



# 2016

BOTTOMLINE TECHNOLOGIES



ANNUAL REPORT 2016

## To our shareholders,

During fiscal 2016, we generated record levels of revenue, core operating income and core EBITDA. We continued to focus on and drive significant increases in our subscription and transaction revenue streams which now represent the largest and fastest growing component of our revenues. We made investments focused on key strategic opportunities which we believe will help to achieve long-term growth in revenue, operating margin and shareholder value.

Fiscal 2016 subscription and transaction revenues increased to \$195 million, or 14% over the prior year. Total revenues for fiscal 2016 were \$343 million, representing 4% year over year growth. Our core EBITDA and core operating income each took steps forward to \$75 million and \$62 million, respectively. Our liquidity position remained strong with cash and marketable securities of \$132 million at June 30, 2016 and annual operating cash flow of \$67 million.

During the year we continued to invest in and focus on developing innovative, easy-to-use technology solutions that help businesses pay and get paid. Our market-leading solutions make complex and fragmented business payment processes simple, seamless and secure.

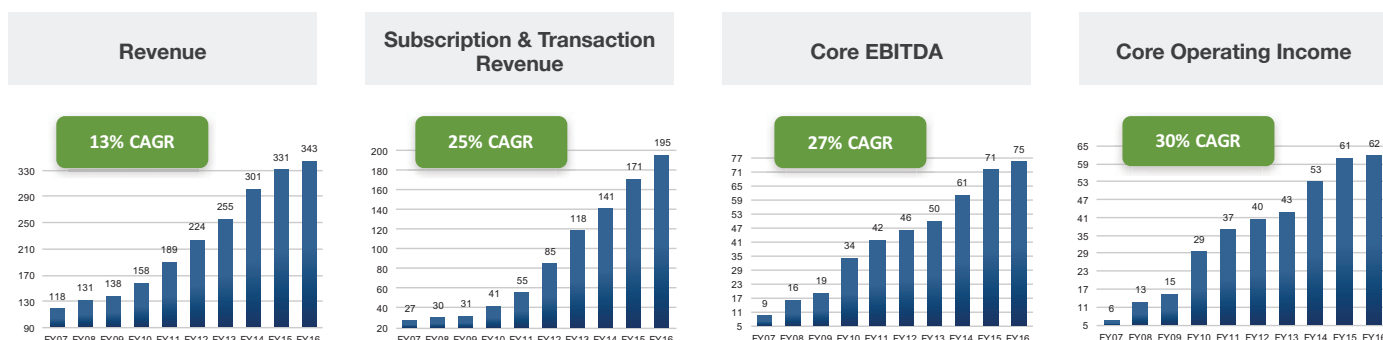
We expanded our Paymode-X solution, growing the network to over 330,000 vendors, formed an important strategic relationship with Visa and extended our channel relationships through which Paymode-X is sold and marketed. We released our next generation Digital Banking solution, an integrated cloud-based platform that includes cash management, payments, analytics and fraud management solutions. This platform has been well received in the marketplace. We continued to migrate large portions of customer opportunities to a recurring revenue structure. While this strategy impacts near term revenue growth and profitability, we remain convinced it will provide significant value to shareholders over the long term.

We enter fiscal 2017 well positioned for the future. Our innovative, cost-effective and intuitive technology solutions combined with our focus on recurring revenue gives us confidence in our ability to drive financial results and shareholder gain.

I would like to thank every customer of Bottomline for entrusting us to meet their mission critical technology needs; it remains our privilege to do so. I would like to thank every employee of Bottomline who, regardless of individual role, has personally accepted the responsibility for delighting our customers; you continue to make Bottomline a company that customers want to do business with.

Thank you, our valued shareholders, for the confidence you continue to have in Bottomline Technologies.

Robert A. Eberle  
President and Chief Executive Officer



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-K**

(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, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 0-25259

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

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)  
**325 Corporate Drive**  
**Portsmouth, New Hampshire**  
(Address of Principal Executive Offices)

**02-0433294**  
(I.R.S. Employer  
Identification No.)

**03801**  
(Zip Code)

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

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

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
Common Stock, \$.001 par value per share	The NASDAQ Global Select Market

**Securities registered pursuant to Section 12(g) of the Act: None**

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

Indicate by check mark 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer   
Non-Accelerated Filer

Accelerated Filer   
Smaller Reporting Company

(Do not check if a smaller reporting company)

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

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, 2015 was \$1,177,292,421 (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 41,043,205 shares of common stock, \$.001 par value per share, of the registrant outstanding as of August 19, 2016.

**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, 2016, a definitive proxy statement for our 2016 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.

## TABLE OF CONTENTS

<u>Item</u>		<u>Page</u>
<b>PART I</b>		
1.	Business .....	3
1A.	Risk Factors .....	12
1B.	Unresolved Staff Comments .....	24
2.	Properties .....	24
3.	Legal Proceedings .....	24
4.	Mine Safety Disclosures .....	25
	Executive Officers and Other Key Employees of the Registrant .....	25
<b>PART II</b>		
5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities .....	27
6.	Selected Financial Data .....	29
7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	30
7A.	Quantitative and Qualitative Disclosures About Market Risk .....	48
8.	Financial Statements and Supplementary Data .....	50
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	50
9A.	Controls and Procedures .....	50
9B.	Other Information .....	50
<b>PART III</b>		
10.	Directors, Executive Officers and Corporate Governance .....	51
11.	Executive Compensation .....	51
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	51
13.	Certain Relationships and Related Transactions, and Director Independence .....	51
14.	Principal Accountant Fees and Services .....	51
<b>PART IV</b>		
15.	Exhibits and Financial Statement Schedules .....	52
	Signatures .....	96

## 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 help businesses pay and get paid. We make complex business payments simple, secure and seamless by providing a trusted and easy-to-use set of cloud-based business payment, digital banking, fraud prevention, payment and financial document solutions. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer's location. The majority of our revenues are derived from offerings sold as SaaS-based solutions and paid for on a subscription and transaction basis.

We operate a cloud-based network that facilitates the exchange of electronic payments between businesses and their vendors. We offer hosted and on-premise solutions that banks use to provide payment, cash management and treasury capabilities to their business customers, as well as solutions that banks and credit unions use to facilitate customer acquisition and growth. We offer financial messaging solutions for banks and corporations around the world, via solutions that leverage the SWIFT global messaging network. We also offer legal spend management solutions that help manage and determine the right amount to pay for legal services and claims vendor expenditures for insurance companies and other large corporate 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 healthcare customers use our solutions to streamline financial processes, particularly the patient enrollment process. Our document automation solutions are used by organizations to automate paper-intensive processes for the generation of transactional and supply chain documents. We also offer comprehensive cyber fraud and risk management solutions that are designed to non-invasively monitor and analyze user behavior to flag behavioral and data anomalies and other suspicious activity.

Our solutions are designed to complement, leverage and extend our customers' existing information systems, accounting applications and banking relationships so that they can be deployed quickly and efficiently. To help our customers realize the maximum value from our products and meet their specific business requirements, we also provide professional services for installation, training, consulting and product enhancement.

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 at [www.bottomline.com](http://www.bottomline.com). Our website includes links to our Code of Business Conduct and Ethics, and the charters of our Audit Committee, Leadership Development and Compensation Committee, and Nominations and Corporate Governance Committee. We are not including the information contained on 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 practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC).

Unless the context requires otherwise, references to we, us, our, Bottomline and the Company refer to Bottomline Technologies (de), Inc. and its subsidiaries.

## **Our Strategy**

Our objective is to be the leading global provider of business payment, digital banking, cash management, invoice, document automation software and cyber fraud and risk management solutions and services. Key elements of our strategy include the following:

- providing solutions that allow businesses to make the complex and fragmented payment process simple, seamless and secure;
- providing solutions which enable banks of all sizes to offer their business customers leading cash management and treasury capabilities;
- developing innovative new technologies that will allow us to broaden our market footprint, enhance our competitive position in our current markets and capitalize on new market opportunities;
- delivering an increasingly broad set of solutions via the cloud to provide ease of deployment and efficiency for our customers and increased recurring revenue to us;
- continuing to add customers and functionality to our growing Paymode-X, legal spend management and financial messaging networks;
- providing an intuitive, easy-to-use/easy-to-navigate experience, accessible via a variety of technology platforms including mobile devices;
- attracting and retaining exceptional technical, industry and management talent who have experience in our markets and the capability to grow our business;
- continuing to develop and broaden strategic relationships that enhance our global position; and
- pursuing strategic acquisitions that expand our geographical footprint and market share or extend our product functionality.

## **Our Products and Services**

### ***Payment Network***

Paymode-X is a cloud-based payment network that operates as a digital registry to allow businesses to easily transition from paper to electronic payments, maximizing cost-savings, efficiency and security. With more than 330,000 enrolled businesses, new Paymode-X customers gain immediate benefits because many of their vendors are already part of the Paymode-X network—ready to be paid electronically on day one. Our vendor enrollment process leverages our Intelligent Engagement Model which includes predictive analytics tools and proprietary processes designed to maximize vendor adoption. As a complete payment automation solution, customers can easily optimize working capital and their payment mix by making card, ACH, wire and check payments with a single integrated payment file. We continually invest in features and services that add value and ease of use of Paymode-X, including: electronic payments and remittance delivery, online access to payment detail and reports, online payment approvals, electronic invoice delivery, and turnkey vendor enrollment and support. We partner with Visa to offer Paymode-X with Visa Payables.

### ***Digital Banking***

We offer payments, cash management and online banking solutions to financial institutions, including banks and credit unions. Our solutions enable banks of all sizes to offer their customers a host of capabilities including ACH and BACS payments, wires, international payments, check production, customer acquisition, balance and information reporting and other features that facilitate enterprise-wide cash management and interaction with their customers. Our web payment fraud module integrates with our hosted payments and cash management platforms, providing real time security monitoring and automated transaction blocking for fraudulent activity. Our solutions allow our bank customers to attract and service a full range of client segments from small

businesses to multi-nationals. These solutions feature an intuitive user interface designed to simplify all aspects of payments and cash management for customers of all sizes and sophistication, through both browser-based and mobile channels.

### ***Legal Spend Management***

Our cloud-based legal spend management solutions and services integrate 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. The 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 and other service providers, while offering insight into important legal spend factors including expense monitoring and outside counsel performance. We continue to expand the capabilities of these offerings to leverage predictive analytics to forecast claim settlement and litigation expense, facilitate the selection and retention of counsel and augment the management and budgeting of litigation matters.

### ***Cyber Fraud and Risk Management***

Our cyber fraud and risk management solutions (CFRM) non-invasively monitor, replay and analyze user behavior to flag and even stop suspicious activity in real time. The solutions are highly configurable and create accountability by recording and analyzing each application interaction and screen view, reducing the risk of theft, information leakage, internal fraud and payments fraud, as well as decreasing the cost of regulatory compliance. Case management capabilities centralize risk management, speed investigations, and facilitate compliance with regulations pertaining to Anti Money Laundering (AML), the Health Insurance Portability and Accountability Act (HIPAA), and Know Your Customer (KYC).

### ***Financial Messaging Solutions***

Our cloud-based financial messaging solutions leverage the SWIFT global messaging network to allow corporations to exchange financial information including payment instructions, cash reporting and other messages related to financial transactions with their banks and counterparties around the world. Our solutions allow banks and corporations to achieve lower costs, rapid implementation, greater security and improved risk management while avoiding costly internal infrastructure.

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

Our payment automation solutions can generate a wide variety of domestic and international payment instructions along with consolidated bank reporting of cash activity. Our web fraud and security module is designed to identify and track fraudulent activity that occurs in a customer's platform. Our solutions can reduce administrative expenses and strengthen compliance and anti-fraud controls. Users are able to gather and access data via the web related to 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 workflow and delivery, we also offer a number of solutions designed to automate a wide variety of business documents and supply chain processes as well as related web-based delivery and document archive. Our products offer advanced design, output formatting and delivery capabilities to replace paper-based forms, as well as automating the labor-intensive accounts payable processing of invoices.

### ***Healthcare Solutions***

Our solutions for patient registration, electronic signature, mobile document and payments allow healthcare organizations to improve business efficiencies, reduce costs and improve care quality. Leveraging our extensive experience optimizing document-driven processes, our solutions are utilized across the acute care hospital enterprise and broader healthcare systems, accelerating the paper-to-electronic transition while helping our customers streamline data flows.

We also extend our CFRM platform to provide privacy and data security for healthcare organizations enabling them to better protect themselves and their patients' data from the growing threat posed by the misuse of valid user credentials. Combining our healthcare domain experience with the use of user behavior analytics, profiling and a powerful risk scoring engine allows healthcare organizations to more effectively detect user behavior changes, showing the shift from appropriate use to inappropriate reconnaissance with data collection and alerting in real-time.

### ***Professional Services***

Our teams of service professionals draw on extensive experience to provide consulting, project implementation and training services to our customers. 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.

### **Our Customers**

Our customers are in diverse industries including financial services, insurance, healthcare, technology, retail, communications, education, media, manufacturing and government. Our customers include leading organizations such as Bank of America Merrill Lynch, BBVA Compass, British Airways, Catholic Health Initiatives, Cedars-Sinai Medical Center, Cigna Corporation, Franklin Templeton, Fidelity, Lloyds Bank, Capital One, Deere and Company, Target Corporation, Johnson Controls, Inc., State Farm Insurance, Sutter Health, Vodafone and Zurich American Insurance Company.

### **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:

- our ability to develop new, innovative technology solutions that meet the evolving needs of our customers and the shifting dynamics of the markets we participate in;
- our ability to attract and retain employees with the requisite domain knowledge and technical skill set necessary to develop and support our products;
- the performance, reliability, features, ease-of-use and price of our offerings as compared to competitor alternatives;
- our industry knowledge and expertise;
- the execution of our sales and services organizations; and
- the timing and market acceptance of new products as well as enhancements to existing products, by us and by our current and future competitors.

For our Paymode-X solutions, our principal competitors include AvidXchange, American Express and Wells Fargo in addition to ACH capabilities offered by banks.

For our digital banking payments and cash management solutions, we primarily compete with companies such as ACI Worldwide, Fiserv, FIS, Q2, Jack Henry, Backbase, Digital Insight, Online Banking Solutions, Infosys, D+H Corporation, MeridianLink, nCino, Bill.com, IBM, SAP, Oracle, Polaris, Avoka, Intellect Design Arena, Wipro and Patni, that offer a wide range of financial services, including electronic banking applications. We also encounter competition in our digital banking customer acquisition offerings from MeridianLink and D+H Corporation.

For our legal spend management solutions, we compete with a number of companies, including Wolters Kluwer ELM Solutions, LexisNexis and Computer Sciences Corporation (CSC).



Our cyber fraud and risk management products compete with NICE Actimize, Norkom-Deitca, SAS, Guardian Analytics and FairWarning, among others.

For our financial messaging solutions, our principal competitors are D+H Corporation, Eastnets, SunGard and SWIFT.

For our healthcare solutions, our primary competitors are Access, FairWarning, FormFast, Iatric Systems and Standard Register.

Our payment and document automation products compete primarily with products from companies that provide solutions to create, publish, manage and archive electronic documents and companies that offer payments software and services. Our products also compete with companies that provide a diverse array of accounts payable automation and workflow capabilities. We also compete with providers of enterprise resource planning (ERP) 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 service providers.

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 Segments**

Operating segments are the components of our business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our chief executive officer. Our operating segments are generally organized by the type of product or service offered and by geography.

During the fiscal year ended June 30, 2016, we re-examined the aggregation of our operating segments and reclassified our cyber fraud and risk management and healthcare operating segments from the “Payments and Transactional Documents” reportable segment into the new “Other” reportable segment. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

Similar operating segments have been aggregated into four reportable segments as follows:

*Payments and Transactional Documents.* Our Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also includes our payments automation software for direct debit and receivables management and provides a range of standard professional services and equipment and supplies that complement and enhance our core software products. Revenue associated with the aforementioned products and services is typically recorded upon delivery. This segment also incorporates certain other solutions that are licensed on a subscription basis, revenue for which is typically recorded on a subscription or transaction basis, or ratably over the expected life of the customer relationship.

*Hosted Solutions.* Our Hosted Solutions segment provides customers predominately with SaaS technology offerings that facilitate electronic payment, electronic invoicing, and spend management. Our legal spend management solutions, which enable customers to create more efficient processes for managing invoices generated by outside law firms while offering insight into important legal spend factors such as expense monitoring and outside counsel performance, are included within this segment. This segment also incorporates our global financial messaging and Paymode-X solutions. Revenue within this segment is generally recognized on a subscription or transaction basis or ratably over the estimated life of the customer relationship.

*Digital Banking.* Our Digital Banking segment provides solutions to banking and financial institution customers. Our Digital Banking products are now sold almost entirely on a subscription basis which has the effect of contributing to recurring subscription and transaction revenue and the revenue predictability of future periods, but which also delays revenue recognition over a longer period.

*Other.* Our Other segment consists of our healthcare and cyber fraud and risk management operating segments. Our cyber fraud and risk management solutions non-invasively monitor, replay and analyze user behavior to flag and even stop suspicious activity in real time. Our healthcare solutions for patient registration, electronic signature, mobile document and payments allow healthcare organizations to improve business efficiencies, reduce costs and improve care quality. When licensed on a perpetual license basis, revenue for our cyber fraud and risk management and healthcare products is typically recorded upon delivery, with the exception of software maintenance which is normally recorded ratably over a twelve month period. When products are licensed on a subscription basis, revenue is normally recorded ratably over the subscription period.

Periodically a sales person in one operating segment will sell products and services that are typically sold within a different operating segment. In such cases, the transaction is generally recorded by the operating segment to which the sales person is assigned. Accordingly, segment results can include the results of transactions that have been allocated to a specific segment based on the contributing sales resources, rather than the nature of the product or service. Conversely, a transaction can be recorded by the operating segment primarily responsible for delivery to the customer, even if the sales person is assigned to a different operating segment.

Our chief operating decision maker assesses segment performance based on a variety of factors that normally include segment revenue and a segment measure of profit or loss. Each segment's measure of profit or loss is on a pre-tax basis and excludes stock compensation expense, acquisition and integration related expenses (including acquisition related contingent consideration), amortization of acquired intangible assets, restructuring related charges, minimum pension liability adjustments, non-core charges related to our convertible notes, global ERP system implementation costs, charges related to reserves established or released against our deferred tax assets and other non-core or non-recurring gains and losses that arise from time to time. There are no inter-segment sales; accordingly, the measure of segment revenue and profit or loss reflects only revenues from external customers. The costs of certain corporate level expenses, primarily general and administrative expenses, are allocated to our operating segments based on a percentage of the segment's revenues.

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

The following represents a summary of our reportable segments.

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands)		
Segment revenue:			
Payments and Transactional Documents .....	\$115,213	\$116,685	\$118,098
Hosted Solutions .....	138,641	126,178	107,360
Digital Banking .....	70,747	77,184	67,769
Other .....	18,673	10,842	7,358
Total segment revenue .....	<u>\$343,274</u>	<u>\$330,889</u>	<u>\$300,585</u>
Segment measure of profit:			
Payments and Transactional Documents .....	\$ 34,225	\$ 36,010	\$ 37,249
Hosted Solutions .....	23,380	15,329	8,344
Digital Banking .....	5,696	12,440	7,045
Other .....	(1,795)	(2,870)	212
Total measure of segment profit .....	<u>\$ 61,506</u>	<u>\$ 60,909</u>	<u>\$ 52,850</u>

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(in thousands)		
Total measure of segment profit	\$ 61,506	\$ 60,909	\$ 52,850
Less:			
Amortization of acquired intangible assets	(28,978)	(30,383)	(26,242)
Stock-based compensation expense	(30,279)	(27,025)	(22,821)
Acquisition and integration related expenses	(741)	(2,835)	(4,563)
Restructuring expenses	(850)	(1,297)	(1,371)
Minimum pension liability and related adjustments	(203)	(56)	(331)
Other non-core income (expense)	246	(76)	—
Global ERP system implementation costs	(4,252)	—	—
Other expense, net	(15,312)	(15,553)	(14,544)
Loss before income taxes	<u>\$(18,863)</u>	<u>\$(16,316)</u>	<u>\$(17,022)</u>

### Financial Information About Geographic Areas

We have presented geographic information about our revenues below. This presentation allocates revenue based on the point of sale, not the location of the customer. Accordingly, we derive revenues from geographic locations based on the location of the customer that would vary from the geographic areas listed here; particularly with respect to financial institution customers located in Australia for which the point of sale was the United States and customers located in Africa for which the point of sale was Israel.

	Fiscal Year Ended June 30,					
	2016		2015		2014	
	(in thousands)					
North America	\$199,765	58.2%	\$193,286	58.4%	\$171,641	57.1%
United Kingdom	96,244	28.0%	93,735	28.3%	96,719	32.2%
Continental Europe	38,849	11.3%	38,053	11.5%	29,047	9.7%
Asia-Pacific and Middle East	8,416	2.5%	5,815	1.8%	3,178	1.0%
Total revenues from unaffiliated customers	<u>\$343,274</u>	<u>100.0%</u>	<u>\$330,889</u>	<u>100.0%</u>	<u>\$300,585</u>	<u>100.0%</u>

Long-lived assets, excluding deferred tax assets and intangible assets, which are based on geographical location, were as follows:

	Fiscal Year Ended June 30,	
	2016	2015
	(in thousands)	
Long-lived assets:		
North America	\$56,885	\$45,350
United Kingdom	8,499	8,573
Continental Europe	1,924	2,390
Asia-Pacific and Middle East	2,080	2,280
Total long-lived assets	<u>\$69,388</u>	<u>\$58,593</u>

A significant percentage of our revenues are 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. We do not currently hedge against exchange rate fluctuations. 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, 2016, we employed 334 sales and marketing employees worldwide, of whom 204 were focused on North American markets, 113 were focused on the United Kingdom and continental Europe markets and 17 were focused on Asia-Pacific and Middle East markets. We market and sell our products directly through our sales force 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 the United Kingdom and continental Europe. We also maintain an inside sales group which provides a cost effective channel into maintaining existing customers and expanding our customer base.

## **Product Development and Engineering**

Our product development and engineering organization includes employees as well as strategic development partners who provide a flexible supplement to our internal resources. We have three primary development groups: product design and user experience, software engineering, and quality assurance. We expensed \$47.4 million, \$47.2 million, and \$39.7 million in product development and engineering costs in fiscal years 2016, 2015 and 2014, respectively.

Our product design and user experience team is extensively involved in the design of all of our products, driving the user-centered design process to ensure elegant, engaging, and easy-to-use products. Part of this process is user experience testing that is conducted to provide additional productivity gains for the end user.

Our software engineers have substantial experience in advanced software development techniques as well as extensive knowledge of the complex processes involved in business document workflow, cash management, payment, and invoicing applications. 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 extendibility and scalability of our products. Security, control and fraud prevention, as well as performance, data management and resource efficiencies 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. The quality assurance team participates in all phases of our product development processes. Members of the quality assurance group make use of both manual and automated software testing techniques to ensure high-quality software is being delivered to our customers. The quality assurance group members participate in alpha and beta releases, testing of new product releases, and performance and security testing for our products.

## **Backlog**

At the end of fiscal year 2016, our backlog was \$215.6 million, including deferred revenues of \$93.4 million. At the end of the fiscal year ended June 30, 2015, our backlog was \$153.9 million, including deferred revenues of \$88.0 million. We do not believe that backlog is a meaningful indicator of revenues that can be expected for any future 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 use a combination of patents, copyrights, trademarks and trade secret laws to help establish and protect our proprietary rights in our technology and products. During fiscal year 2016, we did not add any newly issued patents to our portfolio. In total, we currently hold 27 US patents as well as nine foreign equivalent patents in Europe, Israel and India. We expect to receive other patents, as we have more than 20 applications pending before the US Patent and Trademark Office. Two of our patents expired in July 2015 and the earliest year of expiration of any of our remaining patents is 2019.

We intend to continue to file patent applications as we identify patentable technology. There can be no assurance, however, that our existing patent applications, or any others that we may file 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 help 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 are 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**

Our US-based banking and financial institution customers are typically regulated by the Federal Financial Institutions Examination Council (FFIEC) or one or more of their member agencies, which include the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the National Credit Union Association. Our non US-based banking and financial institution customers are normally subject to a similar regulatory oversight in their country of domicile. We are subject to periodic examination by the FFIEC in our capacity as a technical service provider, during which our operating practices are risk-assessed and compared against applicable laws and regulations. If we, as part of such an examination, were to receive a sufficiently unfavorable review from the FFIEC, our customers may be advised by the regulators to reassess their commercial relationships with us, including the continued use of our products.

Each of our operating segments provides services or products that may be subject to various federal, state or foreign laws or regulations, particularly in the area of data security and privacy. These laws and regulations govern the collection, processing, storage, use and disclosure of personal information as well as notification requirements in the event of security breaches. The legal and regulatory framework in these areas is complex and continually evolving, particularly with respect to data security, payment technology and payment methodologies. We may become subject to new or increased regulation in the future, and the cost of complying with current or future regulatory requirements could exceed our estimates. Our products and services must be designed to work effectively within this legal framework.

## **Employees**

As of June 30, 2016, we had approximately 1,600 full-time employees. 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 continued 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 us. Additional risks and uncertainties may also impact 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.*

### **Risks Related To Owning Our Common Stock**

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

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

- general and industry-specific business, economic and market conditions;
- changes in or our failure to meet analysts' or investors' estimates or expectations;
- actual or anticipated fluctuations in our operating results;
- public announcements concerning us, our competitors or our industry;
- acquisitions, divestitures, strategic partnerships, joint ventures, or capital commitments by us or our competitors;
- adverse developments in patent or other proprietary rights; and
- announcements of technological innovations by our competitors.

#### **If our revenues are below anticipated levels or if our operating results are below analyst or investor expectations, the market price of our common stock could be adversely affected**

A significant percentage of our expenses, particularly personnel and facilities costs, are relatively fixed and based in part on anticipated revenue levels which can be difficult to predict. A decline in revenues without a corresponding and timely slowdown in expense growth could adversely 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:

- a change in customer demand for our products, which is highly dependent on our ability to continue to offer innovative technology solutions in very competitive markets;
- overall economic conditions, which may affect our customers' and potential customers' budgets for information technology expenditures;
- foreign exchange rate volatility, which can have a significant effect on our total revenues and costs when our foreign operations are translated to US dollars;
- the timing of customer orders;
- 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.

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

The gross margins for our products and services vary considerably. Our software license revenues generally yield significantly higher gross margins than do our subscriptions and transactions, service and maintenance and other revenue streams. If software license revenues or our recurring revenues significantly decline in any future period, 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.

**Risks Related To Our Business**

**The voting result of the Referendum of the United Kingdom’s Membership of the European Union (EU) (referred to as Brexit), advising for the exit of the United Kingdom (UK) from the European Union, could cause disruptions to and create uncertainty surrounding our business, including affecting our relationships with our existing and future customers, suppliers and employees, which could have an adverse effect on our business, financial results and operations.**

As a result of the Referendum, it is expected that the British government will begin negotiations to determine the future terms of the UK’s relationship with the EU, including the terms of trade between the UK and the EU. The ultimate effects of Brexit will depend on any agreements the UK makes to retain access to EU markets either during a transitional period or more permanently. The measures could potentially disrupt the markets we serve and the tax jurisdictions in which we operate, adversely change tax benefits or liabilities in these or other jurisdictions, and may cause us to lose customers, suppliers, and employees in the UK and other countries. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate.

The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the US dollar against foreign currencies in which we conduct business, particularly the British Pound Sterling which decreased to the lowest exchange levels seen since 1985. Any strengthening of the US dollar relative to other foreign currencies affects our results of operations in a number of ways, including:

- Our international sales are predominately denominated in currencies other than US dollars. A decrease of foreign currency exchanges rates will have the effect of decreasing our overall revenues upon translation to US dollars;
- Any significant devaluation of foreign currencies may impact the purchasing power of our customers and potential customers and could affect the demand for our products; and
- EU member countries could make it more difficult for our UK subsidiary or us to trade effectively or competitively in those regions.

The announcement of Brexit may also create global economic uncertainty or consequences that are not yet clear given the unprecedented nature of the event.

**The markets in which we compete are extremely competitive and we may not be able to compete effectively**

The markets in which we compete are intensely competitive and characterized by rapid technological change. There is no assurance that we will be able to maintain our current market share or our customer base.

We compete with a wide range of companies ranging from small start-up enterprises with limited resources, which we compete with principally on the basis of technology features or specific customer relationships, to large companies which can leverage significantly larger customer bases and greater financial resources. Many of our competitors have longer operating histories, significantly greater financial, technical, and sales and marketing resources, greater brand recognition and a larger customer base than we do. We anticipate that the markets in which we compete will continue to attract new competitors and new technologies and we may not be able to compete successfully with them.

