form, a document process automation suite. Our Formscape and Create!form products offer advanced design, output formatting and delivery capabilities that enable customers to replace paper-based forms (such as invoices, purchase orders and shipping notices) with more efficient and cost-effective electronic documents. With the capabilities of these product suites, users can centrally manage, distribute and archive important documents and then distribute them via email, print, fax or the Web.

### ***Spend Management***

Our hosted spend management solution, Legal eXchange, integrates with claims management and time and billing systems to automate legal invoice management processes and to provide insight into all areas of a company's outside legal spend. Legal eXchange's combination of automated invoice routing and a sophisticated rules engine allows corporate legal and insurance claims departments to create more efficient processes for managing invoices generated by outside law firms, while offering access to important legal spend factors including budgeting, expense monitoring and outside counsel performance.

### ***Electronic Banking***

Our WebSeries Electronic Banking Platform allows banks and financial institutions to deploy Internet-based cash management services for their corporate clients. Based on patented technology and complementary existing systems, our banking platform enables users to leverage a single Web-based interface for the origination and processing of all types of inbound and outbound domestic and international payments. The software architecture of our banking platform allows banks and financial institutions to configure highly specialized solution sets for Enterprise Cash Management, Wholesale Banking and Retail Branch Payments using modules for ACH, International Payments, Check Management, Information Reporting, Unattended Payment and File Transmission, and Distributed Document Printing.

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### ***AP Automation***

Our AP Automation solutions allow businesses and enterprises to automate the accounts payable invoice receipt and management process and facilitate the ultimate payment. These solutions are offered on a subscription and transaction-based model. We have continued to significantly invest in the on-going development and enhancement of our AP Automation solutions to include a wider range of functionality and to enable high volume usage in a hosted environment.

### ***Professional Services***

Our teams of service professionals draw on extensive experience to provide consulting, project implementation and training services to our clients. By easing the implementation of our products, these services help our customers accelerate the time to value. By improving the overall customer experience, these services help us retain customers and drive future revenue generating arrangements from existing customers.

### ***Equipment and Supplies***

We offer consumable products for laser check printing, including magnetic ink character recognition toner and blank-paper check stock. We also provide printers and printer-related equipment, primarily through arrangements with our hardware vendors, to complement our software product offerings.

### **Our Customers**

We support more than 9,000 customers, including 3,000 that access our payment and invoice automation capabilities through convenient subscription and transaction-based services. Our customers are in industries such as financial services, insurance, health care, technology, communications, education, media, manufacturing and government. We provide our products and services to approximately 65 of the Fortune 100 companies and approximately 80 of the FTSE (Financial Times) 100 companies. Our customers include leading organizations such as Bank of America, HSBC, Australia and New Zealand Banking Group (ANZ), Franklin Templeton, GMAC, American International Group, Liberty Mutual, Safeco Insurance, British Airways, Vodafone and Hertz Corporation.

### **Our Competition**

The markets in which we participate are highly competitive. We believe our ability to compete depends on factors within and beyond our control, including:

the performance, reliability, features, price and ease of use of our offerings as compared to competitor alternatives;

our industry knowledge and expertise;

the execution of our sales organizations;

our ability to secure and maintain strategic relationships;

our ability to support our customers; and

the timing and market acceptance of new products and enhancements to existing products by us and by our current and future competitors.

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Our payment and document automation products compete primarily with companies that provide solutions to create, publish, manage and archive electronic documents, such as Adobe, Optio Software, StreamServe and Xerox and companies that offer electronic payment and laser check printing software and services, such as Payformance, MHC Associates, and ACOM Solutions in the US and Microgen, Albany Software Ltd., Direct

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Debit, Ltd., and Eiger Systems Limited in Europe. Our products also compete with companies that provide a diverse array of accounts payable automation and workflow capabilities, such as Xign (now part of JP Morgan Chase), BasWare, Digital Vision and 170 Systems. To a lesser extent, we compete with providers of enterprise resource planning solutions and providers of traditional payment products, including check stock and check printing software and services. In addition, some financial institutions compete with us as outsourced check printing and electronic payment services for their customers.

For Electronic Banking, we primarily compete with companies such as S1 Corporation and ACI Worldwide that offer a wide range of financial services including electronic banking applications. We also encounter competition to a lesser degree from Metavante, SunGard, and Fundtech, as well as companies that provide traditional treasury workstation solutions.

For our Legal eXchange solution, we compete with a number of companies, including DataCert, CT TyMetrix, LexisNexis CounselLink and Allegient Systems.

Although we believe that we compete favorably in each of the markets in which we participate, the markets for our products and services are intensely competitive and characterized by rapid technological change and a number of factors could adversely affect our ability to compete in the future, including those discussed in Item 1A. Risk Factors .

## **Our Operating Segments**

We organize our business by segments in order to maximize market opportunities. Our operating segments are organized principally by the type of product or services offered and by geography. As of July 1, 2006 we revised the structure of our internal operating segments and changed the nature of the financial information that is provided to and used by our chief operating decision maker. The change in segment structure as of July 1, 2006 resulted in three reportable segments, and that change is reflected for all periods presented. Our reportable segments are as follows:

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

*Banking Solutions.* The Banking Solutions segment provides solutions that are specifically designed for banking and financial institution customers. These solutions typically involve lengthy implementation periods and a significant level of customization. Due to the tailored nature of these products, revenue is generally recognized on a percentage of completion basis.

*Outsourced Solutions.* The Outsourced Solutions segment provides customers with outsourced and hosted solution offerings that facilitate invoice receipt and presentment and spend management. The majority of the activity in this segment is associated with our Legal eXchange solution, which provides customers 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. Revenue for this segment is generally recognized on a per transaction basis or ratably over a specified subscription period or the estimated life of the customer relationship.

Each operating segment has a dedicated sales force 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,



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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 resource, 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 and acquisition-related expenses such as amortization of intangible assets and charges related to acquired in-process research and development. 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.

The following represents a summary of our reportable segments for the years ended June 30, 2005, 2006 and 2007.

	Fiscal Year Ended June 30,		
	2005	2006	2007
	(in thousands)		
<b>Revenues:</b>			
Payments and Transactional Documents	\$ 79,946	\$ 77,600	\$ 84,506
Banking Solutions	9,164	12,706	20,017
Outsourced Solutions	7,395	11,359	13,812
<b>Total revenues</b>	<b>\$ 96,505</b>	<b>\$ 101,665</b>	<b>\$ 118,335</b>
<b>Segment measure of profit (loss):</b>			
Payments and Transactional Documents	\$ 9,048	\$ 5,784	\$ 2,041
Banking Solutions	(745)	(1,155)	576
Outsourced Solutions	729	2,609	3,561
<b>Total measure of segment profit</b>	<b>\$ 9,032</b>	<b>\$ 7,238</b>	<b>\$ 6,178</b>

A reconciliation of the measure of segment profit to our GAAP income (loss) for 2005, 2006 and 2007, before the provision for income taxes, is as follows:

	Fiscal Year Ended June 30,		
	2005	2006	2007
	(in thousands)		
Segment measure of profit	\$ 9,032	\$ 7,238	\$ 6,178
<b>Less:</b>			
Amortization of intangible assets	(3,217)	(4,491)	(9,324)
Stock compensation expense	(14)	(6,984)	(7,945)
Acquisition related technology write-offs		(189)	
Other income, net	444	3,252	3,177
<b>Income (loss) before provision for income taxes</b>	<b>\$ 6,245</b>	<b>\$ (1,174)</b>	<b>\$ (7,914)</b>

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Revenues, based on the point of sales, not the location of the customer, are as follows:

	2005		Fiscal Year Ended June 30, 2006		2007	
			(in thousands)			
United States	\$ 46,527	48.2%	\$ 54,331	53.5%	\$ 65,064	55.0%
Europe	48,300	50.1%	45,471	44.7%	51,507	43.5%
Australia	1,678	1.7%	1,863	1.8%	1,764	1.5%
Total	\$ 96,505	100.0%	\$ 101,665	100.0%	\$ 118,335	100.0%

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

	Fiscal Year Ended	
	June 30, 2006	2007
	(in thousands)	
Long-lived assets:		
United States	\$ 4,169	\$ 4,664
Europe	3,970	5,195
Australia	214	195
Total long-lived assets	\$ 8,353	\$ 10,054

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 continued growth and success in international markets. As is the case with most international operations, the success and profitability of these operations is subject to numerous risks and uncertainties including exchange rate fluctuations that are not hedged currently. A number of other factors could also have a negative effect on our business and results from operations outside the US, including different regulatory and industry standards and certification requirements, reduced protection for intellectual property rights in some countries, import or export licensing requirements, the complexities of foreign tax jurisdictions and difficulties and costs of staffing and managing our foreign operations.

**Sales and Marketing**

As of June 30, 2007, we employed 137 sales and marketing employees worldwide, of whom 66 were focused on the Americas markets, 67 were focused on European markets and 4 were focused on Asia Pacific markets. We market and sell our products directly through our sales forces and indirectly through a variety of channel partners and reseller relationships. We market and sell our products domestically and internationally, with an international focus on Europe and Australia. We also maintain an inside sales group which provides a lower-cost channel into maintaining existing customers and expanding our customer base.

**Product Development and Engineering**

Our product development and engineering organization included 99 employees as of June 30, 2007. We also use off-shore development resources to supplement our internal development teams. We have three primary development groups: software engineering, quality assurance and technical writing. We spent \$9.4 million, \$12.3 million, and \$16.1 million on product development and engineering costs in fiscal years 2005, 2006 and 2007. The 2006 and 2007 expenditures include the impact of stock compensation expense, based on accounting rules that we adopted on July 1, 2005.



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Our software engineers have substantial experience in advanced software development techniques as well as extensive knowledge of the complex processes involved in business payment and invoicing systems. Our engineers participate in the Microsoft Developer Network, IBM Partner World for Developers, and the Oracle Partner Developer Program. They maintain extensive knowledge of software development trends and best practices. Our technology focuses on providing business solutions utilizing industry standards, providing a path for extensibility and scalability of our products. Security, control and fraud prevention, as well as data management and information reporting, are priorities in the technology we develop and deploy.

Our quality assurance engineers have extensive knowledge of our products and expertise in software quality assurance techniques. Members of the quality assurance group make use of automated software testing tools to facilitate comprehensive and timely testing of products. The quality assurance group members participate in beta releases, including tests of new products or enhancements, and provide initial training materials for customer support and service.

Our technical support group provides all product documentation as well as technical support for released products. The technical writers are versed in current document technology and work closely with the software engineers to create and maintain documentation that is clear, current and complete. The technical support engineers are responsible for the analysis of reported software problems and work closely with customers and customer support staff. The group's broad knowledge of our products, our technology, and our customers' infrastructure allows it to rapidly respond to customer support needs.

## **Backlog**

At the end of fiscal year 2007, our backlog was \$59.7 million, including deferred revenues of \$27.7 million. At the end of fiscal year 2006, our backlog was \$43.5 million, including deferred revenues of \$21.1 million. We do not believe that backlog is a meaningful indicator of sales that can be expected for any period, and there can be no assurance that backlog at any point in time will translate into revenue in any specific subsequent period.

## **Proprietary Rights**

We rely upon a combination of patents, copyrights, trademarks and trade-secret laws to establish and maintain proprietary rights in our technology and products. We had 37 active patent applications relating to our products as of June 30, 2007. We have been awarded 9 patents, 3 of which were awarded in fiscal year 2007, and expect to receive others. The earliest year of expiration for our awarded patents is 2015.

We intend to continue to file patent applications as we develop new technologies. There can be no assurance, however, that our existing patent applications, or any others that may be filed in the future, will issue or will be of sufficient scope and strength to provide meaningful protection of our technology or any commercial advantage to us, or that the issued patents will not be challenged, invalidated or circumvented. In addition, we rely upon a combination of copyright and trademark laws and non-disclosure and other intellectual property contractual arrangements to protect our proprietary rights. Given the rapidly changing nature of the industry's technology, the creative abilities of our development, marketing and service personnel may be as or more important to our competitive position as the legal protections and rights afforded by patents. We also enter into agreements with our employees and clients that seek to limit and protect our intellectual property and the distribution of proprietary information. However, there can be no assurance that the steps we have taken to protect our intellectual property will be adequate to deter misappropriation of proprietary information, and we may not be able to detect unauthorized use and take appropriate steps to enforce our proprietary rights.

## **Government Regulation**

Although our operations have not been subject to any material industry-specific governmental regulation, some of our existing and potential customers are subject to extensive federal and state governmental regulations.

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In addition, governmental regulation in the financial services industry is evolving, particularly with respect to payment technology, and our customers may become subject to increased regulation in the future. Accordingly, our products and services must be designed to work within the regulatory constraints under which our customers operate.

### **Employees**

As of June 30, 2007, we had 555 full-time employees, 137 of whom were in sales and marketing, 228 of whom were in professional services and customer support, 99 of whom were in development and 91 of whom were in administration and finance. None of our employees are represented by a labor union. We have not experienced any work stoppages and we believe that employee relationships are good. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and managerial personnel in a highly competitive market.

### **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.*

#### **Our common stock has experienced and may continue to undergo extreme market price and volume fluctuations**

Stock markets in general, and The NASDAQ Global Market in particular, have experienced extreme price and volume fluctuations, particularly in recent years. 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:

changes in or our failure to meet analysts' or investors' estimates or expectations;

general and industry-specific business, economic and market conditions;

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, 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.



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### **A growing number of our customer arrangements involve selling our products and services on a hosted 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 hosted basis. These 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 hosted basis generally delay the timing of revenue recognition and often require the incurrence of up-front costs, which can be significant. We are currently making significant investments in certain of our hosted offerings, such as our accounts payable automation products, and there can be no assurance that these products will ultimately gain broad market acceptance. Additionally, there is a risk that we might be unable to consistently maintain the performance requirements, or service levels, called for under any such hosted arrangements. Such events, to the extent occurring, could have a material and adverse effect on our operating results.

### **Our future financial results will be impacted 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 software license revenues. We are currently offering certain of our newer product sets 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 new subscription and transaction based offerings do not receive general marketplace acceptance, our financial results could be materially and adversely affected.

### **We make significant investments in existing products and new product offerings that can adversely affect our operating results and 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 develop new product offerings to meet strategic opportunities as they evolve. Investments in existing product enhancements 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. For example, during our fiscal year ended June 30, 2007, our operating results were affected by a significant increase in product development expenses as we continued to make investments in our banking and accounts payable automation products.

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

We have made several recent business acquisitions, including Formscape in October 2006. 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;

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 intangible assets;

entrance into markets in which we have no or limited prior experience or knowledge;

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diversion of management's focus from our core business concerns;

dilution to existing stockholders and 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, including goodwill, periodically for impairment. At June 30, 2007, the carrying value of our goodwill and our other intangible assets was approximately \$53 million and \$31 million, respectively. While we reviewed our goodwill and intangible assets during the fourth quarter of fiscal year 2007 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. 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 and in 2006 we experienced a decrease in the growth of our software license revenues as a result of the BACSTEL-IP initiative ending in the UK. A decline in revenues without a corresponding and timely slowdown in expense growth could negatively affect our business. Significant revenue shortfalls in any quarter may cause significant declines in operating results since we may be unable to reduce spending in a timely manner.

Quarterly or annual operating results that are below the expectations of public market analysts could adversely affect the market price of our common stock. Factors that could cause fluctuations in our operating results include the following:

economic conditions, which may affect our customers' and potential customers' budgets for information technology expenditures;

the timing of orders and longer sales cycles;

the timing of product implementations, which are highly dependent on customers' resources and discretion;

the incurrence of costs relating to the integration of software products and operations in connection with acquisitions of technologies or businesses; and

the timing and market acceptance of new products or product enhancements by either us or our competitors.

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





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

The gross margins for our products and services vary considerably. Our software revenues generally yield significantly higher gross margins than do our subscription and transaction, service and maintenance and equipment and supplies revenue streams. In recent fiscal years, we experienced a decrease in our software license fees. If software license fees were to again decline, or if the mix of our products and services in any given period does 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:

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;

currency exchange rate fluctuations; and

import or export licensing requirements.

### **A significant percentage of our revenues to date have come from our payment 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 management offerings and sales of associated products and services. Any significant reduction in demand for our payment 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:

continued market acceptance of our payment management offerings including our overall accounts payable automation solution;

prospective customers' dependence upon enterprises seeking to enhance their payment functions to integrate electronic payment capabilities;

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 hosted basis.

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

In the past, rapid growth has strained our managerial and other resources. If rapid growth resumes, our ability to manage that growth will depend in part on our ability to continue to enhance our operating, financial and management information systems. We cannot assure you that our personnel, systems and controls will be adequate to support future growth. 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.

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### **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.

### **An increasing number of large and more complex customer contracts, or contracts that involve the delivery of services over contractually committed periods, generally delay 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, we have experienced, and will likely continue to experience, delays in the timing of our revenue recognition. These large and complex customer contracts generally require significant implementation work, product customization and modification, resulting in the recognition of revenue over the period of project completion, which normally spans several quarters. Delays in revenue recognition on these contracts could affect our operating results, financial condition and the market price of our common stock.

### **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 employees who are skilled in e-commerce, payment methodology and regulation, and Internet, database and network technologies. The loss of one or more of these individuals could have a material adverse effect on our business. 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.

