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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2012

OR

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

For the transition period from _________ to _________

Commission file number: 0-25259

Bottomline Technologies (de), Inc.

(Exact name of registrant as specified in its charter)

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

(603) 436-0700

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the registrant s common stock as of January 31, 2013 was 37,605,281.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Bottomline Technologies (de), Inc.

Condensed Consolidated Balance Sheets

(in thousands)

	December 31, 2012 (unaudited)	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 280,829	$ 124,801
Marketable securities	62	61
Accounts receivable, net of allowance for doubtful accounts of $793 at December 31, 2012 and $586 at June 30, 2012	48,916	45,344
Inventory, net	454	480
Deferred tax assets	9,027	6,773
Prepaid expenses and other current assets	7,528	8,212
Total current assets	346,816	185,671
Property, plant and equipment, net	22,461	19,756
Goodwill	112,180	98,974
Intangible assets, net	94,583	78,967
Derivative instruments	47,817	
Other assets	14,405	9,003
Total assets	$ 638,262	$ 392,371
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 9,733	$ 8,841
Accrued expenses	16,793	17,170
Deferred revenue	45,762	41,304
Total current liabilities	72,288	67,315
Convertible senior notes	133,741	
Derivative instruments	64,009	
Deferred revenue, non-current	8,365	7,072
Deferred income taxes	6,574	1,641
Other liabilities	3,042	2,157
Total liabilities	288,019	78,185
Stockholders equity:		
Preferred Stock, $.001 par value:		
Authorized shares 4,000; issued and outstanding shares none		
Common Stock, $.001 par value:		
Authorized shares 50,000; issued shares 37,427 at December 31, 2012, and 36,672 at June 30, 2012; outstanding shares 35,512 at December 31, 2012, and 34,741 at June 30, 2012	38	37
Additional paid-in capital	478,737	438,732

Accumulated other comprehensive loss	(3,224)	(6,564)
Treasury stock: 1,915 shares at December 31, 2012, and 1,931 shares at June 30, 2012, at cost	(22,558)	(22,291)
Accumulated deficit	(102,750)	(95,728)
Total stockholders equity	350,243	314,186
Total liabilities and stockholders equity	$ 638,262	$ 392,371

See accompanying notes.

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Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands, except per share amounts)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
Revenues:				
Subscriptions and transactions	$ 30,361	$ 19,054	$ 58,908	$ 36,648
Software licenses	5,469	4,402	10,168	8,435
Service and maintenance	25,735	29,667	52,190	58,516
Equipment and supplies	2,044	1,971	4,032	3,971
Total revenues	63,609	55,094	125,298	107,570
Cost of revenues:				
Subscriptions and transactions	16,573	9,215	30,844	18,300
Software licenses	617	529	1,026	964
Service and maintenance	11,977	13,239	24,271	25,399
Equipment and supplies	1,540	1,565	3,062	3,136
Total cost of revenues	30,707	24,548	59,203	47,799
Gross profit	32,902	30,546	66,095	59,771
Operating expenses:				
Sales and marketing	15,620	11,430	29,808	22,672
Product development and engineering	8,426	5,932	16,732	11,864
General and administrative	6,467	4,912	13,028	9,845
Amortization of intangible assets	5,201	3,433	9,513	7,317
Total operating expenses	35,714	25,707	69,081	51,698
(Loss) income from operations	(2,812)	4,839	(2,986)	8,073
Loss on derivative instruments, net	(4,917)		(4,917)	
Other (expense) income, net	(585)	28	(539)	(85)
(Loss) income before income taxes	(8,314)	4,867	(8,442)	7,988
Income tax (benefit) provision	(1,274)	2,403	(1,420)	3,783
Net (loss) income	$ (7,040)	$ 2,464	$ (7,022)	$ 4,205
Basic net (loss) income per share attributable to common stockholders:	$ (0.20)	$ 0.07	$ (0.20)	$ 0.12
Diluted net (loss) income per share attributable to common stockholders:	$ (0.20)	$ 0.07	$ (0.20)	$ 0.12
Shares used in computing basic net (loss) income per share attributable to common stockholders:	35,284	34,160	35,097	33,935

Shares used in computing diluted net (loss) income per share attributable to common stockholders:	35,284	35,090	35,097	34,966
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	947	(300)	3,340	(2,404)
Comprehensive (loss) income	$ (6,093)	$ 2,164	$ (3,682)	$ 1,801

See accompanying notes.