To compete successfully, we need to maintain a successful research and development function. If we fail to enhance our current products and develop new, innovative solutions or if we fail to bring new solutions to market quickly enough, our products could become less competitive or obsolete.

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

Given the highly competitive and rapidly evolving technology environment we operate within, we believe that it is important to constantly enhance our existing product offerings as well as to develop new product offerings to meet strategic opportunities as they evolve. This includes developing and enhancing our products to include what we believe is necessary to meet the future needs of our customers.

Our operating results have been affected by increases in product development expenses in recent years as we have continued to make investments in a number of our products, and as we have funded new product development based on market opportunities. We expect to continue to make these investments and we may at any time, based on product need or marketplace demand, decide to significantly increase our product development expenditures in these or other products.

Investments in existing products and new product offerings can have a negative impact on our operating results and any new product enhancement or offering may not be accepted in the marketplace or generate material revenues for us.

**Acquisitions could disrupt our business and harm our financial condition**

An active acquisition program is an important element of our corporate strategy. We have been a highly acquisitive company historically, and we expect to continue to make acquisitions in the future. Any acquisition or strategic investment we have made or may make in the future may entail numerous risks, including the following:

- difficulties integrating acquired operations, personnel, technologies or products;
- entrance into markets and operating geographies in which we have no or limited prior experience or knowledge;
- failure to realize anticipated revenue increases for any number of reasons, including if a larger than expected number of acquired customers decline to renew software maintenance contracts or subscription based contracts, if we are unsuccessful in selling the acquired products into our existing customer base or if the terms of the acquired contracts do not permit us to recognize revenue on a timely basis;
- costs incurred to combine the operations of companies we acquire, such as integrations costs, transitional employee expenses and employee retention or relocation expenses may be higher than expected;
- write-offs related to existing or acquired assets such as deferred tax assets, goodwill or other intangible assets;



- inability to retain key personnel of the acquired company;
- inadequacy of existing operating, financial and management information systems to support the combined organization, including the difficulty in integrating an acquired company's accounting, financial reporting and other administrative systems to permit effective management;
- difficulties implementing controls, procedures and policies appropriate for a public company at companies that, prior to the acquisition, may have lacked such controls, policies and procedures;
- in the case of foreign acquisitions, challenges integrating operations across different cultures and languages and addressing the particular regulatory, economic, currency and political risks associated with different countries or regions;
- diversion of management's focus from our core business concerns;
- dilution to existing stockholders and our earnings per share;
- incurrence of substantial debt;
- exposure to litigation from third parties, including claims related to intellectual property or other assets acquired or liabilities assumed; and
- failure to realize anticipated benefits of the transaction due to the above factors or other factors.

Any such difficulties encountered as a result of any merger, acquisition or strategic investment could have a material adverse effect on our business, operating results and financial condition.

**As a result of our acquisitions, we could be subject to significant future write-offs with respect to intangible assets, which may adversely affect our future operating results**

The carrying value of our intangible assets, including goodwill, represents a significant portion of our total assets. We periodically review our goodwill and our other intangible assets for impairment and could, in any future period, be subject to impairment charges with respect to these assets or intangible assets arising as a result of acquisitions in future periods. Any such charges, to the extent occurring, would likely have a material adverse effect on our operating results.

**The failure of our cyber fraud and risk management products to prevent a security breach or detect a cyber fraud, or the failure of our customers to take action based on the risks identified by these products could harm our reputation and adversely impact our operating results**

Our cyber fraud and risk management products provide our customers the ability to configure a multitude of settings and establish certain rule-based alerts and it is possible that a customer could misconfigure these products or fail to configure these products in an optimal manner, which could cause threats to go undetected. Similarly, if our cyber fraud and risk management products detect threats or otherwise alert a customer to suspicious activity but the customer does not take action to investigate those threats or alerts, customers may erroneously believe that our products were not effective.

Any real or perceived defects, errors or vulnerabilities in our cyber fraud and risk management products or any failure of these products to prevent, detect or alert a customer to a threat could result in:

- a loss of customers or potential customers;
- delayed or lost revenue and harm to our financial condition and results or operations;
- a delay in attaining, or the failure to attain, market acceptance for our cyber fraud and risk management solutions;
- an increase in warranty claims;

- harm to our reputation;
- litigation, regulatory inquiries, or investigations that may be expensive and that would further harm our reputation.

**Weakness or deterioration in domestic and global economic conditions could have a significant adverse impact on our business, financial condition and operating results**

Our business, financial condition and operating results are significantly affected by general economic conditions. The US and global economies have experienced deterioration in the recent past and prospects for sustained economic recovery remain uncertain. Prolonged economic weakness or any further downturn in the US and global economies could result in a variety of risks to our business, including:

- increased volatility in our stock price;
- increased volatility in foreign currency exchange rates;
- delays in, or curtailment of, purchasing decisions by our customers or potential customers either as a result of continuing economic uncertainty or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives;
- pricing pressures for our products and services, including reductions in the duration or renewal rates for our subscription contracts and software maintenance contracts;
- increased credit risk associated with our customers or potential customers, particularly those that may operate in industries or geographic regions most affected by the economic downturn; and
- impairment of our goodwill or other assets.

To the extent that economic conditions remain uncertain or deteriorate, or any of the above risks occur, our business and operating results could be significantly and 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. As is the case with most international operations, the success and profitability of these operations are subject to numerous risks and uncertainties that include, in addition to the risks our business as a whole faces, the following:

- currency exchange rate fluctuations, particularly with the British Pound Sterling, the Swiss Franc, the European Euro, the Israeli Shekel and the Australian Dollar;
- difficulties and costs of staffing and managing foreign operations;
- differing regulatory and industry standards and certification requirements;
- the complexities of tax laws in foreign jurisdictions;
- the complexities of foreign data privacy laws and regulations;
- reduced protection for intellectual property rights in some countries; and
- import or export licensing requirements.

**We are subject to the political, economic and security conditions in Israel**

In January 2015 we acquired Intellinx, Ltd. (Intellinx), which is headquartered in Tel Aviv, Israel. Since the establishment of the State of Israel, a number of armed conflicts have taken place between Israel and its neighbors. During the past several years, Israel has experienced periodic armed conflicts which have involved missile strikes into Israel and which at times have disrupted day-to-day civilian activity in Israel.

There can be no assurance that future attacks will not occur and that such attacks will not hit our premises or major infrastructure and transport facilities in the country, which could have an adverse effect on our ability to conduct business in Israel. In addition, acts of terrorism, armed conflicts or political instability in the region could negatively affect global as well as local economic conditions and adversely impact our operating results.

### **Our business and operating results are subject to fluctuations in foreign currency exchange rates**

We conduct a substantial portion of our operations outside of the US, principally in the United Kingdom and in continental Europe and, to a lesser extent, in the Asia-Pacific and Middle East regions. During the twelve months ended June 30, 2016, approximately 42% of our revenues and 44% of our operating expenses were attributable to customers or operations located outside of North America. During the twelve months ended June 30, 2016 as compared to the twelve months ended June 30, 2015, the foreign currency exchange rates of the British Pound Sterling to the US Dollar decreased. Future appreciation of the US Dollar against the British Pound Sterling, Swiss Franc, European Euro or Australian Dollar will have the impact of reducing both our revenues and operating expenses associated with our operations in those regions.

### **We may have larger than anticipated tax liabilities**

The determination of our provision for income taxes requires significant judgment and estimation and there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to tax in multiple US and foreign tax jurisdictions and the determination of our tax liability is always subject to audit and review by the applicable domestic or foreign taxing authority. In light of fiscal challenges in US federal and state governments and in many international locations, taxing authorities are increasingly focused on ways to increase revenues which may make resolving tax disputes more difficult. While we have established tax reserves using assumptions and estimates that we believe to be reasonable, these reserves may prove insufficient in the event that a taxing authority asserts a tax position that is contrary to our position.

### **A significant percentage of our revenues to date have come from our payment and document management offerings and our future performance will depend on continued market acceptance of these solutions**

A significant percentage of our revenues to date have come from the license and maintenance of our payment and document management offerings and sales of associated products and services. Any significant reduction in demand for our payment and document management offerings could have a material adverse effect on our business, operating results and financial condition. Our future performance could depend on the following factors:

- retaining and expanding our software maintenance and subscriptions and transactions customer bases, which are significant sources of our recurring revenue;
- continued market acceptance of our payment and document management offerings;
- our ability to demonstrate the value of our solutions as compared to solutions from other vendors such as enterprise resource planning software vendors that offer a broader enterprise application solution; and
- our ability to introduce enhancements to meet the market's evolving needs for secure payments and cash management solutions.

### **Our future financial results will be affected by our success in selling our products in a subscription and transaction model, which carries with it certain risks**

A substantial portion of our revenues and profitability were historically generated from perpetual software license revenues; however, we are offering a growing number of our products, including our newer cyber fraud and risk management products, under a subscription and transaction based revenue model. We believe a

subscription based revenue model has certain advantages over a perpetual license model, including better predictability of revenue; however, it also presents a number of risks to us, including the following:

- arrangements entered into on a subscription basis generally delay the timing of revenue recognition and can require the incurrence of up-front costs, which may be significant;
- subscription based revenue arrangements often include specific performance requirements or service levels that we may be unable to consistently achieve, subjecting us to penalties or other costs. A material breach of these arrangements by us, such as a persistent failure to achieve required service levels, might permit the customer to exit the contract prior to its expiration, without additional compensation to us;
- customer retention is critical to our future growth rates. Customers in a subscription arrangement may elect not to renew their contract upon expiration, or they may attempt to renegotiate pricing or other contractual terms at the point of (or prior to) renewal on terms that are less favorable to us; and
- there is no assurance that the solutions we offer on a subscription basis, including new revenue models or new products that we may introduce, will receive broad marketplace acceptance.

**Because we recognize subscription revenue from our customers over the term of their agreements, downturns or upturns in sales of our subscription based offerings will not be immediately reflected in our operating results and may adversely affect revenue in the future**

We recognize subscription revenue over the term of our customer agreements. As a result, most of our subscription revenue arises from agreements entered into during previous periods. A shortfall in orders for our subscription based solutions in any one period would most likely not significantly reduce our subscription revenue for that period, but could adversely affect revenue in future periods. In addition, we may be unable to quickly reduce our cost structure in response to a decrease in these orders. Accordingly, the effect of downturns in sales of our subscription based solutions will not be fully reflected in our operating results until future periods. A subscription revenue model also makes it difficult for us to rapidly increase our revenue through additional subscription sales in any one period, as revenue is generally recognized over the applicable customer term.

**Large and complex customer contracts, or contracts that involve the delivery of services over contractually committed periods, can 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**

Large and complex customer contracts can delay the timing of our revenue recognition. These arrangements require significant implementation work, product customization and modification, systems integration and user acceptance testing. This results in the recognition of revenue over the period of project completion which normally spans several quarters. Delays in revenue recognition on these contracts, including delays that result from customer decisions to halt or slow down a long-term project due to their own staffing or other challenges, could adversely affect our operating results, financial condition and the market price of our common stock. Large customer opportunities are very competitive and take significant time and effort to consummate. When competing for these customer opportunities, we face greater sales costs, longer sales cycles and less predictability with respect to these orders than with orders in other areas of our business. If we are unable to continue to generate new large orders on a regular basis, our business operating results and financial condition could be adversely affected.

**If our products and services do not comply with laws, regulations and industry standards to which we and our customers are subject, our business could be adversely affected**

Our software products and SaaS offerings facilitate the transmission of cash, business documents and confidential information including, in some cases, personally identifiable information related to individuals and corporations. Our software products and certain of our SaaS offerings store and transmit this data electronically,

and therefore our products must operate within the laws, regulations and industry standards regarding security, data protection and electronic commerce. While we believe that our products comply with current regulatory requirements, the interpretation and application of these requirements continues to evolve and may evolve in ways that we cannot predict; so there can be no assurance that future legal or regulatory actions will not adversely impact us. To the extent that current or future regulatory or legal developments mandate a change in any of our products or services, require us or our customers to comply with any industry specific licensing or compliance requirements, alter the demand for or the competitive environment of our products and services or require us to make material changes to how we operate our business, including any changes to our internal operating, financial or management information systems, we might not be able to respond to such requirements in a timely or cost effective manner. If this were to occur, our business, operating results and financial condition could be materially adversely affected.

### **Security or data breaches could have an adverse effect on our business**

In the course of providing services to our customers, we collect, store, process and transmit highly sensitive and confidential information. Certain of our solutions also facilitate the actual transfer of cash or transmit instructions that initiate cash transfer. Our products and services, particularly our SaaS and Web-based offerings, may be vulnerable to unauthorized access, computer viruses, cyber-attacks, distributed denial of service attacks and other disruptive problems which could result in the theft, destruction or misappropriation of confidential information. Security risks in recent years have increased significantly given the increased sophistication and activities of hackers, organized crime and other external parties. We may need to spend significant capital or allocate significant resources to ensure effective ongoing protection against the threat of security breaches or to address security related concerns. Despite our efforts, a security breach or computer virus could still occur which could have a significant negative impact on our business, including reputational harm, the loss of customers and material financial liability to us.

### **Defects or disruptions in our products or services could diminish demand for our solutions and have a material adverse effect on our future financial results**

Our software products are complex. Despite testing prior to their release and throughout the lifecycle of a product or service, software and SaaS offerings can contain undetected errors or defects that can impact their function, performance and security. Any unanticipated performance problems or defects in our products or services could result in additional development costs, diversion of technical and other resources from our other development efforts, service disruptions for our SaaS offerings, negative publicity and reputational harm to us and our products and exposure to potential liability claims. As a result, any error or defect in our products or services could adversely affect our future financial results.

### **We rely on certain third-party hardware and software which could cause errors, interruptions or failures to our solutions or be difficult to replace**

We rely on third party hardware and software to deliver certain of our solutions. These third party products may not continue to be available to us on commercially reasonable terms, or at all. The loss of the right to use any of these products could result in delays in our ability to provide our solutions until equivalent technology is either developed by us or acquired from another third party, if available, which may not be possible on a cost effective basis. In addition, errors or defects in third-party products used in conjunction with our solutions could adversely affect the operation of our products.

### **Catastrophic events may disrupt our business, including our third party data centers**

We are a highly automated business and we rely on our network infrastructure, various software applications and many internal technology systems and data networks for our customer support, development, sales and marketing and accounting and finance functions. Further, our SaaS offerings provide services to our

customers from third party data center facilities in different US and international locations over which we have no control. A disruption or failure of these systems or data centers in the event of a natural disaster, telecommunications failure, power outage, cyber-attack, war, terrorist attack, or other catastrophic event could cause system interruptions, reputational harm, delays in product development, breaches of data security and loss of critical data. Such an event could also prevent us from fulfilling customer orders or maintaining certain service level requirements, particularly in respect of our SaaS and hosted offerings. While we have developed certain disaster recovery plans and maintain backup systems to reduce the potentially adverse effect of such events, a catastrophic event that resulted in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our business, operating results and financial condition could be adversely affected.

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

Our product agreements typically contain provisions that afford customers a degree of warranty protection in the event that our products fail to conform to written specifications. These agreements normally contain provisions intended to limit the nature and extent of our risk of warranty and product liability claims. A court, however, might interpret these terms in a limited way or conclude that part or all of these terms are unenforceable. Furthermore, some of our agreements are governed by non-US law and there is a risk that foreign law might provide us less or different protection. While we maintain general liability insurance, including coverage for errors and omissions, we cannot be sure that our existing coverage will continue to be available on reasonable terms or will be available in amounts sufficient to cover one or more large claims.

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 harm our reputation, result in substantial financial costs or divert management's attention, which could have an adverse effect on our business, operating results and financial condition.

### **We could be adversely affected if we are unable to protect our proprietary technology and could be subject to litigation regarding intellectual property rights, which could cause serious harm to our business**

We rely upon a combination of patent, copyright and trademark laws and non-disclosure and other intellectual property contractual arrangements to protect our proprietary rights. However, there is no assurance 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 for our technology or any commercial advantage to us. Further, we cannot be certain that our 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 is no assurance that such rights will remain protected or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights.

Litigation involving patents and other intellectual property rights is common in the United States and in other countries where we operate. We may be a party to litigation in the future to protect our intellectual property rights or as a result of an alleged infringement of the intellectual property rights of others. Any such claims, whether or not meritorious, could result in reputational harm to us, require us to spend significant sums in litigation costs or damages, delay product implementations, or require us to develop non-infringing intellectual property or acquire licenses to intellectual property that is the subject of the infringement claim. In addition, under many of our customer contracts, we are required to indemnify our customers for third-party intellectual property infringement claims, which would increase the costs to us of any such claims. These claims could have a material adverse effect on our business, operating results and financial condition.

**Our ability to attract and retain qualified employees is critical to the success of our business and failure to do so could adversely affect our operating results**

Our success depends upon the efforts and abilities of our executive officers and technical and sales employees who are skilled in e-commerce, payment methodology and regulation, business banking technologies, and web, database and network technologies. Our success and future growth depends to a significant degree on the skills and continued services of our management team. Our current key employees and employees whom we seek to hire in order to support our growth are in high demand within the marketplace and many competitors, customers and industry organizations are able to offer considerably higher compensation packages than we currently provide, including base salary, bonus and equity incentives. The loss of one or more of our key employees or our failure to consistently attract and retain sufficient qualified employees to grow our operations could have a material adverse effect on our business. We do not maintain key man life insurance policies on any of our employees and our employees are generally free to terminate their employment with us at any time. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, operating results and financial condition.

**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 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 including:

- 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;
- misappropriation of intellectual property, 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.

**Changes in financial accounting standards may cause unexpected financial reporting fluctuations and affect our reported results of operations**

Changes in accounting standards or practices could adversely affect our reported results of operations. New accounting pronouncements, such as the upcoming changes in US GAAP related to revenue recognition, accounting for lease arrangements and accounting for share-based compensation arrangements, and varying interpretations of accounting pronouncements, have occurred and will occur in the future. Changes to existing accounting rules or practices may adversely affect our reported results of operations or the way we conduct our business in future periods.

**If we fail to maintain appropriate and effective internal control over financial reporting, our ability to produce accurate and timely financial statements could be impaired, which could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price**

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that we re-

evaluate regularly. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. However, despite our efforts, any failure to maintain or implement the necessary internal controls could cause us to fail to meet our financial reporting obligations or result in misstatements in our financial statements, either of which could cause investors to lose confidence in our reported financial information and lead to a decline in the trading price of our common stock.

### **Certain anti-takeover provisions contained in our charter and under Delaware law could hinder a takeover attempt**

We are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware prohibiting, under some circumstances, publicly-held Delaware corporations from engaging in business combinations with some stockholders for a specified period of time without the approval of the holders of substantially all of our outstanding voting stock. Such provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial, in the short term, to the interests of our stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation and bylaws contain provisions relating to the limitation of liability and indemnification of our directors and officers, dividing our board of directors into three classes of directors serving three-year terms and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders.

### **Risks Related to our Indebtedness**

In December 2012, we issued, at par value, \$189.8 million aggregate principal amount of 1.50% convertible senior notes due in December 2017. In connection with the pricing of the notes, we purchased convertible note hedge transactions with a strike price equal to the initial conversion price of the notes and we sold warrants with a strike price of \$40.04 per share with certain counterparties. The note hedges and the warrants each cover approximately 6.3 million shares of our common stock.

### **Servicing the notes or future indebtedness will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our obligations under the notes or future indebtedness, resulting in a default under such indebtedness**

Our ability to make scheduled payments of interest and, upon maturity or early conversion, the principal balance of the notes, depends on our future performance which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional debt or equity financing on terms that may not be favorable to us or available to us at all. Our ability to refinance the notes will depend on the capital markets and our financial condition at that time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the notes or future indebtedness.

### **Our level of indebtedness may limit our financial flexibility**

Our level of indebtedness affects our operations in several ways, including:

- a portion of our cash flows from operating activities must be used to service our indebtedness and is not available for other purposes;
- we may be at a competitive disadvantage as compared to similar companies that have less debt; and
- additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may have higher costs and contain restrictive covenants, or may not be available to us.



The factors that will affect our ability to obtain additional financing may be beyond our control and include financial market conditions, the value of our assets and our performance at the time we need financing.

**The accounting for the notes will result in our having to recognize interest expense significantly more than the stated interest rate of the notes and may result in volatility to our consolidated statement of operations**

Upon issuance of the notes we were required to establish a separate initial value for the conversion option and to bifurcate this value from the value attributable to the balance of the notes, or the debt component. As a result, for accounting purposes, we were required to treat the notes as having been issued with a discount to their face principal amount, which is referred to as an original issue discount. We are accreting the original issue discount to interest expense ratably over the term of the notes, which results in an effective interest rate in our consolidated statement of operations that is in excess of the stated coupon rate of the notes. This will reduce our earnings and could adversely affect the price at which our common stock trades, but will have no effect on the amount of cash interest paid to holders or on our cash flows.

Certain derivative instruments issued in connection with the notes were classified within stockholders' equity at June 30, 2016. However, if we do not continue to satisfy all of the criteria required for equity classification, these instruments would be reclassified out of equity and be subject to re-measurement at fair value. Changes in fair value resulting from any such re-measurement would be reflected in earnings which could have a material impact on our financial statements.

**The conditional conversion feature of the notes, if triggered, and the requirement to repurchase the notes upon a fundamental change may adversely affect our financial condition and operating results**

In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert the notes at their option during specified periods. If one or more holders elect to convert their notes, we would be required to settle the principal portion of the notes in cash. Additionally, if we undergo a fundamental change, (as described in the Indenture), subject to certain conditions, holders of the notes may require us to repurchase for cash all or part of their notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest. Either of these events could adversely affect our liquidity. Even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal balance of the notes to a current rather than long-term liability, which would result in a material reduction of our working capital.

**We may be subject to significant future write-offs with respect to intangible assets or deferred tax assets**

Certain of our assets, such as intangible assets and deferred tax assets, are subject to periodic tests of recoverability based on a variety of factors. Those factors typically include, at a minimum, projections of future income levels and cash flows. The accounting for the notes will result in the recognition of a significant level of interest expense as the carrying value of debt is accreted to par value and as we amortize our debt issue costs, including the underwriters' discount. During the fiscal year ended June 30, 2015, we established a reserve against a portion of our US-based deferred tax assets, resulting in an expense charge of \$16.0 million. We could be subject to future impairment charges with respect to these assets which would have a material adverse effect on our consolidated statement of operations.

**The convertible note hedge and warrant transactions may affect the value of the notes and our common stock**

The outstanding warrants could have a dilutive effect on our earnings per share to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants. However, subject to certain conditions, we may elect to settle the warrants in cash.

From time to time, the counterparties to the convertible note hedge transactions or their affiliates may modify their respective hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions (and are likely to do so during any observation period related to a conversion of notes). This activity could cause or avoid an increase or a decrease in the market price of our common stock or the notes.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

The following table sets forth the location, the reportable segment(s) and approximate square footage of each of the principal properties used by us during fiscal year 2016. Our Portsmouth, New Hampshire facility serves as our corporate headquarters and is used by employees associated with all of our reportable segments in addition to our management, administrative, sales and marketing and customer support teams. All properties, except as noted below, are leased under operating leases.

<u>Location</u>	<u>Reportable Segment(s)</u>	<u>Approximate Square Feet</u>
<b><u>North America:</u></b>		
Alpharetta, Georgia . . . . .	Payments and Transactional Documents, Digital Banking and Other	26,000
Englewood Cliffs, New Jersey . . .	Payments and Transactional Documents and Other	4,000
Garden City, New York . . . . .	All segments	9,000
Marlton, New Jersey . . . . .	Hosted Solutions	7,000
Morrisville, North Carolina . . . . .	Payments and Transactional Documents and Other	8,000
Portland, Maine . . . . .	Hosted Solutions	27,000
Portsmouth, New Hampshire . . . . .	All segments	85,000
Providence, Rhode Island . . . . .	Digital Banking	11,000
Wilton, Connecticut . . . . .	Hosted Solutions	13,000
<b><u>Europe:</u></b>		
Geneva, Switzerland . . . . .	Hosted Solutions	16,000
Hertford, England . . . . .	Payments and Transactional Documents	12,000
London, England . . . . .	All segments	6,000
Reading, England (1) . . . . .	All segments	28,000
<b><u>Asia-Pacific and Middle East:</u></b>		
Melbourne, Australia . . . . .	Payments and Transactional Documents and Digital Banking	2,000
Sydney, Australia . . . . .	Payments and Transactional Documents	2,000
Or-Yehuda, Israel . . . . .	Other	9,000

(1) We own 16,000 square feet in Reading, England currently used as our European headquarters.

**Item 3. Legal Proceedings.**

We are, from time to time, a party to legal proceedings and claims that arise in the ordinary course of our business. We do not believe that there are claims or proceedings pending against us for which the ultimate resolution would have a material effect on, or require disclosure in, our financial statements.

**Item 4. Mine Safety Disclosures.**

Not applicable

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

Our executive officers and other key employees and their respective ages as of August 28, 2016, are as follows:

<u>Name</u>	<u>Age</u>	<u>Positions</u>
Robert A. Eberle . . . . .	55	President, Chief Executive Officer and Director
Richard D. Booth . . . . .	47	Chief Financial Officer and Treasurer
Karen S. Brieger . . . . .	44	Vice President, Human Resources
Norman J. DeLuca . . . . .	55	Managing Director, Digital Banking
Paul J. Fannon . . . . .	48	Group Sales Director, Europe
John F. Kelly . . . . .	58	General Manager, Legal Solutions
John J. Mason . . . . .	46	Chief Information Officer
Brian S. McLaughlin . . . . .	52	Vice President of Product Design and User Experience
Andrew J. Mintzer . . . . .	54	Executive Vice President, Product Strategy and Customer Delivery
Jessica Pincomb Moran . . . . .	42	General Manager, Cloud Payment Solutions
Eric K. Morgan . . . . .	46	Senior Vice President, Global Controller
Christine M. Nurnberger . . . . .	37	Chief Marketing Officer
Nigel K. Savory . . . . .	49	Managing Director, Europe
David G. Sweet . . . . .	53	Executive Vice President, Strategy and Corporate Development
Basilios E. Tsingos . . . . .	48	Vice President and General Counsel

*Robert A. Eberle* has served as a director since September 2000, as President since August 2004 and as Chief Executive Officer since November 2006.

*Richard D. Booth* has served as Chief Financial Officer and Treasurer since April 2015. Mr. Booth served as Vice President and Corporate Controller at Sapien Corporation from January 2014 to March 2015. From November 2012 through January 2014, Mr. Booth served as Vice President Financial Planning and Analysis at Nuance Communications and as Vice President and Assistant Corporate Controller from July 2009 through November 2012.

*Karen S. Brieger* has served as Vice President, Human Resources since August 2010 and as Director, Human Resources from February 2008 through July 2010.

*Norman J. DeLuca* has served as Managing Director, Digital Banking since November 2011. From October 2009 through October 2011, Mr. DeLuca served as Managing Partner at NMD Investments. From January 2008 through October 2009, Mr. DeLuca served as Chief Executive of RBS Global Transaction Services, Americas. From January 2007 through January 2008, Mr. DeLuca served as Vice Chairman, RBS Citizens Financial Group.

*Paul J. Fannon* has served as Group Sales Director, Europe since October 2008.

*John F. Kelly* has served as General Manager, Legal Solutions since April 2011. From January 2006 through April 2011, Mr. Kelly served as Chief Executive Officer of Allegient Systems, Inc.

*John J. Mason* has served as Chief Information Officer since June 2010. From March 2009 through June 2010, Mr. Mason served as Vice President of Information Technology at Anacomp, Inc.

*Brian S. McLaughlin* has served as Vice President of Product Design and User Experience since February 2011. From 2009 through February 2011, Mr. McLaughlin served as Director of User Experience at CashStar, Inc.

*Andrew J. Mintzer* has served as Executive Vice President, Product Strategy and Delivery since July 2013 and as Senior Vice President, Product Strategy and Delivery from November 2007 through June 2013.

*Jessica Pincomb Moran* has served as General Manager, Cloud Payment Solutions since June 2015 and Vice President, Client Services from June 2011 through May 2015. From February 2008 through May 2011, Ms. Moran served as Vice President, Corporate Services.

*Eric K. Morgan* has served as Controller since September 2000.

*Christine M. Nurnberger* has served as Chief Marketing Officer since September 2014. Ms. Nurnberger served as Vice President, Marketing for SunGard Availability Services from January 2012 until August 2014 and as Vice President, Global Marketing Operations for Info Global Solutions from November 2005 until January 2012.

*Nigel K. Savory* has served as Managing Director, Europe since December 2003.