### **We must attract and retain highly skilled personnel with knowledge in e-commerce, payment, cash and document management and invoice presentment methodology and Internet and other technologies**

We believe that our success is in part dependent upon our ability to attract, hire, train and retain highly skilled technical, sales and marketing, and support personnel, particularly with expertise in e-commerce, payment, cash management and invoice methodology and Internet and other technologies. Competition for qualified personnel is intense. As a result, we may experience increased compensation costs that may not be offset through either improved productivity or higher sales prices. There can be no assurance that we will be successful in attracting, recruiting or retaining existing personnel. Based on our experience, it takes an average of nine months for a salesperson to become fully productive. We cannot assure you that we will be successful in increasing the productivity of our sales personnel, and the failure to do so 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 product solutions**

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

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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 did not receive general marketplace acceptance, or if the sales cycle of any of our new products significantly delayed 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 hosted services 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 hosted services 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 regulatory or legal developments mandate a change in any of our products or services, 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 successful 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 will be adversely affected. Since many of our software solutions are still in early stages of adoption and since most of our software 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

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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.

### **We could incur substantial costs resulting from warranty claims or product liability claims**

Our software license agreements typically contain provisions that afford customers a degree of warranty protection in the event that our software fails to conform to its written specifications. These agreements typically contain provisions intended to limit the nature and extent of our risk of warranty and product liability claims. There is a risk, however, that a court might interpret these terms in a limited way or could hold part or all of these terms to be unenforceable. Furthermore, some of our licenses with our customers are governed by non-U.S. 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. 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;

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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 the 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. 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 1B. *Unresolved Staff Comments.***

There are no material unresolved written comments from the staff of the SEC regarding our periodic or current reports received not less than 180 days before the end of our fiscal year to which this Form 10-K relates.

### **Item 2. *Properties.***

We currently lease approximately 65,000 square feet of office space at our corporate headquarters in Portsmouth, New Hampshire under a lease that expires in 2012. We also occupy approximately 37,000 square feet of leased domestic offices in Great Neck, New York, Morrisville, North Carolina, and Chicago, Illinois.

We own approximately 16,000 square feet of office space in Reading, England and lease approximately 38,000 square feet of office space throughout the UK, including locations in Andover, Hertford, Hook, and Fleet. In addition, we lease approximately 6,000 square feet of office space in Melbourne and Sydney, Australia and approximately 2,000 square feet in Linden, Germany.

Our New Hampshire facility serves as our corporate headquarters and is used by employees associated with all of our operating segments in addition to our management, administrative, sales and marketing and customer

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support teams. Our New York facility is used to support the product development initiatives of all of our operating segments. Our North Carolina facility and all of our European facilities are used predominantly by personnel associated with our payments and transactional documents operating segment. Our Illinois facility is used principally by personnel who support aspects of our Legal eXchange solution, which is a component of our outsourced solutions segment. Our Australian facilities are used by personnel associated with our payment and transactional documents and banking solutions operating segments.

**Item 3. Legal Proceedings.**

On October 19, 2004, a complaint was filed against Formscape, Inc. (Formscope), which the Company acquired in October 2006, by Cindy Bernstein, a former employee of Formscape. The complaint, which was subsequently amended, was pending in the United States District Court for the Eastern District of North Carolina, Western Division and alleged disparate treatment in violation of Title VII of the Civil Rights Act, wrongful discharge in violation of public policy, fraud, unfair and deceptive trade practices, discrimination in business, breach of contract and quantum meruit. The plaintiff sought damages for back salary, benefits and commissions as well as punitive damages, treble damages, attorney fees and costs. Formscape filed a petition for summary judgment and in January 2007 the court, in response to that petition, ruled that certain of the plaintiff's charges were invalid as a point of law.

On January 24, 2007, the parties filed a motion with the court requesting the court appoint a magistrate judge to serve as a mediator and in May 2007, the parties entered into a General Release and Settlement Agreement (the Settlement Agreement) as a result of the mediation process. Under the terms of the Settlement Agreement, the Company was required to pay \$300,000 to the plaintiff, \$150,000 of which had been recorded as a liability in the preliminary purchase price allocation of the Formscape acquisition and \$150,000 of which the Company recovered from amounts held in escrow to secure the indemnification obligations of the Formscape selling stockholders under the terms of the Formscape share purchase agreement. Accordingly, no expense was recorded by the Company as a result of the Settlement.

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. The amended complaint supersedes the class action complaint filed against the Company in the United States District Court for the Southern District of New York on August 10, 2001.

The amended complaint filed in the action asserts 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 (Exchange Act). The amended complaint asserts, among other things, that the description in the Company's prospectus for its initial public offering was materially false and misleading in describing the compensation to be earned by the underwriters of the offering, and in not describing certain alleged arrangements among underwriters and initial purchasers of the Company's common stock from the underwriters. The amended complaint seeks damages (or, in the alternative, tender of the plaintiffs' and the class's Bottomline common stock and rescission of their purchases of the Company's common stock purchased in the initial public offering), costs, attorneys' fees, experts' fees and other expenses.

In July 2002, Bottomline, Daniel M. McGurl and Robert A. Eberle 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. Plaintiffs opposed the motion, and the court heard oral argument on the motion in early November 2002. On February 19, 2003, the court issued an order denying the motion to dismiss as to Bottomline. In addition, in early October 2002, Daniel M. McGurl and Robert A. Eberle were dismissed from this case without prejudice. A special litigation committee of the board of directors of



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Bottomline authorized Bottomline to negotiate a settlement of the pending claims substantially consistent with a memorandum of understanding negotiated among class plaintiffs, all issuer defendants and their insurers. The parties have negotiated a settlement, which is subject to approval by the court. On February 15, 2005, the court issued an Opinion and Order preliminarily approving the settlement, provided that the defendants and plaintiffs agree to a modification narrowing the scope of the bar order set forth in the original settlement agreement. The parties agreed to the modification narrowing the scope of the bar order, and 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 and have informed the District Court that they would like to be heard as to whether the settlement may still be approved even if the decision of the Court of Appeals is not reversed. The District Court indicated that it would defer consideration of final approval of the settlement pending plaintiffs request for further appellate review. On April 6, 2007, plaintiffs' Petition for Rehearing of the Second Circuit's decision was denied. As a result of the overturned class certification on June 25, 2007, the District Court signed an order terminating the settlement. The Company intends to vigorously defend itself against this amended complaint. Bottomline does not currently believe that the outcome of this proceeding will have a material adverse impact on its financial condition, results of operations or cash flows.

**Item 4. Submission of Matters to a Vote of Security Holders.**

No matter was submitted to a vote of our stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of fiscal year 2007.

**Executive Officers and Other Key Employees of the Registrant**

Our executive officers and other key employees and their respective ages as of August 31, 2007, are as follows:

<b>Name</b>	<b>Age</b>	<b>Positions</b>
Robert A. Eberle	46	President, Chief Executive Officer and Director
Peter S. Fortune	48	Chief Operating Officer and President of Bottomline Europe
Kevin M. Donovan	37	Chief Financial Officer and Treasurer
Richard A. Bell	42	Vice President and General Manager, Financial Process Solutions North America
Eric A. Campbell	50	Chief Technology Officer
Paul J. Fannon	39	Managing Director, Transactional Services Europe
Thomas D. Gaillard	44	Vice President and General Manager, Transactional Services North America
Craig A. Jones	50	Vice President and General Manager, Global Banking and Finance
Chris W. Peck	42	Managing Director, Group Sales Europe
Nigel K. Savory	40	Managing Director, Europe

*Robert A. Eberle* has served as a director since September 2000 and as Chief Executive Officer since November 2006. Mr. Eberle has served as President since August 2004. From April 2001 to November 2006, Mr. Eberle served as Chief Operating Officer. Mr. Eberle served as Chief Financial Officer from September 1998 to August 2004.

*Peter S. Fortune* has served as Chief Operating Officer since November 2006, and as President of Bottomline Europe since we acquired the predecessor company in August 2000. From November 2005 to November 2006, Mr. Fortune served as Chief marketing Officer.

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*Kevin M. Donovan* has served as Chief Financial Officer since August 2004 and as Treasurer since May 2001. Mr. Donovan served as Vice President, Finance from January 2000 to August 2004.

*Richard A. Bell* has served as Vice President and General Manager, Financial Process Solutions North America since September 2005. From January 2001 to September 2005, Mr. Bell served as Vice President of Create!form, which we acquired in September 2003.

*Eric A. Campbell* has served as Chief Technology Officer since May 2000.

*Paul J. Fannon* has served as Managing Director, Transactional Services Europe since December 2003. From December 2001 through December 2003, Mr. Fannon served as Managing Director, Payment Solutions Europe.

*Thomas D. Gaillard* has served as Vice President and General Manager, Transactional Services North America since July 2003. From May 2002 to July 2003, Mr. Gaillard served as Vice President, Corporate Development.

*Craig A. Jones* has served as Vice President and General Manager, Global Banking and Finance, since July 2006. From July 2003 to July 2006, Mr. Jones served as Vice President and General Manager, Financial Process Solutions North America. From July 2002 to July 2003, Mr. Jones served as Vice President of Product Management. From September 1999 to July 2002, Mr. Jones served as Vice President of Marketing.

*Christopher W. Peck* has served as Managing Director, Group Sales Europe since July 2003. From August 2000, when we acquired the predecessor company, through July 2003, Mr. Peck served as Group Sales Director of Bottomline Europe.

*Nigel K. Savory* has served as Managing Director, Europe since December 2003. From December 2001 through December 2003, Mr. Savory served as the Managing Director Transaction Services Europe.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is traded on The NASDAQ Global Market under the symbol EPAY. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock, as quoted on The NASDAQ Global Market (previously the NASDAQ National Market).

Period	High	Low
Fiscal 2006		
First quarter	\$ 18.62	\$ 14.57
Second quarter	\$ 15.67	\$ 10.01
Third quarter	\$ 13.75	\$ 10.33
Fourth quarter	\$ 14.00	\$ 8.05
Fiscal 2007		
First quarter	\$ 10.38	\$ 6.98
Second quarter	\$ 11.62	\$ 9.28
Third quarter	\$ 13.24	\$ 10.24
Fourth quarter	\$ 13.13	\$ 10.50

As of August 31, 2007, there were approximately 198 holders of record of our common stock. Because many of the shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of individual stockholders represented by these holders of record.

The closing price for our common stock on August 31, 2007 was \$13.18. For purposes of calculating the aggregate market value of the shares of our common stock held by non-affiliates, as shown on the cover page of this report, it has been assumed that all the outstanding shares were held by non-affiliates except for the shares beneficially held by our directors and executive officers. However, there may be other persons who may be deemed to be affiliates of ours.

We have never paid dividends on our common stock. We intend to retain our earnings for use in our business and, therefore, do not anticipate paying any cash dividends on our common stock for the foreseeable future. Additionally, pursuant to the terms of our existing Loan and Security Agreement with Silicon Valley Bank, any decision to pay dividends on our common stock would be subject to the bank's approval.

The following table provides information about purchases by us of our common stock during the quarter ended June 30, 2007:

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
April 1, 2007 - April 30, 2007	20,000	\$ 11.05	20,000	\$ 1,012,000
May 1, 2007 - May 31, 2007	95,000	\$ 12.40	95,000	9,833,000
June 1, 2007 - June 30, 2007	75,716	\$ 12.44	75,716	8,892,000
Total	190,716	\$ 12.28	190,716	\$ 8,892,000

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- (1) In May 2007, our board of directors announced that it had authorized a repurchase program for the repurchase of up to \$10.0 million of our common stock. At June 30, 2007, we had repurchased 90,716 shares at an average repurchase price of \$12.48 per share. The approximate remaining dollar value of shares available for repurchase under this program is \$8,868,000.

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In June 2006, our board of directors announced that it had authorized a repurchase program for the repurchase of up to \$10.0 million of our common stock. At June 30, 2007, we had repurchased 927,970 shares at an average repurchase price of \$10.75 per share. This repurchase program is now closed.

**Stock Performance Graph**

The stock performance graph below compares the percentage change in cumulative stockholder return on our common stock for the period from June 30, 2002 through June 30, 2007, with the cumulative total return on The NASDAQ Stock Market (U.S.) and the NASDAQ Computer & Data Processing Index.

This graph assumes the investment of \$100.00 in our common stock (at the closing price of our common stock on June 30, 2002), The NASDAQ Stock Market (U.S.) and the NASDAQ Computer & Data Processing Index on June 30, 2002, and assumes dividends, if any, are reinvested.

The stock price performance shown on the following graph is not necessarily indicative of future price performance.

	6/02	6/03	6/04	6/05	6/06	6/07
<b>Bottomline Technologies (de), Inc.</b>	<b>100.00</b>	<b>142.86</b>	<b>187.64</b>	<b>265.00</b>	<b>144.10</b>	<b>218.62</b>
<b>NASDAQ Composite</b>	<b>100.00</b>	<b>108.29</b>	<b>139.82</b>	<b>140.70</b>	<b>151.54</b>	<b>183.10</b>
<b>NASDAQ Computer &amp; Data Processing</b>	<b>100.00</b>	<b>105.06</b>	<b>126.04</b>	<b>130.56</b>	<b>136.58</b>	<b>170.32</b>

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The information included under the heading Performance Graph in Item 5 of this Annual Report on Form 10-K is furnished and not filed and shall not be deemed to be soliciting material or subject to Regulation 14A, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

**Item 6. Selected Financial Data.**

You should read the following consolidated financial data in conjunction with the Financial Statements, including the related notes, and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. The results shown herein are not necessarily indicative of the results to be expected for any future periods.

**SELECTED CONSOLIDATED FINANCIAL DATA**

	2003	Fiscal Year Ended June 30,			2007
		2004	2005	2006	
		(in thousands, except per share data)			
<b>Statements of Operations Data:</b>					
Revenues:					
Software licenses	\$ 13,021	\$ 14,366	\$ 18,789	\$ 12,236	\$ 14,102
Subscriptions and transactions	7,612	9,380	12,462	22,290	26,767
Service and maintenance	33,253	41,984	49,771	52,511	63,887
Equipment and supplies	17,379	16,402	15,483	14,628	13,579
<b>Total revenues</b>	<b>71,265</b>	<b>82,132</b>	<b>96,505</b>	<b>101,665</b>	<b>118,335</b>
Cost of revenues:					
Software licenses	1,936	1,678	2,295	1,398	744
Subscriptions and transactions	4,210	5,237	5,371	9,294	12,138
Service and maintenance	17,382	17,697	22,010	24,072	29,254
Stock compensation expense				474	755
Equipment and supplies	13,615	13,312	11,980	11,639	10,168
<b>Total cost of revenues</b>	<b>37,143</b>	<b>37,924</b>	<b>41,656</b>	<b>46,877</b>	<b>53,059</b>
<b>Gross profit</b>	<b>34,122</b>	<b>44,208</b>	<b>54,849</b>	<b>54,788</b>	<b>65,276</b>
Operating expenses:					
Sales and marketing	18,884	21,653	24,896	23,816	28,761
Stock compensation expense				2,489	2,893
Product development and engineering:					
Product development and engineering	10,351	9,319	9,375	11,448	15,308
In-process research and development		842			
Stock compensation expense	71	41	14	841	761
General and administrative	9,827	10,613	11,546	12,949	15,784
Stock compensation expense				3,180	3,536
Amortization of intangible assets	8,830	4,277	3,217	4,491	9,324
<b>Total operating expenses</b>	<b>47,963</b>	<b>46,745</b>	<b>49,048</b>	<b>59,214</b>	<b>76,367</b>
<b>Income (loss) from operations</b>	<b>(13,841)</b>	<b>(2,537)</b>	<b>5,801</b>	<b>(4,426)</b>	<b>(11,091)</b>
Other income (expense), net	(189)	288	444	3,252	3,177
<b>Income (loss) before provision for income taxes and cumulative effect of accounting change</b>	<b>(14,030)</b>	<b>(2,249)</b>	<b>6,245</b>	<b>(1,174)</b>	<b>(7,914)</b>
Provision (benefit) for income taxes	60	169	357	660	(884)

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Income (loss) before cumulative effect of accounting change	(14,090)	(2,418)	5,888	(1,834)	(7,030)
Cumulative effect of accounting change	(13,764)				
Net income (loss)	\$ (27,854)	\$ (2,418)	\$ 5,888	\$ (1,834)	\$ (7,030)

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	2003	Fiscal Year Ended June 30,			2007
		2004	2005	2006	
		(in thousands, except per share data)			
Basic income (loss) per common share before cumulative effect of accounting change	\$ (0.90)	\$ (0.15)	\$ 0.33	\$ (0.08)	\$ (0.30)
Diluted income (loss) per common share before cumulative effect of accounting change	\$ (0.90)	\$ (0.15)	\$ 0.31	\$ (0.08)	\$ (0.30)
Cumulative effect of accounting change	(0.88)				
Basic net income (loss) per common share	\$ (1.78)	\$ (0.15)	\$ 0.33	\$ (0.08)	\$ (0.30)
Diluted net income (loss) per common share	\$ (1.78)	\$ (0.15)	\$ 0.31	\$ (0.08)	\$ (0.30)
Shares used in computing basic income (loss) per share	15,667	16,514	18,030	22,838	23,539
Shares used in computing diluted income (loss) per share	15,667	16,514	19,119	22,838	23,539
Non-GAAP presentation:					
Income (loss) before provision for income taxes and cumulative effect of accounting change	\$ (14,030)	\$ (2,249)	\$ 6,245	\$ (1,174)	\$ (7,914)
Amortization of intangible assets	8,830	4,277	3,217	4,491	9,324
Stock compensation expense	71	41	14	6,984	7,945
Acquisition-related technology write-offs				189	
In-process research and development		842			
(Provision) benefit for income taxes	(60)	(169)	(357)	(660)	884
Non-GAAP net income (loss)	\$ (5,189)	\$ 2,742	\$ 9,119	\$ 9,830	\$ 10,239

The non-GAAP presentation above consists of a reconciliation of our net income or loss before the cumulative effect of accounting changes and income taxes to a measure of non-GAAP net income or loss. We present this supplemental information in the form of non-GAAP financial measures, which excludes certain non-cash items specifically in-process research and development charges, acquisition related technology write-offs, amortization of intangible assets and stock compensation expense. We believe that this supplemental, non-GAAP presentation is useful to investors because it allows for an evaluation of Bottomline with a focus on the performance of its core operations. Our executive management team, including our chief operating decision maker, uses this same non-GAAP measure internally to assess the on-going performance of Bottomline.