*David G. Sweet* has served as Executive Vice President, Strategy and Corporate Development since March 2013. From October 2010 through October 2012, Mr. Sweet served as a strategy and business development executive for IBM's Enterprise Marketing Management group. From April 2005 through October 2010, Mr. Sweet served as Senior Vice President of Corporate Development at Unica Corporation.

*Basilios E. Tsingos* has served as Vice President and General Counsel since February 2016. Mr. Tsingos was Vice President and General Counsel of Plymouth Rock Assurance Corporation from August 2007 to June 2015.

## 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 Select 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 Select Market.

<u>Period</u>	<u>High</u>	<u>Low</u>
Fiscal Year 2015		
First quarter .....	\$30.83	\$25.65
Second quarter .....	\$30.78	\$22.14
Third quarter .....	\$29.42	\$21.01
Fourth quarter .....	\$29.42	\$25.61
Fiscal Year 2016		
First quarter .....	\$28.64	\$24.28
Second quarter .....	\$31.58	\$21.64
Third quarter .....	\$31.41	\$25.06
Fourth quarter .....	\$31.52	\$20.44

As of August 19, 2016, there were approximately 643 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 19, 2016 was \$19.09. 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 do not anticipate paying any cash dividends on our common stock for the foreseeable future.

The following table provides information about purchases by us of our common stock during the quarter ended June 30, 2016:

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs</u>
April 1, 2016 – April 30, 2016 .....	47,500	\$23.54	47,500	\$18,881,840
May 1, 2016 – May 31, 2016 .....	762,234	\$24.77	762,234	\$ —
June 1, 2016 – June 30, 2016 .....	—	\$ —	—	\$ —
Total .....	<u>809,734</u>	\$24.70	<u>809,734</u>	<u>\$ — (2)</u>

(1) On November 19, 2015, our board of directors announced that it had authorized a repurchase program of our common stock for an aggregate repurchase price not to exceed \$20 million. Although this program expires on November 19, 2017, the activity noted above represents the completion of the \$20 million repurchase program.

(2) On July 8, 2016 our board of directors authorized a repurchase program of our common stock for an aggregate repurchase price not to exceed \$60 million. This program expires on July 8, 2018.

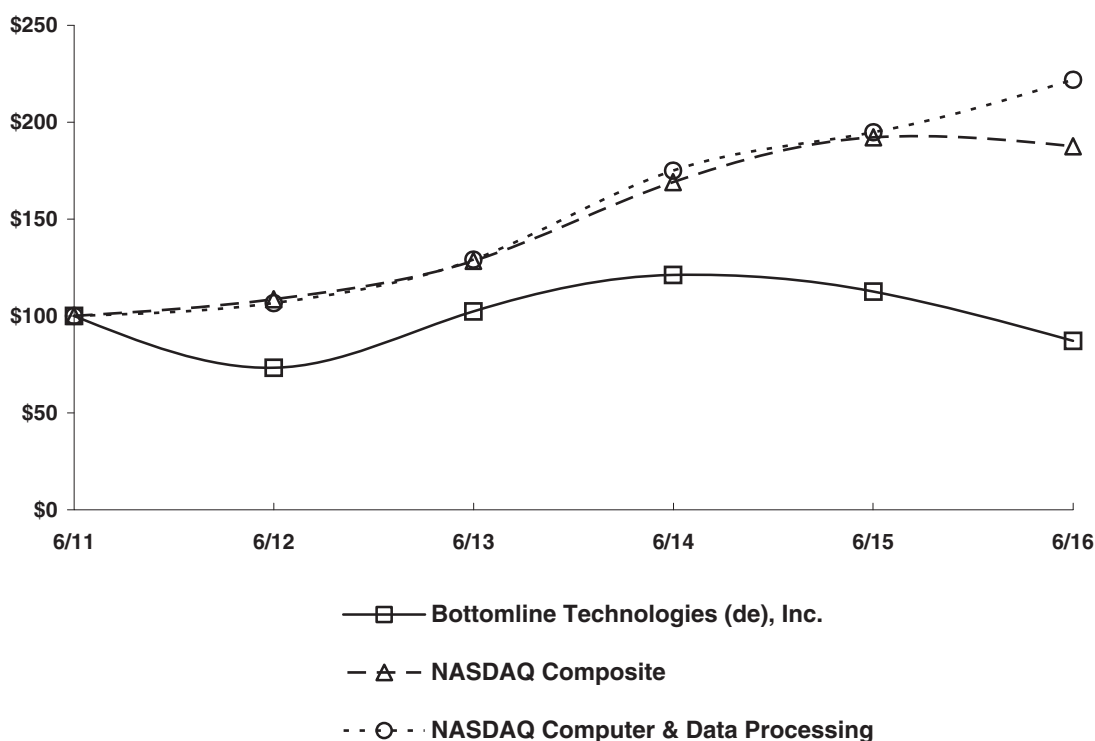
## Stock Performance Graph

The stock performance graph below compares the percentage change in cumulative stockholder return on our common stock for the period from June 30, 2011 through June 30, 2016, 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, 2011), the NASDAQ Stock Market (U.S.) and the NASDAQ Computer & Data Processing Index on June 30, 2011, and assumes dividends, if any, are reinvested.

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

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
**Among Bottomline Technologies (de), Inc., the NASDAQ Composite Index**  
**and the NASDAQ Computer & Data Processing Index**



\* \$100 invested on 6/30/11 in stock or index, including reinvestment of dividends.  
 Fiscal year ending June 30.

	6/11	6/12	6/13	6/14	6/15	6/16
<b>Bottomline Technologies (de), Inc.</b> . . . . .	<b>100.00</b>	<b>73.05</b>	<b>102.35</b>	<b>121.08</b>	<b>112.55</b>	<b>87.13</b>
<b>NASDAQ Composite</b> . . . . .	<b>100.00</b>	<b>108.58</b>	<b>128.19</b>	<b>169.08</b>	<b>192.10</b>	<b>187.57</b>
<b>NASDAQ Computer &amp; Data Processing</b> . . . . .	<b>100.00</b>	<b>106.63</b>	<b>129.03</b>	<b>175.05</b>	<b>194.57</b>	<b>221.88</b>

The information included under the heading Stock 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 (the Securities Act).

## Recent Sales of Unregistered Securities

None.

## 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

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
	(in thousands, except per share data)				
Revenues:					
Subscriptions and transactions	\$195,187	\$171,361	\$141,103	\$118,016	\$ 85,005
Software licenses	20,826	21,907	20,769	22,546	17,562
Service and maintenance	120,292	130,183	131,531	106,389	113,832
Other	6,969	7,438	7,182	7,823	7,885
Total revenues	343,274	330,889	300,585	254,774	224,284
Cost of revenues:					
Subscriptions and transactions	87,775	79,397	69,220	64,101	41,266
Software licenses	1,030	1,583	1,602	2,399	2,082
Service and maintenance	53,236	53,094	54,463	46,788	51,559
Other	5,059	5,367	5,383	5,998	6,280
Total cost of revenues	147,100	139,441	130,668	119,286	101,187
Gross profit	196,174	191,448	169,917	135,488	123,097
Operating expenses:					
Sales and marketing	84,068	80,151	72,707	62,825	49,902
Product development and engineering	47,355	47,185	39,725	32,974	28,687
General and administrative	39,324	34,492	33,721	27,076	21,495
Amortization of intangible assets	28,978	30,383	26,242	19,549	15,753
Total operating expenses	199,725	192,211	172,395	142,424	115,837
Income (loss) from operations	(3,551)	(763)	(2,478)	(6,936)	7,260
Other expense, net	(15,312)	(15,553)	(14,544)	(11,357)	41
Income (loss) before income taxes	(18,863)	(16,316)	(17,022)	(18,293)	7,301
Income tax provision (benefit)	785	18,364	2,082	(3,898)	5,596
Net income (loss)	<u>\$(19,648)</u>	<u>\$(34,680)</u>	<u>\$(19,104)</u>	<u>\$(14,395)</u>	<u>\$ 1,705</u>
Basic net income (loss) per share:	<u>\$ (0.52)</u>	<u>\$ (0.92)</u>	<u>\$ (0.52)</u>	<u>\$ (0.41)</u>	<u>\$ 0.05</u>
Diluted net income (loss) per share:	<u>\$ (0.52)</u>	<u>\$ (0.92)</u>	<u>\$ (0.52)</u>	<u>\$ (0.41)</u>	<u>\$ 0.05</u>
Shares used in computing basic net income (loss) per share:	<u>37,957</u>	<u>37,806</u>	<u>36,834</u>	<u>35,444</u>	<u>34,268</u>
Shares used in computing diluted net income (loss) per share:	<u>37,957</u>	<u>37,806</u>	<u>36,834</u>	<u>35,444</u>	<u>35,244</u>

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
	(in thousands)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 97,174	\$121,163	\$167,673	\$283,552	\$124,801
Marketable securities	35,209	23,225	23,805	9,525	61
Working capital	104,479	122,799	172,384	280,563	118,365
Total assets	652,887	688,484	700,343	585,522	392,371
Long-term debt (1)	171,534	159,760	148,795	138,582	—
Total stockholders' equity	294,787	348,538	387,426	356,749	314,186

(1) Our long-term debt as of June 30, 2016, 2015, 2014 and 2013 consists of our convertible notes. The convertible notes are shown on our consolidated balance sheets at their carrying value which represents the principal balance of \$189.8 million less unamortized discount.

### **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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Without limiting the foregoing, the words may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, potential and similar expressions are intended to identify forward-looking statements. All forward-looking statements included in this Annual Report on Form 10-K are based on information available to us up to and including the date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth 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.

In the management discussion that follows we have highlighted those changes and operating factors that were the primary factors affecting period to period fluctuations. The remainder of the change in period to period fluctuations from that which is specifically discussed is arising from various individually insignificant items.

#### **Overview**

We help businesses pay and get paid. We make complex business payments simple, secure and seamless by providing a trusted and easy-to-use set of cloud-based business payment, digital banking, fraud prevention, payment and financial document solutions. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer's location. The majority of our revenues are derived from offerings sold as SaaS-based solutions and paid for on a subscription and transaction basis.

We operate a cloud-based network that facilitates the exchange of electronic payments between businesses and their vendors. We offer hosted and on-premise solutions that banks use to provide payment, cash management and treasury capabilities to their business customers, as well as solutions that banks and credit unions use to facilitate customer acquisition and growth. We offer financial messaging solutions for banks and corporations around the world, via solutions that leverage the SWIFT global messaging network. We also offer legal spend management solutions that help manage and determine the right amount to pay for legal services and claims vendor expenditures for insurance companies and other large corporate 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 healthcare customers use our solutions to streamline financial processes, particularly the patient enrollment process. Our document automation solutions are used by organizations to automate paper-intensive processes for the generation of transactional and supply chain documents. We also offer comprehensive cyber fraud and risk management solutions that are designed to non-invasively monitor and analyze user behavior to flag behavioral and data anomalies and other suspicious activity.

Our solutions are designed to complement, leverage and extend our customers' existing information systems, accounting applications and banking relationships so that they can be deployed quickly and efficiently. To help our customers realize the maximum value from our products and meet their specific business requirements, we also provide professional services for installation, training, consulting and product enhancement.

### *Financial Highlights*

For fiscal year 2016, our revenue increased to \$343.3 million from \$330.9 million in the prior year. This revenue increase was attributable to revenue increases in our Hosted Solutions segment (\$12.5 million) and Other segment (\$7.8 million), partially offset by revenue decreases in our Digital Banking segment (\$6.4 million) and our Payments and Transactional Documents segment (\$1.5 million). The revenue increase in our Hosted Solutions segment was primarily due to increased revenue from our Paymode-X solutions and to a lesser extent, increased revenue from our legal spend management and financial messaging solutions. The revenue increase in our Other segment is due to a full year's revenue contribution from Intellinx, which we acquired in January 2015. The revenue decrease in our Digital Banking segment was the result of the intentional de-emphasis of large, highly customized banking projects in lieu of standard product deployments and our cloud-based solutions. The transition of our delivery model in our Digital Banking segment has had the near term impact of delaying revenue recognition but, over the longer term, we believe will result in significantly greater revenue contribution. The revenue decrease in our Payments and Transactional Documents segment occurred as a result of lower North American revenue from our payment and document automation products. Our revenue for fiscal year 2016 was unfavorably impacted by \$8.1 million due to the impact of foreign currency exchange rates primarily related to the British Pound Sterling which depreciated against the US Dollar as compared to the prior year.

We had a net loss of \$19.6 million in the fiscal year ended June 30, 2016 compared to a net loss of \$34.7 million in the prior year. Our fiscal year 2016 net loss reflects the impact of increased operating expenses of \$7.5 million, partially offset by increased gross margins of \$4.7 million. The increases in our operating expenses were due primarily to increased employee related costs, as we continued to grow our business, the operating impact of our recent acquisitions and global ERP implementation costs of \$4.3 million. The increase in our gross margin was driven primarily by increases in our subscription and transaction revenues. Our fiscal year 2015 net loss included the impact of income tax expense of \$16.0 million to establish a reserve against certain US-based deferred tax assets.

In fiscal year 2016, we derived approximately 42% of our revenue from customers located outside of North America, principally in the United Kingdom, continental Europe and the Asia-Pacific and Middle East regions. Our customers operate in many different industries, a diversification that we believe helps us in a challenging economic climate. Additionally, we believe that our recurring and subscription revenue base helps position us defensively against any short term economic downturn. While we believe that we continue to compete favorably in all of the markets we serve, ongoing or worsening economic stresses could negatively impact our business in the future.

Over the past several years we have made strategic investments in innovative new technology offerings that we believe will extend our leadership position, help us win new business, drive accelerated subscription revenue growth and expand our operating margins. We believe that these initiatives have positioned us effectively for accelerated revenue growth in future years.

## Revenue Sources

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

- *Subscriptions and Transactions Fees.* We derive subscription and transaction fees from a number of sources, principally our SaaS offerings. Subscription revenues are typically recognized on a ratable basis over the subscription period. Transaction revenues are typically recorded at the time transactions are processed. Some of our SaaS 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, these fees are deferred and recognized as revenue over the estimated life of the customer relationship, which is generally between five and ten years. A significant part of our focus remains on growing the revenue contribution from our SaaS offerings and subscriptions and transactions based revenue streams.
- *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 of perpetual software licenses are generally recognized upon delivery of the software to the customer, assuming that payment from the customer is probable and there are no extended payment terms. However, certain of our software arrangements, particularly those related to 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. Recently however, the number of percentage of completion arrangements we enter into has declined as we have continued to de-emphasize large, highly customized projects in lieu of standard product deployments and our cloud-based solutions.
- *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 highly 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 are recognized as revenue ratably over the respective maintenance period, which is typically one year.
- *Other Revenues.* We derive other revenues from the sale of printers, check paper and magnetic ink character recognition toners. These revenues are normally recognized at the time of delivery.

## 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 these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates—which also would have been reasonable—could have been used. These critical accounting policies and estimates relate to revenue recognition, the valuation of goodwill and intangible assets, the valuation of acquired deferred revenue and income taxes. 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.

### *Revenue Recognition*

#### *Software Arrangements*

We recognize revenue on our software license arrangements when four basic criteria are met: persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed and determinable and collectability is probable. We consider a fully executed agreement or a customer purchase order to be persuasive evidence of an arrangement. Delivery is deemed to have occurred upon transfer of the product to the customer or

the completion of services rendered. We consider the arrangement fee to be fixed and determinable if it is not subject to adjustment and if the customer has not been granted extended payment terms. Excluding our long term contract arrangements for which revenue is recorded on a percentage of completion basis, extended payment terms are deemed to be present when any portion of the software license fee is due in excess of 90 days after the date of product delivery. In arrangements that contain extended payment terms, software revenue is recorded as customer payments become contractually due, assuming all other revenue recognition criteria have been met. We consider the arrangement fee to be probable of collection if our internal credit analysis indicates that the customer will be able to pay contractual amounts as they become due.

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

Certain of 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 and costs 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 use the percentage of completion method of accounting for our long-term contracts, as 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 financial reporting period, for purposes of evaluating cumulative labor hours incurred and verifying the estimated remaining effort to completion; this ensures that our estimates are always based on the most current projections available.

#### *Non-Software Arrangements*

For arrangements governed by general revenue recognition literature, such as with our SaaS offerings or equipment and supplies only sales, we recognize revenue when four basic criteria are met. These criteria are similar to those governing software transactions: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the arrangement fee is fixed or determinable and collectability is reasonably assured. For our SaaS offerings, revenue is generally recognized on a subscription or transaction basis over the period of performance.

For arrangements consisting of multiple elements, revenue is allocated to each element based on a selling price hierarchy. The selling price of each element is based on VSOE if available, third-party evidence (TPE) if VSOE is not available or estimated selling price (ESP) if neither VSOE nor TPE are available. The residual method of allocation in a non-software arrangement is not permitted and, instead, arrangement consideration is allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionately to each deliverable based on the proportion of each deliverable's selling price to the total arrangement fee. We are typically unable to establish TPE, which is based on the selling price charged by unrelated third-party vendors for similar deliverables when they are sold separately, as we are generally unable to obtain sufficient information on actual vendor selling prices to substantiate TPE. The objective of ESP is to estimate the price at which we would transact if the deliverable were sold separately rather than as part of a multiple element arrangement. Our determination of ESP considers several factors including actual selling prices for similar transactions, gross margin expectations and our ongoing pricing strategy. We formally analyze our ESP determinations on at least an annual basis.

#### *Goodwill and Acquired Intangible Assets*

Goodwill and acquired intangible assets are initially recorded at fair value and measured periodically for impairment. We performed our annual impairment test of the carrying value of our goodwill for fiscal year 2016 during our fourth quarter, which is consistent with the historic timing of our annual goodwill impairment review. Our analysis of goodwill impairment was performed at the reporting unit level, which requires an estimate of the fair value of each reporting unit.

Coming in to our fourth quarter, we had identified our Intellinx reporting unit as being at a heightened risk of impairment, as preliminary estimates of fiscal year 2017 revenues were below the revenue estimates we made at the time of the acquisition (January 2015). Based on our impairment review, the excess of fair value over the carrying value of goodwill for the Intellinx reporting unit was 14%.

Based on the results of our review, we concluded that there was no goodwill impairment in any of our reporting units. However, there can be no assurance that there will not be impairment charges in subsequent periods as a result of our future impairment reviews. To the extent that future impairment charges occur, it would have a material impact on our financial results. At June 30, 2016, the carrying value of goodwill for all of our reporting units was approximately \$202.0 million.

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

- whether there has been a significant adverse change in the business climate that affects the value of an asset;
- whether there has been a significant 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, 2016, the carrying value of our acquired intangible assets, excluding goodwill, was approximately \$153.2 million. As a result of our fiscal year 2016 impairment review, we concluded that none of these assets were impaired.

#### *Valuation of Acquired Intangible Assets and Acquired Deferred Revenue*

In connection with our acquisitions, we have recorded acquired intangible assets relating principally to customer related assets, acquired technology and acquired contractual rights that include favorable economic terms as compared to overall market rates at the date of acquisition. 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 consider 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 generally utilize at least 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;
- 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;
- the determination of third party market rates for leases or other contractual rights we acquire, for purposes of assessing whether we have acquired a favorable, unfavorable or at-market contract;
- our planned level of operating expenses; and
- our effective tax rate.

Additionally, we are required to estimate the acquisition date fair value of acquired deferred revenue that we assume as part of any acquisition. The acquisition date fair value of deferred revenue is estimated based on the costs we expect to incur in fulfilling the obligations, plus a normal profit margin. These cost estimates exclude amounts relating to any selling effort, since those costs would have been incurred by the predecessor company rather than by us. In the case of acquired software maintenance contracts, the cost estimates also exclude any ongoing research and development expenses associated with product upgrades since these amounts typically do not represent a legal obligation that we assume at the time of acquisition.

### *Income Taxes*

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

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

We record a deferred tax asset if we believe that it is more likely than not that we will realize a future tax benefit. Ultimate realization of any deferred tax asset is dependent on our ability to generate sufficient future taxable income in the appropriate tax jurisdiction before the expiration of carryforward periods, if any. Our assessment of deferred tax asset recoverability considers many different factors including historical and projected operating results, the reversal of existing deferred tax liabilities that provide a source of future taxable income, the impact of current tax planning strategies and the availability of future tax planning strategies. We establish a valuation allowance against any deferred tax asset for which we are unable to conclude that recoverability is more likely than not. This is inherently judgmental, since we are required to assess many different factors and evaluate as much objective evidence as we can in reaching an overall conclusion. The particularly sensitive component of our evaluation is our projection of future operating results since this relies heavily on our estimates of future revenue and expense levels by tax jurisdiction.

In making our assessment of US deferred tax asset recoverability at June 30, 2015, we concluded that it was more likely than not that a portion of our US deferred tax assets may not be recovered. As a result, we increased our valuation allowance in fiscal year 2015 and recorded income tax expense in the amount of \$16.0 million. The recognition of a valuation allowance has no effect on our ability to use the underlying deferred tax assets to reduce cash tax payments in the future to the extent that we generate US taxable income.

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

## **Recent Accounting Pronouncements**

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 2 of Notes to Consolidated Financial Statements.

## **Results of Operations**

### **Fiscal Year Ended June 30, 2016 Compared to Fiscal Year Ended June 30, 2015**

#### ***Segment Information***

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

Our operating segments are organized principally by the type of product or service offered and by geography. Similar operating segments have been aggregated into four reportable segments: Payments and Transactional Documents, Hosted Solutions, Digital Banking and Other.

During fiscal year 2016, we re-examined the aggregation of our operating segments and reclassified our cyber fraud and risk management and healthcare operating segments from the “Payments and Transactional Documents” reportable segment into the new “Other” reportable segment. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

The following tables represent our segment revenues and our segment measure of profit:

	<b>Fiscal Year Ended June 30,</b>		<b>Increase (Decrease) Between Periods 2016 compared to 2015</b>	
	<b>2016</b>	<b>2015</b>	<b>%</b>	
	(in thousands)			
Segment revenue:				
Payments and Transactional Documents . . . . .	\$115,213	\$116,685	(1,472)	(1.3)
Hosted Solutions . . . . .	138,641	126,178	12,463	9.9
Digital Banking . . . . .	70,747	77,184	(6,437)	(8.3)
Other . . . . .	18,673	10,842	7,831	72.2
Total segment revenue . . . . .	<u>\$343,274</u>	<u>\$330,889</u>	<u>\$12,385</u>	3.7
Segment measure of profit:				
Payments and Transactional Documents . . . . .	\$ 34,225	\$ 36,010	(1,785)	(5.0)
Hosted Solutions . . . . .	23,380	15,329	8,051	52.5
Digital Banking . . . . .	5,696	12,440	(6,744)	(54.2)
Other . . . . .	(1,795)	(2,870)	1,075	37.5
Total measure of segment profit . . . . .	<u>\$ 61,506</u>	<u>\$ 60,909</u>	<u>\$ 597</u>	1.0

A reconciliation of the measure of segment profit to our GAAP loss before the provision for income taxes is as follows:

	<b>Fiscal Year Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
	(in thousands)	
Total measure of segment profit . . . . .	\$ 61,506	\$ 60,909
Less:		
Amortization of acquired intangible assets . . . . .	(28,978)	(30,383)
Stock-based compensation expense . . . . .	(30,279)	(27,025)
Acquisition and integration related expenses . . . . .	(741)	(2,835)
Restructuring expenses . . . . .	(850)	(1,297)
Minimum pension liability and related adjustments . . . . .	(203)	(56)
Other non-core income (expense) . . . . .	246	(76)
Global ERP system implementation costs . . . . .	(4,252)	—
Other expense, net . . . . .	(15,312)	(15,553)
Loss before income taxes . . . . .	<u>\$(18,863)</u>	<u>\$(16,316)</u>

*Payments and Transactional Documents.* The slight revenue decrease for the fiscal year ended June 30, 2016 compared to the prior fiscal year includes the unfavorable effect of foreign exchange rates of approximately \$4.8 million primarily associated with the British Pound Sterling, which depreciated against the US Dollar when compared to the prior fiscal year. The decreased revenue, inclusive of the unfavorable effect of foreign exchange rates, was primarily attributable to decreases in services and maintenance revenues of \$2.9 million, software license revenue of \$2.8 million, and other revenue of \$0.4 million, partially offset by an increase in subscription and transaction revenue of \$4.6 million. The revenue decreases were primarily attributable to decreased North American software license and service and maintenance revenue. The segment profit decrease of \$1.8 million for the fiscal year ended June 30, 2016 compared to the prior fiscal year, including an unfavorable impact of foreign currency exchange rates of \$1.5 million, was primarily due to the decrease in revenue as discussed above. We expect revenue and profit for the Payments and Transactional Documents segment to increase in the fiscal year ending June 30, 2017 as a result of increased sales of our payment and document automation solutions, continued improvement of gross margins and a slight decrease in operating expenses.

*Hosted Solutions.* The revenue increase in our Hosted Solutions segment for the fiscal year ended June 30, 2016 compared to the prior fiscal year was due to increased Paymode-X, financial messaging solutions and legal spend management revenue. The increased revenue includes the unfavorable effect of foreign exchange rates of approximately \$2.9 million when compared to the prior fiscal year. The segment profit increase of \$8.1 million for the fiscal year ended June 30, 2016 compared to the prior fiscal year, inclusive of an unfavorable impact of foreign currency exchange rates of \$0.7 million, arose from improved gross margins of \$7.9 million as a result of the increased revenue and improved subscriptions and transactions gross margins from our Paymode-X and financial messaging solutions. We expect revenue and profit for the Hosted Solutions segment to increase in fiscal year 2017 as a result of increased revenue from our legal spend management, financial messaging and Paymode-X solutions.

*Digital Banking.* The revenue decrease in our Digital Banking segment for the fiscal year ended June 30, 2016 compared to the prior fiscal year was primarily due to a decrease of \$10.2 million in professional services revenue as a result of the continued de-emphasis of large, highly customized banking projects in lieu of standard product deployments and our cloud-based solutions, partially offset by an increase in subscription and transaction revenue of \$3.2 million. The segment profit decrease of \$6.7 million for the fiscal year ended June 30, 2016 compared to the prior fiscal year was primarily attributable to the decreased revenue and increased operating expenses of \$1.1 million, mainly arising from an increase in sales and marketing expenses. We expect revenue for the Digital Banking segment to increase in fiscal year 2017 as a result of the contribution of revenue from our customer acquisition and cash management solutions. We expect profit to decrease as a result of our continued investment in certain of our newer digital banking solutions.

*Other.* The revenue increase in our Other segment for the fiscal year ended June 30, 2016 compared to the prior fiscal year was primarily due the full year impact of the January 2015 Intellinx acquisition. The segment profit increase of \$1.1 million for the fiscal year ended June 30, 2016 compared to the prior fiscal year was primarily the result of the increased revenue described above. We expect segment revenue and profit to increase in fiscal year 2017 principally as the result of sales of our cyber fraud and risk management products.

### **Revenues by Category**

	<b>Fiscal Year Ended June 30,</b>		<b>Increase (Decrease) Between Periods</b>	
	<b>2016</b>	<b>2015</b>	<b>2016 Compared to 2015</b>	
	(in thousands)		%	
Revenues:				
Subscriptions and transactions	\$195,187	\$171,361	\$23,826	13.9
Software licenses	20,826	21,907	(1,081)	(4.9)
Service and maintenance	120,292	130,183	(9,891)	(7.6)
Other	6,969	7,438	(469)	(6.3)
Total revenues	<u>\$343,274</u>	<u>\$330,889</u>	<u>\$12,385</u>	3.7

*Subscriptions and Transactions.* Revenues for the fiscal year ended June 30, 2016 were unfavorably impacted by \$2.6 million due to the impact of foreign currency exchange rates. The overall increase in subscriptions and transactions revenues was due to an increase in the revenue contribution from our Hosted Solutions segment of \$14.5 million, our Payments and Transactional Documents segment of \$4.6 million, our Digital Banking segment of \$3.2 million and our Other segment of \$1.5 million. The Hosted Solutions segment revenue increases were driven primarily by our Paymode-X solution and, to a lesser extent, from our legal spend management and financial messaging solutions. We expect subscriptions and transactions revenues to increase in fiscal year 2017 primarily as a result of the revenue contribution from our Digital Banking segment and our financial messaging, legal spend management and Paymode-X solutions.



*Software Licenses.* The decrease in software license revenues was attributable to decreases in North American revenues within our Payments and Transactional Documents segment, offset in part by increased revenue in our cyber fraud and risk management solutions and certain European solutions. Software license revenue for the fiscal year ended June 30, 2016 was unfavorably impacted by \$0.7 million due to the impact of foreign currency exchange rates primarily associated with the British Pound Sterling which depreciated against the US Dollar when compared to the prior fiscal year. We expect software license revenues to increase in fiscal year 2017 in our payments and transactional documents products and our cyber fraud and risk management solutions.

*Service and Maintenance.* Revenues for the fiscal year ended June 30, 2016 were unfavorably impacted by \$4.4 million due to the impact of foreign currency exchange rates. The overall decrease in service and maintenance revenues was primarily the result of decreases in professional services revenue of \$10.2 million in our Digital Banking segment as we continued to de-emphasize large and highly customized banking projects in lieu of standard product deployments and our cloud-based solutions. This decrease was partially offset by an increase in revenue from our cyber fraud and risk management solutions primarily related to the full year impact of our January 2015 Intellinx acquisition. We expect that service and maintenance revenues will decrease slightly in fiscal year 2017.

*Other.* Other revenues decreased slightly in fiscal year 2016 as compared to fiscal year 2015 and we expect that other revenues will decrease slightly in fiscal year 2017.

### **Cost of Revenues**

	<b>Fiscal Year Ended June 30,</b>		<b>Increase (Decrease) Between Periods</b>	
	<b>2016</b>	<b>2015</b>	<b>2016 Compared to 2015</b>	
	(in thousands)			%
Cost of revenues:				
Subscriptions and transactions .....	\$ 87,775	\$ 79,397	\$8,378	10.6
Software licenses .....	1,030	1,583	(553)	(34.9)
Service and maintenance .....	53,236	53,094	142	0.3
Other .....	5,059	5,367	(308)	(5.7)
Total cost of revenues .....	<u>\$147,100</u>	<u>\$139,441</u>	<u>\$7,659</u>	5.5
Gross profit .....	<u>\$196,174</u>	<u>\$191,448</u>	<u>\$4,726</u>	2.5

*Subscriptions and Transactions.* Subscriptions and transactions costs decreased slightly to 45% of subscriptions and transactions revenues for the fiscal year ended June 30, 2016 as compared to 46% of subscriptions and transactions revenues in the fiscal year ended June 30, 2015. We expect that subscriptions and transactions costs will continue to decrease as a percentage of subscriptions and transactions revenue in fiscal year 2017 as we continue to grow our revenues from our hosted offerings.

*Software Licenses.* Software license costs decreased to 5% of software license revenues for the fiscal year ended June 30, 2016 as compared to 7% of software license revenues in the fiscal year ended June 30, 2015. We expect that software license costs will remain relatively consistent as a percentage of software license revenues in fiscal year 2017.

*Service and Maintenance.* Service and maintenance costs increased to 44% of service and maintenance revenues for the fiscal year ended June 30, 2016 as compared to 41% for the fiscal year ended June 30, 2015. The increase in costs as a percent of service and maintenance revenues was driven by a decrease in professional services revenues and gross margins in our Digital Banking segment as we continued to de-emphasize large, highly customized banking projects in lieu of standard deployments. We expect that service and maintenance costs will increase slightly as a percentage of service and maintenance revenues in fiscal year 2017.

*Other.* Other costs remained consistent at 73% of other revenues for the fiscal year ended June 30, 2016 compared to 72% of other revenues for the prior fiscal year. We expect that other costs will remain relatively consistent as a percentage of other revenues in fiscal year 2017.

### ***Operating Expenses***

	<b>Fiscal Year Ended June 30,</b>		<b>Increase (Decrease) Between Periods</b>	
	<b>2016</b>	<b>2015</b>	<b>2016 Compared to 2015</b>	
	<b>(in thousands)</b>		<b>%</b>	
Operating expenses:				
Sales and marketing . . . . .	\$ 84,068	\$ 80,151	\$ 3,917	4.9
Product development and engineering . . . . .	47,355	47,185	170	0.4
General and administrative . . . . .	39,324	34,492	4,832	14.0
Amortization of intangible assets . . . . .	28,978	30,383	(1,405)	(4.6)
Total operating expenses . . . . .	<u>\$199,725</u>	<u>\$192,211</u>	<u>\$ 7,514</u>	3.9

*Sales and Marketing.* Sales and marketing expenses increased \$3.9 million in the fiscal year ended June 30, 2016 as compared to the fiscal year ended June 30, 2015 principally due to an increase in headcount related costs. This increase was generally due to the operating costs of our fiscal year 2015 acquisitions and the impact of resources we hired to sell and promote our newer products. We expect sales and marketing expenses will remain relatively consistent as a percentage of revenue in fiscal year 2017.

*Product Development and Engineering.* The increase in product development and engineering expenses of \$0.2 million in the fiscal year ended June 30, 2016 as compared to the fiscal year ended June 30, 2015 was primarily a result of an increase in employee and professional services related costs. We expect product development and engineering expenses will remain relatively consistent as a percentage of revenue in fiscal year 2017.

*General and Administrative.* The increase in general and administrative expenses of \$4.8 million in the fiscal year ended June 30, 2016 as compared to the fiscal year ended June 30, 2015 was principally attributable to an increase in costs associated with global internal system implementations and an increase in employee related costs, partially attributable to our recent acquisitions, offset in part by a decrease in acquisition and integration related expenses. We expect general and administrative expenses will increase slightly during fiscal year 2017, primarily as a result of our global internal system implementations.

*Amortization of Intangible Assets.* We amortize our acquired intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us. Accordingly, amortization expense rates are often higher in the earlier periods of an acquired asset's estimated life. The decrease in amortization expense for the fiscal year ended June 30, 2016 as compared to the prior fiscal year occurred as a result of amortization rates decreasing over the underlying assets lives. We expect amortization expense for acquired intangible assets to be approximately \$24.4 million for fiscal year 2017.

### ***Other Income (Expense), Net***

	<b>Fiscal Year Ended June 30,</b>		<b>Increase (Decrease) Between Periods</b>	
	<b>2016</b>	<b>2015</b>	<b>2016 Compared to 2015</b>	
	<b>(in thousands)</b>		<b>%</b>	
Interest income . . . . .	\$ 533	\$ 499	\$ 34	6.8
Interest expense . . . . .	(15,539)	(14,765)	(774)	(5.2)
Other expense, net . . . . .	(306)	(1,287)	981	76.2
Other expense, net . . . . .	<u>\$(15,312)</u>	<u>\$(15,553)</u>	<u>\$ 241</u>	1.5

*Other Income (Expense), Net.* For the fiscal year ended June 30, 2016 as compared to the prior fiscal year, interest income increased slightly. Interest expense increased slightly due to increased amortization of our debt discount. Other expense in fiscal year 2016 was primarily the result of foreign exchange losses. We expect that interest income and other expense, net will remain relatively minor components of our overall operations during fiscal year 2017.

### ***Provision for Income Taxes***

We recorded income tax expense of \$0.8 million for the fiscal year ended June 30, 2016 compared to income tax expense of \$18.4 million for the fiscal year ended June 30, 2015. The tax expense in fiscal year 2016 was principally due to tax expense associated with our US and UK operations, which was offset in part by a tax benefit associated with our Swiss and Israeli operations. Our tax expense in fiscal year 2016 was offset in part by a discrete tax benefit of approximately \$0.2 million from the enactment of legislation that decreased UK income tax rates. The US income tax expense was principally due to an increase in deferred tax liabilities for goodwill that is deductible for tax purposes but not amortized for financial reporting purposes. The tax expense in fiscal year 2015 was predominantly due to \$16.0 million of tax expense arising from a reserve we established against a portion of our US deferred tax assets. To a lesser extent in fiscal year 2015, we also recorded tax expense associated with our US and UK operations, offset in part by an income tax benefit associated with our Swiss and Israeli operations.

### **Fiscal Year Ended June 30, 2015 Compared to Fiscal Year Ended June 30, 2014**

#### ***Segment Information***

During fiscal year 2016, we re-examined the aggregation of our operating segments and reclassified our cyber fraud and risk management and healthcare operating segments from the “Payments and Transactional Documents” reportable segment into the new “Other” reportable segment. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

The following tables represent our segment revenues and our segment measure of profit:

	<b>Fiscal Year Ended June 30,</b>		<b>Increase (Decrease) Between Periods</b>	
	<b>2015</b>	<b>2014</b>	<b>2015 compared to 2014</b>	
	<b>(in thousands)</b>		<b>(in thousands)</b>	<b>%</b>
<b>Segment revenue:</b>				
Payments and Transactional Documents . . . . .	\$116,685	\$118,098	(1,413)	(1.2)
Hosted Solutions . . . . .	126,178	107,360	18,818	17.5
Digital Banking . . . . .	77,184	67,769	9,415	13.9
Other . . . . .	10,842	7,358	3,484	47.4
<b>Total segment revenue . . . . .</b>	<b>\$330,889</b>	<b>\$300,585</b>	<b>\$30,304</b>	<b>10.1</b>
<b>Segment measure of profit:</b>				
Payments and Transactional Documents . . . . .	\$ 36,010	\$ 37,249	(1,239)	(3.3)
Hosted Solutions . . . . .	15,329	8,344	6,985	83.7
Digital Banking . . . . .	12,440	7,045	5,395	76.6
Other . . . . .	(2,870)	212	(3,082)	(1453.8)
<b>Total measure of segment profit . . . . .</b>	<b>\$ 60,909</b>	<b>\$ 52,850</b>	<b>\$ 8,059</b>	<b>15.2</b>

A reconciliation of the measure of segment profit to our GAAP loss before the provision for income taxes is as follows:

	Fiscal Year Ended June 30,	
	2015	2014
	(in thousands)	
Total measure of segment profit . . . . .	\$ 60,909	\$ 52,850
Less:		
Amortization of acquired intangible assets . . . . .	(30,383)	(26,242)
Share-based compensation expense . . . . .	(27,025)	(22,821)
Acquisition and integration related expenses . . . . .	(2,835)	(4,563)
Restructuring expense . . . . .	(1,297)	(1,371)
Minimum pension liability and related adjustments . . . . .	(56)	(331)
Other non-core expenses . . . . .	(76)	—
Other expense, net . . . . .	<u>(15,553)</u>	<u>(14,544)</u>
Loss before income taxes . . . . .	<u>\$ (16,316)</u>	<u>\$ (17,022)</u>

*Payments and Transactional Documents.* The revenue decrease for the fiscal year ended June 30, 2015 compared to the prior fiscal year was primarily attributable to decreases in services and maintenance revenues of \$2.0 million, subscription and transactions revenue of \$0.2 million and other revenue of \$0.1 million partially offset by an increase in software license revenue of \$0.8 million. The revenue decreases were primarily attributable to decreased European service and maintenance and subscription and transaction revenue and decreased revenue from our North American document automation products. The decreased revenue includes the unfavorable effect of foreign exchange rates of approximately \$3.1 million primarily associated with the British Pound Sterling which depreciated against the US Dollar when compared to the prior fiscal year. The segment profit decrease of \$1.2 million for the fiscal year ended June 30, 2015 compared to the prior fiscal year, inclusive of an unfavorable impact of foreign currency exchange rates of \$1.1 million, was due to increased operating expenses primarily related to increased sales and marketing and product development costs.

*Hosted Solutions.* The revenue increase in our Hosted Solutions segment for the fiscal year ended June 30, 2015 compared to the prior fiscal year was primarily due to increased financial messaging revenue of \$12.6 million and, to a lesser extent, from revenue increases in our legal spend management and Paymode-X solutions. The increased revenue includes the unfavorable effect of foreign exchange rates of approximately \$2.2 million when compared to the prior fiscal year. The segment profit increase of \$7.0 million for the fiscal year ended June 30, 2015 compared to the prior fiscal year arose from improved gross margins of \$12.7 million as a result of the increased revenue and improved subscriptions and transactions gross margins from our financial messaging solution, offset in part by increased operating expenses of \$5.8 million.

*Digital Banking.* The revenue increase in our Digital Banking segment for the fiscal year ended June 30, 2015 compared to the prior fiscal year was primarily due to an increase of \$14.3 million in subscriptions and transactions revenue, partially offset by a decrease of \$5.3 million in professional services revenue as a result of the de-emphasis of certain large, highly customized banking projects in lieu of standard product deployments and our cloud-based solutions. The increased subscriptions and transactions revenue was attributable to the full year impact of our acquisition of Andera. The segment profit increase of \$5.4 million for the fiscal year ended June 30, 2015 compared to the prior fiscal year was primarily attributable to the increased revenue and overall improved gross margins, which offset increased operating expenses of \$3.5 million, that mainly arose from an increase in sales and marketing expenses.

*Other.* The revenue increase in our Other segment for the fiscal year ended June 30, 2015 compared to the prior fiscal year was primarily due to revenue from our Intellinx acquisition which we acquired in January 2015. The segment profit decrease of \$3.1 million was primarily attributable to increased operating expenses of \$3.5 million due to the impact of our Intellinx acquisition.

## Revenues by Category

	Fiscal Year Ended June 30,		Increase Between Periods	
	2015	2014	2015 Compared to 2014	%
	(in thousands)			
Revenues:				
Subscriptions and transactions	\$171,361	\$141,103	\$30,258	21.4
Software licenses	21,907	20,769	1,138	5.5
Service and maintenance	130,183	131,531	(1,348)	(1.0)
Other	7,438	7,182	256	3.6
Total revenues	<u>\$330,889</u>	<u>\$300,585</u>	<u>\$30,304</u>	10.1

*Subscriptions and Transactions.* The increase in subscriptions and transactions revenues was primarily due to an increase in the revenue contribution from our Hosted Solutions segment of \$15.6 million and our Digital Banking segment of \$14.3 million. The Hosted Solutions segment revenue increases were driven primarily by our financial messaging solutions and, to a lesser extent, from our legal spend management and Paymode-X solutions. The Digital Banking segment revenue increase was driven primarily by the full year impact of our acquisition of Andera. Subscriptions and transactions revenue for the fiscal year ended June 30, 2015 was unfavorably impacted by \$1.4 million due to the impact of foreign currency exchange rates primarily associated with the British Pound Sterling which depreciated against the US Dollar when compared to the prior fiscal year.

*Software Licenses.* The increase in software license revenues was attributable to increases in North American revenues within our Payments and Transactional Documents segment and in our Digital Banking segment, offset in part by decreased revenue in certain European solutions. Software license revenue for the fiscal year ended June 30, 2015 was unfavorably impacted by \$0.5 million due to the impact of foreign currency exchange rates primarily associated with the British Pound Sterling which depreciated against the US Dollar when compared to the prior fiscal year.

*Service and Maintenance.* The decrease in service and maintenance revenues was primarily the result of service revenue decreases of \$5.3 million in our Digital Banking segment as we continued to de-emphasize large and highly customized banking projects, partially offset by increases in our financial message solutions and cyber fraud and risk management solutions. Service and maintenance revenue for the fiscal year ended June 30, 2015 was unfavorably impacted by \$3.5 million due to the impact of foreign currency exchange rates primarily associated with the Euro and the British Pound Sterling which depreciated against the US Dollar when compared to the prior fiscal year.

*Other.* Other revenues increased slightly for the fiscal year ended June 30, 2015 as compared to fiscal year ended June 30, 2014.

## Cost of Revenues

	Fiscal Year Ended June 30,		Increase Between Periods	
	2015	2014	2015 Compared to 2014	%
	(in thousands)			
Cost of revenues:				
Subscriptions and transactions .....	\$ 79,397	\$ 69,220	\$10,177	14.7
Software licenses .....	1,583	1,602	(19)	(1.2)
Service and maintenance .....	53,094	54,463	(1,369)	(2.5)
Other .....	5,367	5,383	(16)	(0.3)
Total cost of revenues .....	<u>\$139,441</u>	<u>\$130,668</u>	<u>\$ 8,773</u>	6.7
Gross profit .....	\$191,448	\$169,917	\$21,531	12.7

*Subscriptions and Transactions.* Subscriptions and transactions costs decreased to 46% of subscriptions and transactions revenues for the fiscal year ended June 30, 2015 as compared to 49% of subscriptions and transactions revenues in the fiscal year ended June 30, 2014. The decrease in subscriptions and transactions costs as a percentage of revenue was due to revenue increases in our Hosted Solutions and Digital Banking segments.

*Software Licenses.* Software license costs remained consistent at 7% of software license revenues for the fiscal year ended June 30, 2015 as compared to 8% of software license revenues in the fiscal year ended June 30, 2014.

*Service and Maintenance.* Service and maintenance costs remained consistent at 41% of service and maintenance revenues for the fiscal years ended June 30, 2015 and June 30, 2014.

*Other.* Other costs remained consistent at 72% of other revenues for the fiscal year ended June 30, 2015 compared to 75% of other revenues for the prior fiscal year.

## Operating Expenses

	Fiscal Year Ended June 30,		Increase Between Periods	
	2015	2014	2015 Compared to 2014	%
	(in thousands)			
Operating expenses:				
Sales and marketing .....	\$ 80,151	\$ 72,707	\$ 7,444	10.2
Product development and engineering .....	47,185	39,725	7,460	18.8
General and administrative .....	34,492	33,721	771	2.3
Amortization of intangible assets .....	30,383	26,242	4,141	15.8
Total operating expenses .....	<u>\$192,211</u>	<u>172,395</u>	<u>\$19,816</u>	11.5

*Sales and Marketing.* Sales and marketing expenses increased \$7.4 million in the fiscal year ended June 30, 2015 as compared to the fiscal year ended June 30, 2014 principally due to an increase in headcount related costs of \$6.3 million, equipment and software expense of \$0.3 million and advertising expenses of \$0.2 million. The increases were generally due to the operating costs of our fiscal year 2015 acquisitions and the impact of resources we hired to sell and promote our newer products.

*Product Development and Engineering.* The increase in product development and engineering expenses of \$7.5 million in the fiscal year ended June 30, 2015 as compared to the fiscal year ended June 30, 2014 was primarily a result of an increase in employee and professional services related costs.

*General and Administrative.* The increase in general and administrative expenses of \$0.8 million in the fiscal year ended June 30, 2015 as compared to the fiscal year ended June 30, 2014 was principally attributable to an increase in employee related costs, partially attributable to our recent acquisitions, offset in part by a decrease in acquisition and integration related expenses.

*Amortization of Intangible Assets.* We amortize our acquired intangible assets in proportion to the estimated rate at which the asset provides economic benefit to us. Accordingly, amortization expense rates are often higher in the earlier periods of an acquired asset's estimated life. The increase in amortization expense for the fiscal year ended June 30, 2015 as compared to the prior fiscal year occurred as a result of increased expense from acquired intangible assets associated with our recent acquisitions.

***Other Income (Expense), Net***

	<b>Fiscal Year Ended June 30,</b>		<b>Increase Between Periods</b>	
	<b>2015</b>	<b>2014</b>	<b>2015 Compared to 2014</b>	<b>%</b>
	<b>(in thousands)</b>			
Interest income . . . . .	\$ 499	\$ 667	\$ (168)	(25.1)
Interest expense . . . . .	(14,765)	(14,222)	(543)	(3.8)
Other expense, net . . . . .	(1,287)	(989)	(298)	(30.1)
Other expense, net . . . . .	<u>\$(15,553)</u>	<u>\$(14,544)</u>	<u>\$(1,009)</u>	<u>(6.9)</u>

*Other Income (Expense), Net.* For the fiscal year ended June 30, 2015 as compared to the prior fiscal year, interest income decreased slightly as a result of a lower average cash balance in the fiscal year ended June 30, 2015. Interest expense increased slightly due to increased amortization of debt discount. Other expense in fiscal 2015 was primarily the result of foreign exchange losses.

***Provision for Income Taxes***

We recorded income tax expense of \$18.4 million for the fiscal year ended June 30, 2015 compared to income tax expense of \$2.1 million for the fiscal year ended June 30, 2014. The tax expense in fiscal year 2015 was predominantly due to \$16.0 million of tax expense arising from a reserve we established against a portion of our US deferred tax assets. In making our assessment of US deferred tax asset recoverability at June 30, 2015, we considered our historical financial results, our projected future financial results, the planned reversal of existing deferred tax liabilities and the impact of certain planning actions that were largely completed during fiscal 2015. Based on the weighting of both positive and negative evidence we concluded that it was more likely than not that a portion of our US deferred tax assets would not be recovered. To a much lesser extent, we also recorded tax expense associated with our US and UK operations, offset in part by an income tax benefit associated with our Swiss and Israeli operations. The tax expense in fiscal year 2014 was predominantly due to expense associated with our US, UK, and Asia Pacific operations, offset in part by an income tax benefit associated with our Swiss operations. The excess of our effective tax rate over statutory tax rates was primarily due to our inability to utilize certain foreign tax credits as a reduction to foreign income that is included in our US tax return. This has the effect of taxing certain income twice, resulting in a higher overall tax rate (or a decrease in the overall US tax benefit).

***Liquidity and Capital Resources***

We have financed our operations primarily from cash provided by operating activities and the sale of our common stock and, with the issuance of our convertible notes in December 2012, with debt proceeds. We have generated positive operating cash flows in each of our last fifteen completed fiscal years. Accordingly, we believe that the cash generated from our operations and the cash and cash equivalents we have on hand will be sufficient to meet our operating requirements for the foreseeable future.

In addition to our operating cash requirements, we will require cash to pay interest on the notes and to make principal payments on the notes at maturity or upon conversion. While the principal balance of the notes must be satisfied in cash, we are permitted to settle any conversion obligation under the notes in excess of the principal balance in either cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. We intend to satisfy any conversion premium by issuing shares of our common stock. We believe that the cash generated from our operations and the cash and cash equivalents we have on hand will be sufficient to meet our future obligations. If our existing cash resources along with cash generated from operations is insufficient to satisfy our funding requirements we may need to sell additional equity or debt securities or seek other financing arrangements. Although we believe based on our operations today that we would be successful in obtaining additional financing, we cannot be certain that financing alternatives will be available in amounts or at terms that are acceptable to us, or available to us at all.

In fiscal year 2016 we spent \$5.8 million on acquisitions and investments in businesses.

One of our goals is to maintain and improve our capital structure. The key metrics we focus on in assessing the strength of our liquidity and a summary of our cash activity for the years ended June 30, 2016 and 2015 are summarized in the tables below:

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
	(in thousands)	
Cash and cash equivalents . . . . .	\$ 97,174	\$121,163
Marketable securities . . . . .	35,209	23,225
Long-term Debt (1) . . . . .	171,534	159,760

(1) Our long-term debt consists of our convertible notes. The convertible notes are shown on our consolidated balance sheets at their carrying value, which represents the principal balance of \$189.8 million less unamortized discount.

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
	(in thousands)	
Cash provided by operating activities . . . . .	\$ 67,157	\$ 62,700
Cash used in investing activities . . . . .	(45,759)	(91,152)
Cash used in financing activities . . . . .	(40,170)	(10,817)
Effect of exchange rates on cash . . . . .	(5,217)	(7,241)

*Cash, cash equivalents and marketable securities.* At June 30, 2016 our cash and cash equivalents of \$97.2 million consisted primarily of cash deposits held at major banks and money market funds. The \$24.0 million decrease in cash and cash equivalents at June 30, 2016 from June 30, 2015 was primarily due to cash generated from operations of \$67.2 million, offset by cash used to repurchase shares of our common stock for \$44.0 million, for capital expenditures including capitalized software development costs of \$27.7 million, to purchase marketable securities of \$12.3 million and due to the unfavorable effect of exchange rates of \$5.2 million.

At June 30, 2016 our marketable securities of \$35.2 million consisted primarily of US treasury notes, residential mortgage-backed securities, and U.S. corporate debt securities.

At June 30, 2016, approximately \$39.8 million of our cash and cash equivalents was held by our foreign subsidiaries. Our current intention is to reinvest these amounts in the growth of our foreign operations. If our reinvestment plans change based on future events and we decide to repatriate these amounts to fund our domestic operations, the amounts would generally become subject to tax in the US to the extent there were cumulative profits in the foreign subsidiary from which the distribution to the US was made.



*Operating Activities.* Cash generated from operating activities primarily relates to our net loss, less the impact of non-cash expenses and changes in working capital. Cash generated from operations increased by \$4.5 million to \$67.2 million in the fiscal year ended June 30, 2016 versus the prior fiscal year. The increase in cash generated from operations was primarily due to a decrease in cash used by accrued expenses of \$3.2 million, an increase in cash provided by deferred revenue of \$2.8 million, a decrease in cash used by accounts payable of \$2.5 million and a decrease in our net loss of \$15.0 million. The increase was partially offset by an increase in cash used for prepaid expenses and other assets of \$2.6 million and \$4.6 million, respectively, a decrease in cash provided by other liabilities of \$2.1 million and a decrease of non-cash expenses of \$9.5 million.

At June 30, 2016, we had US net operating loss carryforwards of \$83.3 million, which expire at various times through fiscal year 2036 and foreign net operating loss carryforwards of \$13.0 million, primarily in Europe, which have no statutory expiration date. We also have approximately \$5.4 million of research and development tax credit carryforwards available which expire at various points through fiscal year 2036. Our operating losses and tax credit carryforwards may be subject to limitations under provisions of the Internal Revenue Code.

At June 30, 2016, the deferred tax assets associated with our US and Australian operations and a portion of the deferred tax assets associated with our UK and continental European operations have been reserved since, given the available evidence, it was deemed more likely than not that these deferred tax assets would not be realized.

During the fiscal year ended June 30, 2016, we contributed approximately \$1.7 million to our Swiss defined benefit pension plan.

*Investing Activities.* The decrease in net cash used in investing activities for the fiscal year ended June 30, 2016 versus the prior fiscal year was primarily due to the \$68.0 million in cash used to fund prior year acquisitions as compared to the \$5.8 million of cash used to fund acquisitions and investments in businesses during fiscal year 2016. The cash used to fund acquisitions during fiscal years 2016 and 2015 was as follows:

#### 2016 Asset Acquisition and Other Investment

- During the fiscal year ended June 30, 2016, we completed an asset acquisition through which we acquired core technology for \$1.5 million.
- In December 2015, we made a \$3.5 million investment in preferred stock of a privately held, early-stage technology company.

#### 2015 Acquisition Activity

- In July 2014, we acquired Litco for a cash payment of \$0.7 million and 4,999 shares of our common stock.
- In November 2014, we acquired Arian Software Limited for a cash payment of £2.2 million (approximately \$3.5 million, net of cash acquired, based on exchange rates in effect at the acquisition date) and 60,000 shares of our common stock.
- In January 2015, we acquired Intellinx Ltd. for a cash payment of \$63.8 million, net of cash acquired and 774,000 shares of our common stock.

*Financing Activities.* The increase in cash used by financing activities for the fiscal year ended June 30, 2016 was predominantly due to our repurchase of our common stock of \$44.0 million.

### ***Contractual Obligations***

Following is a summary of future payments that we are required to make under existing contractual obligations as of June 30, 2016:

	Payment Due by Fiscal Year				
	2017	2018-2019	2020-2021	Thereafter	Total
	(in thousands)				
Long-term debt:					
Principal payment	\$ —	\$189,750	\$ —	\$ —	\$189,750
Interest payments	2,846	1,423	—	—	4,269
Operating leases	5,297	9,333	7,506	9,280	31,416
Purchase commitments	6,936	8,817	678	—	16,431
Total contractual obligations	<u>\$15,079</u>	<u>\$209,323</u>	<u>\$8,184</u>	<u>\$9,280</u>	<u>\$241,866</u>

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.

Our estimate of unrecognized tax benefits for which cash settlement may be required, in the amount of \$1.3 million, has been excluded from the table above. These amounts have been excluded because, as of June 30, 2016, we are unable to estimate the timing of future cash outflows, if any, associated with these liabilities as we do not currently anticipate settling any of these tax positions with cash payment in the foreseeable future.

The contractual obligations table above also excludes our estimate of the contributions we will make to our Swiss defined benefit pension plan in fiscal year 2017 which is \$1.6 million. We are unable to estimate contribution amounts for periods after fiscal year 2017.

### ***Off-Balance Sheet Arrangements***

During the fiscal year ended June 30, 2016 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 our cash and cash equivalents and marketable securities. We have not entered into any interest rate swap agreements or other instruments to minimize our exposure to interest rate fluctuations. Our cash and cash equivalents typically consist of demand deposit accounts, money market mutual funds and U.S. Treasury securities. Based on our current average balances of cash and cash equivalents, a significant change in interest rates could have a material effect on our operating results. Based on our average cash and cash equivalents balance, average actual interest rates and actual interest income during the respective annual periods, a 100 basis point increase in interest rates would result in a hypothetical increase of approximately \$1.1 million, \$1.4 million and \$1.8 million for the fiscal years ended 2016, 2015 and 2014, respectively, in our results of operations and cash flows. A 100 basis point decrease in interest rates would reduce our interest income to zero.

Our marketable securities are held in government and US corporate debt securities with maturities of less than three years. A 100 basis point change in interest rates would not have had a significant impact on our income from marketable securities for the fiscal years ended June 30, 2016, 2015 and 2014.

Our convertible notes are at a fixed rate of interest.