Since the presentation above is not a GAAP measurement of financial performance, there are material limitations to its usefulness on a stand alone basis, including the lack of comparability of this presentation to the GAAP financial results of other companies. Accordingly the non-GAAP information should not be used in isolation from, or as a substitute for, our GAAP results.

Certain prior period amounts have been reclassified to comply with recent accounting pronouncements and to reflect a comparable presentation of where certain classes of employees are now reported within our operating expense categories.

	2003	Fiscal Year Ended June 30,			2007
		2004	2005	2006	
		(in thousands)			
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 25,802	\$ 20,724	\$ 20,789	\$ 38,752	\$ 38,997
Marketable securities		4,291	15,127	41,745	26,876
Working capital	17,564	17,991	27,552	71,874	55,321
Total assets	74,535	91,243	110,441	175,834	189,984
Long-term debt (capital leases)					37
Total stockholders equity	47,695	59,253	72,793	136,608	140,436





**Table of Contents****Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Selected Consolidated Financial Data and the financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. The statements contained in this Annual 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, anticipates, believes, estimates, predicts, potential and similar expressions are intended to identify forward-looking statements. All forward-looking statements included in this Annual Report on Form 10-K are based on information available to us up to and including the date of this document, 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 in Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors and elsewhere in this Form 10-K. 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.

**Overview**

For the year ended June 30, 2007, our revenues increased to \$118.3 million from \$101.7 million in the prior year. This revenue increase was primarily attributable to an increase in revenues in our Banking Solutions operating segment as a result of increased demand for those solutions and increases in our subscription and transaction revenues as a result of our prior year acquisitions of Visibility and Tranmit. The increase was also attributable to the revenue contribution from Formscape, which we acquired in October 2006, and an increase in foreign currency exchange rates. These increases were offset in part by decreases in revenues as a result of the end of the BACSTEL-IP initiative in the UK, which concluded in December 2005. During fiscal 2007, we derived approximately 45% of our revenue through our international operations, the majority of which was attributable to the UK. We expect future revenue growth to be driven by increased purchases by new and existing bank and financial institution customers in both North America and international markets, the continued market adoption of our Legal eXchange product in the US, increased purchases of our payment and document management solutions by enterprise customers, the contribution of a full year's revenue from our Formscape acquisition and the contribution of revenue from our accounts payable automation products.

We had a net loss of \$7.0 million during fiscal year ended June 30, 2007 compared to a net loss of \$1.8 million in the year ended June 30, 2006. The net loss incurred in the year ended June 30, 2007 reflected \$17.3 million of expense associated with the amortization of intangible assets and stock compensation. The increase of \$4.8 million in intangible asset amortization reflects the expense impact of our current and prior year acquisitions. Our operating results were also impacted by a significant increase in product development expense as we continued to make investments in our accounts payable automation and banking products. We also continued to make significant up-front investments in other areas of our accounts payable automation offerings such as our hosted infrastructure and our customer delivery capabilities. We believe that the continued investment in these areas is warranted, given the market opportunity we believe exists in respect of these products. Increases in other operating expense categories during the fiscal year ended June 30, 2007 largely reflect our overall increased operating costs as a result of current and prior year acquisitions and general business growth.

**Revenue Sources**

Our revenues are derived from multiple sources, and are reported under the following classifications:

*Software License Fees.* Software license revenues, which we derive from our software applications, are generally based on the number of software applications and user licenses purchased. Fees from the sale

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of perpetual software licenses are generally recognized upon delivery of the software to the customer. However, certain of our software arrangements, particularly those related to banking and financial institution customers, are recognized on a percentage of completion basis over the life of the project because they require significant customization and modification and involve extended implementation periods.

*Subscription and Transaction Fees.* We derive subscription and transaction fees from a number of sources, principally our hosted products such as Legal eXchange and more recently certain of our newer solutions which are sold on a subscription, rather than a perpetual license, basis. Subscription revenues are typically recognized on a ratable basis over the subscription period. Transaction revenues are typically recorded at the time transactions are processed. Many of our hosted products require customers to pay non-refundable set up or installation fees. In these cases, since the up-front fees do not represent a separate revenue earnings process, the fees are deferred and recognized as revenue over the estimated life of the customer relationship, which is generally four years. Going forward, a large part of our focus will be on growing the revenue contribution from our subscription and transaction based revenue streams.

*Service and Maintenance Fees.* Our service and maintenance revenues consist of professional services fees and customer support and maintenance fees. Revenues relating to professional services not associated with customized software solutions are normally recognized at the time services are rendered. Professional services revenues associated with software license arrangements that include significant customization and modification are generally recognized on a percentage of completion basis over the life of the project. Software maintenance fees, which are established as a percentage (typically 15%-20%) of the list price for the software license, are recognized as revenue ratably over the respective maintenance period.

*Equipment and Supplies Revenues.* We derive equipment and supplies revenues from the sale of printers, check paper and magnetic ink character recognition toners. These revenues are normally recognized at the time of delivery. Equipment and supplies revenue also includes postage and shipping related charges billed to customers.

## **Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation in our consolidated financial statements. Additionally, during fiscal year 2007 we modified our formula for allocating certain central operating costs across functional expense categories, specifically costs related to information technology and information solutions resources. Under the modified methodology, costs are allocated to operating expense and cost of sales categories according to a headcount-based formula. Historically, these costs had been charged predominantly to general and administrative expenses. We believe the headcount-based allocation methodology results in a more precise expense allocation across all operating areas of the business. This change did not affect our overall operating results for any period, and all prior period amounts have been reclassified to conform with this presentation.

## **Critical Accounting Policies and Significant Judgments and Estimates**

We believe that several accounting policies are important to understanding our historical and future performance. We refer to such 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. These critical accounting policies and estimates relate to stock-based compensation, revenue recognition and goodwill and intangible assets. These critical policies, and our procedures related to these policies, are discussed below. In addition, refer to Note 2 to the accompanying consolidated financial statements for a discussion of all of our significant accounting policies.

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### *Stock Based Compensation*

Effective July 1, 2005, we adopted accounting rules (SFAS 123R, *Share-Based Payment*) requiring the expense recognition of the estimated fair value of all share-based payments issued to employees. Prior to this, the estimated fair value associated with such awards was not recorded as an expense but rather was disclosed in a footnote to our financial statements. For the fiscal years ended June 30, 2006 and 2007, we recorded approximately \$7.0 million and \$7.9 million of expenses associated with share-based payments respectively. The substantial majority of the expense recorded in both 2006 and 2007 is related to awards of stock options and restricted stock.

The valuation of employee stock options is an inherently subjective process, since market values are generally not available for long-term, non-transferable employee stock options. Accordingly, an option pricing model is utilized to derive an estimated fair value. In calculating the estimated fair value of our stock options, we used a Black-Scholes pricing model which requires the consideration of the following variables for purposes of estimating fair value:

the stock option exercise price,

the expected term of the option,

the grant date price of our common stock,

the expected volatility of our common stock,

expected dividends on our common stock (we do not anticipate paying dividends for the foreseeable future), and

the risk free interest rate for the expected option term.

Of the variables above, the selection of an expected term and expected stock price volatility are the most subjective. For purposes of estimating the expected option term, we review and consider our historic option activity, particularly the underlying option holding period (including the holding period inherent in currently vested but unexercised options) and, for stock options granted during 2007, estimated an expected term between 4.4 and 5.1 years. In estimating our stock price volatility, we analyze our historical volatility for a period equal to the expected term of our stock option awards and, by reference to actual stock prices during this period, estimated volatility ranging from 48% to 55% for options granted during fiscal 2007. We believe that these estimates, both expected term and volatility, are reasonable in light of the historic data we analyzed. However, as with any estimate, the ultimate accuracy of these estimates is only verifiable over time.

A portion of the stock option expense recorded during fiscal year 2007 relates to the continued vesting of stock options that were granted prior to our adoption of the expense recognition requirements on July 1, 2005. In accordance with the transition provisions of SFAS 123R, the grant date estimates of fair value associated with awards granted prior to this date, which were also calculated using a Black-Scholes option pricing model, have not been changed. The specific valuation assumptions that were utilized for purposes of deriving an estimate of fair value at the time that prior awards were issued are as disclosed in Note 9 to the accompanying consolidated financial statements and in our prior filings on Form 10-K.

### *Revenue Recognition*

We derive our revenues from the sale of both perpetual and subscription based software licenses, transactional based product offerings, professional services, software maintenance and equipment and supplies. We recognize revenue when persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed and determinable and collectibility is probable. We consider a non-cancelable fully executed agreement or customer purchase order to be persuasive evidence of an arrangement. We consider delivery to have occurred upon transfer of product title to the customer, or completion of services rendered. We consider the fee to be fixed or determinable if the fee is not subject to adjustment, or if we have not granted extended payment



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terms to the customer. Excluding our long-term contract arrangements for which revenue is recorded on a percentage of completion basis, our normal customer payment terms do not exceed 90 days from the date of delivery. We consider collection to be probable if our internal credit analysis indicates that the customer will be able to pay contractually committed amounts as they become due under the arrangement.

Our sales arrangements can contain multiple revenue elements, such as perpetual or subscription based software licenses, transaction fees, professional services, and software maintenance. Revenue earned on software arrangements involving multiple elements which qualify for separate element treatment is allocated to each element based on the relative fair values of those elements. Revenue allocated to the software element is based on the residual method, under which revenue equal to the fair value of professional services and software support is allocated to those items and recognized as revenue as those items are delivered. Any residual or remaining portion of the total arrangement fee is then allocated to the software license. Revenue is recognized for each element when each of the aforementioned revenue recognition criteria have been met.

Certain of our software arrangements require significant customization and modification and involve extended implementation periods. These arrangements do not qualify for separate element revenue recognition treatment as described above, and instead must be accounted for under contract accounting. Under contract accounting, companies must select from two generally accepted methods of accounting: the completed contract method and the percentage of completion method. The completed contract method recognizes revenue only upon contract completion, and all project costs and revenues are reported as deferred items in the balance sheet until that time. The percentage of completion method recognizes revenue and costs on a contract over time, as the work progresses.

We have historically used the percentage of completion method of accounting for our long-term and custom contracts, since we believe that we can make reasonably reliable estimates of progress toward completion. Progress is measured based on labor hours, as measured at the end of each reporting period, as a percentage of total expected labor hours. Accordingly, the revenue we record in any reporting period for arrangements accounted for on a percentage of completion basis is dependent upon our estimates of the remaining labor hours that will be incurred in fulfilling our contractual obligations. Our estimates at the end of any reporting period could prove to be materially different from final project results, as determined only at subsequent stages of project completion. To mitigate this risk, we solicit the input of our project professional staff on a monthly basis, as well as at the end of each reporting period, for purposes of evaluating cumulative labor hours incurred and verifying the estimated remaining effort to completion, so that our estimates are always based on the most current projections available.

### *Goodwill and Intangible Assets*

Effective July 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS 142) relating to goodwill and intangible assets. We were required to perform a transitional impairment test upon adoption to determine the amount of goodwill impairment, if any. Based on the results of this impairment test, we recorded an impairment charge of \$13.8 million associated with goodwill in Bottomline Europe.

We were required to calculate the fair value of our reporting units in connection with this impairment review. The principal component of each fair value calculation was the determination of discounted future cash flows, and there were a number of variables that we considered for purposes of projecting these future cash flows. There is inherent uncertainty involved with this estimation process, however our estimates were consistent with our internal planning assumptions. The particularly sensitive components of these estimates included, but were not limited to:

the selection of an appropriate discount rate;

the required return on all assets employed by the valued asset to generate future income streams;

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our projected overall revenue growth and mix of revenue;

our gross margin estimates (which are highly dependent on our mix of revenue);

the level of Bottomline US products that will be sold by Bottomline Europe;

our software product life cycles;

the attrition rate of our customers, particularly those who contribute to our recurring revenue streams (such as software maintenance);

our planned level of operating expenses; and

our effective tax rate.

Since our adoption of SFAS 142, we have tested our goodwill annually for impairment and for fiscal 2007 we performed this review during our fourth quarter (which is consistent with the historic timing of our annual goodwill impairment review). Based on this review, we concluded that there was no goodwill impairment. Our analysis was performed at the reporting unit level and required an estimate of the fair value of each reporting unit. Based on the results of this review we concluded that none of our reporting units were impaired. However, there can be no assurance that there will not be impairment charges in subsequent periods as a result of our future periodic impairment reviews. To the extent that future impairment charges occurred, it would likely have a material impact on our financial results. At June 30, 2007, the carrying value of goodwill for all of our reporting units was approximately \$53 million.

In addition to our annual goodwill impairment review, we also perform periodic reviews of the carrying value of our other intangible assets. These intangible assets consist primarily of acquired core technology and customer related intangibles such as acquired customer lists and customer contracts. In evaluating potential impairment of these assets, we specifically consider whether any indicators of impairment are present, including:

whether there has been a significant decrease in the market price of an asset;

whether there has been a significant adverse change in the extent or manner in which an asset is used; and

whether there is an expectation that the asset will be sold or disposed of before the end of its originally estimated useful life.

If indicators of impairment are present, an estimate of the undiscounted cash flows that the specific asset is expected to generate must be made to ensure that the carrying value of the asset can be recovered. These estimates involve significant subjectivity. At June 30, 2007, the carrying value of our intangible assets, excluding goodwill, was approximately \$31 million. As a result of our fiscal 2007 impairment review, none of these assets were deemed to be impaired.

*Valuation of Acquired Intangible Assets*

In connection with our recent acquisitions we recorded several intangible assets relating principally to acquired technology and customer related intangible assets. The valuation process used to calculate the values assigned to these acquired intangible assets is complex and involves significant estimation relative to our financial projections. The principal component of the valuation process is the determination of discounted future cash flows, and there are a number of variables that we considered for purposes of projecting these future cash flows. There is inherent uncertainty involved with this estimation process, and, while our estimates are consistent with our internal planning assumptions, the ultimate accuracy of these estimates is only verifiable over time. Further, the projections required for the valuation process normally utilize a ten-year

forecast, which exceeds our normal internal planning and forecasting timeline. The particularly sensitive components of these estimates include, but are not limited to:

the selection of an appropriate discount rate;



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the required return on all assets employed by the valued asset to generate future income streams;

our projected overall revenue growth and mix of revenue;

our gross margin estimates (which are highly dependent on our mix of revenue);

our technology and product life cycles;

the attrition rate of our customers, particularly those who contribute to our recurring revenue streams (such as software maintenance);

our planned level of operating expenses; and

our effective tax rate.

## **Recent Accounting Pronouncements**

### *Income Tax Uncertainties*

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 creates a single accounting and disclosure model for uncertain tax positions, provides guidance on the minimum threshold that a tax uncertainty is required to meet before it can be recognized in the financial statements and applies to all tax positions taken by a company, both those deemed to be routine as well as those for which there may be a high degree of uncertainty.

FIN 48 establishes a two-step approach for evaluating tax positions. The first step, recognition, occurs when a company concludes (based solely on the technical aspects of the tax matter) that a tax position is more likely than not to be sustained on examination by a taxing authority. The second step, measurement, is only considered after step one has been satisfied and measures any tax benefit at the largest amount that is deemed more likely than not to be realized upon ultimate settlement of the uncertainty. Tax positions that fail to qualify for initial recognition are recognized in the first subsequent interim period that they meet the more likely than not standard, when they are resolved through negotiation or litigation with the taxing authority or upon the expiration of the statute of limitations. Derecognition of a tax position previously recognized would occur when a company subsequently concludes that a tax position no longer meets the more likely than not threshold of being sustained. FIN 48 also significantly expands the financial statement disclosure requirements relating to uncertain tax positions.

FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, we will adopt the pronouncement effective July 1, 2007. Differences between the amounts recognized in the balance sheet prior to adoption and the amounts recognized in the balance sheet after adoption will be accounted for as a cumulative effect adjustment to the beginning balance of retained earnings. We are still in the process of evaluating the impact of FIN 48 on our financial statements, but at present do not believe that it will have a material impact on our financial position or results of operations.

**Table of Contents****Results of Operations**

The following table sets forth, for the fiscal years indicated, the percentage relationships that selected items in the Consolidated Statements of Operations bear to total revenues.

	Percentages of Total Revenues Fiscal Year Ended June 30,		
	2005	2006	2007
<b>Revenues:</b>			
Software licenses	19.5%	12.0%	11.9%
Subscriptions and transactions	12.9	21.9	22.6
Service and maintenance	51.6	51.7	54.0
Equipment and supplies	16.0	14.4	11.5
<b>Total revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Cost of revenues:</b>			
Software licenses	2.4	1.4	0.6
Subscriptions and transactions	5.6	9.1	10.3
Service and maintenance	22.8	23.7	24.7
Stock compensation expense		0.5	0.6
Equipment and supplies	12.4	11.4	8.6
<b>Total cost of revenues</b>	<b>43.2</b>	<b>46.1</b>	<b>44.8</b>
<b>Gross profit</b>	<b>56.8</b>	<b>53.9</b>	<b>55.2</b>
<b>Operating expenses:</b>			
Sales and marketing	25.8	23.4	24.3
Stock compensation expense		2.4	2.4
Product development and engineering	9.7	11.3	12.9
Stock compensation expense		0.8	0.6
General and administrative	12.0	12.8	13.4
Stock compensation expense		3.1	3.0
Amortization of intangible assets	3.3	4.4	7.9
<b>Total operating expenses</b>	<b>50.8</b>	<b>58.2</b>	<b>64.5</b>
Income (loss) from operations	6.0	(4.4)	(9.4)
Other income, net	0.5	3.2	2.7
Income (loss) before provision for income taxes	6.5	(1.2)	(6.7)
Provision (benefit) for income taxes	0.4	0.6	(0.8)
<b>Net income (loss)</b>	<b>6.1%</b>	<b>(1.8)%</b>	<b>(5.9)%</b>

**Table of Contents****Fiscal Year Ended June 30, 2007 Compared to Fiscal Year Ended June 30, 2006****Revenues by Segment**

As of July 1, 2006, we revised the structure of our internal operating segments and changed the nature of the financial information that is provided to and used by our chief operating decision maker. We have aggregated similar operating segments into three reportable segments: Payments and Transactional Documents, Banking Solutions and Outsourced Solutions. The change in segment composition on July 1, 2006 is reflected for all financial periods presented. The following table represents our revenues by segment:

	For the Year Ended June 30,				Increase (Decrease)	
	2006		2007		Between Periods	
	Revenues	As % of total	Revenues (in thousands)	As % of total	Revenues	% Change
Payments and Transactional Documents	\$ 77,600	76.3	\$ 84,506	71.4	\$ 6,906	8.9
Banking Solutions	12,706	12.5	20,017	16.9	7,311	57.5
Outsourced Solutions	11,359	11.2	13,812	11.7	2,453	21.6
	\$ 101,665	100.0	\$ 118,335	100.0	\$ 16,670	16.4

*Payments and Transactional Documents.* The revenue increase for the year ended June 30, 2007 was primarily attributable to the revenue contribution from Formscape, which we acquired in October 2006, and an increase in foreign exchange rates. We expect revenue for the Payments and Transactional Documents segment to increase in fiscal 2008 as a result of a full year's revenue contribution from Formscape, increased sales of our payment and document management solutions and the revenue contribution from our accounts payable automation solutions.

*Banking Solutions.* The increase in revenue for the year ended June 30, 2007 was as a result of the revenue contribution from several large banking projects and an increase in customer orders and demand for our banking software solutions. We expect revenues for the Banking Solutions segment to increase next year as a result of the contribution of revenue from ongoing projects as well as from additional purchases by new and existing bank and financial institution customers in both North America and international markets.

*Outsourced Solutions.* The revenue increase for the year ended June 30, 2007 was primarily a result of the revenue contribution from new Legal eXchange customers in the US and a full year's revenue contribution from Visibility, which we acquired in fiscal 2006. We expect revenue for the Outsourced Solutions segment to increase next year as current customers of Legal eXchange move from the implementation phase (during which no revenue is recorded) into live production and as new customers purchase this solution.

**Revenues by Category**

	Fiscal Year Ended June 30,		Increase (Decrease)	
	2006	2007 (in thousands)	Between Periods 2007 Compared to 2006	%
	Revenues:			
Software licenses	\$ 12,236	\$ 14,102	\$ 1,866	15.3
Subscriptions and transactions	22,290	26,767	4,477	20.1
Service and maintenance	52,511	63,887	11,376	21.7
Equipment and supplies	14,628	13,579	(1,049)	(7.2)

Total revenues	\$ 101,665	\$ 118,335	\$ 16,670	16.4
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The overall revenue increase in 2007 was due primarily to increases in revenues from our banking products and services, an increase in Legal eXchange revenues, a full year's revenue contribution from our prior year acquisitions, the revenue contribution from our acquisition of Formscape in 2007 and an increase in foreign exchange rates. These increases were offset in part by a decrease in software license revenues in the UK as the BACSTEL-IP initiative ended in December 2005. Revenues, based on the point of sale rather than the location of the customer, were \$65.1 million in the US, \$51.5 million in Europe and \$1.7 million in Australia for the fiscal year ended June 30, 2007. Revenues based on the point of sale for the fiscal year ended June 30, 2006 were \$54.3 million in the US, \$45.5 million in Europe and \$1.9 million in Australia.

*Software Licenses.* The increase in software license revenues was due principally to the revenue contribution from Formscape, which we acquired in October 2006, an increase in license revenues in our Banking Solutions segment as a result of the revenue contribution from two large projects and an increase in foreign exchange rates. We expect software license revenues to increase during 2008 as a result of a full year's revenue contribution from Formscape and as a result of projected software license revenue within our Banking Solutions segment.

*Subscriptions and Transactions.* The increase in subscription and transaction revenues in 2007 was due principally to the revenue contribution from new Legal eXchange customers, a full year's revenue contribution from our prior year acquisition of Visibility, an increase in foreign exchange rates and growth in our subscription and transactional based revenue streams. We expect subscription and transaction revenues to increase during 2008 as a result of the revenue contribution from our Legal eXchange solution and as a result of orders for our newer subscription and transaction based product offerings.

*Service and Maintenance.* The increase in service and maintenance revenues occurred as a result of the revenue contribution from Formscape, an increase in professional services revenues associated with several large banking projects and an increase in foreign exchange rates. We expect that service and maintenance revenues will increase during 2008 as a result of a full year's revenue contribution from Formscape and as a result of the revenue contribution from ongoing projects in our Banking Solutions segment.

*Equipment and Supplies.* Equipment and supplies revenue decreased slightly in the year ended 2007 as compared to the year ended 2006, as we continued to de-emphasize the sale of certain lower margin equipment and supplies products. We expect that equipment and supplies revenues will remain relatively consistent during 2008, but expect that this revenue stream will continue to decrease as a percentage of our total revenues.

**Cost of Revenues**

	Fiscal Year Ended June 30,		Increase (Decrease) Between Periods 2007 Compared	
	2006	2007 (in thousands)	to 2006	
			\$	%
Cost of revenues:				
Software licenses	\$ 1,398	\$ 744	\$ (654)	(46.8)
Subscriptions and transactions	9,294	12,138	2,844	30.6
Service and maintenance	24,072	29,254	5,182	21.5
Stock compensation expense	474	755	281	59.3
Equipment and supplies	11,639	10,168	(1,471)	(12.6)
<b>Total cost of revenues</b>	<b>\$ 46,877</b>	<b>\$ 53,059</b>	<b>\$ 6,182</b>	<b>13.2</b>
Gross profit	\$ 54,788	\$ 65,276	\$ 10,488	19.1

*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 to 5% of software license

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revenues in the year ended June 30, 2007, from 11% in year ended June 30, 2006. The decrease in software license cost of revenues was primarily due to the contribution of Formscape software revenue, which carries a slightly higher gross margin than certain of our traditional software products, and due to a lower mix of revenue from software licenses that required royalties to third parties. We expect that software license costs will remain relatively consistent as a percentage of software license revenues during fiscal year 2008.

*Subscriptions and Transactions.* Subscription and transaction costs include salaries and other related costs for the respective professional services teams as well as costs related to our hosting infrastructure such as depreciation and facilities related expenses. The increase in subscription and transaction costs was due principally to the increase in subscription and transaction revenues and costs associated with the expansion of our hosted infrastructure, as we continued to make investments in our newer subscription and transaction based products. We expect that subscription and transaction costs will increase as a percentage of subscription and transaction revenues during fiscal year 2008 as we continue to make investments in our hosted infrastructure.

*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 consistent as a percentage of service and maintenance revenues at 46% for the years ended June 30, 2007 and 2006. We expect that service and maintenance costs will remain relatively consistent, as a percentage of service and maintenance revenues, during fiscal year 2008.

*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 decreased to 75% of equipment and supplies revenues in year ended June 30, 2007 compared to 80% of equipment and supplies revenues in the year ended June 30, 2006. The decrease in equipment and supplies costs as a percentage of equipment and supplies revenues was due to our continued de-emphasis of lower margin equipment and supplies transactions. We expect that equipment and supplies costs may decline slightly as a percentage of equipment and supplies revenues in fiscal year 2008.

**Operating Expenses**

	Fiscal Year Ended		Increase (Decrease)	
	June 30,		Between Periods	
	2006	2007	to 2006	%
	(in thousands)			
Operating expenses:				
Sales and marketing	\$ 23,816	\$ 28,761	\$ 4,945	20.8
Stock compensation expense	2,489	2,893	404	16.2
Product development and engineering	11,448	15,308	3,860	33.7
Stock compensation expense	841	761	(80)	(9.5)
General and administrative	12,949	15,784	2,835	21.9
Stock compensation expense	3,180	3,536	356	11.2
Amortization of intangible assets	4,491	9,324	4,833	107.6
<b>Total operating expenses</b>	<b>\$ 59,214</b>	<b>\$ 76,367</b>	<b>\$ 17,153</b>	<b>29.0</b>

*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 year ended June 30, 2007 as compared to the year ended June 30, 2006, with this increase principally attributable to higher operating costs as a result of the Formscape acquisition and an increase in foreign exchange rates. Costs related to customer conferences and

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product advertising initiatives also increased as we promoted our newer product offerings. We expect that sales and marketing expenses will increase during fiscal year 2008 as a result of a full year's expense contribution from Formscape and as a result of our continued sales and marketing initiatives around our newer products.

*Product Development and Engineering.* Product development and engineering expenses consist primarily of personnel costs to support product development, which at present is heavily focused on enhancing our accounts payable automation solutions and, to a lesser extent, on enhancements and revisions to our other products based on customer feedback and general marketplace demands. The increase in product development and engineering expenses was primarily attributable to expenses associated with our continued investment in our accounts payable automation products, increases in third party contractor expenses as a result of our continued investment in our banking products, expenses associated with the activities of Formscape and an increase in foreign exchange rates. We expect that product development and engineering expenses will increase during fiscal year 2008 as a result of our on-going development initiatives around our accounts payable automation solutions and due to a full year's expense contribution from Formscape.

*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. The increase in general and administrative expenses was attributable to expenses associated with the activities of Formscape, an increase in foreign exchange rates, and an increased use of external services providers to supplement our legal and finance functions. We expect that general and administrative expenses will remain relatively consistent during fiscal year 2008.

*Stock Compensation Expense.* During the year ended June 30, 2007, stock compensation expense increased slightly to \$7.9 million as compared to stock compensation expense of \$7.0 million for the year ended June 30, 2006. The expense associated with share based payments is recorded as expense within the same functional expense category in which cash compensation for the applicable employee is recorded. For the years ended June 30, 2007 and 2006, stock compensation expense was allocated as follows:

	Fiscal Year Ended		Increase (Decrease)	
	June 30,		Between Periods	
	2006	2007	2007	2006
	(in thousands)		to 2006	%
Cost of revenues: service and maintenance	\$ 474	\$ 755	\$ 281	59.3
Sales and marketing	2,489	2,893	404	16.2
Product development and engineering	841	761	(80)	(9.5)
General and administrative	3,180	3,536	356	11.2
<b>Total Compensation Expense</b>	<b>\$ 6,984</b>	<b>\$ 7,945</b>	<b>\$ 961</b>	<b>13.8</b>

During fiscal year 2008 we expect to incur stock compensation expense that is relatively consistent with the level of expense recorded during fiscal year 2007.

*Amortization of Intangible Assets.* Amortization expense increased as a result of the amortization of intangible assets arising from our current and prior year acquisitions. We expect that total amortization expense for fiscal 2008 will approximate \$10.6 million.

**Table of Contents****Other Income (Expense), Net**

	Fiscal Year Ended		Increase (Decrease)	
	June 30,		Between Periods	
	2006	2007	to 2006	%
	(in thousands)			
Interest income	\$ 3,138	\$ 3,187	\$ 49	1.6
Interest expense	(15)	(24)	(9)	60.0
Other income, net	129	14	(115)	(89.1)
Other income, net	\$ 3,252	\$ 3,177	\$ (75)	(2.3)

All components of our other income and expense categories remained largely consistent during fiscal year 2007 as compared to fiscal 2006. Excluding interest income, the individual components of other income and expense continue to represent insignificant components of our overall operations.

**Provision for Income Taxes**

We recorded a net income tax benefit of \$884,000 for the fiscal year ended June 30, 2007 compared to net expense of \$660,000 for the fiscal year ended June 30, 2006. The net benefit position for the year ended June 30, 2007 was due to an income tax benefit associated with our European operations. This benefit was partially offset by income tax expense associated with our Australian and US operations. The US income tax expense is attributable to an increase in deferred tax liabilities associated with goodwill that is deductible for US tax purposes but not amortized for financial reporting purposes. In the year ended June 30, 2006, income tax expense was attributable principally to our Australian operations and to US expense related to an increase in deferred tax liabilities associated with goodwill that is deductible for US tax purposes but not for financial reporting purposes.

**Net Loss**

The increase in net loss for 2007 was due to a significant increase in expense associated with intangible assets arising from prior business acquisitions. Operating expenses also increased, reflecting our overall increase in operating costs as a result of current and prior year acquisitions and the general growth of our business. In particular, we incurred a significant increase in expense associated with product development, as we continued to make on-going investments in our accounts payable automation and banking products. We also continued to make significant up-front investments in other areas of our accounts payable automation offering such as our hosted infrastructure and our customer delivery capabilities. We believe that the continued investment in such areas is warranted, given the market opportunity we believe exists in respect of these products.



**Table of Contents****Fiscal Year Ended June 30, 2006 Compared to Fiscal Year Ended June 30, 2005****Revenues by Segment**

As of July 1, 2006, we revised the structure of our internal operating segments and changed the nature of the financial information that is provided to and used by our chief operating decision makers. We have aggregated similar operating segments into three reportable segments: Payments and Transactional Documents, Banking Solutions and Outsourced Solutions. The change in segment composition on July 1, 2006 is reflected for all financial periods presented. The following table represents our revenues by segment:

	2005		2006		Increase (Decrease) Between Periods	
	Revenues	As % of total	Revenues (in thousands)	As % of total	Revenues	% Change
Payments and Transactional Documents	\$ 79,946	82.8	\$ 77,600	76.3	\$ (2,346)	(2.9)
Banking Solutions	9,164	9.5	12,706	12.5	3,542	38.7
Outsourced Solutions	7,395	7.7	11,359	11.2	3,964	53.6
	\$ 96,505	100.0	\$ 101,665	100.0	\$ 5,160	5.3

*Payments and Transactional Documents.* The revenue decrease for the fiscal year ended June 30, 2006 was primarily attributable to a decrease in software license revenue as a result of the conclusion of the BACSTEL-IP conversion in the UK and due to a decrease in the foreign currency exchange rates.

*Banking Solutions.* The revenue increase for the year ended June 30, 2006 was due to an increase in professional services revenue resulting from several large custom projects with financial institution customers.

*Outsourced Solutions.* The revenue increase for the fiscal year ended June 30, 2006 was primarily due to increased revenue from our Legal eXchange product in the US, in part as a result of the revenue contribution from Visibillity which we acquired in December 2005 and the revenue contribution from Tranmit, which we acquired in January 2006.

**Revenues by Category**

	Fiscal Year Ended June 30,		Increase (Decrease) Between Periods 2006 Compared to 2005	
	2005	2006 (in thousands)		%
Revenues:				
Software licenses	\$ 18,789	\$ 12,236	\$ (6,553)	(34.9)
Subscriptions and transactions	12,462	22,290	9,828	78.9
Service and maintenance	49,771	52,511	2,740	5.5
Equipment and supplies	15,483	14,628	(855)	(5.5)
Total revenues	\$ 96,505	\$ 101,665	\$ 5,160	5.3

The overall revenue increase in 2006 was due primarily to increases in Legal eXchange revenues and the revenue contribution from our acquisitions in fiscal 2005 and 2006, offset in part by a decrease in software license revenues in the UK as the BACSTEL-IP initiative ended. Revenues, based on the point of sale rather than the location of the customer, were \$54.3 million in the US, \$45.5 million in the UK and \$1.9 million in Australia for the fiscal year ended June 30, 2006. Revenues based on the point of sale for the fiscal year ended June 30, 2005 were

\$46.5 million in the US, \$48.3 million in the UK and \$1.7 million in Australia.

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*Software Licenses.* The decrease in software license revenues was due principally to a decrease in software license revenues in the UK as the BACSTEL-IP initiative ended and due to a decrease in the foreign currency exchange rate in the UK.

*Subscriptions and Transactions.* The increase in subscription and transaction revenues in fiscal year 2006 as compared to fiscal year 2005 was primarily the result of a full year's revenue contribution from HMSL, which we acquired in April 2005, increases in Legal eXchange revenues and the revenue contributions from our acquisitions of Visibility and Tranmit which were completed during fiscal 2006, offset in part by a decrease in the foreign currency exchange rate in the UK.

*Service and Maintenance.* The increase in service and maintenance revenues for the fiscal year ended June 30, 2006 was primarily due to an increase in the professional services revenues of our Banking Solutions segment due to several large custom projects with financial institution customers.

*Equipment and Supplies.* The decrease in equipment and supplies revenues was primarily due to decreases in order flow in the UK, due in part to our continued de-emphasis of this revenue stream, and by a decrease in the foreign currency exchange rate in the UK, offset in part by several large equipment orders with financial institution customers in the US.

**Cost of Revenues**

	Fiscal Year Ended		Increase (Decrease)	
	June 30,		Between Periods	
	2005	2006	2006 Compared to	2005
	(in thousands)			%
Cost of revenues:				
Software licenses	\$ 2,295	\$ 1,398	\$ (897)	(39.1)
Subscriptions and transactions	5,371	9,294	3,923	73.0
Service and maintenance	22,010	24,072	2,062	9.4
Stock compensation expense		474	474	
Equipment and supplies	11,980	11,639	(341)	(2.8)
<b>Total cost of revenues</b>	<b>\$ 41,656</b>	<b>\$ 46,877</b>	<b>\$ 5,221</b>	<b>12.5</b>
Gross profit	\$ 54,849	\$ 54,788	\$ (61)	(0.1)

*Software Licenses.* Software license costs consist of expenses incurred by us to manufacture, package and distribute our software products and related documentation and costs of licensing third party software that is incorporated into or sold with certain of our products. Software license costs remained relatively consistent at 11% of software license revenues in fiscal year 2006 as compared to 12% of software license revenues in the fiscal year ended June 30, 2005. The decrease in software license costs in dollar terms was due to the overall decrease in software license revenues.