*Foreign currency exchange rate risk*

We have significant operations located in the United Kingdom, where the functional currency is British Pound Sterling and in Switzerland, where the functional currency is the Swiss Franc. We also have operations in Australia, where the functional currency is the Australian dollar, in Germany and France, where the functional currency is the European Euro and in Canada, where the functional currency is the Canadian Dollar. 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*

The following sensitivity analysis is based on a hypothetical 10 percent increase or decrease in foreign currency exchange rates and presents the impact that such an increase or decrease would have had on our cash balances as of June 30, 2016 and 2015:

	<b>Effect of a 10% Increase or Decrease in Average Exchange Rates</b>	
	<b>Cash and cash equivalents</b>	
	<b>2016</b>	<b>2015</b>
	(in thousands)	
Between US Dollar and:		
British Pounds Sterling (+/-) .....	\$3,974	\$1,789
Swiss Franc (+/-) .....	\$ 993	\$1,566
European Euro (+/-) .....	\$ 192	\$ 138
Australian Dollar (+/-) .....	\$ 278	\$ 298

A 10% increase or decrease in the exchange rate between the Israeli Shekel and the US Dollar or the Canadian Dollar and the US Dollar would not have had a significant impact on our cash and cash equivalents at June 30, 2016 or June 30, 2015.

The following sensitivity analysis is based on a hypothetical 10 percent increase or decrease in foreign currency exchange rates and presents the impact that such an increase or decrease would have had on our revenue and net loss for the years ended June 30, 2016, 2015 and 2014:

	<b>Effect of a 10% Increase or Decrease in Average Exchange Rates</b>					
	<b>Revenue</b>			<b>Net loss</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands)					
Between US Dollar and:						
British Pounds Sterling (+/-) .....	\$9,624	\$9,374	\$9,672	\$ 754	\$934	\$1,165
Swiss Franc (+/-) .....	\$3,467	\$3,298	\$2,537	\$ 197	\$629	\$ 815
European Euro (+/-) .....	\$ 420	\$ 515	\$ 481	\$ 27	\$ 34	\$ 32
Australian Dollar (+/-) .....	\$ 299	\$ 375	\$ 293	\$ 2	\$ 22	\$ 4
Israeli Shekel (+/-) .....	\$ 542	\$ 206	\$ —	\$1,046	\$ 31	\$ —

A 10% increase or decrease in the average exchange rate between the Canadian Dollar and the US Dollar would not have had a significant impact on our revenue or net income for the years ended June 30, 2016, 2015 or 2014.

### *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.

### *Derivative instruments risk*

We are party to various derivative instruments related to the issuance of our convertible notes. At June 30, 2016, all of our derivative instruments qualified for classification within stockholders' equity. We are required, however, for the remaining term of the notes, to assess whether we continue to meet the stockholders' equity classification requirements and if in any future period we fail to satisfy those requirements we would need to reclassify these instruments out of stockholders' equity and back into a derivative asset or liability; at which point we would again be required to record any changes in fair value through earnings.

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

The information required by this item is included in Item 15 of Part IV of this Annual Report on Form 10-K and incorporated herein by reference. Reference is made to the Index to Financial Statements, Financial Statements and Supplementary Data, which appear within Item 15.

### **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, 2016. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of June 30, 2016, 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, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

Not applicable.

## PART III

### **Item 10. *Directors, Executive Officers 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, 2016. 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 Accountant 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.

**PART IV**

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

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

	<u>Page</u>
(1) Financial Statements—see Index to Consolidated Financial Statements .....	54
(2) Financial Statement Schedule for the Years Ended June 30, 2016, 2015 and 2014:	
Schedule II—Valuation and Qualifying Accounts .....	53
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:	
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 .....	97

**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
**ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**Years Ended June 30, 2016, 2015 and 2014**

<u>Year Ended</u>	<u>Activity</u>				<u>Balance at End of Year</u>
	<u>Balance at Beginning of Year</u>	<u>(Charged to Revenue, Costs and Expenses)</u>	<u>Additions and Recoveries (1)</u>	<u>Deductions (2)</u>	
			(in thousands)		
June 30, 2016 .....	\$924	415	39	396	\$982
June 30, 2015 .....	\$862	248	79	265	\$924
June 30, 2014 .....	\$769	214	53	174	\$862

- (1) Additions primarily represent increases to the allowance for doubtful accounts balance as a result of the impact of increases in foreign currency exchange rates.
- (2) Deductions are principally write-offs as well as the impact of decreases in foreign currency exchange rates.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Management's Annual Report on Internal Control Over Financial Reporting .....	55
Report of Independent Registered Public Accounting Firm .....	56
Consolidated Balance Sheets as of June 30, 2016 and 2015 .....	58
Consolidated Statements of Comprehensive Loss for the years ended June 30, 2016, 2015 and 2014 .....	59
Consolidated Statements of Stockholders' Equity for the years ended June 30, 2016, 2015 and 2014 .....	60
Consolidated Statements of Cash Flows for the years ended June 30, 2016, 2015 and 2014 .....	61
Notes to Consolidated Financial Statements .....	62



## **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, 2016. 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 (2013 framework).

Based on our assessment, management concluded that, as of June 30, 2016, 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 the Company's internal control over financial reporting. This report appears on page 56.

## 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, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (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.

In our opinion, Bottomline Technologies (de), Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on the COSO criteria.

We also have 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, 2016 and 2015, and the related consolidated statements of comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2016 of Bottomline Technologies (de), Inc. and our report dated August 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts  
August 29, 2016

## 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, 2016 and 2015, and the related consolidated statements of comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2016. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2). 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bottomline Technologies (de), Inc.'s internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts  
August 29, 2016

**CONSOLIDATED BALANCE SHEETS**  
**Bottomline Technologies (de), Inc.**  
**Condensed Consolidated Balance Sheets**

	<b>June 30,</b>	<b>June 30,</b>
	<b>2016</b>	<b>2015</b>
	(in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 97,174	\$ 121,163
Marketable securities .....	35,209	23,225
Accounts receivable net of allowances for doubtful accounts of \$982 at June 30, 2016 and \$924 at June 30, 2015 .....	61,773	65,140
Deferred tax assets .....	6,244	5,388
Prepaid expenses and other current assets .....	16,141	14,325
Total current assets .....	216,541	229,241
Property and equipment, net .....	51,029	47,579
Goodwill .....	202,028	215,360
Intangible assets, net .....	164,930	185,290
Other assets .....	18,359	11,014
Total assets .....	\$ 652,887	\$ 688,484
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 10,218	\$ 11,623
Accrued expenses .....	27,512	24,436
Deferred revenue .....	74,332	70,383
Total current liabilities .....	112,062	106,442
Convertible senior notes .....	171,534	159,760
Deferred revenue, non-current .....	19,086	17,624
Deferred income taxes .....	28,147	35,542
Other liabilities .....	27,271	20,578
Total liabilities .....	358,100	339,946
Stockholders' equity		
Preferred Stock, \$.001 par value:		
Authorized shares—4,000; issued and outstanding shares—none .....	—	—
Common Stock, \$.001 par value:		
Authorized shares—100,000; issued shares—41,602 at June 30, 2016 and 40,337 at June 30, 2015; outstanding shares—37,770 at June 30, 2016 and 38,105 at June 30, 2015 .....	42	40
Additional paid-in-capital .....	591,800	560,083
Accumulated other comprehensive loss .....	(37,668)	(13,511)
Treasury stock: 3,832 shares at June 30, 2016 and 2,232 shares at June 30, 2015, at cost .....	(75,832)	(34,167)
Accumulated deficit .....	(183,555)	(163,907)
Total stockholders' equity .....	294,787	348,538
Total liabilities and stockholders' equity .....	\$ 652,887	\$ 688,484

See accompanying notes.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended June 30,		
	2016	2015	2014
	(in thousands, except per share data)		
Revenues:			
Subscriptions and transactions	\$195,187	\$171,361	\$141,103
Software licenses	20,826	21,907	20,769
Service and maintenance	120,292	130,183	131,531
Other	6,969	7,438	7,182
Total revenues	<u>343,274</u>	<u>330,889</u>	<u>300,585</u>
Cost of revenues:			
Subscriptions and transactions	87,775	79,397	69,220
Software licenses	1,030	1,583	1,602
Service and maintenance	53,236	53,094	54,463
Other	5,059	5,367	5,383
Total cost of revenues	<u>147,100</u>	<u>139,441</u>	<u>130,668</u>
Gross profit	196,174	191,448	169,917
Operating expenses:			
Sales and marketing	84,068	80,151	72,707
Product development and engineering	47,355	47,185	39,725
General and administrative	39,324	34,492	33,721
Amortization of intangible assets	28,978	30,383	26,242
Total operating expenses	<u>199,725</u>	<u>192,211</u>	<u>172,395</u>
Loss from operations	(3,551)	(763)	(2,478)
Interest income	533	499	667
Interest expense	(15,539)	(14,765)	(14,222)
Other expense, net	(306)	(1,287)	(989)
Other expense, net	<u>(15,312)</u>	<u>(15,553)</u>	<u>(14,544)</u>
Loss before income taxes	(18,863)	(16,316)	(17,022)
Income tax provision	785	18,364	2,082
Net loss	<u>\$ (19,648)</u>	<u>\$ (34,680)</u>	<u>\$ (19,104)</u>
Basic and diluted net loss per share:	<u>\$ (0.52)</u>	<u>\$ (0.92)</u>	<u>\$ (0.52)</u>
Shares used in computing basic and diluted net loss per share:	<u>37,957</u>	<u>37,806</u>	<u>36,834</u>
Other comprehensive loss, net of tax:			
Unrealized gain (loss) on available for sale securities	55	(10)	24
Minimum pension liability adjustments	(6,198)	(3,032)	272
Foreign currency translation adjustments	<u>(18,014)</u>	<u>(17,285)</u>	<u>16,980</u>
Other comprehensive income (loss), net of tax:	<u>(24,157)</u>	<u>(20,327)</u>	<u>17,276</u>
Comprehensive loss	<u>\$ (43,805)</u>	<u>\$ (55,007)</u>	<u>\$ (1,828)</u>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
	(in thousands)							
Balance at June 30, 2013	37,903	\$38	\$499,182	\$(10,460)	1,858	\$(21,888)	\$(110,123)	\$356,749
Issuance of common stock for employee stock purchase plan and upon exercise of stock options	255		3,796		(111)	1,309		5,105
Vesting of restricted stock awards	952	1	(1)					—
Stock compensation expense			22,821					22,821
Capitalized stock compensation expense			48					48
Issuance of common stock in connection with acquisitions	114		3,746					3,746
Tax benefit associated with non qualified stock option exercises and forfeitures			560					560
Fair value of equity awards assumed in acquisition			225					225
Minimum pension liability adjustments, net of tax				272				272
Net income							(19,104)	(19,104)
Unrealized loss on available for sale securities, net of tax				24				24
Foreign currency translation adjustment				16,980				16,980
Balance at June 30, 2014	39,224	\$39	\$530,377	\$ 6,816	1,747	\$(20,579)	\$(129,227)	\$387,426
Issuance of common stock for employee stock purchase plan and upon exercise of stock options	136		2,638	—	(109)	1,453		4,091
Vesting of restricted stock awards	977	1	(1)					—
Stock compensation expense			27,025					27,025
Amortization of previously capitalized stock compensation expense			(48)					(48)
Repurchase of common stock to be held in treasury					594	(15,041)		(15,041)
Tax benefit associated with non qualified stock option exercises and forfeitures			92					92
Minimum pension liability adjustments, net of tax				(3,032)				(3,032)
Net income							(34,680)	(34,680)
Unrealized loss on available for sale securities, net of tax				(10)				(10)
Foreign currency translation adjustment				(17,285)				(17,285)
Balance at June 30, 2015	40,337	\$40	\$560,083	\$(13,511)	2,232	\$(34,167)	\$(163,907)	\$348,538
Issuance of common stock for employee stock purchase plan and upon exercise of stock options	92	1	1,229	—	(125)	2,297		3,527
Vesting of restricted stock awards	1,173	1	(1)					—
Stock compensation expense			30,279					30,279
Repurchase of common stock to be held in treasury					1,725	(43,962)		(43,962)
Tax benefit associated with non qualified stock option exercises and forfeitures			210					210
Minimum pension liability adjustments, net of tax				(6,198)				(6,198)
Net income							(19,648)	(19,648)
Unrealized loss on available for sale securities, net of tax				55				55
Foreign currency translation adjustment				(18,014)				(18,014)
Balance at June 30, 2016	41,602	\$42	\$591,800	\$(37,668)	3,832	\$(75,832)	\$(183,555)	\$294,787

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(in thousands)		
Operating activities:			
Net loss	\$ (19,648)	\$ (34,680)	\$ (19,104)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of acquired intangible assets	28,978	30,383	26,242
Stock compensation expense	30,279	27,025	22,821
Depreciation and other amortization	13,489	10,507	8,250
Deferred income tax benefit	(3,111)	12,173	(5,781)
Provision for allowances on accounts receivable	415	248	214
Excess tax benefits associated with stock compensation	(265)	(133)	(560)
Amortization of debt issuance costs	1,184	1,184	1,184
Amortization of debt discount	11,774	10,965	10,213
Amortization of premium on investments	338	388	366
Loss on disposal of equipment	24	4	54
Write down of fixed assets	17	—	—
Loss on foreign exchange	171	(2)	35
Changes in operating assets and liabilities:			
Accounts receivable	(543)	(310)	(5,690)
Prepaid expenses and other current assets	(2,449)	180	(1,853)
Other assets	(4,412)	222	(898)
Accounts payable	(682)	(3,193)	1,535
Accrued expenses	1,835	(1,333)	(2,253)
Deferred revenue	10,361	7,561	14,915
Other liabilities	(598)	1,511	2,531
Net cash provided by operating activities	67,157	62,700	52,221
Investing activities:			
Acquisition of businesses and assets, net of cash acquired	(1,763)	(68,017)	(153,491)
Purchases of cost-method investments	(4,010)	—	—
Purchases of held-to-maturity securities	(168)	(96)	(78)
Proceeds from sales of held-to-maturity securities	168	96	55
Purchase of available-for-sale securities	(28,113)	(15,185)	(28,453)
Proceeds from sales of available-for-sale securities	15,836	15,347	13,873
Capital expenditures, including capitalization of software costs	(27,717)	(23,297)	(12,652)
Proceeds from disposal of property and equipment	8	—	113
Net cash used in investing activities	(45,759)	(91,152)	(180,633)
Financing activities:			
Repurchase of common stock	(43,962)	(15,041)	—
Proceeds from exercise of stock options and employee stock purchase plan	3,527	4,091	5,105
Excess tax benefits associated with stock compensation	265	133	560
Net cash used in financing activities	(40,170)	(10,817)	5,665
Effect of exchange rate changes on cash	(5,217)	(7,241)	6,868
Decrease in cash and cash equivalents	(23,989)	(46,510)	(115,879)
Cash and cash equivalents at beginning of period	121,163	167,673	283,552
Cash and cash equivalents at end of period	\$ 97,174	\$ 121,163	\$ 167,673
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 2,847	\$ 2,854	\$ 2,792
Income taxes	\$ 4,771	\$ 7,507	\$ 5,023
Non-cash investing and financing activities:			
Issuance of common stock in connection with acquisition of business	\$ —	\$ —	\$ 3,746

See accompanying notes.

**BOTTOMLINE TECHNOLOGIES (de), INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2016, 2015 and 2014**

**1. Organization and Nature of Business**

Bottomline Technologies (de), Inc. is a Delaware corporation that helps businesses pay and get paid. We make complex business payments simple, secure and seamless by providing a trusted and easy-to-use set of cloud-based business payment, digital banking, fraud prevention, payment and financial document solutions. We offer hosted or Software as a Service (SaaS) solutions, as well as software designed to run on-site at the customer's location. Our products and services are sold to customers operating in many different industries throughout the world, but principally in the US, UK and continental Europe regions.

**2. Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements include our accounts and the accounts of our 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 us 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, recoverability of deferred tax assets, determining the fair value associated with acquired assets and liabilities including deferred revenue, intangible asset and goodwill impairment, pension benefit obligations and certain other of our accrued liabilities. Actual results could differ from those estimates.

*Foreign Currency Translation*

We have international subsidiaries in Europe, in the Asia-Pacific region and in Canada, whose functional currencies are either the British Pound Sterling, Swiss Franc or European Euro (in respect of our European subsidiaries), the Australian Dollar (in respect of our Asia Pacific subsidiary) or the Canadian Dollar (in respect of our Canadian subsidiary). Assets and liabilities of all of our international subsidiaries have been translated into US 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. Foreign currency transaction gains and losses are included in results of operations as incurred and are not significant to our overall operations.

*Cash and Cash Equivalents*

We consider all highly liquid instruments with an original maturity of three months or less to be cash equivalents. The carrying value of these instruments approximates their fair value. At June 30, 2016, our cash equivalents consisted of demand deposit accounts and money market funds.

*Marketable Securities*

All marketable securities must be classified as one of the following: held to maturity, available for sale, or trading. At June 30, 2016 we held \$35.2 million of marketable securities which consisted primarily of US treasury notes, residential mortgage-backed securities, and U.S. corporate debt securities.



Our held to maturity investments, all of which mature within one year, are recorded at amortized cost and interest income is recognized in earnings when earned. The cost of securities sold is determined based on the specific identification method. At June 30, 2016 and 2015 the amortized cost of our held-to-maturity investments approximated their fair value.

Our securities classified as available for sale are recorded at fair value, with all unrealized gains or losses recorded as a component of other comprehensive income or (loss). At June 30, 2016 and 2015, \$20.0 million and \$12.7 million, respectively, of our available for sale securities had maturities of less than one year and the remaining \$15.1 million and \$10.4 million, respectively, had maturities of between one and five years. The cost of securities sold is determined based on the specific identification method. At June 30, 2016 and 2015, our net unrealized loss associated with our investment securities was not significant.

At June 30, 2016, the difference between the fair value of our available for sale securities and their amortized cost was not significant.

The table below presents information regarding our marketable securities by major security type as of June 30, 2016 and 2015.

	June 30, 2016			June 30, 2015		
	Held to Maturity	Available for Sale	Total	Held to Maturity	Available for Sale	Total
	(in thousands)					
Marketable securities:						
Corporate and other debt securities . . . . .	63	35,146	35,209	65	23,160	23,225
Total marketable securities . . . . .	<u>\$63</u>	<u>\$35,146</u>	<u>\$35,209</u>	<u>\$65</u>	<u>\$23,160</u>	<u>\$23,225</u>

All of our available for sale marketable securities are classified as current assets as we do not have the positive intent to hold these investments until maturity.

The following table presents the aggregate fair values and gross unrealized losses for those available for sale investments that were in an unrealized loss position as of June 30, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	At June 30, 2016	
	Less than 12 Months	
	Fair Value	Unrealized Loss
	(in thousands)	
US Corporate . . . . .	\$2,760	\$2
Residential mortgage-backed . . . . .	\$4,229	\$5
Total . . . . .	<u>\$6,989</u>	<u>\$7</u>

*Other Investments*

We have certain other investments accounted for at cost. The carrying value of these investments was \$7.7 million and \$3.4 million as of June 30, 2016 and June 30, 2015, respectively, and they are reported as a component of our other assets. The investments are evaluated periodically for indicators of impairment and impairment losses, to the extent occurring, would be recorded as an operating expense in the period incurred. At June 30, 2016, we reviewed the carrying value of these investments and concluded that they were not impaired.

For all but one of our investments, we are unable to exercise significant influence over the investee. In respect of one of our investments, we are able to exercise significant influence over the investee, although we are

unable to exert control. Relative to this investment, we do not hold common stock or in-substance common stock since the equity underlying our investment is preferred stock which includes a substantial liquidation preference not available to common stockholders. Accordingly, this investment is also accounted for under the cost-method of accounting.

#### *Concentration of Credit Risk*

Financial instruments that potentially subject us to significant concentrations of credit risk consist of cash and cash equivalents and accounts receivable. We had approximately \$91.3 million of cash and cash equivalents invested with six financial institutions at June 30, 2016. Balances of cash and cash equivalents are typically in excess of any insurance, such as FDIC coverage, that may protect our deposits.

Our accounts receivable are reported in our consolidated balance sheets net of allowances for uncollectible accounts. We believe that the concentration of credit risk with respect to accounts receivable is limited due to the large number of companies and diverse industries comprising our customer base. On-going credit evaluations are performed, generally with a focus on new customers or customers with whom we have had no prior collections history, and collateral is generally not required. We maintain reserves for potential losses based on customer specific situations as well as our historic experience and such losses, in the aggregate, have not exceeded our expectations. There were no customers that, individually, accounted for more than 10% of our consolidated accounts receivable balance at June 30, 2016 or 2015. For the fiscal years ended June 30, 2016, 2015, and 2014, we had no customer that accounted for 10% or greater of our consolidated revenues.

#### *Financial Instruments*

The fair value of our financial instruments, which include cash and cash equivalents, marketable securities, accounts receivable and accounts payable and our convertible senior notes 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 fair value of these financial instruments is discussed in Note 3—Fair Values of Assets and Liabilities.

#### *Accounts Receivable*

Accounts receivable include unbilled receivables of approximately \$4.1 million and \$4.9 million at June 30, 2016 and 2015, respectively. Unbilled receivables include revenues recognized for which billings have not yet been presented to the customers, based on the contractually stipulated billing requirements.

#### *Inventory*

Inventory, all of which is categorized as finished goods, is stated at the lower of our cost of purchase (first-in, first-out method) or market.

#### *Property and Equipment*

Property and equipment are stated at cost, net of accumulated amortization and depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Property, equipment, furniture, fixtures and vehicles	3-7 years
Software	3-5 years
Technical equipment	3-5 years
Building (Reading, England)	50 years
Leasehold improvements	Remaining lease term, inclusive of expected renewal periods

Periodically, based on specific transactions, we may assign a life outside of the general range of useful lives noted here if a particular asset's estimated period of use falls outside of the normal range.

### *Goodwill and Other Intangible Assets*

We initially record goodwill and other acquired intangible assets at their estimated fair values, and we review these assets periodically for impairment. Goodwill represents the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed in a business combination and is tested at least annually for impairment; historically during our fourth quarter.

Our specifically identifiable intangible assets, which consist principally of customer related assets and core technology, are reported net of accumulated amortization and are amortized over their estimated useful lives at amortization rates that are proportional to each asset's estimated economic benefit. We review the carrying value of these intangible assets annually, or more frequently if indicators of impairment are present.

In performing our review of the recoverability of goodwill and other intangible assets we consider 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. We also consider 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, we must estimate the fair value of the reporting unit to which the goodwill is assigned. If as a result of examining any of these factors we conclude that the carrying value of goodwill or any other intangible asset exceeds its estimated fair value, we will recognize an impairment charge and reduce the carrying value of the asset to its estimated fair value.

### *Advertising Costs*

We expense advertising costs as incurred. Advertising costs were \$2.6 million, \$1.3 million, and \$1.0 million for the years ended June 30, 2016, 2015 and 2014, respectively.

### *Shipping and Handling Costs*

We expense all shipping, handling and delivery costs in the period incurred, generally as a component of equipment and supplies cost of revenues.

### *Commissions Expense*

We record commissions as a component of sales and marketing expense when earned by the respective salesperson. Excluding certain arrangements within our Digital Banking segment, for which commissions are earned as revenue is recorded over the period of project performance, substantially all software commissions are earned in the month in which a customer order is received. Commissions associated with professional services are typically earned in the month that services are rendered. Commissions associated with post-contract customer support arrangements and subscription-based arrangements are typically earned when the customer is billed for the underlying contractual period, or in the period the order is received. Commissions are normally paid within thirty days of the month in which they are earned.

### *Research and Development Expenditures*

Research and development costs incurred prior to the establishment of technological feasibility (for software to be sold, leased or otherwise marketed), or prior to application development (for internal-use software) are expensed as incurred.

### *Debt Issuance Costs*

We incurred certain third party costs in connection with our issuance of the convertible notes (the Notes), as defined in Note 10, principally related to underwriting and legal fees. These costs are included as part of other assets on our consolidated balance sheets and are being amortized to interest expense ratably over the five-year term of the Notes.

### *Income Taxes and Income Tax Uncertainties*

We recognize deferred tax assets and deferred tax liabilities based on differences in the financial reporting and tax basis of the underlying assets or liabilities, measured at tax rates that are expected to be in effect when the differences reverse. A valuation allowance to reduce the carrying value of deferred tax assets is 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.

In respect of income tax uncertainties, we perform a two-step analysis for all tax positions. The first step involves an evaluation of the underlying tax position based solely on technical merits (such as tax law) and the second step involves measuring the tax position based on the probability of it being sustained in the event of a tax examination. We recognize tax benefits at the largest amount that we deem more likely than not will be realized upon ultimate settlement of any tax uncertainty. Tax positions that fail to qualify for recognition are recognized in the period in which the more-likely-than-not standard has been reached, when the tax positions are resolved with the respective taxing authority or when the statute of limitations for tax examination has expired.

We record any interest or penalties accruing in respect of uncertain tax positions as a component of income tax expense.

### *Share-Based Compensation*

We recognize expense for the estimated fair value of our share-based compensation. The expense associated with share-based payment awards is recognized on a straight-line basis over the award's vesting period.

### *Capitalized Software Costs*

Capitalization of software development costs for software that is to be sold, leased or otherwise marketed begins upon the establishment of technological feasibility. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by us with respect to certain factors, including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life, and changes in software and hardware technologies. Capitalized costs commence amortization on the date of general release using the greater of the straight-line method over the estimated useful life, or the ratio of revenue in the period to total expected revenues over the product's expected useful life. For the fiscal year ended June 30, 2016, 2015 and 2014 we capitalized \$7.8 million, \$5.0 million and \$0.1 million, respectively and expensed \$1.2 million, \$0 million and \$0 million of software development costs, respectively, other than software developed for internal use. At June 30, 2016 and 2015, the net carrying value of capitalized software, other than software developed for internal use, was \$11.7 million and \$5.2 million, respectively.

We capitalize certain development costs associated with internal use software, including software that we use to provide our hosted solutions, during the application development stage. We expense costs associated with preliminary project phase activities, training, maintenance and any post-implementation period costs as incurred. For the fiscal years ended June 30, 2016, 2015 and 2014, we capitalized \$6.0 million, \$5.7 million and \$4.3 million, respectively, of internal use software development costs. The substantial majority of these costs were costs associated with our SaaS based technology platforms. Capitalized internal use software costs are amortized over estimated useful lives ranging from 2 to 7 years once the related project has been completed and deployed for customer use. For the fiscal years ended June 30, 2016, 2015 and 2014, we expensed \$2.5 million, \$1.3 million and \$0.4 million of capitalized internal use software costs. At June 30, 2016 and 2015, the net carrying value of capitalized internal use software was \$12.9 million and \$9.7 million, respectively. The net carrying value at June 30, 2016 was reduced by approximately \$0.3 million due to the impact of foreign currency translation adjustments.

### *Revenue Recognition*

#### *Software Arrangements*

We recognize revenue on our software license arrangements when four basic criteria are met: persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed and determinable and collectability is probable. We consider a fully executed agreement or a customer purchase order to be persuasive

evidence of an arrangement. Delivery is deemed to have occurred upon transfer of the product to the customer or the completion of services rendered. We consider the arrangement fee to be fixed and determinable if it is not subject to adjustment and if the customer has not been granted extended payment terms. Excluding our long term contract arrangements where revenue is recorded on a percentage of completion basis, extended payment terms are deemed to be present when any portion of the software license fee is due in excess of 90 days after the date of product delivery. In arrangements that contain extended payment terms, software revenue is recorded as customer payments become contractually due, assuming all other revenue recognition criteria have been met. We consider the arrangement fee to be probable of collection if our internal credit analysis indicates that the customer will be able to pay contractual amounts as they become due.

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

Certain of 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 and costs 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 use the percentage of completion method of accounting for our long-term contracts, as 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 financial reporting period, for purposes of evaluating cumulative labor hours incurred and verifying the estimated remaining effort to completion; this ensures that our estimates are always based on the most current projections available.

#### *Non-Software Arrangements*

For arrangements governed by general revenue recognition literature, such as with our SaaS offerings or equipment and supplies only sales, we recognize revenue when four basic criteria are met. These criteria are similar to those governing software transactions: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the arrangement fee is fixed or determinable and collectability is reasonably assured. For our SaaS offerings, revenue is generally recognized on a subscription or transaction basis over the period of performance.

For arrangements consisting of multiple elements, revenue is allocated to each element based on a selling price hierarchy. The selling price of each element is based on VSOE if available, third-party evidence (TPE) if VSOE is not available or estimated selling price (ESP) if neither VSOE nor TPE are available. The residual method of allocation in a non-software arrangement is not permitted and, instead, arrangement consideration is allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionately to each deliverable based on the proportion of each deliverable's selling price to the total arrangement fee. We are typically unable to establish TPE, which is based on the selling price charged by unrelated third-party vendors for similar deliverables when they are sold separately, as we are generally unable to obtain sufficient information on actual vendor selling prices to substantiate TPE. The objective of ESP is to estimate the price at which we would transact if the deliverable were sold separately rather than as part of a multiple element arrangement. Our determination of ESP considers several factors including actual selling prices for similar transactions, gross margin expectations and our ongoing pricing strategy. We formally analyze our ESP determinations on at least an annual basis.

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

We periodically charge up-front fees related to installation and integration services in connection with certain of our SaaS offerings. These fees typically do not have stand-alone value and are deferred and recognized as revenue ratably over the estimated customer relationship period (generally five to ten years). The revenue recognition period associated with these fees normally commences upon customer implementation.

Contract origination costs and incremental direct costs are expensed as incurred.

#### *Arrangements Including Both Software and Non-Software Deliverables*

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

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

#### *Earnings per Share*

We report both 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 the 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 are included in the calculation. Dilutive securities are excluded from the diluted earnings per share calculation if their effect is anti-dilutive.

#### *Comprehensive Income or Loss*

Comprehensive income or loss includes all changes in equity during a period from non-owner sources, such as net income or loss, foreign currency translation adjustments, certain pension adjustments and unrealized gains and losses on available for sale securities.

### *Recent Accounting Pronouncements:*

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update which provides for new revenue recognition guidance, superseding nearly all existing revenue recognition guidance. The core principle of the new guidance is to recognize revenue when promised goods or services are transferred to customers, in an amount that reflects the consideration to which the vendor expects to receive for those goods or services. The new standard is expected to require more judgment and estimates within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to separate performance obligations. The new standard is also expected to significantly increase the financial statement disclosure related to revenue recognition. This standard is currently effective for us on July 1, 2018 (the first quarter of our fiscal year ending June 30, 2019) using one of two methods of adoption: (i) retrospective to each prior reporting period presented, with the option to elect certain practical expedients as defined within the standard; or (ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application inclusive of certain additional disclosures.

We are continuing to evaluate the expected impact of this standard on our consolidated financial statements and we have not yet selected a method of adoption. While our assessment of the impact of this standard is not complete, we currently believe that the most significant impact will be in two specific areas:

- Under the new standard, the absence of VSOE in certain software license arrangements will no longer result in strict revenue deferral, as instead fair value will be assigned to arrangement elements based on a fair value hierarchy no longer dependent on the presence of VSOE. Absent a change in how we license our products, we believe that this will result in greater up-front recognition of software revenue for certain of our license arrangements.
- Under the new standard, certain expenses we incur will require deferral and recognition over the period in which revenue is recognized, subject to certain exceptions. We believe that this will result in the deferral of certain implementation and commission costs associated with our SaaS offerings which would then be recognized as expense over a multi-year period; such costs are expensed directly as incurred today.

However, we are unable to quantify the impact of these outcomes at this time, nor can we ensure that our continuing analysis and interpretation of the standard will result in this financial reporting outcome.

In June 2014, the FASB issued an accounting standard update which eliminated the definition of a development stage entity and the financial reporting requirements specific to development stage entities. The update also eliminated an exception that previously existed in the consolidation accounting standard for determining whether a development stage entity had sufficient equity at risk and therefore was a variable interest entity (VIE). The update in this accounting standard to the consolidation guidance is effective for us on July 1, 2016 (the first quarter of the fiscal year ending June 30, 2017). We do not believe that this update will have a material impact on our financial statements.

In April 2015, the FASB issued an accounting standard update which requires that debt issuance costs be presented in the balance sheet as a direct reduction to the carrying value of the debt. This standard is effective for us on July 1, 2016 (the first quarter of our 2017 fiscal year) with early application permitted. Upon adoption of this standard, deferred debt issuance costs will be reclassified from non-current assets and shown as a reduction to the debt carrying value in our consolidated balance sheet. Deferred debt issuance costs were approximately \$1.7 million at June 30, 2016. The adoption of this standard will be applied retrospectively and will not have an impact on our statements of comprehensive loss or cash flows.

In April 2015, the FASB issued an accounting standard update which provides guidance as to whether a cloud computing arrangement (e.g., software as a service, platform as a service, infrastructure as a service, and

other similar arrangements) includes a software license, and based on that determination, how to account for such arrangements. This standard is effective for us on July 1, 2016 (the first quarter of the fiscal year ending June 30, 2017) and may be applied on either a prospective or retrospective basis. We do not believe this update will have a material impact on our financial statements.

In September 2015, the FASB issued an accounting standard update which requires that measurement-period adjustments related to the accounting for business combinations are to be recorded in the period in which the adjusted amounts are determined. This includes disclosure of any impact on current period earnings of amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. Disclosure of the adjustment amount included in current period earnings must be provided by line item or as a separate item on the face of our income statement. The standard is effective for us on July 1, 2016, with early adoption permitted. We elected to adopt this standard as of July 1, 2015; the adoption of the standard did not have a material impact on our balance sheet, statements of comprehensive loss or cash flows.

In November 2015, the FASB issued an accounting standard update which requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent in the balance sheet. As a result, each separate tax jurisdiction will have one net tax position, either a noncurrent deferred tax asset or a noncurrent deferred tax liability. The standard is effective for us on July 1, 2017 (the first quarter of the fiscal year ending June 30, 2018) with early adoption permitted and can be applied either prospectively or retrospectively. Upon adoption we anticipate that this will result in a reduction to our current deferred tax assets and an increase to our noncurrent deferred tax assets with no impact on our statements of comprehensive loss or cash flows.

In January 2016, the FASB issued an accounting standard update which requires, among other things, that entities measure equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value, with changes in fair value recognized in earnings. Under the standard, entities will no longer be able to recognize unrealized holding gains and losses on equity securities classified today as available for sale as a component of other comprehensive income. For equity investments without readily determinable fair values the cost method of accounting is also eliminated, however subject to certain exceptions, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment and plus or minus adjustments for observable price changes, with all such changes recognized in earnings. This new standard does not change the guidance for classifying and measuring investments in debt securities and loans. The standard is effective for us on July 1, 2018 (the first quarter of fiscal year 2019). We are currently evaluating the anticipated impact of this standard on our financial statements.

In February 2016, the FASB issued an accounting standard update which requires balance sheet recognition of a lease liability and a corresponding right-of-use asset, with an optional policy election for short-term leases (i.e. leases with a term of 12 months or less that do not include options to purchase the underlying lease assets that the lessee is reasonably certain to exercise) under which a right-of-use asset and lease liability would not be recognized and short-term lease payments would be expensed on a straight line basis over the term of the lease. The amendments in this accounting standard also require new financial statement disclosures. This standard is effective for us on July 1, 2019 (the first quarter of the fiscal year ending June 30, 2020) with early adoption permitted; adoption is on a modified retrospective basis. We anticipate that upon adoption this standard will have a material impact to our consolidated balance sheet due to the recognition of right of use assets and lease liabilities; however we are still evaluating the anticipated impact of this standard on our financial statements.

In March 2016, the FASB issued an accounting standards update intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact of excess tax benefits and tax deficiencies, accounting for forfeitures, statutory tax withholding requirements and the presentation of excess tax benefits in the statement of cash flows. This standard is effective for us on July 1, 2017 (the first quarter of fiscal year 2018) with early adoption permitted. We are currently evaluating the anticipated impact of this standard on our financial statements.



In June 2016, the FASB issued an accounting standard update that introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments including trade receivables. The estimate of expected credit losses will require entities to incorporate historical information, current information and reasonable and supportable forecasts. This standard also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating expected credit losses. This standard is effective for us on July 1, 2020 (the first quarter of the fiscal year ending June 30, 2021) with early application permitted. We are currently evaluating the anticipated impact of this standard on our financial statements.

### 3. Fair Values of Assets and Liabilities

We measure fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the assumptions that market participants would use in pricing an asset or liability (the inputs) are based on a tiered fair value hierarchy consisting of three levels, as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar instruments in active markets or for similar markets that are not active.

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants would price the asset or liability.

Valuation techniques for assets and liabilities include methodologies such as the market approach, the income approach or the cost approach, and may use unobservable inputs such as projections, estimates and management's interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available or cost-effective to obtain.

At June 30, 2016 and 2015, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	June 30, 2016				June 30, 2015			
	Fair Value Measurements Using Input Types			Total	Fair Value Measurements Using Input Types			Total
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Money market funds (cash and cash equivalents) . . . . .	\$ 117	\$—	\$—	\$ 117	\$ 2,068	\$—	\$—	\$ 2,068
Available for sale securities								
Debt								
US Corporate . . . . .	9,580	—	—	9,580	10,561	—	—	10,561
Residential mortgage-backed . . . . .	9,604	—	—	9,604	7,733	—	—	7,733
Government—US . . . . .	15,962	—	—	15,962	4,866	—	—	4,866
Total available for sale securities . .	\$35,146	\$—	\$—	\$35,146	\$23,160	\$—	\$—	\$23,160

#### Fair Value of Financial Instruments

We have certain other financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and the convertible senior notes (the Notes) more fully described in Note 10. Fair value information for each of these instruments is as follows:

- Cash and cash equivalents, accounts receivable and accounts payable fair value approximates their carrying values, due to the short-term nature of these instruments.

- Marketable securities classified as held to maturity are recorded at amortized cost, which at June 30, 2016, and June 30, 2015, approximated their fair value.
- Marketable securities classified as available for sale are recorded at fair value. Unrealized gains and losses are included as a component of other accumulated comprehensive loss in shareholders' equity, net of tax. We use the specific identification method to determine any realized gains or losses from the sale of our marketable securities classified as available for sale.
- The carrying value of assets (\$1.4 million and \$1.8 million) related to deposits we have made to fund future requirements associated with Israeli severance arrangements approximated their fair value at June 30, 2016 and June 30, 2015, respectively.
- We hold certain cost method investments in non-publicly traded securities aggregating \$7.7 million and \$3.4 million at June 30, 2016 and June 30, 2015, respectively, which are included in other assets. These investments are carried at cost less any write-downs for other-than-temporary impairment charges. To determine the fair value of these investments, we use all available financial information, including information based on recent or pending third-party equity investments in these entities. In certain instances, a cost method investment's fair value may not be estimated if there are no identified events or changes in circumstances that would indicate a significant adverse effect on the fair value of the investment and to do so would be impractical.
- The Notes were recorded at \$133.3 million upon issuance, which reflected their principal value less the fair value of the embedded conversion option (Conversion Feature). The carrying value of the Notes, \$171.5 million at June 30, 2016, will be accreted over the remaining term to maturity to the principal value of \$189.8 million. The fair value of the Notes (inclusive of the Conversion Feature) was approximately \$192.8 million as of June 30, 2016. We estimated the fair value of the Notes by reference to quoted market prices; however the Notes have only a limited trading volume and as such this fair value estimate is not necessarily the value at which the Notes could be retired or transferred.

#### **4. Product and Business Acquisitions**

##### ***Fiscal Year 2016***

During the fiscal year ended June 30, 2016, we completed an asset acquisition pursuant to which we acquired core technology for \$1.5 million that is being amortized over a useful life of three years.

In December 2015, we made a \$3.5 million investment in preferred stock of a privately held, early-stage technology company. We have the ability to exercise significant influence over this company, however, we have no ability to exert control. Investments in common stock or in-substance common stock, through which an investor has the ability to exercise significant influence over the operating or financial policies of the investee, are accounted for under the equity method of accounting. In-substance common stock is an investment that has risk and reward characteristics that are substantially similar to an entity's common stock. The preferred stock underlying our investment is not in-substance common stock as its terms include a substantive liquidation preference not available to common stockholders. Accordingly, we accounted for our investment under the cost method of accounting, subject to periodic review for impairment. Impairment losses, to the extent occurring, would be recorded as an operating expense in the period incurred. There was no impairment identified as of June 30, 2016.

##### ***Fiscal Year 2015***

During the fiscal year ended June 30, 2015, we completed three business acquisitions for aggregate purchase consideration of \$70.9 million.

## Intellinx

On January 12, 2015, we acquired all of the outstanding share capital of Intellinx Ltd. (Intellinx), an Israeli corporation for purchase consideration of approximately \$66.7 million in cash and 774,000 shares of our common stock. The shares, which were issued to certain former equity holders of Intellinx who became employees of Bottomline, have vesting conditions tied to continued employment; as such the shares are compensatory and we will record share-based payment expense over the underlying stock vesting period which ranges from four to five years.

The final allocation of the Intellinx acquisition purchase price is as follows:

	<u>(in thousands)</u>
Current assets .....	\$ 9,828
Property and equipment .....	299
Other assets .....	2,171
Customer related intangible assets .....	2,273
Core technology .....	53,669
Other intangible assets .....	961
Goodwill .....	11,969
Current liabilities .....	(4,303)
Other liabilities .....	<u>(10,217)</u>
Total purchase price .....	<u>\$ 66,650</u>

The valuation of acquired intangible assets for our acquisitions as of their respective acquisition dates was estimated by performing projections of discounted cash flow, whereby revenues and costs associated with each intangible asset are estimated to derive expected cash flow which is discounted to present value at discount rates commensurate with perceived risk. The valuation and projection process is inherently subjective and relies on significant unobservable inputs (Level 3 inputs). The valuation assumptions also take into consideration our estimates of contract renewal, technology attrition and revenue projections.

## 5. Property and Equipment

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
	<u>(in thousands)</u>	
Land .....	\$ 251	\$ 298
Building and Improvements .....	17,774	14,997
Furniture and fixtures .....	6,015	6,198
Technical equipment .....	45,590	42,351
Software .....	46,505	40,967
Motor Vehicles .....	30	93
	<u>116,165</u>	<u>104,904</u>
Less: Accumulated depreciation and amortization .....	<u>65,136</u>	<u>57,325</u>
	<u>\$ 51,029</u>	<u>\$ 47,579</u>

## 6. Goodwill and Other Intangible Assets

During fiscal year 2016, we re-examined the aggregation of our operating segments and reclassified our cyber fraud and risk management and healthcare operating segments from the "Payments and Transactional Documents" reportable segment into the new "Other" reportable segment. Goodwill relating to these operating segments has been reclassified accordingly in the presentation that follows.

The decrease in goodwill and other intangible assets during fiscal year 2016 was due principally to amortization recorded during fiscal year 2016 and the impact of foreign currency translation adjustments on the goodwill and other intangible asset balances at June 30, 2016.

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

	As of June 30, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Life
	(in thousands)			(in years)
Amortized intangible assets:				
Customer related	\$190,549	\$(110,356)	\$ 80,193	9.6
Core technology	130,434	(64,591)	65,843	9.5
Other intangible assets	20,469	(13,320)	7,149	6.1
Capitalized software development costs	12,993	(1,248)	11,745	6.0
Total	<u>\$354,445</u>	<u>\$(189,515)</u>	<u>\$164,930</u>	
Unamortized intangible assets:				
Goodwill			<u>202,028</u>	
Total intangible assets			<u>\$366,958</u>	

	As of June 30, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Life
	(in thousands)			(in years)
Amortized intangible assets:				
Customer related	\$200,957	\$(101,219)	\$ 99,738	10.4
Core technology	131,069	(55,374)	75,695	10.2
Other intangible assets	20,790	(10,933)	9,857	6.4
Total	<u>\$352,816</u>	<u>\$(167,526)</u>	<u>\$185,290</u>	
Unamortized intangible assets:				
Goodwill			<u>215,360</u>	
Total intangible assets			<u>\$400,650</u>	

Estimated amortization expense for fiscal year 2017 and subsequent fiscal years for acquired intangible assets is as follows:

	(in thousands)
2017	\$24,445
2018	20,538
2019	18,593
2020	16,509
2021	14,947
2022 and thereafter	58,153

Estimated amortization expense for fiscal year 2017 and subsequent fiscal years for capitalized software development costs using a straight-line methodology is stated below. As discussed in Note 2, we evaluate, each period, whether amortization expense using a ratio of revenue in the period to total expected revenue over the

product's expected useful life would result in greater amortization than straight-line and, if that were to occur, amortization expense in that period would be accelerated accordingly.

	(in thousands)
2017 .....	\$1,937
2018 .....	1,969
2019 .....	1,969
2020 .....	1,969
2021 .....	1,969
2022 and thereafter .....	1,932

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

	Payments and Transactional Documents	Hosted Solutions	Digital Banking	Other	Total
	(in thousands)				
Balance at June 30, 2014 .....	\$66,778	\$102,612	\$35,847	\$ 3,754	\$208,991
Goodwill acquired during the period .....	—	2,363	—	13,325	15,688
Purchase accounting adjustments .....	—	(745)	33	—	(712)
Impact of foreign currency translation .....	(2,238)	(6,369)	—	—	(8,607)
Balance at June 30, 2015 .....	\$64,540	\$ 97,861	\$35,880	\$17,079	\$215,360
Purchase accounting adjustments .....	—	—	—	(1,356)	(1,356)
Impact of foreign currency translation .....	(3,688)	(8,288)	—	—	(11,976)
Balance at June 30, 2016 .....	<u>\$60,852</u>	<u>\$ 89,573</u>	<u>\$35,880</u>	<u>\$15,723</u>	<u>\$202,028</u>

Goodwill and acquired intangible assets are initially recorded at fair value and measured periodically for impairment. We performed our annual impairment test of the carrying value of our goodwill for fiscal year 2016 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 of goodwill impairment was performed at the reporting unit level, which requires an estimate of the fair value of each reporting unit. Coming into our fourth quarter, we had identified our Intellinx reporting unit as being at a heightened risk of impairment, as preliminary estimates of fiscal year 2017 revenues were below the revenue estimates we made at the time of the acquisition (January 2015). Based on our impairment review, the excess of fair value over the carrying value of goodwill for this reporting unit was 14%.

There can be no assurance that there will not be impairment charges in subsequent periods as a result of our future impairment reviews. To the extent that future impairment charges occur, it would have a material impact on our financial results. At June 30, 2016, the carrying value of goodwill for all of our reporting units was approximately \$202.0 million.

## 7. Accrued Expenses

Accrued expenses consist of the following:

	June 30,	
	2016	2015
	(in thousands)	
Employee compensation and benefits .....	\$13,665	\$13,751
Professional fees .....	1,528	1,105
Accrued income taxes payable .....	1,181	2,433
Sales and value added taxes .....	817	1,963
Accrued royalties .....	323	352
Accrued interest .....	237	237
Other .....	9,761	4,595
	<u>\$27,512</u>	<u>\$24,436</u>

## 8. Restructuring Costs

During fiscal year 2016, in response to recent acquisitions and business events, we realigned our workforce and recorded pre-tax restructuring expenses associated with severance related benefits of approximately \$0.9 million.

Restructuring charges recorded in fiscal year 2016 were expensed as follows:

	<u>(in thousands)</u>
Subscriptions and transactions cost of sales .....	65
Service and maintenance cost of sales .....	62
Sales and marketing .....	373
Product development and engineering .....	92
General and administrative .....	<u>258</u>
	<u>\$850</u>

At June 30, 2016, our remaining liability for severance related benefits was as follows:

	<u>(in thousands)</u>
Accrued severance benefits at June 30, 2015 .....	53
Additions charged to expense in fiscal year 2016 .....	850
Payments charged against the accrual .....	<u>(889)</u>
Accrued severance benefits at June 30, 2016 .....	<u>\$ 14</u>

## 9. Commitments and Contingencies

### *Leases*

We lease our principal office facility in Portsmouth, NH under a non-cancelable operating lease expiring in 2027. In addition, we have two five year options to further extend the term of this lease. Rent expense is fixed for the base term of the lease. We are also required to pay certain incremental operating costs above the base rent.

We lease office space in certain other cities worldwide under operating leases that expire at various dates. In addition to the base rent, we are typically also responsible for a portion of the operating expenses associated with these facilities. Where operating leases contain rent escalation clauses or certain types of landlord concessions, the financial effect of these items are included in the determination of the straight-line expense over the lease term.

Rent expense, net of sublease income, for the fiscal years ended June 30, 2016, 2015 and 2014 was \$6.4 million, \$6.9 million and \$5.4 million, respectively. Sublease income for the fiscal years ended June 30, 2016, 2015 and 2014 was insignificant.

Future minimum annual rental commitments under our facilities, equipment, and vehicle leases at June 30, 2016 are as follows:

	<u>(in thousands)</u>
2017 .....	\$ 5,297
2018 .....	4,831
2019 .....	4,502
2020 .....	3,963
2021 .....	3,543
2022 and thereafter .....	<u>9,280</u>
	<u>\$31,416</u>

### *Long Term Service Arrangements*

We have entered into service agreements with initial minimum commitments ranging between one and five years that expire between the fiscal years 2017 and 2020, primarily for software licenses, hosting services and disaster recovery services. In addition to the base terms, we have certain options to extend the terms of the service agreements. Payments are fixed for the initial terms and are subject to increase in the event that we elect to extend the service.

Future minimum annual commitments under our long term service arrangements as of June 30, 2016 are as follows:

	<u>(in thousands)</u>
2017 .....	\$ 6,936
2018 .....	5,616
2019 .....	3,201
2020 .....	<u>678</u>
	<u>\$16,431</u>

### *Legal Matters*

We have agreed to indemnify a customer against costs it may incur as a result of a lawsuit filed against them for alleged patent infringement, related to certain technology licensed from us, which we license and resell from an outside supplier. We have in turn received indemnification from the outside supplier for costs that we may incur in respect of our indemnification obligations to our customer. In January 2016, this customer notified us that they had been served in a second lawsuit, also alleging patent infringement relating to the same underlying technology. Bottomline was not named as a party to either lawsuit and we have certain indemnification limits in place with the affected customer. On June 28, 2016, the second of these patent infringement lawsuits was dismissed with prejudice. We do not believe that the resolution of the remaining matter will have a material impact on our financial position, operating results or cash flows.

We are, from time to time, a party to other legal proceedings and claims that arise out of the ordinary course of our business. We do not believe that there are claims or proceedings pending against us for which the ultimate resolution would have a material effect on, or require disclosure in, our financial statements.

## **10. Convertible Senior Notes**

On December 12, 2012, we issued \$189.8 million aggregate principal amount of our 1.50% Convertible Senior Notes maturing on December 1, 2017 (the Notes), inclusive of the underwriters' exercise in full of their over-allotment option of \$24.8 million. Cash interest at a rate of 1.50% per year began to accrue on December 12, 2012 and is payable semi-annually on June 1 and December 1 of each year beginning on June 1, 2013. We received net proceeds from the offering of approximately \$167.3 million after adjusting for debt issue costs, including the underwriting discount, and the net cash used to purchase the Note Hedges and sell the Warrants which are discussed below.

The Notes were issued under an indenture dated December 12, 2012 (the "Base Indenture") by and between us and The Bank of New York Mellon Trust Company, N.A., as Trustee and a First Supplemental Indenture dated December 12, 2012 (the "First Supplemental Indenture") by and between us and the Trustee (the Base Indenture and the First Supplemental Indenture are collectively referred to as the "Indenture"). There are no financial or operating covenants relating to the Notes.

The Notes are senior unsecured obligations of ours and rank senior in right of payment to any future unsecured indebtedness that is expressly subordinated in right of payment to the Notes, and equal in right of

payment to any of our existing and future unsecured indebtedness that is not subordinated. The Notes are effectively junior in right of payment to any of our secured indebtedness (to the extent of the value of assets securing such indebtedness) and structurally junior to all existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries. Prior to this offering, neither we nor our subsidiaries had any outstanding indebtedness for borrowed money. The Indenture does not limit the amount of debt that we or our subsidiaries may incur. The Notes are not guaranteed by us or any of our subsidiaries.

Holders may convert their Notes at their option, prior to the close of business on the business day immediately preceding June 1, 2017, in multiples of \$1,000 principal amount, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2013 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of the convertible notes for each trading day of the measurement period was less than 98% of the product of the last reported sales price of our common stock and the conversion rate on each trading day; or
- upon the occurrence of specified corporate events, including a merger or a sale of all or substantially all of our assets.

On or after June 1, 2017 until the close of business on the second scheduled trading day immediately preceding the maturity date of December 1, 2017, holders may convert their Notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

The conversion rate for the Notes is initially 33.3042 shares per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$30.03 per share of our common stock). The conversion rate is subject to customary adjustment for certain events as described in the Indenture.

The principal balance of the Notes is always required to be settled in cash. However, we are permitted at our election to settle any conversion obligation in excess of the principal portion in cash, shares of our common stock, or a combination of cash and shares of our common stock.

We may not redeem the Notes prior to their maturity date. If we undergo a fundamental change, (as described in the Indenture), subject to certain conditions, holders may require us to repurchase for cash all or part of their Notes in principal amounts of \$1,000 or an integral multiple thereof. The fundamental change repurchase price will be equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Indenture contains customary events of default with respect to the Notes and provides that upon certain events of default occurring and continuing the Trustee may, and the Trustee at the request of such holders of at least 25% in principal amount of the convertible notes shall, declare 100% of the principal of and accrued and unpaid interest, if any, on the Notes to be due and payable. In case of certain events of bankruptcy, insolvency or reorganization, involving us or a significant subsidiary, 100% of the principal of and accrued and unpaid interest on the Notes will automatically become due and payable. Upon such a declaration of acceleration, such principal and accrued and unpaid interest, if any, will be due and payable immediately.

Under limited circumstances, we may be required to pay contingent interest on the Notes as a result of failure to comply with the reporting obligations in the Indenture or failure to file required Securities and Exchange Commission documents and reports. When applicable, the contingent interest payable per \$1,000



principal amount is 0.25% per annum over the applicable term as provided under the Indenture. The contingent interest features of the Notes are embedded derivative instruments. The estimated fair value of the contingent interest features of the Notes was zero at issuance and at June 30, 2016, as the likelihood of any liability being incurred under these provisions was deemed remote and, to the extent occurring, the time period during which a contingent interest charge would apply is projected to be short.

The Notes were recorded upon issuance using a residual method of valuation, meaning since the Conversion Feature was initially a derivative instrument recorded at fair value we allocated debt proceeds to the Conversion Feature based on the fair value of that instrument and the residual proceeds were allocated to the Notes. The carrying amount of the Notes will be accreted to the principal amount over the remaining term to maturity and we will record a corresponding charge to interest expense.

The net carrying amount of the convertible notes at June 30, 2016 was as follows:

	<u>(in thousands)</u>
Principal amount .....	\$189,750
Unamortized discount .....	(18,216)
Net carrying value .....	<u>\$171,534</u>

We incurred certain third party costs in connection with our issuance of the Notes, principally related to underwriting and legal fees, which are being amortized to interest expense ratably over the five-year term of the Notes.

The following table sets forth total interest expense related to the convertible notes:

	<u>Twelve Months Ended June 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>(in thousands)</u>		
Contractual interest expense (cash) .....	\$ 2,846	\$ 2,846	\$ 2,846
Amortization of debt discount (non-cash) .....	11,774	10,965	10,213
Amortization of debt issue costs (non-cash) .....	<u>1,184</u>	<u>1,184</u>	<u>1,184</u>
	<u>\$15,804</u>	<u>\$14,995</u>	<u>\$14,243</u>
Effective interest rate of the liability component .....	<u>7.70%</u>	<u>7.28%</u>	<u>6.88%</u>

#### *Note Hedges*

In December 2012, we entered into privately negotiated transactions to purchase hedge instruments (the Note Hedges), covering approximately 6.3 million shares of our common stock. The Note Hedges are subject to anti-dilution provisions substantially similar to those of the Notes, have a strike price that corresponds to the conversion price of the Notes, are exercisable by us upon any conversion under the Notes and expire on December 1, 2017.

The Note Hedges are generally expected to reduce the potential dilution to our common stock (or, in the event the Conversion Feature is settled in cash, to reduce our cash payment obligation) in the event that at the time of conversion our stock price exceeds the conversion price under the Notes. The cost of the Note Hedges, \$42.3 million, is expected to be tax deductible as an original issue discount over the life of the Notes, as the Notes and the Note Hedges represent an integrated debt instrument for tax purposes.

The Note Hedges are transactions that are separate from the terms of the Notes and the Warrants (discussed below), and holders of the Notes and the Warrants have no rights with respect to the Note Hedges.

## *Warrants*

In December 2012, we received aggregate proceeds of \$25.8 million, net of issue costs, from the sale of warrants (the Warrants), for the purchase of up to 6.3 million shares of our common stock, subject to antidilution adjustments, at a strike price of \$40.04 per share. The Warrants are exercisable in equal tranches over a period of 150 days beginning on March 1, 2018 and ending on October 18, 2018.

The Warrants are also derivative instruments.

The Warrants are transactions that are separate from the terms of the Notes and the Note Hedges, and holders of the Notes and Note Hedges have no rights with respect to the Warrants.