*Subscriptions and Transactions.* Subscription 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. Subscription and transaction costs remained consistent, as a percentage of subscriptions and transaction revenues, in fiscal 2006 as compared to fiscal 2005. The increase in costs in dollar terms was due to the increase in subscription and transaction revenues during 2006.

*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 expenses associated with third party contractors used to complement our professional services team. Service and maintenance costs remained

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relatively consistent as a percentage of service and maintenance revenues in the fiscal years ended June 30, 2006 and 2005. The increase in service and maintenance costs in dollar terms was consistent with the overall increases in service and maintenance revenues and due primarily to higher third party costs associated with BACSTEL-IP product implementations in the UK.

*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 80% of equipment and supplies revenues in the fiscal year ended June 30, 2006 from 77% of equipment and supplies revenues in the fiscal year ended June 30, 2005. The increase in equipment and supplies costs as a percentage of equipment and supplies revenues was attributable to several lower margin equipment transactions in the US and an increase in third party costs in the UK.

**Operating Expenses**

	Fiscal Year Ended		Increase (Decrease)	
	June 30,		Between Periods	
	2004	2005 (in thousands)	to 2004	%
Operating expenses:				
Sales and marketing	\$ 24,896	\$ 23,816	\$ (1,080)	(4.3)
Stock compensation expense		2,489	2,489	
Product development and engineering:				
Product development and engineering	9,375	11,448	2,073	22.1
Stock compensation expense	14	841	827	5,907.1
General and administrative	11,546	12,949	1,403	12.2
Stock compensation expense		3,180	3,180	
Amortization of intangible assets	3,217	4,491	1,274	39.6
Total operating expenses	\$ 49,048	\$ 59,214	\$ 10,166	20.7

*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. The decrease in sales and marketing expenses was attributable to decreased commissions and other employee compensation costs and a decrease in the foreign currency exchange rate in the UK, offset by increases in expenses associated with the operations of HMSL, Visibility and Transmit.

*Product Development and Engineering.* Product development and engineering expenses consist primarily of personnel costs to support product development, which continues to be focused on enhancements and revisions to our products based on customer feedback and general marketplace demands. Product development and engineering expenses increased in the US principally as a result of contract employee costs associated with development efforts on certain of our banking products. This increase was offset in part by a decrease in employee related expenses in Australia due to a decrease in headcount.

*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. The increase in general and administrative expenses was attributable to the operations of HMSL, Visibility and Transmit, and an increase in employee and contract labor costs in the US and the UK.

*Stock Compensation Expense.* During the fiscal year ended June 30, 2006, we recorded approximately \$7.0 million of expense associated with share-based payments in connection with our July 1, 2005 adoption of SFAS 123R. The expense associated with these awards is recorded as expense within the same functional expense

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category as cash compensation for the respective employee is recorded. For the fiscal year ended June 30, 2006, stock compensation expense was allocated as follows:

	<b>In Thousands</b>
Cost of revenues: service and maintenance	\$ 474
Sales and marketing	2,489
Product development and engineering	841
General and administrative	3,180
	<b>\$ 6,984</b>

*Amortization of Intangible Assets.* Amortization expense increased for the fiscal year ended June 30, 2006 compared to the fiscal year ended June 30, 2005. The increase in amortization expense was due to the amortization of intangible assets arising from our acquisitions of HMSL, Visibillity, Tranmit and a patent.

**Other Income (Expense), Net**

	<b>Fiscal Year Ended</b>		<b>Increase (Decrease)</b>	
	<b>June 30,</b>		<b>Between Periods</b>	
	<b>2005</b>	<b>2006</b>	<b>to 2005</b>	<b>%</b>
		<b>(in thousands)</b>		
Interest income	\$ 591	\$ 3,138	\$ 2,547	431.0
Interest expense	(10)	(15)	(5)	(50.0)
Other income (expense), net	(137)	129	266	194.2
Other income, net	\$ 444	\$ 3,252	\$ 2,808	632.4

*Interest Income.* The increase in interest income in fiscal 2006 was attributable to an increase in rates of return during the year and, as a result of proceeds raised in our follow-on offering of common stock in July 2005, an increase in our average investment balances throughout the year.

*Interest Expense.* Interest expense remained minimal in fiscal 2006 as compared to fiscal 2005.

*Other Income (Expense), Net.* Other income (expense), net consists primarily of foreign currency transaction gains and losses. The change from a net expense in 2005 to income in 2006 was due to the strengthening of the US Dollar versus the British Pound during fiscal 2006.

**Provision for Income Taxes**

Our provision for income taxes was \$660,000 for the fiscal year ended June 30, 2006 compared to \$357,000 for the fiscal year ended June 30, 2005. The increase in income tax expense was due principally to an increase in the income tax expense associated with our Australian operations, an increase in US tax expense attributable to an increase in deferred tax liabilities associated with goodwill that is deductible for US tax purposes but is not amortized for financial reporting purposes, and the absence of an income tax benefit that was recorded in fiscal 2005 as a result of an income tax refund received in that year.

**Net Loss**

The net loss for 2006 was primarily due to a decrease in software license revenues, which carry a very high gross margin, the expense impact associated with stock-based compensation as a result of accounting rules that we adopted on July 1, 2005, and an increase in expenses associated with the amortization of intangible assets.



**Table of Contents****Liquidity and Capital Resources**

We have financed our operations primarily from cash provided by operating activities and the sale of our common stock. We had net working capital of \$55 million at June 30, 2007, including cash and cash equivalents and marketable securities totaling \$66 million.

We have generated positive operating cash flows in each of our last six fiscal years. We believe that the cash generated from our operations and the cash, cash equivalents and marketable securities we have on hand will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future. We also may receive additional investments from, and make investments in, customers or other companies. However, any such transactions would be subject to the approval of our board of directors and potentially stockholder, bank or regulatory approval. We also may undertake additional business or asset acquisitions.

In October 2006, we paid approximately \$17 million (net of cash acquired) from our cash balances in connection with our acquisition of Formscape. We do not believe that this acquisition adversely affected our overall liquidity position and we continue to believe that our existing cash and investment balances, as well as cash generated from operations, will be sufficient to meet our operating requirements for the foreseeable future.

*Operating Activities*

	Fiscal Year Ended June 30,		
	2005	2006	2007
	(in thousands)		
Net income (loss)	\$ 5,888	\$ (1,834)	\$ (7,030)
Non-cash adjustments	6,434	13,489	19,240
Decrease (increase) in accounts receivable	(2,661)	3,358	207
All other, net	3,556	(3,158)	(456)
<b>Net cash provided by operating activities</b>	<b>\$ 13,217</b>	<b>\$ 11,855</b>	<b>\$ 11,961</b>

Net cash provided by operating activities for the fiscal years ended June 30, 2007 and 2006 was primarily due to our net loss, adjusted by favorable non-cash adjustments. Net cash provided by operating activities for the fiscal year ended June 30, 2005 was primarily due our net income position, the impact of favorable non-cash adjustments and increases in deferred revenue.

As of June 30, 2007, the deferred tax assets associated with our US operations and a portion of the deferred tax assets associated with our UK 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 June 30, 2007, we have available US net operating loss carryforwards of \$31.2 million, which expire at various times through the year 2027. We also have \$2.2 million of research and development tax credit carryforwards available, which expire at various points through year 2027. The operating losses and tax credit carryforwards may be subject to limitations under provisions of the Internal Revenue Code.

*Investing Activities*

	Fiscal Year Ended June 30,		
	2005	2006	2007
	(in thousands)		
Net proceeds from (purchases of) marketable securities	\$ (10,765)	\$ (26,612)	\$ 14,875
Purchases of property and equipment	(2,169)	(2,612)	(3,593)
Acquisition of businesses and assets, net of cash acquired	(5,802)	(18,195)	(17,016)
<b>Net cash used in investing activities</b>	<b>\$ (18,736)</b>	<b>\$ (47,419)</b>	<b>\$ (5,734)</b>





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In the fiscal year ended June 30, 2007 cash was primarily used to acquire Formscape and to acquire fixed assets. In the fiscal year ended June 30, 2006 cash was primarily used to acquire high quality marketable securities and to fund our acquisitions of Visibillity, Tranmit and a patent. The significant increase in purchases of marketable securities in the fiscal year ended June 30, 2006 was due to our investment of proceeds received from our follow-on offering of common stock completed in July 2005. Cash was primarily used in the fiscal year ended June 30, 2005 to acquire short-term investments, to acquire HMSL and to acquire property and equipment.

*Financing Activities*

	Fiscal Year Ended June 30,		
	2005	2006	2007
	(in thousands)		
Proceeds from exercise of stock options, stock warrants and employee stock purchase plan	\$ 5,705	\$ 6,288	\$ 4,154
Repurchase of common stock		(61)	(11,186)
Proceeds from the sale of common stock, net		46,772	
Excess tax benefit from stock based compensation		282	104
Capital lease payments			(90)
Payment of bank financing fees	(16)	(33)	(15)
<b>Net cash provided by (used in) financing activities</b>	<b>\$ 5,689</b>	<b>\$ 53,248</b>	<b>\$ (7,033)</b>

Net cash used in financing activities for the fiscal year ended June 30, 2007 was primarily the result of repurchases of our common stock, offset in part by proceeds we received from the exercise of employee stock options and purchases under our employee stock purchase plan. Net cash provided by financing activities for the fiscal year ended June 30, 2006 was primarily the result of \$46.8 million in net proceeds received from our follow-on offering of common stock in July 2005 and proceeds of \$6.3 million from the exercise of stock options and purchases under our employee stock purchase plan. Net cash provided by financing activities for the fiscal year ended June 30, 2005 was the result of proceeds received from the exercise of employee stock options, stock warrants and the employee stock purchase plan.

*Common Stock*

In July 2005, we sold an aggregate of 3,560,000 shares of common stock in an underwritten public offering, generating approximately \$47 million in proceeds, after underwriting discounts.

*Note Payable and Credit Facilities*

In February 2007, our subsidiary, Bottomline Europe, renewed through December 31, 2007 its Committed Overdraft Facility (Overdraft Facility), which provides for borrowings of up to 500,000 British Pound Sterling. Borrowings under this Overdraft Facility are secured by substantially all assets of Bottomline Europe, bear interest at the bank's base rate (5.5% at June 30, 2007) plus 2% and are due on the expiration date of the Overdraft Facility. There were no outstanding borrowings under this Overdraft Facility at June 30, 2007.

In April 2007, we renewed, through March 24, 2009, our Loan and Security Agreement (Credit Facility). The Credit Facility, as renewed, provides for aggregate borrowings of up to \$2 million and requires us to maintain certain financial covenants. Borrowings under the Credit Facility are secured by substantially all our assets, bear interest at the bank's prime rate (8.25% at June 30, 2007) and are due on the expiration date of the Credit Facility. The Credit Facility also provides for the issuance of up to \$2 million in letters of credit for, and on behalf of, Bottomline. The borrowing capacity under the Credit Facility is reduced by any outstanding letters of credit. At June 30, 2007 a \$2 million letter of credit had been issued to our landlord as part of the lease agreement for our corporate headquarters.

**Table of Contents****Business Acquisitions**

On October 13, 2006 we, through our UK subsidiary, acquired all of the outstanding share capital of Formscape Group, Ltd. (Formscope). The purchase consideration for Formscope was approximately \$22.2 million, consisting of approximately \$17.0 million of cash and \$5.2 million (521,159 shares) of our common stock, as valued on the date of the acquisition. Formscope operating results are included in our operating results from the acquisition date forward, as a component of the Payments and Transactional Documents segment.

On January 24, 2006, we acquired all of the outstanding stock of Tranmit Plc (Tranmit). The purchase consideration for Tranmit was approximately \$6.0 million of cash, \$4.2 million (316,970 shares) of our common stock, as valued on the date of acquisition, and acquisition related costs. Tranmit operating results are included in our operating results from the acquisition date forward, as a component of the Outsourced Solutions segment.

On December 31, 2005, we acquired all of the outstanding stock of Visibillity, Inc. (Visibillity). The initial purchase consideration for Visibillity was \$11,500,000 in cash plus acquisition related costs. Subsequent to the payment of the initial purchase consideration, we recovered \$500,000 from the Visibillity selling stockholders pursuant to the terms of the acquisition, and this recovery was recorded as a reduction to the amount of goodwill recorded as part of the acquisition. Visibillity operating results are included in our operating results from the acquisition date forward, as a component of the Outsourced Solutions segment.

**Contractual Obligations**

Following is a summary of future payments that we are required to make under existing contractual obligations as of June 30, 2007:

	Payments Due by Period				More Than
	Total	Less Than			
		1 Year	1-3 Years (in thousands)	4-5 Years	
Operating lease obligations	\$ 10,779	\$ 3,211	\$ 6,374	\$ 1,194	
Capital lease obligations	79	38	41		
Other contractual obligations					
Total	\$ 10,858	\$ 3,249	\$ 6,415	\$ 1,194	

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.

**Off-Balance Sheet Arrangements**

During the twelve months ended June 30, 2007, we did not have any off-balance sheet arrangements.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.****Interest rate risk**

Our exposure to financial risk, including changes in interest rates, relates primarily to cash and cash equivalents and our short-term investments. These investments bear interest at variable interest rates, which are subject to market changes. We have not entered into any interest rate swap agreements or other instruments to



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minimize our exposure to interest rate fluctuations. We have not had any derivative instruments in the past and do not presently plan to in the future. Our investment portfolio consists of demand deposit accounts, money market mutual funds, U.S. Treasury securities, corporate debt securities and debt securities issued by U.S. state agencies and institutions. Based on our current average balances of cash, cash equivalents and marketable securities, a significant change in interest rates could have a material effect on our operating results. Based on our average investment portfolio and average actual interest rates during 2007, a 100 basis point increase or decrease in interest rates would result in an increase or decrease of approximately \$281,000, \$812,000 and \$687,000 for the fiscal years ended 2005, 2006 and 2007, respectively, in our results of operations and cash flows.

### *Foreign currency exchange rate risk*

We have significant operations located in the United Kingdom, where the functional currency is British Pound Sterling (the Pound). We have operations in Australia, where the functional currency is the Australian dollar. Beginning in fiscal 2007, we also have operations in Germany and France, where the functional currency is the European Euro. 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.

### *Foreign currency translation risk*

A 10% increase or decrease in the average exchange rate between the Pound and the US dollar would result in an increase or decrease to revenue of approximately \$4,830,000 for fiscal 2005, \$4,547,000 for fiscal 2006 and \$5,063,000 for fiscal 2007. A 10% increase or decrease in the average exchange rate between the Pound and the US dollar would result in an increase or decrease to net income (loss) of approximately \$702,000 for fiscal 2005, \$305,000 for fiscal 2006 and \$385,000 for fiscal 2007.

A 10% increase or decrease in the average exchange rate between the Australian dollar and the US dollar would result in an increase or decrease to revenue of approximately \$168,000 for fiscal 2005, \$186,000 for fiscal 2006 and \$176,000 for fiscal 2007. A 10% increase or decrease in the average exchange rate between the Australian dollar and the US dollar would result in an increase or decrease to net income (loss) of approximately \$100,000 for fiscal 2005, \$9,000 for fiscal 2006 and \$44,000 for fiscal 2007.

A 10% increase or decrease in the average exchange rate between the European Euro and the US dollar would not have a material impact on our financial position, operating results or cash flows.

### *Foreign currency transaction risk*

Foreign currency transaction gains and losses are generally not significant and our financial results would not be significantly impacted in the event of a 10% increase or decrease in the average exchange rates between the US dollar and the respective functional currencies of our international subsidiaries.

## **Item 8. Financial Statements and Supplementary Data.**

Index to Financial Statements, Financial Statements and Supplementary Data appear on pages 44 to 75 of this Annual Report on Form 10-K.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

## **Item 9A. 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 June 30, 2007. The term disclosure controls and



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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 June 30, 2007, 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.

Management's report on internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and the independent registered public accounting firm's related audit report are included in Item 8 of this Form 10-K and are incorporated herein by reference.

No change in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. *Other Information.***

Not applicable.

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**PART III**

**Item 10. *Directors, Executive Officers of the Registrant and Corporate Governance.***

See Executive Officers and Other Key Employees of the Registrant in Part I of this Annual Report on Form 10-K. We will furnish to the Securities and Exchange Commission a definitive Proxy Statement (the Proxy Statement) not later than 120 days after the close of the fiscal year ended June 30, 2007. The information required by this item is incorporated herein by reference to the information contained under the captions Proposal I Election of Class III Directors, Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance of the Proxy Statement.

We have adopted a Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The text of our Code of Business Conduct and Ethics is posted in the Corporate Governance section of our website, [www.bottomline.com](http://www.bottomline.com). We intend to disclose on our website any amendments to, or waivers from, our Code of Business Conduct and Ethics that are required to be disclosed pursuant to the disclosure requirements of Item 5.05 of Form 8-K.

**Item 11. *Executive Compensation.***

The information required by this item is incorporated herein by reference to the information contained under the captions Executive Compensation, Director Compensation, Compensation Committee Interlocks and Insider Participation, Compensation Committee Report, and Employment and Other Agreements and Potential Payments Upon Termination or Change-In-Control of the Proxy Statement.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this item is incorporated herein by reference to the information contained under the captions Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information of the Proxy Statement.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

The information required by this item is incorporated herein by reference to the information contained under the captions Employment and Other Agreements and Potential Payments Upon Termination or Change-In-Control, Proposal I Election of Class III Directors, Corporate Governance and Certain Relationships and Related Transactions of the Proxy Statement.

**Item 14. *Principal Accounting Fees and Services.***

The information required to be disclosed by this item is incorporated herein by reference to the information contained under the caption Principal Accounting Fees and Services and Pre-Approval Policies and Procedures of the Proxy Statement.

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**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

(a) *Financial Statements, Financial Statement Schedule and Exhibits*

	<b>Page</b>
(1) <u>Financial Statements see Index to Financial Statements</u>	49
(2) <u>Financial Statement Schedule for the Years Ended June 30, 2005, 2006 and 2007: Schedule II Valuation and Qualifying Accounts</u>	48
Financial statement schedules not included have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements or notes.	
(3) Exhibits:	
<u>Exhibits filed as part of this Annual Report on Form 10-K are listed on the Exhibit Index immediately preceding such exhibits, which is incorporated herein by reference</u>	81



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**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS  
ALLOWANCE FOR DOUBTFUL ACCOUNTS AND RETURNS**

**Years Ended June 30, 2005, 2006 and 2007**

Year Ended	Balance at Beginning of Year	(Charged to Costs and Expenses)	Activity			Balance at End of Year
			Additions(1) (in thousands)	Recoveries	Deductions(2)	
June 30, 2005	\$ 1,765	131	56	31	153	\$ 1,830
June 30, 2006	\$ 1,830	128	228	1	354	\$ 1,833
June 30, 2007	\$ 1,833	52	65		360	\$ 1,590

- (1) Additions represent increases to the allowance for doubtful accounts and returns balances as a result of reserves recorded in connection with purchase business combinations and the impact of foreign currency exchange rate changes.
- (2) Deductions are principally write-offs and reductions to reserves.

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**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Management's Annual Report on Internal Control Over Financial Reporting</u>	50
<u>Report of Independent Registered Public Accounting Firm</u>	51
<u>Consolidated Balance Sheets as of June 30, 2006 and 2007</u>	53
<u>Consolidated Statements of Operations for the years ended June 30, 2005, 2006 and 2007</u>	54
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income and Loss for the years ended June 30, 2005, 2006 and 2007</u>	55
<u>Consolidated Statements of Cash Flows for the years ended June 30, 2005, 2006 and 2007</u>	56
<u>Notes to Consolidated Financial Statements</u>	57

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**Management's Annual Report on Internal Control Over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, 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 and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2007. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

The Company excluded the European operations of Formscape Group, Ltd. (Formscope) from its assessment of internal control over financial reporting as of June 30, 2007 because Formscope was acquired by Bottomline during fiscal year 2007 and the Company had not completed its integration of Formscope as of year end. Total assets and revenues of Formscope represented approximately \$27.0 million and \$6.8 million, respectively, of the related consolidated financial statement amounts as of and for the year ended June 30, 2007. Included within the Formscope Europe assets metric above are approximately \$16.2 million of intangible assets arising from the Formscope acquisition.

Based on our assessment, management concluded that, as of June 30, 2007, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears on page 51.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Bottomline Technologies (de), Inc.

We have audited Bottomline Technologies (de), Inc.'s internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Bottomline Technologies (de), Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the European operations of Formscape Group, Ltd. (Formscape), which is included in the 2007 consolidated financial statements of Bottomline Technologies (de), Inc. and constituted \$27 million of total assets as of June 30, 2007 and \$6.8 million of revenues for the year then ended. Our audit of internal control over financial reporting of Bottomline Technologies (de), Inc. also did not include an evaluation of the internal control over financial reporting of Formscape.

In our opinion, Bottomline Technologies (de), Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2007, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Bottomline Technologies (de), Inc. as of June 30, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity and comprehensive income and loss and cash flows for each of the three years in the period ended June 30, 2007 of Bottomline Technologies (de), Inc. and our report dated September 7, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Boston, Massachusetts

September 7, 2007



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Bottomline Technologies (de), Inc.

We have audited the accompanying consolidated balance sheets of Bottomline Technologies (de), Inc. as of June 30, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income and loss, and cash flows for each of the three years in the period ended June 30, 2007. Our audits also included the consolidated financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bottomline Technologies (de), Inc. at June 30, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in fiscal 2006, the Company changed its method of accounting for stock-based compensation.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Bottomline Technologies (de), Inc.'s internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 7, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Boston, Massachusetts

September 7, 2007

**Table of Contents****CONSOLIDATED BALANCE SHEETS**

	June 30,	
	2006	2007
	(in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 38,752	\$ 38,997
Marketable securities	41,745	26,876
Accounts receivable, net of allowances for doubtful accounts and returns of \$1,833 at June 30, 2006 and \$1,590 at June 30, 2007	21,043	24,359
Inventory, net	700	657
Prepaid expenses and other current assets	4,164	4,745
<b>Total current assets</b>	<b>106,404</b>	<b>95,634</b>
Property, plant and equipment, net	7,106	8,270
Customer related intangible assets, net	14,885	23,521
Core technology intangible assets, net	4,010	6,410
Other intangible assets, net	992	880
Goodwill	41,190	53,485
Other assets	1,247	1,784
<b>Total assets</b>	<b>\$ 175,834</b>	<b>\$ 189,984</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,990	\$ 6,650
Accrued expenses	8,660	8,475
Deferred revenue and deposits	19,880	25,188
<b>Total current liabilities</b>	<b>34,530</b>	<b>40,313</b>
Deferred revenue and deposits, non current	1,249	2,498
Deferred income taxes	2,985	6,258
Other liabilities	462	479
<b>Total liabilities</b>	<b>39,226</b>	<b>49,548</b>
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 23,647 at June 30, 2006, and 24,866 at June 30, 2007; outstanding shares 23,554 at June 30, 2006, and 23,814 at June 30, 2007		
	23	25
Additional paid-in-capital	246,543	263,229
Accumulated other comprehensive income	3,585	8,292
Treasury stock: 93 shares at June 30, 2006, and 1,052 shares at June 30, 2007, at cost	(748)	(11,285)
Accumulated deficit	(112,795)	(119,825)
<b>Total stockholders' equity</b>	<b>136,608</b>	<b>140,436</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 175,834</b>	<b>\$ 189,984</b>

See accompanying notes.





**Table of Contents****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year ended June 30,		
	2005	2006	2007
	(in thousands, except per share data)		
<b>Revenues:</b>			
Software licenses	\$ 18,789	\$ 12,236	\$ 14,102
Subscriptions and transactions	12,462	22,290	26,767
Service and maintenance	49,771	52,511	63,887
Equipment and supplies	15,483	14,628	13,579
<b>Total revenues</b>	<b>96,505</b>	<b>101,665</b>	<b>118,335</b>
<b>Cost of revenues:</b>			
Software licenses	2,295	1,398	744
Subscriptions and transactions	5,371	9,294	12,138
Service and maintenance(1)	22,010	24,546	30,009
Equipment and supplies	11,980	11,639	10,168
<b>Total cost of revenues</b>	<b>41,656</b>	<b>46,877</b>	<b>53,059</b>
<b>Gross profit</b>	<b>54,849</b>	<b>54,788</b>	<b>65,276</b>
<b>Operating expenses:</b>			
Sales and marketing(1)	24,896	26,305	31,654
Product development and engineering:(1)	9,389	12,289	16,069
General and administrative(1)	11,546	16,129	19,320
Amortization of intangible assets	3,217	4,491	9,324
<b>Total operating expenses</b>	<b>49,048</b>	<b>59,214</b>	<b>76,367</b>
<b>Income (loss) from operations</b>	<b>5,801</b>	<b>(4,426)</b>	<b>(11,091)</b>
Interest income	591	3,138	3,187
Interest expense	(10)	(15)	(24)
Other, net	(137)	129	14
<b>Other income, net</b>	<b>444</b>	<b>3,252</b>	<b>3,177</b>
<b>Income (loss) before provision for income taxes</b>	<b>6,245</b>	<b>(1,174)</b>	<b>(7,914)</b>
Provision (benefit) for income taxes	357	660	(884)
<b>Net income (loss)</b>	<b>\$ 5,888</b>	<b>\$ (1,834)</b>	<b>\$ (7,030)</b>
<b>Basic net income (loss) per common share</b>	<b>\$ 0.33</b>	<b>\$ (0.08)</b>	<b>\$ (0.30)</b>
<b>Diluted net income (loss) per common share</b>	<b>\$ 0.31</b>	<b>\$ (0.08)</b>	<b>\$ (0.30)</b>
Shares used in computing basic net income (loss) per share	18,030	22,838	23,539
Shares used in computing diluted net income (loss) per share	19,119	22,838	23,539

(1) Stock based compensation is allocated as follows:

Fiscal Year Ended June 30

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	2005	2006 (in thousands)	2007
Cost of revenues: service and maintenance	\$	\$ 474	\$ 755
Sales and marketing		2,489	2,893
Product development and engineering	14	841	761
General and administrative		3,180	3,536
	\$ 14	\$ 6,984	\$ 7,945

See accompanying notes.

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**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY  
AND COMPREHENSIVE INCOME AND LOSS**

	Year ended June 30, 2005, 2006 and 2007										
	Common Stock		Treasury Stock		Additional			Other		Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital (in thousands)	Deferred Compensation	Income	Deficit	Accumulated	Stockholders Equity	
Balances at June 30, 2004	18,173	\$ 18	517	\$ (4,133)	\$ 177,205	\$ (14)	\$ 3,026	\$ (116,849)	\$	\$ 59,253	
Issuance of common stock for employee stock purchase plan and upon exercise of stock options	771	1	(75)	596	4,682					5,279	
Issuance of common stock in connection with warrants exercised	100				425					425	
Issuance of common stock from treasury in connection with Createform acquisition	(299)		(299)	2,388	(2,388)						
Issuance of common stock in connection with HMSL acquisition	185				2,127					2,127	
Amortization of deferred stock compensation						14				14	
Tax benefit associated with non-qualified stock option exercises					483					483	
Net income								5,888		5,888	
Foreign currency translation adjustment							(676)			(676)	
Comprehensive income										5,212	
Balances at June 30, 2005	18,930	\$ 19	143	\$ (1,149)	\$ 182,534	\$	\$ 2,350	\$ (110,961)	\$	\$ 72,793	
Issuance of common stock for employee stock purchase plan and upon exercise of stock options	840	1	(58)	462	5,825					6,288	
Issuance of common stock in connection with follow-on offering	3,560	3			46,769					46,772	
Stock compensation expense					6,984					6,984	
Issuance of common stock in connection with acquisitions, net of share registration costs	317				4,149					4,149	
Repurchase of common stock to be held in treasury			8	(61)						(61)	
Tax benefit associated with non qualified stock option exercises					282					282	
Net loss								(1,834)		(1,834)	
Foreign currency translation adjustment							1,235			1,235	
Comprehensive loss										(599)	
Balances at June 30, 2006	23,647	\$ 23	93	\$ (748)	\$ 246,543	\$	\$ 3,585	\$ (112,795)	\$	\$ 136,608	
Issuance of common stock for employee stock purchase plan and upon exercise of stock options	506	1	(67)	649	3,504					4,154	
Vesting of restricted stock awards	192										
Stock compensation expense					7,945					7,945	
	521	1			5,205					5,206	

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Issuance of common stock in connection with Formscope acquisition														
Repurchase of common stock to be held in treasury	1,026		(11,186)							(11,186)				
Tax benefit associated with non qualified stock option exercises				32						32				
Net loss								(7,030)		(7,030)				
Foreign currency translation adjustment							4,707			4,707				
Comprehensive loss										(2,323)				
Balances at June 30, 2007	24,866	\$	25	1,052	\$	(11,285)	\$	263,229	\$	8,292	\$	(119,825)	\$	140,436

See accompanying notes.

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	2005	Year ended June 30, 2006 (in thousands)	2007
<b>Operating activities</b>			
Net income (loss)	\$ 5,888	\$ (1,834)	\$ (7,030)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of intangible assets	3,217	4,491	9,324
Amortization of investment income	(66)	(7)	
Depreciation and amortization of property, plant and equipment	2,511	2,674	3,183
Acquisition related technology write-offs		189	
Deferred income tax (benefit) expense	22	(498)	(896)
Provision for allowances on accounts receivable	131	(77)	(94)
Provision for allowances for obsolescence of inventory	(8)	117	(6)
Stock compensation expense	14	6,984	7,945
Income tax benefit from exercise of non-qualified stock options	477	(282)	(104)
Loss (gain) on foreign exchange	136	(102)	(112)
Changes in operating assets and liabilities:			
Accounts receivable	(2,661)	3,358	207
Inventory, prepaid expenses and other current assets and other assets	(545)	869	565
Accounts payable, accrued expenses, deferred revenue and deposits and other long-term liabilities	4,101	(4,027)	(1,021)
Net cash provided by operating activities	13,217	11,855	11,961
<b>Investing activities</b>			
Purchases of available-for-sale securities	(17,600)	(41,750)	(16,875)
Proceeds from sales of available-for-sale securities	4,550	13,100	31,750
Purchases of held-to-maturity securities	(6,770)	(46)	
Proceeds from sales of held-to-maturity securities	9,055	2,084	
Purchases of property and equipment, net	(2,169)	(2,612)	(3,593)
Acquisition of businesses and assets, net of cash acquired	(5,802)	(18,195)	(17,016)
Net cash used in investing activities	(18,736)	(47,419)	(5,734)
<b>Financing activities</b>			
Proceeds from exercise of stock options, warrants and employee stock purchase plan	5,705	6,288	4,154
Repurchase of common stock		(61)	(11,186)
Income tax benefit from exercise of non-qualified stock options		282	104
Payment of bank financing fees	(16)	(33)	(15)
Capital lease payments			(90)
Proceeds from sale of common stock, net		46,772	
Net cash provided by (used in) financing activities	5,689	53,248	(7,033)
Effect of exchange rate changes on cash	(105)	279	1,051
Increase in cash and cash equivalents	65	17,963	245
Cash and cash equivalents at beginning of year	20,724	20,789	38,752
Cash and cash equivalents at end of year	\$ 20,789	\$ 38,752	\$ 38,997
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 12	\$ 15	\$ 24
Income taxes	\$ 385	\$ 508	\$ 524
Non-cash investing and financing activities:			

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Issuance of common stock in connection with acquisitions	\$ 2,127	\$ 4,152	\$ 5,207
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See accompanying notes.

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**BOTTOMLINE TECHNOLOGIES (de), INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Year ended June 30, 2005, 2006 and 2007**

**1. Organization and Nature of Business**

Bottomline Technologies (de), Inc. (the Company) is a Delaware corporation that markets and provides electronic payment and invoice solutions to corporations, financial institutions and banks around the world. The Company's solutions enable businesses and financial institutions to streamline, automate and manage processes and transactions involving global payments, invoice receipt and approval, collections, cash management, risk mitigation and document archive. The Company's products and services are sold to customers operating in many different industries throughout the world, but principally in the U.S., Europe and Australia.

**2. Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated in consolidation.

*Use of Estimates in the Preparation of Consolidated Financial Statements*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include, but are not limited to, revenue recognition (particularly revenue recognition associated with contracts accounted for on a percentage of completion basis), allowances for doubtful accounts and returns, determining the fair value associated with acquired intangible assets, asset impairment and certain of the Company's accrued liabilities. Actual results could differ from those estimates.

*Foreign Currency Translation*

The Company has various international subsidiaries in Europe (Bottomline Europe) and in Australia (Bottomline Australia), whose functional currencies are either the British Pound Sterling or European Euro (in respect of the European subsidiaries) or the Australian Dollar (in respect of the Australian subsidiaries). Assets and liabilities of Bottomline Europe and Bottomline Australia have been translated into U.S. dollars at year-end exchange rates, and results of operations and cash flows have been translated at the average exchange rates in effect during the year. Gains or losses resulting from foreign currency translation are included as a component of accumulated other comprehensive income or loss. Realized foreign currency transaction gains and losses are included in results of operations as incurred, and are not significant to the Company's operating results.

*Cash and Cash Equivalents*

The Company considers all highly liquid instruments with an original maturity of ninety days or less to be cash equivalents. The carrying value of these instruments approximates their fair value. At June 30, 2007 the Company's cash equivalents consisted of demand deposit accounts and money market funds.

*Marketable Securities*

The Company accounts for marketable securities in accordance with Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). SFAS 115 establishes the accounting and reporting requirements for all debt securities and for investments in equity securities that have determinable fair values. All marketable securities must be classified as one of the following: held-to-maturity, available-for-sale, or trading.

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The Company's marketable securities consist of auction rate securities which are invested in agencies and institutions affiliated with U.S. states. Marketable securities also consist of corporate bonds and term deposits at banking institutions. The Company's auction rate investments are classified as available-for-sale and are recorded at fair value. Interest income on the Company's marketable securities is recognized in earnings when earned. The cost of securities sold is determined based on the specific identification method.

The Company's available-for-sale investments may be offered for sale at auction every 28 or 35 days, depending on the individual security. The auction rate securities have stated contractual maturities, which represents the date the securities will be redeemed by the issuer, ranging from 10 to 40 years and may, at the option of the issuer, be redeemed prior to the stated maturity date.

The table below presents information regarding the Company's marketable securities by major security type as of June 30, 2006 and 2007.

	June 30, 2006		June 30, 2007			
	Held to Maturity	Available for Sale	Total (in thousands)	Held to Maturity	Available for Sale	Total
<b>Marketable securities:</b>						
Debt securities issued by U.S. state agencies and institutions		\$ 41,700	\$ 41,700		\$ 26,825	\$ 26,825
Corporate and other debt securities		45	45		51	51
<b>Total marketable securities</b>		<b>\$ 41,745</b>	<b>\$ 41,745</b>		<b>\$ 26,876</b>	<b>\$ 26,876</b>

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents, marketable securities and accounts receivable. The Company had approximately \$66 million of cash, cash equivalents and marketable securities invested primarily with five financial institutions at June 30, 2007. Concentration of credit risk with respect to non-auction rate marketable securities is generally limited as the Company's marketable securities are primarily state and municipal debt securities and investment-grade corporate bonds with high-quality credit financial institutions.