## **11. Derivative Instruments**

Our derivative instruments for the fiscal year ended June 30, 2016 consisted of the Note Hedges, Conversion Feature and Warrants as discussed in Note 10. As of June 30, 2016 each of these instruments continued to meet the classification requirements for inclusion within stockholders' equity and as such they were not subject to fair value re-measurement. We are required, for the remaining term of the Notes, to assess whether we continue to meet the stockholders' equity classification requirements. If in any future period we failed to satisfy those requirements we would be required to reclassify the derivative instruments out of stockholders' equity, to either assets or liabilities depending on their nature, and record those instruments at fair value with changes in fair value reflected in earnings.

## **12. Postretirement and Other Employee Benefits**

### *Defined Contribution Pension Plans*

We have a 401(k) Plan (the Plan), whereby eligible US employees may contribute up to 60% of their eligible compensation, subject to limitations established by the Internal Revenue Code. We may contribute a discretionary matching contribution annually equal to 50% of each such participant's contribution to the Plan up to the first 5% of their annual eligible compensation. We charged approximately \$1.8 million, \$1.8 million and \$1.6 million to expense in the fiscal years ended June 30, 2016, 2015 and 2014, respectively, associated with our matching contribution for those years.

We have 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 HM Revenue & Customs. We contribute 3% of the employee's annual compensation as long as the individual contributes a minimum of 1% of their annual compensation to the plan. We charged approximately \$1.5 million, \$1.2 million and \$1.0 million to expense in the fiscal years ended June 30, 2016, 2015 and 2014, respectively, under the GPPP.

We have a GPPP related to European employees from our Sterci acquisition and governed by local regulatory requirements. For fiscal years ended June 30, 2016, 2015 and 2014 we contributed approximately \$1.4 million, \$1.4 million and \$1.2 million, respectively, under the GPPP.

We are required by Australian government regulation to pay a certain percentage, currently 9.5%, of gross salary to a compliant Superannuation Fund for the benefit of our Australian employees. We charged approximately \$0.1 million, \$0.2 million and \$0.2 million to expense in the fiscal years ended June 30, 2016, 2015 and 2014, respectively, reflecting our contribution to the Superannuation Fund.

We have a retirement contribution plan with respect to our employees in Israel (Israel plan) under which we contribute 5% of each eligible employee's annual compensation. Employees are entitled to amounts accumulated in the Israel plan upon reaching retirement age. We charged approximately \$0.3 million and \$0.2 million to expense in the fiscal years ended June 30, 2016 and 2015, respectively, related to the Israel plan.

### ***Defined Benefit Pension Plan***

We sponsor a defined benefit pension plan for our Swiss-based employees (the Swiss pension plan) that is governed by local regulatory requirements. As of June 30, 2016, we had 116 employees, which is approximately 7% of our workforce, covered under the Swiss pension plan. The Swiss pension plan is governed by the Swiss Federal Law on Occupational Retirements, Survivors' and Disability Pension plans. We use a third party pension fund, Profond, to administer this plan. We charged approximately \$1.9 million, \$1.9 million and \$2.0 million to expense in the fiscal years ended June 30, 2016, 2015 and June 30, 2014, respectively, related to this plan. The annual measurement dated for our pension benefits is June 30.

During fiscal year 2014, Profond decreased the pension benefit conversion rates over a five year period from a maximum of 7.2% to 6.8%, which reduced the projected benefit at retirement for all employees. This event qualified as a plan amendment and the prior service credit arising from this amendment was recorded as a component of accumulated other comprehensive income (loss) for the fiscal year ended June 30, 2014. In fiscal year 2017 we expect to recognize approximately \$0.1 million as a reduction of our overall net periodic benefit cost related to this plan amendment.

The accumulated benefit obligation (ABO) represents the obligations of a pension plan for past service as of the measurement date, which is the present value of benefits earned to date based on current compensation levels. The Swiss pension plan ABO as of June 30, 2016 was \$47.7 million. The projected benefit obligation (PBO) is the ABO adjusted to reflect the impact of future compensation levels. The following table represents the PBO, change in plan assets, funded status and amounts recognized in our consolidated balance sheets at June 30, 2016 and 2015:

	<b>Pension Benefits</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in thousands)</b>	
Change in benefit obligation:		
Projected benefit obligation at beginning of year . . . . .	\$ 41,136	\$ 36,413
Service cost . . . . .	2,279	2,300
Interest cost . . . . .	484	673
Actuarial loss . . . . .	7,939	3,647
Plan participant contributions . . . . .	835	872
Benefits paid, net of transfers into plan . . . . .	(266)	(939)
Effect of foreign currency exchange rate changes . . . . .	(1,857)	(1,830)
Projected benefit obligation at end of year . . . . .	<u>\$ 50,550</u>	<u>\$ 41,136</u>
Change in plan assets:		
Fair value of plan assets at beginning of year . . . . .	\$ 27,776	\$ 26,575
Actual return on plan assets . . . . .	446	801
Employer contribution . . . . .	1,734	1,820
Plan participant contributions . . . . .	835	872
Benefits paid, net of transfers into plan . . . . .	(266)	(939)
Effect of foreign currency exchange rate changes . . . . .	(1,257)	(1,353)
Fair value of plan assets at end of year . . . . .	<u>\$ 29,268</u>	<u>\$ 27,776</u>
Pension liability at end of fiscal year . . . . .	\$(21,282)	\$(13,360)
Accumulated other comprehensive loss consists of the following:		
Net prior service credit . . . . .	\$ 888	\$ 1,025
Net actuarial loss . . . . .	(12,682)	(4,659)
Accumulated other comprehensive loss, before income tax . . . . .	<u>\$(11,794)</u>	<u>\$(3,634)</u>

For the fiscal year ended June 30, 2016, we reclassified approximately \$0.1 million of net actuarial loss and \$0.1 million of net prior service credit as components of net periodic benefit cost from accumulated other comprehensive loss. For the fiscal year ending June 30, 2017, we expect to reclassify approximately \$0.7 million of net actuarial loss and \$0.1 million of net prior service credit as components of net periodic benefit cost from accumulated other comprehensive loss.

The net unfunded balance of our defined benefit pension plan is recorded as a non-current liability and all unrecognized gains or losses, net of tax, are recorded as a component of other comprehensive income (loss) within stockholders' equity at June 30, 2016.

**Assumptions:**

	<b>Pension Benefits</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Weighted-average assumptions used to determine net benefit costs:			
Discount rate	1.25%	2.00%	2.25%
Expected return on plan assets	3.00%	4.00%	4.00%
Rate of compensation increase	1.75%	2.00%	2.00%
Weighted-average assumptions used to determine benefit obligations at year end:			
Discount rate	0.25%	1.25%	2.00%
Expected return on plan assets	3.00%	3.00%	4.00%
Rate of compensation increase	1.50%	1.75%	2.00%

The expected return on plan assets is determined by adjusting the market value of assets to reflect the investment gains and losses from prior years. We amortize gains and losses in our net periodic benefit cost which result from actual experience different from that assumed and from changes in assumptions. If, as of the beginning of the year, the net gain or loss exceeds 10% of the greater of the projected benefit obligation and the market related value of plan assets, the amortization is that excess divided by the average remaining service period of participating employees expected to receive benefits under the plan.

The fair value of plan assets for the Swiss pension plan was \$29.3 million at June 30, 2016. As is customary with Swiss pension plans, the plan assets are invested in a collective fund with multiple employers through a Swiss insurance company. We do not have rights to the individual assets of the plan nor do we have investment authority over the assets of the plan. The collective fund maintains a variety of investment positions primarily in equity securities and highly rated debt securities. The valuation of the collective fund assets as a whole is a Level 3 measurement; however the individual investments of the fund are generally Level 1 (equity securities), Level 2 (fixed income) and Level 3 (real estate) investments. We determine the fair value of the plan assets based on information provided by the collective fund, through review of the collective fund's annual financial statements, and we further consider whether there are other indicators that the investment balances reported by the fund could be impaired. We concluded that no such impairment indicators were present at June 30, 2016.

The pension plan 2016 actual asset allocation as compared to Profond's target asset allocations are as follows:

<b>Asset Category:</b>	<b>Actual</b>	<b>Target</b>
Cash and cash equivalents	4%	2%
Equity Securities	50%	49%
Fixed Income	15%	23%
Real Estate	28%	23%
Other	3%	3%

As of June 30, 2016, the estimated future benefit payments (inclusive of any future service) were as follows:

	<u>Total</u>
	(In thousands)
2017 .....	\$1,377
2018 .....	1,618
2019 .....	1,781
2020 .....	1,631
2021 .....	2,211
2022-26 .....	9,722

Net periodic pension costs for the Swiss pension plan include the following components:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	(In thousands)		
Components of net periodic (income) cost			
Service cost .....	\$2,279	\$ 2,300	\$2,170
Interest cost .....	484	673	594
Net prior service cost credit .....	(90)	(93)	—
Net actuarial loss .....	69	—	—
Expected return on plan assets .....	(805)	(1,003)	(769)
Net periodic cost .....	<u>\$1,937</u>	<u>\$ 1,877</u>	<u>\$1,995</u>

We expect to make a contribution of approximately \$1.6 million to our pension plan in 2017, which is the legal funding regulation minimum for the Swiss pension plan.

### ***Israeli Severance Pay***

We provide severance payments based on the Israeli severance pay law and certain other circumstances to employees of our Israeli subsidiary.

Our liability for severance pay for service periods prior to January 12, 2015 is calculated based on the most recent employee salaries multiplied by the number of years of employment as of January 12, 2015. We make monthly deposits in insurance funds designed to fund a portion of this overall severance liability and the value of these deposits, inclusive of earnings and losses attributable to these deposits, is recorded as an asset on our consolidated balance sheet. In the event of a separation, the employee receives the balance in deposited funds with any remaining severance liability balance paid by us. As of June 30, 2016, for service periods prior to January 12, 2015, our severance liability (classified in other liabilities within our consolidated balance sheet) was \$1.5 million and our severance deposit (classified as other assets within the consolidated balance sheet) was \$1.4 million.

Effective January 12, 2015, our statutory severance liability is covered under the provisions of Section 14 of the Israel severance pay law (Section 14). Under Section 14 we are released from any future severance liability once we fund the statutory severance requirement via payment to an insurance fund on behalf of the employee. As a result, for severance obligations arising after January 12, 2015, we do not recognize any liability (or asset) for severance related obligations once we fund the statutory severance requirement.

### **13. Share-Based Payments**

We recognize expense for the estimated fair value of all share-based payments to employees on a straight-line basis over the award vesting period. For the fiscal years ended June 30, 2016, 2015, and 2014, we recorded expense of approximately \$30.3 million, \$27.0 million and \$22.8 million, respectively, in connection with our share-based payment awards. For the fiscal years ended June 30, 2016, 2015 and 2014, we recognized tax benefits of \$1.8 million, \$9.1 million and \$8.3 million, respectively, related to the expense recorded in connection with our share-based payment awards.

## ***Share-Based Compensation Plans***

### ***Employee Stock Purchase Plan***

On November 16, 2000, we adopted the 2000 Employee Stock Purchase Plan, which was amended on November 18, 2004 and November 18, 2010, and which provides for the issuance of up to a total of 4,000,000 shares of common stock to participating employees. At the end of each designated purchase period, which occurs every six months on March 31 and September 30, employees can elect to purchase shares of our common stock with contributions of between 1% and 10% of their base pay, 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.

Our employee stock purchase plan has several complex features that make determining fair value on the grant date impracticable. Accordingly, we measure the fair value of these awards at intrinsic value (the value of our common stock less the employee purchase price) at the end of each reporting period. For the fiscal year ended June 30, 2016, we recorded compensation cost of approximately \$0.9 million associated with our employee stock purchase plan. As a result of employee stock purchases in fiscal year 2016 we issued approximately 125,000 shares of our common stock. The aggregate intrinsic value of shares issued under the employee stock plan during fiscal year 2016 was \$0.9 million. At June 30, 2016, based on employee withholdings and our common stock price at that date, approximately 39,000 shares of common stock, with an approximate intrinsic value of \$0.1 million would have been eligible for issuance were June 30, 2016 to have been a designated stock purchase date.

### ***Stock Incentive Plans***

#### ***2009 Stock Incentive Plan***

On November 19, 2009, we adopted the 2009 Stock Incentive Plan (the 2009 Plan), which provides for the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units and other share-based awards. Stock option awards under this plan have a 10-year maximum contractual term and must be issued at an exercise price of not less than 100% of the fair market value of the common stock at the date of grant. The 2009 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 to date under the 2009 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.

We initially reserved 2,750,000 shares of our common stock for issuance under the 2009 Plan, plus additional shares equal to the number of shares subject to outstanding awards under our prior plans which expire, terminate or are otherwise surrendered, cancelled, forfeited, or repurchased by us. On November 14, 2013 and November 20, 2014, we adopted amendments to our 2009 Stock Incentive Plan to increase the number of shares of common stock authorized for issuance under the 2009 Plan by an additional 2,400,000 and 1,500,000 shares, respectively. The plan remained unchanged in all other respects.

#### ***Valuation and Related Activity***

Compensation cost associated with stock options represented approximately \$0.1 million of the total share-based payment expense recorded for the fiscal year ended June 30, 2016. 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. There were no stock option grants during the fiscal year ended June 30, 2016, 2015, or 2014. During the fiscal year ended June 30, 2014, in connection with our acquisition of Andera, we assumed unvested options held by employees of Andera and converted those options into options to purchase Bottomline stock.

A summary of stock option and restricted stock activity for fiscal year 2016 is as follows; in respect of shares available for grant, the shares are available for issuance by us as either a stock option or as a restricted stock award:

	Non-vested Stock			Stock Options			
	Shares Available for Grant	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands, except per share data)						
Awards outstanding at June 30, 2015 . . . .	4,093	2,104	\$27.17	264	\$10.28	3.7	\$4,623
Awards granted (1) . . . . .	(1,358)	1,061	27.40				
Shares vested . . . . .		(935)	26.40				
Stock options exercised . . . . .				(92)	10.01		
Awards forfeited (1) . . . . .	144	(119)	28.10	(1)	6.75		
Awards expired . . . . .				(1)	12.33		
Awards outstanding at June 30, 2016 . . . .	<u>2,879</u>	<u>2,111</u>	<u>\$27.57</u>	<u>170</u>	<u>\$10.45</u>	<u>2.8</u>	<u>\$1,882</u>
Stock options exercisable at June 30, 2016 . . . . .				<u>168</u>	<u>\$10.49</u>	<u>2.7</u>	<u>\$1,854</u>

(1) The 2009 Plan has a fungible share pool in which restricted stock awards are counted against the plan (or replenished within the plan, in respect of award forfeitures) as 1.28 shares for each one share of Common Stock subject to such restricted stock award.

The total intrinsic value of options exercised during the fiscal years ended June 30, 2016, 2015 and 2014 was approximately \$1.6 million, \$2.0 million and \$5.5 million, respectively. The total fair value of stock options that vested during the fiscal years ended June 30, 2016, 2015 and 2014 was approximately \$0.1 million, \$0.2 million and \$0.3 million, respectively. As of June 30, 2016, there was approximately \$0.1 million of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over a weighted average period of 0.3 years.

The majority of our restricted stock awards vest over a four year period on a vesting schedule similar to our employee stock options; however, certain restricted stock awards vest over either a two or five year period and restricted stock awards granted to our non-employee directors upon his or her election to the Board of Directors and annually thereafter vest after a one year period. Restricted stock awards are valued based on the closing price of our common stock on the date of grant, and compensation cost is recorded on a straight line basis over the share vesting period. The total fair value of restricted stock awards that vested during the fiscal years ended June 30, 2016, 2015 and 2014 was approximately \$32.4 million, \$26.4 million and \$30.1 million, respectively. We recorded expense of approximately \$29.3 million associated with our restricted stock awards for the fiscal year ended June 30, 2016. As of June 30, 2016, there was approximately \$63.8 million of unrecognized compensation cost related to restricted stock awards that will be recognized as expense over a weighted average period of 1.5 years. Excluding the impact of shares issued as purchase consideration with forfeiture provisions, approximately 0.9 million shares of restricted stock awards vested during the fiscal year ended June 30, 2016.

#### *Stock Issued in Acquisitions*

Retention of key personnel in businesses we acquire is critical to us because it helps to ensure that we maximize the value of companies we acquire, which we believe is vitally important to our stockholders. Accordingly, in order to maximize the retention of key employees, we attach forfeiture provisions to the shares we issue to acquire certain businesses. This has the effect of requiring key employees to stay in our employment, post-acquisition, in order to earn the full value of the stock we issue. These shares are issued as purchase consideration, but as a result of the forfeiture provisions we attach they are categorized as compensatory awards under US GAAP. The forfeiture provisions on these shares typically lapse over a four or five year period.

During the fiscal year ended June 30, 2015, we issued 774,000, 60,000 and 4,999 shares of our common stock as purchase consideration in our acquisitions of Intellinx, Arian and Litco, respectively. The shares were issued to certain equity holders of the acquired companies, all of whom joined us as employees or were otherwise required to render post-acquisition services in order to vest in the shares.

Activity associated with shares issued as purchase consideration with forfeiture provisions for the fiscal year ended June 30, 2016 is reflected in the table below. These shares were not issued out of our shareholder approved stock plans and do not represent grants or awards of shares from those plans. No such shares were issued during fiscal year 2016.

	<u>Non-vested Stock</u>	
	<u>Number of Shares (in thousands)</u>	<u>Weighted Average Grant Date Fair Value</u>
Purchase consideration shares with forfeiture provisions outstanding at June 30, 2015 .....	906	\$23.82
Lapse of forfeiture provisions .....	(238)	\$23.81
Shares forfeited .....	<u>(55)</u>	<u>\$31.72</u>
Purchase consideration shares with forfeiture provisions outstanding at June 30, 2016 .....	<u>613</u>	<u>\$23.11</u>

#### 14. Net Income per Share

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>(in thousands except per share data)</u>		
Numerator—basic and diluted:			
Net loss .....	<u>\$(19,648)</u>	<u>\$(34,680)</u>	<u>\$(19,104)</u>
Denominator:			
Shares used in computing basic and diluted net loss per share attributable to common stockholders .....	<u>37,957</u>	<u>37,806</u>	<u>36,834</u>
Basic and diluted net loss per share attributable to common stockholders .....	<u>\$ (0.52)</u>	<u>\$ (0.92)</u>	<u>\$ (0.52)</u>

At June 30, 2016, 2015 and 2014, approximately 3.1 million, 2.9 million and 2.6 million shares of unvested restricted stock and stock options were excluded from the calculation of diluted earnings per share, respectively, as their effect on the calculation would have been anti-dilutive. As more fully discussed in Note 10, in December 2012 we issued convertible notes maturing in December 2017. We intend, upon conversion or maturity of the Notes, to satisfy any conversion premium by issuing shares of our common stock. We have also issued warrants for up to 6.3 million shares of our common stock at an exercise price of \$40.04 per share. For the fiscal years ended June 30, 2016, 2015 and 2014, shares potentially issuable upon conversion or maturity of the Notes or upon exercise of the warrants were excluded from our earnings per share calculations as their effect would have been anti-dilutive.

#### 15. Operations by Industry Segments and Geographic Area

Operating segments are the components of our business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our chief executive officer. Our operating segments are organized principally by the type of product or service offered and by geography.



During fiscal year 2016, we re-examined the aggregation of our operating segments and reclassified our cyber fraud and risk management and healthcare operating segments from the “Payments and Transactional Documents” reportable segment into the new “Other” reportable segment. To ensure a consistent presentation of the measurement of segment revenues and profit or loss, these changes are reflected for all periods presented.

Similar operating segments have been aggregated into four reportable segments as follows:

*Payments and Transactional Documents.* Our Payments and Transactional Documents segment is a supplier of software products that provide a range of financial business process management solutions including making and collecting payments, sending and receiving invoices, and generating and storing business documents. This segment also incorporates our payments automation software for direct debit and receivables management and provides a range of standard professional services and equipment and supplies that complement and enhance our core software products. Revenue associated with the aforementioned products and services is typically recorded upon delivery. This segment also incorporates certain other solutions that are licensed on a subscription basis, revenue for which is typically recorded on a subscription or transaction basis, or ratably over the expected life of the customer relationship.

*Hosted Solutions.* Our Hosted Solutions segment provides customers predominately with SaaS technology offerings that facilitate electronic payment, electronic invoicing, and spend management. Our legal spend management solutions, which enable customers to create more efficient processes for managing invoices generated by outside law firms while offering insight into important legal spend factors such as expense monitoring and outside counsel performance, are included within this segment. This segment incorporates our global financial messaging and Paymode-X solutions. Revenue within this segment is generally recognized on a subscription or transaction basis or ratably over the estimated life of the customer relationship.

*Digital Banking.* Our Digital Banking segment provides solutions that are specifically designed for banking and financial institution customers. Our Digital Banking products are now sold almost entirely on a subscription basis which has the effect of contributing to recurring subscription and transaction revenue and the revenue predictability of future periods, but which also delays revenue recognition over a longer period.

*Other.* Our Other segment consists of our healthcare and cyber fraud and risk management operating segments. Our cyber fraud and risk management solutions non-invasively monitor, replay and analyze user behavior to flag and even stop suspicious activity in real time. Our healthcare solutions for patient registration, electronic signature, mobile document and payments allow healthcare organizations to improve business efficiencies, reduce costs and improve care quality. When licensed on a perpetual license basis, revenue for our cyber fraud and risk management and healthcare products is typically recorded upon delivery, with the exception of software maintenance which is normally recorded ratably over a twelve month period. When products are licensed on a subscription basis, revenue is normally recorded ratably over the subscription period.

Periodically a sales person in one operating segment will sell products and services that are typically sold within a different operating segment. In such cases, the transaction is generally recorded by the operating segment to which the sales person is assigned. Accordingly, segment results can include the results of transactions that have been allocated to a specific segment based on the contributing sales resources, rather than the nature of the product or service. Conversely, a transaction can be recorded by the operating segment primarily responsible for delivery to the customer, even if the sales person is assigned to a different operating segment.

Our chief operating decision maker assesses segment performance based on a variety of factors that normally include segment revenue and a segment measure of profit or loss. Each segment’s measure of profit or loss is on a pre-tax basis and excludes stock compensation expense, acquisition and integration related expenses (including acquisition related contingent consideration), amortization of acquired intangible assets, restructuring related charges, minimum pension liability adjustments, non-core charges related to our convertible notes, global

ERP system implementation costs, charges related to reserves established or released against our deferred tax assets and other non-core or non-recurring gains and losses that arise from time. There are no inter-segment sales; accordingly, the measure of segment revenue and profit or loss reflects only revenues from external customers. The costs of certain corporate level expenses, primarily general and administrative expenses, are allocated to our operating segments based on a percentage of the segment's revenues.

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

We have presented segment information for the fiscal years ended June 30, 2016, 2015 and 2014 according to the segment descriptions above.

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands)		
Segment revenue:			
Payments and Transactional Documents . . . . .	\$115,213	\$116,685	\$118,098
Hosted Solutions . . . . .	138,641	126,178	107,360
Digital Banking . . . . .	70,747	77,184	67,769
Other . . . . .	18,673	10,842	7,358
Total segment revenue . . . . .	<u>\$343,274</u>	<u>\$330,889</u>	<u>\$300,585</u>
Segment measure of profit:			
Payments and Transactional Documents . . . . .	\$ 34,225	\$ 36,010	\$ 37,249
Hosted Solutions . . . . .	23,380	15,329	8,344
Digital Banking . . . . .	5,696	12,440	7,045
Other . . . . .	(1,795)	(2,870)	212
Total measure of segment profit . . . . .	<u>\$ 61,506</u>	<u>\$ 60,909</u>	<u>\$ 52,850</u>

A reconciliation of the measure of segment profit to our GAAP loss before the provision for income taxes, is as follows:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands)		
Total measure of segment profit . . . . .	\$ 61,506	\$ 60,909	\$ 52,850
Less:			
Amortization of acquired intangible assets . . . . .	(28,978)	(30,383)	(26,242)
Stock-based compensation expense . . . . .	(30,279)	(27,025)	(22,821)
Acquisition and integration related expenses . . . . .	(741)	(2,835)	(4,563)
Restructuring expenses . . . . .	(850)	(1,297)	(1,371)
Minimum pension liability and related adjustments . . . . .	(203)	(56)	(331)
Other non-core income (expense) . . . . .	246	(76)	—
Global ERP system implementation costs . . . . .	(4,252)	—	—
Other expense, net . . . . .	<u>(15,312)</u>	<u>(15,553)</u>	<u>(14,544)</u>
Loss before income taxes . . . . .	<u>\$ (18,863)</u>	<u>\$ (16,316)</u>	<u>\$ (17,022)</u>

The following depreciation and other amortization expense amounts are included in the segment measure of profit (loss):

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands)		
Depreciation and other amortization expense:			
Payments and Transactional Documents	\$ 2,861	\$ 2,489	\$2,096
Hosted Solutions	6,088	5,134	3,950
Digital Banking	4,093	2,643	2,069
Other	447	241	135
Total depreciation and other amortization expense	<u>\$13,489</u>	<u>\$10,507</u>	<u>\$8,250</u>

We have presented geographic information about our revenues below. This presentation allocates revenue based on the point of sale, not the location of the customer. Accordingly, we derive revenues from geographic locations based on the location of the customer that would vary from the geographic areas listed here; particularly in respect of financial institution customers located in Australia for which the point of sale was the United States and Africa for which the point of sale was Israel.

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands)		
North America	\$199,765	\$193,286	\$171,641
United Kingdom	96,244	93,735	96,719
Continental Europe	38,849	38,053	29,047
Asia-Pacific and Middle East	8,416	5,815	3,178
Total revenues from unaffiliated customers	<u>\$343,274</u>	<u>\$330,889</u>	<u>\$300,585</u>

Long-lived assets, excluding deferred tax assets and intangible assets, which are based on geographical location, were as follows:

	<b>Fiscal Year Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
	(in thousands)	
Long-lived assets:		
North America	\$56,885	\$45,350
United Kingdom	8,499	8,573
Continental Europe	1,924	2,390
Asia-Pacific and Middle East	2,080	2,280
Total long-lived assets	<u>\$69,388</u>	<u>\$58,593</u>

## 16. Income Taxes

### *Provision for Income Taxes*

We file US federal income tax returns and returns in various state, local and foreign jurisdictions. Generally, we are no longer subject to US federal, state and local, or foreign income tax examinations by tax authorities for years before 2001. Currently, we are not under examination relating to tax returns that have been previously filed.

We permanently reinvest the earnings, if any, of our international subsidiaries and therefore we do not provide for US income taxes that could result from the distribution of those earnings to the US parent. If any such earnings were ultimately distributed to the US in the form of dividends or otherwise, or if the shares of our international subsidiaries were sold or transferred, we would likely be subject to additional US income taxes, net of the impact of any available foreign tax credits. It is not practicable to estimate the amount of unrecognized deferred US taxes on these undistributed earnings.

Our provision for (benefit from) income taxes consists of the following:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands)		
Current:			
Federal .....	\$ (362)	\$ 1,433	\$ 1,464
State .....	43	188	80
Foreign .....	4,215	4,570	6,319
	<u>3,896</u>	<u>6,191</u>	<u>7,863</u>
Deferred:			
Federal .....	1,004	14,720	42
State .....	217	1,154	(1,180)
Foreign .....	(4,332)	(3,701)	(4,643)
	<u>(3,111)</u>	<u>12,173</u>	<u>(5,781)</u>
	<u>\$ 785</u>	<u>\$18,364</u>	<u>\$ 2,082</u>

Our income tax expense (benefit) includes a tax benefit of \$0.2 million, \$0.2 million and \$0.1 million in fiscal years 2016, 2015 and 2014, respectively, relating to a reduction in our unrecognized tax benefits upon the expiration of certain statutes of limitations.

We recorded an increase to additional paid-in capital of \$0.2 million during fiscal year 2016 for excess tax benefits from vesting of restricted stock awards and from non-qualified stock option exercises that reduced currently payable income taxes. We recorded an increase to other comprehensive income of \$2.0 million during fiscal year 2016 for an increase in our deferred tax asset related to our Swiss pension.