A large component of the Company's marketable securities at June 30, 2007 were invested in auction rate securities. Auction rate securities are variable rate debt instruments whose interest rates are reset periodically in an auction process. The Company believes the risk associated with the auction process is low. However, in the event that the demand or competitive bids within a specific auction were less than the shares being offered for sale, the Company might be unable to sell its securities until a successful auction were to occur. The Company limits its risk within the auction rate market by diversifying its holdings and by transacting with large, highly reputable brokers who have significant experience with the auction rate process.

The Company's accounts receivable are reported in its consolidated balance sheet net of allowances for uncollectible accounts and customer returns. Concentration of credit risk with respect to accounts receivable is limited due to the large number of companies and diverse industries comprising the Company's customer base. At June 30, 2006 there were no individual customers that accounted for greater than 10% of the Company's accounts receivable. At June 30, 2007 there was one customer that accounted for approximately 12% of the Company's accounts receivable. On-going credit evaluations are performed, generally with a focus on new customers or customers with whom the Company has no prior collections history, and collateral is generally not required. The Company maintains reserves for potential credit losses based on customer specific situations as well as historic experience and such losses, in the aggregate, have not exceeded management's expectations.



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### *Financial Instruments*

The fair value of the Company's financial instruments, which include cash and cash equivalents, marketable securities, accounts receivable and accounts payable, are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of perceived risk. The carrying value of these financial instruments approximated their fair value at June 30, 2006 and 2007, respectively, due to the short-term nature of these instruments.

### *Accounts Receivable*

Accounts receivable include unbilled receivables of approximately \$446,000 and \$3.1 million at June 30, 2006 and 2007, respectively. Unbilled receivables represent revenues recognized on long-term software contracts for which billings have not yet been presented to the customers, based on the contractually stipulated billing requirements.

### *Inventory*

Inventory is stated at the lower of cost (first-in, first-out method) or market.

### *Property, Plant and Equipment*

Property, plant and equipment are stated at cost, net of accumulated amortization and depreciation. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets (generally three to six years). Software is depreciated on a straight-line basis over the estimated useful lives of the assets (generally one to three years). The building is depreciated on a straight-line basis over the estimated useful life of the asset (fifty years). Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the respective remaining lease term.

### *Goodwill and Other Intangible Assets*

The Company accounts for goodwill and other intangible assets at their estimated fair values in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. In connection with prior business and asset acquisitions, the Company recorded goodwill based on the excess of the purchase price over the identifiable tangible and intangible assets acquired and liabilities assumed. Upon adoption of SFAS 142, the Company ceased recording recurring amortization of goodwill, and goodwill is now tested at least annually for impairment.

The Company's specifically identifiable intangible assets, which consist principally of acquired core technology and customer related intangible assets, are reported at fair value, net of accumulated amortization. These intangible assets are being amortized over their estimated useful lives, which range from one to ten years, at amortization rates that are proportional to each asset's estimated economic benefit to the Company. The carrying value of these intangible assets is reviewed annually by the Company, or more frequently when indicators of impairment are present, in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

In performing its review of the recoverability of goodwill and other intangible assets, the Company considers several factors, including whether there have been significant changes in legal factors or the overall business climate that could affect the underlying value of an asset or whether there is an expectation that the asset will be sold or disposed of before the end of its originally estimated useful life. In the case of goodwill, the Company must also consider, and estimate, the fair value of the reporting unit to which the goodwill is assigned. If, as a result of examining any of these factors, the Company concludes that the carrying value of its goodwill or other intangible assets exceeds its estimated fair value, the Company will record an impairment charge and reduce the carrying value of the asset to its estimated fair value.

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### *Advertising Costs*

The Company expenses advertising costs as incurred. Advertising costs were \$963,000, \$1,294,000, and \$1,649,000 for the years ended June 30, 2005, 2006 and 2007, respectively.

### *Shipping and Handling Costs*

The Company expenses all shipping, handling and delivery costs in the period incurred as a component of equipment and supplies cost of revenues.

### *Research and Development Expenditures*

The Company expenses research and development costs in the period incurred.

### *Income Taxes*

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under SFAS 109, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured by applying tax rates that are expected to be in effect when the differences reverse. SFAS 109 requires a valuation allowance to reduce the amount of deferred tax assets recorded if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has concluded that it is more likely than not that the deferred tax assets associated with its US operations and a component of the deferred tax assets associated with its European operations will not be realized and, accordingly, a valuation allowance has been recorded against those assets. Deferred tax assets of Australia have been fully recognized, as those amounts are expected to be realized by the Company's Australian subsidiaries.

### *Share Based Compensation*

Effective July 1, 2005, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), *Share Based Payment* (SFAS 123R). Under SFAS 123R, the Company is required to recognize, as expense, the estimated fair value of all share based payments to employees. The Company records expense associated with its share based payment awards on a straight-line basis over the respective award vesting period.

The Company adopted SFAS 123R under the modified prospective method. Under this method, the Company recognized compensation cost for all share-based payments to employees based on the grant date estimate of fair value for those awards, beginning on July 1, 2005. Prior period financial information has not been restated.

For periods prior to the adoption of SFAS 123R, the Company followed Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees*, (APB 25) and related Interpretations in accounting for its share based payment awards. Under APB 25, since the exercise price of the Company's employee stock options equaled the market price of the underlying stock on the date of the grant and, in the case of the Company's stock purchase plans, since the plans were non-compensatory, no compensation expense was recorded in the financial statements.

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The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock Based Compensation, to its stock-based employee compensation for the fiscal year ended and June 30, 2005:

	Fiscal Year Ended	
	June 30, 2005	
	(in thousands	
	except per share amounts)	
Net income, as reported	\$	5,888
Add: Stock-based employee compensation expense included in reported net income		14
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(6,150)
Pro forma loss	\$	(248)
Net income per share, as reported:		
Basic	\$	0.33
Diluted	\$	0.31
Pro forma net loss per share		
Basic and diluted	\$	(0.01)

The Company's assumptions made for purposes of estimating the fair value of its share based payments, as well as a summary of the activity under the Company's stock incentive plans, is included in Note 9.

*Capitalized Software Costs*

Capitalization of software development costs under SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed begins upon the establishment of technological feasibility. In the development of the Company's products and enhancements to existing products, the technological feasibility of the software is not established until substantially all product development is complete, including the development of a working model. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life, and changes in software and hardware technologies. For the years ended June 30, 2005, 2006 and 2007, there were no costs capitalized since costs were incurred prior to attaining technological feasibility.

*Revenue Recognition*

The Company recognizes revenue on its software license arrangements in accordance with Statement of Position (SOP) 97-2 Software Revenue Recognition and related pronouncements. Consistent with SOP 97-2, revenue is recognized 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 collectibility is deemed probable. The Company's software arrangements may contain multiple revenue elements, such as software licenses, professional services, hardware and post-contract customer support (PCS).

For multiple element arrangements which qualify for separate element accounting treatment, revenue is recognized for each element when each of the four basic criteria is met. Revenue for PCS under software maintenance agreements is recognized ratably over the term of the agreement, which is generally one year. For software arrangements involving multiple elements which qualify for separate element treatment, revenue is allocated to each element based on vendor specific objective evidence of fair value. Vendor specific objective

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evidence of fair value 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. For multiple element revenue arrangements for which the Company does not have vendor specific evidence of fair value for the software license but does have vendor specific evidence of fair value for all of the other elements in the arrangement, revenues are allocated to each element according to the residual method. Under the residual method, revenue equal to the fair value of each undelivered element is deferred, and recognized upon delivery of that element. Any residual arrangement fee is allocated to the software license.

Certain of the Company's software license arrangements require significant customization and modification and involve extended implementation periods. Such arrangements are accounted for using percentage of completion contract accounting as defined by Statement of Position No. 81-1 (SOP 81-1), Accounting for Performance of Construction-Type and Certain Production-Type Contracts. 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 on such arrangements typically occur on a periodic basis over the period of project completion.

For arrangements not involving a software license fee, such as with the Company's transactional and subscription based offerings or equipment and supplies only sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104 (SAB 104), Revision of Topic 13-Revenue Recognition. SAB 104 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. Under SAB 104, revenue is recognized when four basic criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the arrangement fee is fixed or determinable and collectibility is reasonably assured. SAB 104 also requires that up-front fees, even if non-refundable, that do not represent the completion of a separate earnings process be deferred and recognized as revenue over the period of performance. The Company does charge up-front fees, generally related to installation and integration services in connection with certain of its hosted offerings. Accordingly, these fees are deferred and recognized as revenue ratably over the estimated customer relationship period, which is generally four years. The revenue recognition period associated with these fees normally commences upon customer implementation. The Company expenses any contract origination costs as incurred.

### *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.

### *Earnings per Share*

The Company computes earnings per share in accordance with Statement of Financial Accounting Standards No. 128 Earnings per Share (SFAS 128) which requires the calculation and presentation of basic and diluted earnings per share. Basic earnings per share is calculated based on the weighted average number of shares of common stock outstanding and excludes any dilutive effect of warrants, stock options or any other type of convertible securities. Diluted earnings per share is calculated based on the weighted average number of shares of common stock outstanding and the dilutive effect of stock options, warrants and other types of convertible securities calculated using the treasury stock method. Dilutive securities are excluded from the diluted earnings per share calculation if their effect is anti-dilutive.

### *401(k) and Pension Plans*

The Company has a 401(k) Profit Sharing Plan (the Plan), whereby eligible US employees may contribute up to 60% of their compensation, subject to limitations established by the Internal Revenue Code. The Company

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may contribute a discretionary matching contribution annually equal to 50% of each such participant's deferred compensation up to 5% of their annual compensation. The Company charged \$353,000, \$382,000 and \$452,000 to expense in the fiscal years ended 2005, 2006 and 2007, respectively, under the Plan.

The Company has a Group Personal Pension Plan (GPPP) for employees in the UK, whereby eligible employees may contribute a portion of their compensation, subject to their age and other limitations established by the Inland Revenue. The Company contributes 3% of the employee's annual compensation regardless of whether or not the employee elects to contribute to the plan. The Company charged \$470,000, \$365,000 and \$474,000 to expense in the fiscal years ended 2005, 2006 and 2007, respectively, under the GPPP.

The Company is required by Australian government regulation to pay a certain percentage, currently 9%, of gross payroll to a compliant Superannuation Fund for the benefit of its Australian employees. The Company charged \$168,000, \$96,000 and \$108,000 to expense for the fiscal years ended June 30, 2005, 2006 and 2007, reflecting the contribution to the Superannuation Fund.

### *Comprehensive Income (Loss)*

The Company records comprehensive income or loss in accordance with Statement of Financial Accounting Standard No. 130, Reporting Comprehensive Income (SFAS 130). SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in the financial statements. Comprehensive income or loss includes all changes in equity during a period from non-owner sources, such as foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities.

### *Recent Accounting Pronouncements:*

#### *Income Tax Uncertainties*

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 creates a single accounting and disclosure model for uncertain tax positions, provides guidance on the minimum threshold that a tax uncertainty is required to meet before it can be recognized in the financial statements and applies to all tax positions taken by a company; both those deemed to be routine as well as those for which there may be a high degree of uncertainty.

FIN 48 establishes a two-step approach for evaluating tax positions. The first step, recognition, occurs when a company concludes (based solely on the technical aspects of the tax matter) that a tax position is more likely than not to be sustained on examination by a taxing authority. The second step, measurement, is only considered after step one has been satisfied and measures any tax benefit at the largest amount that is deemed more likely than not to be realized upon ultimate settlement of the uncertainty. Tax positions that fail to qualify for initial recognition are recognized in the first subsequent interim period that they meet the more likely than not standard, when they are resolved through negotiation or litigation with the taxing authority or upon the expiration of the statute of limitations. Derecognition of a tax position previously recognized would occur when a company subsequently concludes that a tax position no longer meets the more likely than not threshold of being sustained. FIN 48 also significantly expands the financial statement disclosure requirements relating to uncertain tax positions.

FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company will adopt the pronouncement effective July 1, 2007. Differences between the amounts recognized in the balance sheet prior to adoption and the amounts recognized in the balance sheet after adoption will be accounted for as a cumulative effect adjustment to the beginning balance of retained earnings. The Company is still in the process of evaluating the impact of FIN 48 on its financial statements but does not currently believe that this pronouncement will have a material impact on its financial position or results of operations.

**Table of Contents***Reclassifications*

Certain prior year amounts have been reclassified to conform to current year presentation. Particularly, during 2007 the Company modified its formula for allocating certain central operating costs across functional expense categories, specifically costs related to information technology and information solutions resources. Under the modified methodology, costs are allocated to operating expense and cost of sales categories according to a headcount-based formula. Historically, these costs had been charged predominantly to general and administrative expenses. The Company believes the headcount-based allocation methodology results in a more precise expense allocation across all operating areas of the business. This change did not affect the Company's overall operating results for any period, and all prior period amounts have been reclassified to conform with this presentation.

**3. Product and Business Acquisitions***Formscape.*

On October 13, 2006 the Company, through its UK subsidiary, acquired all of the outstanding share capital of Formscape Group, Ltd. (Formscape). Formscape is a UK headquartered company with operations in the United States, the United Kingdom and Germany that provides software solutions for automating purchase-to-pay, document and financial transaction processes. The purchase consideration for Formscape was approximately \$22.2 million, consisting of approximately \$17.0 million of cash and \$5.2 million (521,159 shares) of the Company's common stock, as valued on the date of the acquisition. The Company believes that the Formscape acquisition will extend its capabilities and depth with respect to its product offerings, broaden its customer base and expand its channel partner relationships both domestically and in Europe. Formscape operating results are included in the Company's operating results from the date of acquisition forward, as a component of the Payments and Transactional Documents segment.

As result of the acquisition the Company recorded, based on exchange rates in effect at the time of acquisition, intangible assets of approximately \$29 million consisting of acquired customer related assets of \$13.8 million, acquired technology of \$4.9 million and goodwill of \$10.3 million. The customer related assets and acquired technology are being amortized to expense over periods of five and three years, respectively, at amortization rates that are proportional to the estimated economic contribution of the underlying assets.

In connection with the acquisition, the Company recorded costs associated with the involuntary termination of certain Formscape employees and costs associated with Formscape facility exit activities. At June 30, 2007 the exit costs associated with two Formscape facilities (one in the US and one in the UK) were still being finalized. Accordingly, the estimated exit costs for these two facilities might require adjustment in a subsequent quarter. The Company expects to finalize these costs no later than September 30, 2007, with any required adjustment to the facility exit accruals resulting in a corresponding adjustment to goodwill. A summary of the severance and exit accrual activity for the year ending June 30, 2007 is presented below.

	<b>Year Ended June 30, 2007</b>	
	<b>Facility Exit Costs</b>	<b>Severance Costs</b>
	<b>(in thousands)</b>	
Initial estimate, included in preliminary purchase price allocation for Formscape	\$ 913	\$ 528
Adjustments to original estimate, recorded through goodwill	(60)	39
Payments charged against the accrual	(230)	(567)
Impact of changes in foreign currency exchange rates	44	
<b>Remaining accrual at June 30, 2007</b>	<b>\$ 667</b>	<b>\$</b>

As part of the Formscape acquisition, the Company assumed certain commitments and contingencies. Accordingly, purchase consideration of approximately \$2.5 million in cash and 196,574 shares of the Company's

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common stock (valued at approximately \$1.9 million based on the Company's stock price on the date of acquisition) was placed in an escrow account to satisfy any claims that might arise against Formscape for periods prior to the Company's ownership. Absent a claim by the Company seeking recovery from the escrowed amounts, substantially all of the cash consideration and 87,245 shares of the common stock are scheduled for escrow release on October 13, 2007 with the remaining amounts scheduled for release on October 13, 2008.

### *Tranmit Plc.*

On January 24, 2006, the Company acquired all of the outstanding stock of Tranmit Plc (Tranmit). Tranmit is a UK-based company that provides Web-based purchase-to-pay automation solutions. The purchase consideration for Tranmit was approximately \$6.0 million of cash, \$4.2 million (316,970 shares) of the Company's common stock, as valued on the date of acquisition, and acquisition related costs. The Company believes the addition of Tranmit's invoice management capabilities further enhance the Company's ability to provide global organizations with comprehensive hosted, licensed and outsourced solutions for improving the overall efficiency and productivity of the accounts payable function. Tranmit operating results are included in the Company's operating results from the acquisition date forward, as a component of the Outsourced Solutions segment.

As a result of the purchase price allocation and the exchange rates in effect at the time of the acquisition, the Company recorded intangible assets of approximately \$12.5 million. The intangible assets consist of acquired customer related assets of \$3.4 million, acquired technology of \$1.5 million, a below market lease arrangement of \$84,000, and goodwill of \$7.5 million. The customer related assets, acquired technology and the below market lease are being amortized to expense over periods of five, three and two years, respectively.

### *Visibility, Inc.*

On December 31, 2005, the Company acquired all of the outstanding stock of Visibility, Inc. (Visibility), a provider of legal e-billing solutions specializing in the insurance industry. The initial purchase consideration for Visibility was \$11,500,000 in cash plus acquisition related costs. Subsequent to the payment of the initial purchase consideration, the Company recovered \$500,000 from the Visibility selling stockholders pursuant to the terms of the acquisition, and this recovery was recorded as a reduction to the amount of goodwill recorded.

Visibility complements the Company's existing Legal eXchange product and the Company believes that the acquisition will strengthen its position as a leading provider of Web-based legal spend management services. Visibility operating results are included in the Company's operating results from the acquisition date forward, as a component of the Outsourced Solutions segment.