Income (loss) before income taxes by geographic area is as follows:

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands)		
United States .....	\$(19,892)	\$(18,277)	\$(25,310)
United Kingdom .....	15,400	16,728	19,035
Continental Europe .....	(2,191)	(7,608)	(10,936)
Asia-Pacific and Middle East .....	(12,180)	(7,159)	189
	<u>\$(18,863)</u>	<u>\$(16,316)</u>	<u>\$(17,022)</u>

A reconciliation of the federal statutory rate to the effective income tax rate is as follows (certain prior year amounts in the reconciliation have been reclassified to conform to the fiscal year 2016 presentation):

	<b>Fiscal Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Tax benefit at federal statutory rate . . . . .	(35.0%)	(35.0%)	(35.0%)
State taxes, net of federal benefit . . . . .	(4.3%)	(5.2%)	(7.3%)
Foreign branch operations, net of foreign tax deductions . . . . .	19.0%	33.1%	42.3%
Change in valuation allowance . . . . .	16.8%	98.6%	1.2%
Changes in uncertain tax positions . . . . .	8.6%	13.0%	12.7%
Non-deductible executive compensation . . . . .	5.2%	5.3%	5.1%
Non-deductible share-based payments . . . . .	3.7%	3.6%	2.3%
Non-deductible other expenses . . . . .	1.6%	1.8%	1.4%
Changes in tax laws or rates . . . . .	1.1%	(1.8%)	(3.4%)
Non-deductible acquisition costs . . . . .	0.5%	3.0%	6.6%
Non-deductible interest . . . . .	0.0%	0.0%	5.3%
Other . . . . .	(1.0%)	3.1%	(0.1%)
Tax rate differential on foreign earnings . . . . .	(3.5%)	(4.2%)	(16.4%)
Research and development credit . . . . .	(8.5%)	(2.7%)	(2.5%)
	<u>4.2%</u>	<u>112.6%</u>	<u>12.2%</u>

The excess of our effective tax rate over statutory tax rates was primarily due to the inability to benefit US losses in fiscal years 2016 and 2015, an increase of our US valuation allowance in fiscal year 2015, and our inability to utilize certain foreign tax credits as a reduction to foreign income that is included in our US tax return. This has the effect of taxing certain income twice, resulting in a higher overall tax rate.

### Deferred Tax Assets and Liabilities

We recognize deferred tax assets and liabilities based on the differences between their financial reporting and tax basis by applying tax rates that are expected to be in effect when the differences reverse. Significant components of our deferred income taxes are as follows:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 18,951	\$ 14,512
Deferred revenue	9,083	9,528
Stock compensation	6,313	5,956
Research and development and other credits	6,095	5,279
Accrued pension	5,116	3,212
Various accrued expenses	3,290	2,627
Property and equipment	8	251
Allowances and reserves	273	235
Other	38	56
Total deferred tax assets	<u>\$ 49,167</u>	<u>\$ 41,656</u>
Valuation allowance	<u>(26,506)</u>	<u>(23,584)</u>
Deferred tax assets, net of valuation allowance	22,661	18,072
Deferred tax liabilities:		
Intangible assets	(30,229)	(38,137)
Property and equipment, inclusive of capitalized software	(12,324)	(6,848)
Convertible debt	(1,876)	(3,040)
Other	<u>(135)</u>	<u>(201)</u>
Total deferred tax liabilities	<u>(44,564)</u>	<u>(48,226)</u>
Net deferred tax liabilities	<u><u>\$(21,903)</u></u>	<u><u>\$(30,154)</u></u>

At June 30, 2016, we had US net operating loss carryforwards of \$83.3 million, which expire at various times through fiscal year 2036. Included within this amount is approximately \$55.6 million of excess tax deductions associated with restricted stock awards that have vested and with non-qualified stock options that have been exercised. When these excess tax benefits actually result in a reduction to currently payable income taxes, the benefit will be recorded as an increase to additional paid-in capital. Approximately \$46.7 million of the aforementioned excess tax benefits have not been reflected as a component of our deferred tax assets at June 30, 2016, as these amounts are recognized for financial reporting purposes only when they actually reduce currently payable income taxes. We also had foreign net operating loss carryforwards (primarily in Europe) of \$13.0 million which have no statutory expiration date. Included within this amount is approximately \$0.4 million of excess tax deductions associated with restricted stock awards that have vested. When these excess tax benefits actually result in a reduction to currently payable income taxes, the benefit will be recorded as an increase to additional paid-in capital. These excess tax benefits have not been reflected as a component of our deferred tax assets at June 30, 2016, as these amounts are recognized for financial reporting purposes only when they actually reduce currently payable income taxes. We utilized approximately \$1.0 million of net operating losses in fiscal year 2016, consisting of \$0.2 million utilized in the US and \$0.8 million utilized in our foreign operations, predominately in Europe.

We have approximately \$5.4 million of research and development tax credit carryforwards available, which expire at various points through fiscal year 2036. Our research and development tax credit carryforwards were increased by \$0.3 million resulting from the enactment in the US of the Protecting Americans from Tax Hikes Act, which permanently extended the US research and development credit beginning January 1, 2015. Our operating losses and tax credit carryforwards may be subject to limitations under provisions of the Internal Revenue Code.

### *Valuation Allowance*

We record a deferred tax asset if we believe that it is more likely than not that we will realize a future tax benefit. Ultimate realization of any deferred tax asset is dependent on our ability to generate sufficient future taxable income in the appropriate tax jurisdiction before the expiration of carryforward periods, if any. Our assessment of deferred tax asset recoverability considers many different factors including historical and projected operating results, the reversal of existing deferred tax liabilities that provide a source of future taxable income, the impact of current tax planning strategies and the availability of future tax planning strategies. We establish a valuation allowance against any deferred tax asset for which we are unable to conclude that recoverability is more likely than not. This is inherently judgmental, since we are required to assess many different factors and evaluate as much objective evidence as we can in reaching an overall conclusion. The particularly sensitive component of our evaluation is our projection of future operating results since this relies heavily on our estimates of future revenue and expense levels by tax jurisdiction.

At June 30, 2016 we have recorded a \$26.5 million valuation allowance against certain deferred tax assets given the uncertainty of recoverability of these amounts. The valuation allowance increased by \$2.9 million in fiscal year 2016 from fiscal year 2015 primarily due to an increase to the US valuation allowance. Approximately \$3.2 million of the valuation allowance will be reversed through additional paid-in capital if realized, as it relates to excess tax benefits arising from non-qualified stock option exercises occurring prior to our adoption of the expense recognition criteria for share-based payments.

In making our assessment of US deferred tax asset recoverability at June 30, 2015, we concluded that it was more likely than not that a portion of our US deferred tax assets may not be recovered based on our analysis of both positive and negative factors relative to our ability to support realization of certain US deferred tax assets. As a result, we increased our valuation allowance in fiscal year 2015 and recorded income tax expense in the amount of \$16.0 million. The establishment of a valuation allowance has no effect on our ability to use the underlying deferred tax assets to reduce cash tax payments in the future to the extent that we generate US taxable income.

### *Uncertain Tax Positions*

As of June 30, 2016, we had approximately \$7.8 million of total gross unrecognized tax benefits, of which approximately \$1.3 million represented the amount of unrecognized tax benefits that, if recognized, would favorably affect our effective income tax rate in future periods. Approximately \$3.7 million of the gross unrecognized tax benefits resulted in reductions to the deferred tax asset relating to net operating losses and to the valuation allowance, and approximately \$2.8 million of the gross unrecognized tax benefits resulted in a reduction to tax credit carryforwards and other deferred tax assets. We currently anticipate that our unrecognized tax benefits will decrease within the next twelve months by approximately \$0.3 million, as a result of the expiration of certain statutes of limitations associated with intercompany transactions subject to tax in multiple jurisdictions.

A summary of the changes in the gross amount of unrecognized tax benefits is shown below:

	<u>(in thousands)</u>
Balance at July 1, 2013	\$1,829
Additions related to current year tax positions	2,265
Additions related to prior year tax positions	11
Reductions due to lapse of statute of limitations	(72)
Foreign currency translation	<u>52</u>
Balance at July 1, 2014	4,085
Additions related to current year tax positions	2,392
Additions related to prior year tax positions	145
Reductions due to lapse of statute of limitations	(213)
Foreign currency translation	<u>(104)</u>
Balance at July 1, 2015	6,305
Additions related to current year tax positions	1,647
Additions related to prior year tax positions	215
Reductions due to lapse of statute of limitations	(229)
Foreign currency translation	<u>(129)</u>
Balance at July 1, 2016	<u>\$7,809</u>

We recognize interest and penalties related to uncertain tax positions as a component of income tax expense. To the extent that the accrued interest and penalties do not ultimately become payable, the amounts accrued will be derecognized and reflected as an income tax benefit in the period that such a determination is made. Our accrued interest and penalties related to uncertain tax positions as of June 30, 2016 and 2015, and recorded in each of the annual periods ending June 30, 2016, 2015, and 2014, were not significant.

## 17. Guarantees

We generally offer a standard warranty on our products and services, specifying that our software products will perform in accordance with published product specifications and that any professional services will conform with applicable specifications and industry standards. Further, we offer, as an element of our standard licensing arrangements, an indemnification clause that protects the licensee against liability and damages, including legal defense costs arising from claims of patent, copyright, trademark or other similar infringements by our software products. To date, we have not had any significant warranty or indemnification claims against our products. At June 30, 2016 and 2015, warranty accruals were not significant.

Certain of our arrangements with customers include clauses whereby we may be subject to penalties for failure to meet certain service level requirements; however, we have not incurred any related material penalties to date.

## 18. Subsequent Event

On July 8, 2016 our board of directors authorized a repurchase program of our common stock for an aggregate repurchase price not to exceed \$60 million. This program expires on July 8, 2018.



## 19. Quarterly Financial Data (unaudited)

The following table contains selected quarterly financial data for the fiscal years ended June 30, 2015 and 2016. The quarterly earnings per share information is computed separately for each period. Therefore, the sum of the quarterly per share amounts may differ from the total year per share amounts.

	For the quarters ended							
	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016
	(in thousands, except per share data)							
Revenues . . . . .	\$81,343	\$82,225	\$81,951	\$ 85,370	\$82,881	\$86,048	\$86,233	\$88,112
Gross profit . . . . .	47,030	48,112	47,038	49,268	47,546	49,941	49,014	49,673
Net loss (1) . . . . .	<u>\$ (3,268)</u>	<u>\$ (1,962)</u>	<u>\$ (7,830)</u>	<u>\$ (21,620)</u>	<u>\$ (4,253)</u>	<u>\$ (5,239)</u>	<u>\$ (4,230)</u>	<u>\$ (5,926)</u>
Basic and diluted net loss per share . . . . .	\$ (0.09)	\$ (0.05)	\$ (0.21)	\$ (0.57)	\$ (0.11)	\$ (0.14)	\$ (0.11)	\$ (0.16)
Shares used in computing basic and diluted net loss per share . . . . .	37,647	37,759	37,762	38,056	38,004	37,774	38,101	37,949

- (1) Net loss and the resulting basic and diluted net loss per share amounts reflect the impact of income tax expense of \$16,034 recorded during the quarter ended June 30, 2015 in connection with the recognition of a deferred tax asset valuation allowance.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BOTTOMLINE TECHNOLOGIES (DE), INC.

By:                     /s/ RICHARD D. BOOTH                      
**Richard D. Booth**  
**Chief Financial Officer and Treasurer**

Date: August 29, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOSEPH L. MULLEN</u> Joseph L. Mullen	Chairman of the Board	August 29, 2016
<u>/s/ ROBERT A. EBERLE</u> Robert A. Eberle	President, Chief Executive Officer and Director (Principal Executive Officer)	August 29, 2016
<u>/s/ RICHARD D. BOOTH</u> Richard D. Booth	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	August 29, 2016
<u>/s/ JOSEPH L. BARRY JR.</u> Joseph L. Barry Jr.	Director	August 29, 2016
<u>/s/ MICHAEL J. CURRAN</u> Michael J. Curran	Director	August 29, 2016
<u>/s/ KENNETH J. D'AMATO</u> Kenneth J. D'Amato	Director	August 29, 2016
<u>/s/ PETER GIBSON</u> Peter Gibson	Director	August 29, 2016
<u>/s/ JENNIFER M. GRAY</u> Jennifer M. Gray	Director	August 29, 2016
<u>/s/ JEFFREY C. LEATHE</u> Jeffrey C. Leathe	Director	August 29, 2016
<u>/s/ JAMES L. LOOMIS</u> James L. Loomis	Director	August 29, 2016
<u>/s/ DANIEL M. MCGURL</u> Daniel M. McGurl	Director	August 29, 2016
<u>/s/ BENJAMIN E. ROBINSON III</u> Benjamin E. Robinson III	Director	August 29, 2016
<u>/s/ JAMES W. ZILINSKI</u> James W. Zilinski	Director	August 29, 2016

## EXHIBIT INDEX

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1†	Asset Purchase Agreement dated August 5, 2009 between the Registrant and Bank of America, N.A. ....	10-Q	000-25259	2.1	11/9/2009	
2.2	Agreement and Plan of Merger dated as of March 29, 2011, by and among the Registrant, BlackJack Acquisition Corp., LAS Holdings, Inc. and H.I.G. Law Audit, LLC. ....	8-K	000-25259	2.1	4/1/2011	
2.3	Share Purchase Agreement dated as of August 20, 2013, by and among the Registrant, Simon Kalfon, Philippe Meylan, Etienne Savatier and David Benarroch ....	8-K	000-25259	2.1	8/20/2013	
3.1	Amended and Restated Certificate of Incorporation of the Registrant. ....	8-K	000-25259	3.1	1/18/2013	
3.2	Amended and Restated By-Laws of the Registrant, as amended. ....	10-K	000-25259	3.2	9/12/2007	
4.1	Specimen Certificate for Shares of Common Stock. ....	S-1	333-67309	4.1	1/7/1999	
4.2	Warrant dated September 14, 2009 issued by the Registrant to Bank of America, N.A. ....	10-Q	000-25259	4.1	11/9/2009	
4.3	Registration Rights Agreement dated September 14, 2009 between the Registrant and Bank of America, N.A. ....	10-Q	000-25259	4.2	11/9/2009	
10.1	Lease dated July 20, 1999, between the Registrant and 60 Cutter Mill Road Property Corp. ....	10-K	000-25259	10.33	9/28/2000	
10.2	Lease dated May 22, 2000, between the Registrant and 55 Broad Street L.P. ....	10-K	000-25259	10.34	9/28/2000	
10.3	Sublease dated August 31, 2000, between the Registrant and 325 Corporate Drive II, LLC. ....	10-K	000-25259	10.35	9/28/2000	
10.4	First Amendment to Sublease between the Registrant and 325 Corporate Drive II, LLC. ....	10-K	000-25259	10.52	9/30/2002	
10.5	Second Amendment to Sublease, effective as of October 1, 2001, between the Registrant and 325 Corporate Drive II, LLC. ....	10-Q	000-25259	10.1	11/13/2001	
10.6	Third Amendment to Sublease, effective as of June 30, 2010, between the Registrant and 325 Corporate Drive II, LLC. ....	10-K	000-25259	10.45	9/10/2010	
10.7	Fourth Amendment to Sublease, effective as of April 1, 2012, between the Registrant and 325 Corporate Drive II, LLC. ....	10-K	000-25259	10.7	8/27/2012	
10.8	Fifth Amendment to Sublease, effective as of March 12, 2014, between the Registrant and 325 Corporate Drive II, LLC. ....	10-K	000-25259	10.8	8/28/2014	
10.9	Legal Charge dated as of December 17, 2001 between Bottomline Technologies Europe Ltd and National Westminster Bank Plc. ....	10-Q	000-25259	10.4	2/14/2002	
10.10	Debenture dated as of December 17, 2001 between Bottomline Technologies Europe Ltd and National Westminster Bank Plc. ....	10-Q	000-25259	10.5	2/14/2002	
10.11	Confirmation of Committed Business Overdraft Facility as of January 31, 2003 between Bottomline Technologies Europe Limited and National Westminster Bank Plc. ....	10-Q	000-25259	10.4	2/12/2003	
10.12	Confirmation of Committed Business Overdraft Facility as of January 9, 2004 between Bottomline Technologies Europe Limited and The Royal Bank of Scotland. ....	10-Q	000-25259	10.2	2/13/2004	

Exhibit No.	Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Exhibit	
10.13	Confirmation of Committed Business Overdraft Facility as of February 7, 2005 between Bottomline Technologies Europe Limited and Royal Bank of Scotland. ....	10-Q	000-25259	10.3	2/8/2005
10.14†	Services Agreement dated September 14, 2009 between the Registrant and Bank of America, N.A. ....	10-Q	000-25259	10.1	1/14/2010
10.15	First Amendment to Services Agreement dated September 29, 2010 between the Registrant and Bank of America, N.A. ....	10-K	000-25259	10.19	9/9/2011
10.16†	Second Amendment to Services Agreement dated September 27, 2010 between the Registrant and Bank of America, N.A. ....	10-K	000-25259	10.20	9/9/2011
10.17†	Third Amendment to Services Agreement dated February 1, 2011 between the Registrant and Bank of America, N.A. ....	10-K	000-25259	10.21	9/9/2011
10.18†	Fourth Amendment to Services Agreement dated September 15, 2011 between the Registrant and Bank of America, N.A. ....	10-Q	000-25259	10.1	11/8/2011
10.19†	Fifth Amendment to Services Agreement dated September 15, 2011 between the Registrant and Bank of America, N.A. ....	10-Q	000-25259	10.1	2/7/2012
10.20†	Sixth Amendment to Services Agreement dated September 15, 2011 between the Registrant and Bank of America, N.A. ....	10-Q	000-25259	10.2	2/7/2012
10.21†	Seventh Amendment to Services Agreement dated October 25, 2011 between the Registrant and Bank of America, N.A. ....	10-Q	000-25259	10.3	2/7/2012
10.22†	Eighth Amendment to Services Agreement dated January 5, 2012 between the Registrant and Bank of America, N.A. ....	10-Q	000-25259	10.1	5/10/2012
10.23†	Ninth Amendment to Services Agreement dated January 13, 2012 between the Registrant and Bank of America, N.A. ....	10-Q	000-25259	10.2	5/10/2012
10.24#	1998 Director Stock Option Plan, including form of non-statutory stock option agreement. ....	S-1	333-67309	10.3	11/13/1998
10.25#	Forms of Restricted Stock Agreement under 2000 Stock Incentive Plan. ....	10-Q	000-25259	10.1	2/9/2006
10.26#	2009 Stock Incentive Plan, as amended. ....	8-K	000-25259	99.1	11/26/2014
10.27#	Form of Restricted Stock Agreement for UK Participants. ...	10-Q	000-25259	10.1	5/7/2010
10.28#	Form of Restricted Stock Agreement for Robert A. Eberle. ...	10-Q	000-25259	10.2	5/7/2010
10.29#	Form of Restricted Stock Agreement for US Participants. ....	10-Q	000-25259	10.3	5/7/2010
10.30#	Form of Stock Option Agreement for US Participants. ....	10-Q	000-25259	10.5	5/7/2010
10.31#	Form of Stock Option Agreement for UK Participants. ....	10-Q	000-25259	10.6	5/7/2010
10.32#	2000 Stock Incentive Plan, including form of stock option agreement for incentive and non-statutory stock options and form of stock option agreement for United Kingdom personnel. ....	10-K	000-25259	10.16	9/14/2004
10.33#	Amended and Restated 2000 Employee Stock Purchase Plan. ....	8-K	000-25259	99.2	11/19/2010
10.34#	Form of Restricted Stock Agreement for Non-Employee Directors. ....	10-Q	000-25259	10.4	5/7/2010
10.35	Form of Indemnification Letter dated as of September 21, 2000. ....	10-Q	000-25259	10.1	11/14/2000
10.36#	Amended and Restated Employment Agreement dated as of November 21, 2002 between the Registrant and Mr. Mullen. ....	10-Q	000-25259	10.1	2/12/2003

Exhibit No.	Description	Incorporated by Reference			Filed Herewith	
		Form	File No.	Exhibit		Filing Date
10.37#	Amended and Restated Employment Agreement dated as of November 21, 2002 between the Registrant and Mr. Eberle. ....	10-Q	000-25259	10.2	2/12/2003	
10.38#	Letter Agreement dated as of September 30, 2005 between the Registrant and Joseph L. Mullen amending the Amendment and Restated Employment Agreement of Mr. Mullen dated as of November 21, 2002. ....	10-Q	000-25259	10.1	11/8/2005	
10.39#	Letter Agreement dated as of September 30, 2005 between the Registrant and Robert A. Eberle amending the Amendment and Restated Employment Agreement of Mr. Eberle dated as of November 21, 2002. ....	10-Q	000-25259	10.2	11/8/2005	
10.40#	Letter Agreement dated as of November 16, 2006 between the Registrant and Robert A. Eberle. ....	10-Q	000-25259	10.4	2/8/2007	
10.41#	Amendment dated November 14, 2013 to Letter Agreement dated November 18, 2010 with Joseph L. Mullen ....	10-Q	000-25259	10.1	5/9/2014	
10.42#	Service Agreement dated November 22, 1999 between Bottomline Technologies Limited and Nigel Savory. ....	10-Q	000-25259	10.1	11/8/2010	
10.43#	Deed of Variation to Service Agreement dated February 18, 2011 between Bottomline Technologies Limited and Nigel Savory. ....	10-Q	000-25259	10.1	5/6/2011	
10.44#	Letter Agreement dated as of December 23, 2008 between the Registrant and Robert A. Eberle. ....	10-Q	000-25259	10.2	2/6/2009	
10.45#	Employment Agreement dated October 10, 2011 between Bottomline Technologies (de), Inc. and Norman J. Deluca ...	10-Q	000-25259	10.1	5/8/2015	
10.46#	Employment Agreement dated March 31, 2015 between Bottomline Technologies (de), Inc. and Richard D. Booth. ...	8-K	000-25259	10.1	5/5/2015	
10.47#	Executive Retention Agreement dated as of August 5, 2016 between the Registrant and John F. Kelly ....	8-K	000-25259	10.1	8/5/2016	
10.48#	Form of Indemnification Agreement ....	8-K	000-25259	10.1	11/24/2015	
21.1	List of Subsidiaries. ....					X
23.1	Consent of Ernst & Young LLP. ....					X
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer. ....					X
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer. ....					X
32.1	Section 1350 Certification of Principal Executive Officer. ...					X
32.2	Section 1350 Certification of Principal Financial Officer ....					X
101.INS**	XBRL Instance Document. ....					X
101.SCH**	XBRL Taxonomy Extension Schema Document. ....					X
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document. ....					X
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document. ....					X
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document. ....					X
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document. ....					X

# Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(a) of Form 10-K.

† Indicates confidential treatment requested as to certain portions, which portions were omitted and filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Request.

\*\* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2016 and 2015, (ii) Consolidated Statements of Comprehensive Loss for the years ended June 30, 2016, 2015 and 2014, (iii) Consolidated Statements of Stockholders' Equity and Comprehensive Income and Loss for the years ended June 30, 2016, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the years ended June 30, 2016, 2015 and 2014, and (v) Notes to Consolidated Financial Statements.







## Bottomline Technologies Reconciliation to Core Financial Results (in thousands):

### Reconciliation to Core EBITDA

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GAAP Net Income (Loss)	(\$7,030)	(\$5,261)	(\$12,288)	\$3,954	\$35,893	\$1,705	(\$14,395)	(\$19,104)	(\$34,680)	(\$19,648)
Adjustments:										
Other (income) expense, net	(3,177)	(3,082)	(443)	93	(558)	(41)	11,357	14,544	15,553	15,312
Taxes	(884)	464	813	2,554	(25,467)	5,596	(3,898)	2,082	18,364	785
Depreciation	3,183	3,511	3,914	4,565	5,140	5,724	6,861	8,250	10,507	13,489
Amortization of acquired intangible assets	9,324	11,399	15,563	13,214	12,662	15,753	19,549	26,242	30,383	28,978
Stock-based compensation	7,945	8,803	9,498	8,956	11,467	13,768	18,031	22,821	27,025	30,279
Acquisition & integration related expenses	-	269	581	585	1,677	1,987	10,827	4,563	2,835	741
Global ERP system implementation costs	-	-	-	-	-	-	-	-	-	4,252
Restructuring expenses (benefit)	-	-	1,548	(52)	1,111	1,609	1,179	1,371	1,297	850
Minimum pension liability adjustments	-	-	-	-	-	-	-	331	56	203
Other non-core items	-	-	-	-	-	-	-	-	76	(246)
Core EBITDA	\$9,361	\$16,103	\$19,186	\$33,869	\$41,925	\$46,101	\$49,511	\$61,100	\$71,416	\$74,995

### Reconciliation to Core Operating Income

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GAAP Operating Income (Loss)	(\$11,091)	(\$7,879)	(\$11,918)	\$6,601	\$9,868	\$7,260	(\$6,936)	(\$2,478)	(\$763)	\$ (3,551)
Adjustments:										
Amortization of acquired intangible assets	9,324	11,399	15,563	13,214	12,662	15,753	19,549	26,242	30,383	28,978
Stock-based compensation	7,945	8,803	9,498	8,956	11,467	13,768	18,031	22,821	27,025	30,279
Acquisition & integration related expenses	-	269	581	585	1,677	1,987	10,827	4,563	2,835	741
Global ERP system implementation costs	-	-	-	-	-	-	-	-	-	4,252
Restructuring expenses (benefit)	-	-	1,548	(52)	1,111	1,609	1,179	1,371	1,297	850
Minimum pension liability adjustments	-	-	-	-	-	-	-	331	56	203
Other non-core items	-	-	-	-	-	-	-	-	76	(246)
Core Operating Income	\$6,178	\$12,592	\$15,272	\$29,304	\$36,785	\$40,377	\$42,650	\$52,850	\$60,909	\$61,506

We have presented supplemental non-GAAP financial measures as part of our shareholder letter included in this Annual Report to Shareholders. The presentation of this non-GAAP information should not be considered in isolation from, or as a substitute for, our financial results presented in accordance with GAAP. We believe that these supplemental non-GAAP financial measures are useful to investors because they allow for an evaluation of the company with a focus on the performance of its core operations. Our executive management team uses these same non-GAAP measures internally to assess the ongoing performance of the company. Since this information 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.

The shareholder letter contains forward-looking statements that involve risks and uncertainties including, without limitation, statements reflecting our expectations about our future competitive position, market leadership and stockholder value. These and other statements (including but not limited to statements to the effect that we “believe”, “expect” or similar expressions) that are not statements relating to historical matters should be considered forward-looking statements. Actual results may differ materially from those indicated by such forward-looking statements as a result of numerous important factors, including those discussed in “Risk Factors” in our Annual Report on Form 10-K.



## BOARD OF DIRECTORS

---

**Joseph L. Mullen**  
Chairman

**Robert A. Eberle**  
President & Chief Executive Officer,  
Bottomline Technologies

**Joseph L. Barry, Jr.**  
Director

**Michael J. Curran**  
Director

**Kenneth J. D'Amato**  
Director

**Peter Gibson**  
Director

**Jennifer M. Gray**  
Director

**Jeffrey C. Leathe**  
Director

**James L. Loomis**  
Director

**Daniel M. McGurl**  
Director

**Benjamin E. Robinson III**  
Director

**James W. Zilinski**  
Director

## EXECUTIVE OFFICERS

---

**Robert A. Eberle**  
President & Chief Executive Officer

**Richard D. Booth**  
Chief Financial Officer & Treasurer

**Norman J. DeLuca**  
Managing Director, Digital Banking

**John F. Kelly**  
General Manager, Legal Solutions

**Nigel K. Savory**  
Managing Director, Europe

## SENIOR MANAGEMENT

---

**Karen S. Brieger**  
Vice President, Human Resources

**Paul J. Fannon**  
Group Sales Director, Europe

**John J. Mason**  
Chief Information Officer

**Brian S. McLaughlin**  
Vice President, Product Design and  
User Experience

**Andrew J. Mintzer**  
Executive Vice President, Product  
Strategy and Customer Delivery

**Jessica Pincomb Moran**  
General Manager, Cloud Payment  
Solutions

**Eric K. Morgan**  
Senior Vice President, Global Controller

**Christine M. Numberger**  
Chief Marketing Officer

**David G. Sweet**  
Executive Vice President,  
Strategy and Corporate Development

**Basilios E. Tsingos**  
Vice President and General Counsel

### Form 10-K

A copy of our Form 10-K is available  
without charge upon written request to:

Bottomline Technologies (de), Inc.,  
325 Corporate Drive  
Portsmouth, NH 03801  
Attention: Corporate Secretary  
or by telephone at (603) 436-0700

### Common Stock Information

Our common stock is traded on the  
NASDAQ Global Select Market under  
the symbol "EPAY"

### Annual Meeting

Our Annual Meeting of Stockholders  
will be held at 4:00 p.m. local time on  
Thursday, November 17, 2016  
Wentworth by the Sea Hotel  
Wentworth Ballroom  
588 Wentworth Road  
Newcastle, NH 03854

### Independent Registered Public Accounting Firm

Ernst & Young LLP  
Boston, Massachusetts

### Transfer Agent

Computershare Investor Services  
PO Box 30170  
College Station, TX 77842  
(877) 282-1168

[www.computershare.com](http://www.computershare.com)

### Website

Additional company information  
is available at [www.bottomline.com](http://www.bottomline.com)