As a result of the purchase price allocation, the Company recorded intangible assets of approximately \$11 million. The intangible assets consist of acquired customer related assets of \$6.4 million, acquired technology of \$1.6 million and goodwill of \$3.0 million. The customer related assets and acquired technology are being amortized to expense over a period of five and three years, respectively.

### *Legal e-billing Patent*

On January 25, 2006, the Company acquired a patent that addresses the process of online budgeting and evaluation of legal invoices. The purchase price for the patent was \$935,000 in cash plus acquisition related costs. Per the terms of the patent purchase the Company is obligated to make certain earn-out payments should it recover royalty payments from third parties or, beginning in fiscal 2009, should specific legal billing product revenues of the Company exceed \$12.5 million on a per annum basis. The patent costs are being amortized over the remaining legal life of the patent, which expires in June 2019.

**Table of Contents***Pro-forma Information*

The following unaudited pro-forma financial information presents the combined results of operations of the Company and Formscape as if that acquisition had occurred as of July 1, 2005 and July 1, 2006, and in respect of Visibillity and Tranmit as if those acquisitions had occurred as of July 1, 2005, after giving effect to certain adjustments such as increased amortization expense of acquired intangible assets, a decrease in interest income as a result of cash paid for the acquisitions and the dilutive effect of common stock issued by the Company in connection with the acquisitions. This pro-forma financial information does not necessarily reflect the results of operations that would have actually occurred had the Company and the acquired entities been a single entity during these periods.

	<b>Pro Forma June 30,</b>	
	<b>2006</b>	<b>2007</b>
	<b>(unaudited)</b>	
	<b>(in thousands)</b>	
Revenues	\$ 124,946	\$ 123,606
Net loss	\$ (9,565)	\$ (9,283)
Net loss per basic and diluted share	\$ (0.41)	\$ (0.39)

**4. Property, Plant and Equipment**

Property, plant and equipment consist of the following:

	<b>June 30,</b>	
	<b>2006</b>	<b>2007</b>
	<b>(in thousands)</b>	
Land	\$ 370	\$ 401
Buildings and improvements	4,202	4,274
Furniture and fixtures	1,796	1,623
Technical equipment	13,332	14,131
Software	4,754	4,227
	24,454	24,656
Less: Accumulated depreciation and amortization	17,348	16,386
	\$ 7,106	\$ 8,270

**5. Goodwill and Other Intangible Assets**

At June 30, 2007, the carrying value of the Company's goodwill was approximately \$53 million and consisted of approximately \$41.9 million, \$6.5 million and \$5.1 million allocated to the Company's Payments and Transactional Documents, Banking Solutions, and Outsourced Solutions segments, respectively. The increase in goodwill in 2007 was due to the acquisition of Formscape and an increase in foreign currency translation rates.



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The following tables set forth the information for intangible assets subject to amortization and for intangible assets not subject to amortization under SFAS 142:

	Gross Carrying	As of June 30, 2007	Net Carrying
	Amount	Accumulated Amortization (in thousands)	Value
<b>Amortized intangible assets:</b>			
Core technology	\$ 24,982	\$ (18,572)	\$ 6,410
Customer related	36,851	(13,330)	23,521
Patent	953	(100)	853
Below market lease	94	(67)	27
<b>Total</b>	<b>\$ 62,880</b>	<b>\$ (32,069)</b>	<b>\$ 30,811</b>
<b>Unamortized intangible assets:</b>			
Goodwill			53,485
<b>Total intangible assets</b>			<b>\$ 84,296</b>

	Gross Carrying	As of June 30, 2006	Net Carrying
	Amount	Accumulated Amortization (in thousands)	Value
<b>Amortized intangible assets:</b>			
Core technology	\$ 19,082	\$ (15,072)	\$ 4,010
Customer related	21,633	(6,748)	14,885
Patent	953	(30)	923
Below market lease	87	(18)	69
<b>Total</b>	<b>\$ 41,755</b>	<b>(\$ 21,868)</b>	<b>\$ 19,887</b>
<b>Unamortized intangible assets:</b>			
Goodwill			41,190
<b>Total intangible assets</b>			<b>\$ 61,077</b>

Estimated amortization expense for each of the five subsequent fiscal years and thereafter, is as follows:

	(in thousands)
2008	\$ 10,576
2009	8,807
2010	6,189
2011	3,774
2012	892
2013 and thereafter	573

**Table of Contents****6. Accrued Expenses**

Accrued expenses consist of the following:

	June 30, 2006      2007 (in thousands)	
Employee compensation and benefits	\$ 4,146	\$ 5,174
Sales and value added taxes	693	659
Professional fees	754	716
Other	3,067	1,926
	<b>\$ 8,660</b>	<b>\$ 8,475</b>

**7. Commitments and Contingencies***Leases*

The Company leases its principal office facility in Portsmouth, New Hampshire under a non-cancelable operating lease expiring in fiscal year 2012. In addition to the base term, the Company has two five-year options to extend the term of the lease. Rent payments are fixed for the term of the lease, subject to increases each year based on fluctuations in the consumer price index. The Company is additionally obligated to pay certain incremental operating expenses over the base rent.

The Company leases an office facility in Hook, England under a non-cancelable operating lease expiring in fiscal year 2009. Rent payments are fixed for the term of the lease, subject to increases each year based on fluctuations in the consumer price index. The Company is additionally obligated to pay certain incremental operating expenses in addition to the base rent.

The Company also leases office space in certain other cities worldwide. All such leases expire by fiscal year 2012.

Future minimum annual rental commitments under the Company's facilities, equipment, and vehicle leases at June 30, 2007 are as follows:

	(in thousands)	
2008	\$	3,249
2009		2,840
2010		2,054
2011		1,521
2012		1,194
	<b>\$</b>	<b>10,858</b>

Included as a component of the minimum lease commitments above is approximately \$79,000 related to capital lease obligations, of which approximately \$11,000 represented interest. At June 30, 2007, the gross value of assets recorded under capital lease arrangements was approximately \$53,000.

Rent expense charged to operations for the fiscal years ended June 30, 2005, 2006 and 2007 was \$2,761,000, \$3,059,000, and \$3,349,000 respectively. The Company subleases space in several of its offices. Sublease income recorded for the fiscal years ended June 30, 2005, 2006 and 2007 was \$165,000, \$172,000 and \$191,000, respectively.

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### *Legal Matters*

On October 19, 2004, a complaint was filed against Formscape, Inc. (Formscape), which the Company acquired in October 2006, by Cindy Bernstein, a former employee of Formscape. The complaint, which was subsequently amended, was pending in the United States District Court for the Eastern District of North Carolina, Western Division and alleged disparate treatment in violation of Title VII of the Civil Rights Act, wrongful discharge in violation of public policy, fraud, unfair and deceptive trade practices, discrimination in business, breach of contract and quantum meruit. The plaintiff sought damages for back salary, benefits and commissions as well as punitive damages, treble damages, attorney fees and costs. Formscape filed a petition for summary judgment and in January 2007 the court, in response to that petition, ruled that certain of the plaintiff's charges were invalid as a point of law.

On January 24, 2007, the parties filed a motion with the court requesting the court appoint a magistrate judge to serve as a mediator and in May 2007 the parties entered into a General Release and Settlement Agreement (the Settlement Agreement) as a result of the mediation process. Under the terms of the Settlement Agreement the Company was required to pay \$300,000 to the plaintiff, \$150,000 of which had been recorded as a liability in the preliminary purchase price allocation of the Formscape acquisition and \$150,000 of which the Company recovered from amounts held in escrow to secure the indemnification obligations of the Formscape selling stockholders under the terms of the Formscape share purchase agreement. Accordingly, no expense was recorded by the Company as a result of the Settlement.

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. The amended complaint supersedes the class action complaint filed against the Company in the United States District Court for the Southern District of New York on August 10, 2001.

The amended complaint filed in the action asserts 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 (Exchange Act). The amended complaint asserts, among other things, that the description in the Company's prospectus for its initial public offering was materially false and misleading in describing the compensation to be earned by the underwriters of the offering, and in not describing certain alleged arrangements among underwriters and initial purchasers of the Company's common stock from the underwriters. The amended complaint seeks damages (or, in the alternative, tender of the plaintiffs and the class's Bottomline common stock and rescission of their purchases of the Company's common stock purchased in the initial public offering), costs, attorneys' fees, experts' fees and other expenses.

In July 2002, Bottomline, Daniel M. McGurl and Robert A. Eberle 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. Plaintiffs opposed the motion, and the court heard oral argument on the motion in early November 2002. On February 19, 2003, the court issued an order denying the motion to dismiss as to Bottomline. In addition, in early October 2002, Daniel M. McGurl and Robert A. Eberle were dismissed from this case without prejudice. A special litigation committee of the board of directors of Bottomline authorized Bottomline to negotiate a settlement of the pending claims substantially consistent with a memorandum of understanding negotiated among class plaintiffs, all issuer defendants and their insurers. The parties have negotiated a settlement, which is subject to approval by the court. On February 15, 2005, the court issued an Opinion and Order preliminarily approving the settlement, provided that the defendants and plaintiffs agree to a modification narrowing the scope of the bar order set forth in the original settlement agreement. The parties agreed to the modification narrowing the scope of the bar order, and on August 31, 2005, the court issued an order preliminarily approving the settlement. On December 5, 2006, the United States Court of Appeals for

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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 and have informed the District Court that they would like to be heard as to whether the settlement may still be approved even if the decision of the Court of Appeals is not reversed. The District Court indicated that it would defer consideration of final approval of the settlement pending plaintiffs' request for further appellate review. On April 6, 2007, plaintiffs' Petition for Rehearing of the Second Circuit's decision was denied. As a result of the overturned class certification on June 25, 2007, the District Court signed an order terminating the settlement. The Company intends to vigorously defend itself against this amended complaint. Bottomline does not currently believe that the outcome of this proceeding will have a material adverse impact on its financial condition, results of operations or cash flows.

**8. Notes Payable and Credit Facilities**

In February 2007, the Company's subsidiary, Bottomline Europe, renewed through December 31, 2007 its Committed Overdraft Facility (Overdraft Facility), which provides for borrowings of up to 500,000 British Pound Sterling. Borrowings under this Overdraft Facility are secured by substantially all assets of Bottomline Europe, bear interest at the bank's base rate (5.5% at June 30, 2007) plus 2% and are due on the expiration date of the Overdraft Facility. There were no outstanding borrowings under this Overdraft Facility at June 30, 2007.

In April 2007, the Company renewed, through March 24, 2009, its Loan and Security Agreement (Credit Facility). The Credit Facility, as renewed, provides for aggregate borrowings of up to \$2 million and requires the Company to maintain certain financial covenants. Borrowings under the Credit Facility are secured by substantially all US-owned assets of the Company, bear interest at the bank's prime rate (8.25% at June 30, 2007) and are due on the expiration date of the Credit Facility. The Credit Facility also provides for the issuance of up to \$2 million in letters of credit for, and on behalf of, the Company. The borrowing capacity under the Credit Facility is reduced by any outstanding letters of credit. At June 30, 2007 a \$2 million letter of credit had been issued to the Company's landlord as part of the lease agreement for its corporate headquarters.

**9. Share Based Payments**

Effective July 1, 2005, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), Share Based Payment (SFAS 123R). Under SFAS 123R, the Company is required to recognize, as expense, the estimated fair value of all share based payments to employees. The Company records expense associated with its share based payment awards on a straight-line basis over the award vesting period. For the fiscal years ended June 30, 2006 and 2007, the Company recorded expense of approximately \$7.0 million and \$7.9 million respectively, in connection with its share-based payment awards.

***Share Based Compensation Plans******Employee Stock Purchase Plan***

On November 16, 2000, the Company adopted the 2000 Employee Stock Purchase Plan, which was amended on November 18, 2004 (2000 Stock Purchase Plan), and which provides for the issuance of up to a total of 1,500,000 shares of common stock to participating employees. Eligible employees may contribute between 1% and 10% of their base pay to the 2000 Stock Purchase Plan. At the end of a designated purchase period, which occurs every six months on March 31 and September 30, employees purchase shares of the Company's common stock with contributions accumulated via payroll deductions, at an amount equal to 85% of the lower of the fair market value of the common stock on the first day of each 24-month offering period or the last day of the applicable six-month purchase period.

The Company's employee stock purchase plan has several complex features that make determining fair value on the grant date impracticable. Accordingly, and as permitted by SFAS 123R, the Company measures the

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fair value of its awards under the employee stock purchase plan at intrinsic value (the value of the Company's common stock less the employee stock purchase plan exercise price) at the end of each reporting period. For the fiscal years ended June 30, 2006 and 2007, as a result of the Company's adoption of SFAS 123R, the Company recorded compensation cost of approximately \$215,000 and \$228,000, respectively, associated with its employee stock purchase plan. As a result of the employee stock purchases in fiscal years 2005, 2006 and 2007, the Company issued approximately 75,000, 58,000 and 68,000 shares of its common stock, respectively. The aggregate intrinsic value of shares issued under the employee stock plan during fiscal years 2005, 2006 and 2007 was \$328,000, \$333,000 and \$158,000, respectively. At June 30, 2007, based on employee withholdings and the Company's common stock price at that date, approximately 22,000 shares of common stock, with an approximate intrinsic value of \$96,000, would have been eligible for issuance were June 30, 2007 to have been a designated stock purchase date.

***Stock Incentive Plans******1998 Non-Employee Director Stock Option Plan***

On November 12, 1998, the Company adopted the 1998 Non-Employee Director Stock Option Plan (the Director Plan), which provided for the issuance of non-statutory stock options with a 10-year contractual term. The Company reserved up to 300,000 shares of its common stock for issuance under the Director Plan. Under the terms of the Director Plan, each non-employee director was granted an option to purchase 15,000 shares of common stock upon his or her initial election to the Board of Directors. Such options vest over four years from the date of the grant, with 25% of the award vesting at the end of each year.

Beginning February 16, 2006, the Company determined that, in lieu of stock option awards, it would now grant restricted stock awards for 8,000 shares of the Company's common stock to each non-employee director upon his or her initial election to the Board of Directors. These restricted stock awards vest over a period of four years from the date of grant, with 25% of the shares vesting on the first anniversary of the date of grant and an additional 6.25% of the shares vesting each quarter thereafter. These awards are granted under the Company's 2000 Stock Incentive Plan. There were two such awards granted during fiscal 2007 to newly appointed directors.

Additionally, until November 17, 2005, each non-employee director was granted an option to purchase 7,500 shares of common stock at each annual meeting of stockholders following the annual meeting of the initial year of their election. These options vested one year from the date of the grant. Beginning November 17, 2005, the Company determined that, in lieu of the annual stock option grants, it would now grant restricted stock awards for 3,000 shares of its common stock to each non-employee director on the date of each annual meeting of stockholders, with such awards vesting over a one year period. Accordingly, 15,000 shares of restricted stock were issued by the Company under the Company's 2000 Stock Incentive Plan in November 2006 to its non-employee directors.

Awards issued to the Company's directors are granted as compensation for their service as directors.

***2000 Employee Stock Incentive Plan***

On November 16, 2000, the Company adopted the 2000 Stock Incentive Plan (the 2000 Plan), which provides for the issuance of stock options, non-statutory stock options and restricted stock. Stock option awards under this plan have a 10-year contractual term. The 2000 Plan is administered by the Board of Directors, which has the authority to determine to whom options may be granted, the period of exercise and what other restrictions, if any, should apply. Vesting for awards granted under the 2000 Plan is principally over four years from the date of the grant, with 25% of the award vesting after one year and 6.25% of the award vesting each quarter thereafter. The Company initially reserved 1,350,000 shares of its common stock for issuance under the 2000 Plan.

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On the first day of each fiscal year, beginning in fiscal year 2001 and ending in fiscal year 2010, the number of shares of common stock authorized for issuance under the 2000 Plan will automatically increase, without additional Board or stockholder approval. The number of shares authorized for issuance will increase, when added to the remaining available shares, to total an amount equal to 12% of the number of shares of common stock outstanding on the first day of the fiscal year, or such lesser number as the Board of Directors may determine prior to such increase. The annual increase can never exceed 5,000,000 shares. Stock options issued under the 2000 Plan must be issued at an exercise price not less than 100% of the fair market value of the common stock at the date of grant.

Compensation cost associated with stock options represented approximately \$5.1 million of the total share based payment expense recorded for the fiscal year ended June 30, 2007. The stock options were valued using a Black Scholes method of valuation, and the resulting fair value is recorded as compensation cost on a straight line basis over the option vesting period. The assumptions made for purposes of estimating fair value under the Black Scholes model for options granted during the fiscal years ended June 30, 2005, 2006 and 2007 were as follows:

	2005		2006		2007	
Dividend yield	0%		0%		0%	
Expected term of options (years)	4		4.9		5.1	
Risk-free interest rate	3.48	3.81%	4.11	5.25%	4.50	5.07%
Volatility	102	107%	59	87%	48	55%

The Company's estimate of an expected option term was derived based on a review of its historic option holding periods, including a consideration of the holding period inherent in currently vested but unexercised options. The estimated stock price volatility was derived based on a review of the Company's actual historic stock prices over the past five years.

A summary of stock option and restricted stock activity for 2007 is as follows (in respect of shares available for grant, the shares are available for issuance by the Company as either a stock option or as a restricted stock award):

	Non-vested Stock			Stock Options		
	Shares Available for Grant	Weighted Average Grant Date Fair Value (in thousands, except per share data)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Awards outstanding at June 30, 2006	2,436	\$ 14.11	4,416	\$ 12.21	6.31	\$ 2,125
Additional shares reserved	1,063					
Awards granted	(1,168)	\$ 9.65	741	\$ 9.46		
Shares vested		\$ 14.07	(192)			