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Bottomline Technologies (de), Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
Operating activities:		
Net (loss) income	$ (7,022)	$ 4,205
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of intangible assets	9,513	7,317
Stock compensation expense	8,941	6,538
Depreciation and amortization of property, plant and equipment	3,441	2,785
Deferred income tax benefit	(3,570)	(165)
Provision for allowances on accounts receivable	183	80
Provision for allowances for obsolescence of inventory	62	
Excess tax benefits associated with stock compensation	(253)	(2,186)
Amortization of debt issuance costs	61	
Amortization of debt discount	486	
Loss on derivative instruments	4,917	
Loss on disposal of equipment	25	
Loss on foreign exchange	10	29
Changes in operating assets and liabilities:		
Accounts receivable	(971)	(5,057)
Inventory	(18)	(83)
Prepaid expenses and other current assets	1,394	1,905
Other assets	(16)	262
Accounts payable	531	(1,105)
Accrued expenses	(2,169)	(1,382)
Deferred revenue	3,706	1,150
Other liabilities	319	41
Net cash provided by operating activities	19,570	14,334
Investing activities:		
Acquisition of business, net of cash acquired	(29,902)	(2,940)
Purchases of held-to-maturity securities	(62)	(63)
Proceeds from sales of held-to-maturity securities	62	63
Purchases of property and equipment	(5,219)	(3,935)
Proceeds from disposal of fixed assets	46	
Net cash used in investing activities	(35,075)	(6,875)
Financing activities:		
Proceeds from issuance of convertible senior notes	189,750	
Debt issuance costs	(5,790)	
Proceeds from issuance of warrants, net of issue costs	25,789	
Purchase of convertible note hedges	(42,390)	
Proceeds from exercise of warrants, net		8,452
Proceeds from exercise of stock options and employee stock purchase plan	2,908	2,704
Excess tax benefits associated with stock compensation	253	2,186
Capital lease payments	(50)	(84)
Repurchase of common stock	(933)	

Net cash provided by financing activities	169,537	13,258
Effect of exchange rate changes on cash	1,996	(1,338)
Increase in cash and cash equivalents	156,028	19,379
Cash and cash equivalents at beginning of period	124,801	111,953
Cash and cash equivalents at end of period	$ 280,829	$ 131,332

See accompanying notes.

Bottomline Technologies (de), Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

December 31, 2012

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three and six months ended December 31, 2012 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending June 30, 2013. For further information, refer to the financial statements and footnotes included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) on August 27, 2012.

Note 2 Recent Accounting Pronouncements

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

Note 3 Fair Value

Fair Value 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.

On December 12, 2012, we issued $189.8 million aggregate principal amount, 1.50% Convertible Senior Notes (the Notes) maturing on December 1, 2017. Embedded within the Notes is a conversion option (the Conversion Feature). As discussed in Note 10, prior to and as of December 31, 2012 we were required to settle the Conversion Feature in cash. We also purchased note hedges (Note Hedges) which we were also required to settle in cash prior to and as of December 31, 2012. In addition, simultaneous with our issuance of the Notes we sold warrants (the Warrants) to purchase shares of our common stock.

Given our requirement to cash settle the Conversion Feature and the Note Hedges prior to and as of December 31, 2012, these instruments were accounted for as derivative instruments. A portion of the Warrants we sold also would have required cash settlement under certain circumstances, for the period of December 6, 2012 through December 12, 2012. Accordingly, that portion of the Warrants potentially requiring cash settlement was accounted for as a derivative instrument for that period of time. As of December 12, 2012, the requirement to cash settle a portion of the Warrants had expired, and the Warrants that had initially been accounted for as a derivative instrument were remeasured to determine fair value and that value was reclassified to stockholders equity. All of our derivative instruments not meeting the equity classification requirements are recorded at fair value, and changes in fair value are reflected in earnings.

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The Conversion Feature and Note Hedges are not actively traded and are valued using an option pricing model that uses observable and unobservable market data for inputs, including the trading price and implied volatility of our common stock, risk-free interest rate and other factors.

Significant market data inputs used to determine fair value as of December 31, 2012 included our common stock price, time to maturity of the instruments, risk free interest rate and volatility.

At December 31, 2012 and June 30, 2012, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Level 1	December 31, 2012 Fair Value Measurements Using Input Types Level 2	Level 3	Total	Level 1	June 30, 2012 Fair Value Measurements Using Input Types Level 2	Level 3	Total
Assets								
Money market funds (cash and cash equivalents)	$ 26,433	$	$	$ 26,433	$ 65,743	$	$	$ 65,743
Derivative instruments (Note Hedges)			47,817	47,817				
Total	$ 26,433	$	$ 47,817	$ 74,250	$ 65,743	$	$	$ 65,743
Liabilities								
Derivative instruments (Conversion Feature)	$	$	$ 64,009	$ 64,009	$	$	$	$

Fair Value of Financial Instruments

We have certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and the Notes. 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 are classified as held to maturity and recorded at amortized cost which, at December 31, 2012 and June 30, 2012, approximated fair value. These investments all mature within one year.

The Notes were recorded at $133.3 million upon issuance, which reflected the principal amount of the Notes less the fair value of the Conversion Feature. The carrying value of the Notes will be accreted, over the remaining term to maturity, to their principal value of $189.8 million. The fair value of the Notes (inclusive of the Conversion Feature which is embedded in the Notes) was approximately $206.4 million as of December 31, 2012. We estimated the fair value of the Notes by reference to quoted market prices, however the Notes had only a limited trading volume as of December 31, 2012 and as such this fair value estimate is not necessarily the value at which the Notes could be retired or transferred.

Note 4 Product and Business Acquisitions

2013 Acquisition Activity

5280 Dynamic Solutions LLC

On October 25, 2012, we acquired certain assets and assumed certain liabilities of 5280 Dynamic Solutions LLC (5280), a US based software company, in exchange for a cash payment of $1.6 million. The acquisition provides us with new technology with which we intend to expand our product offerings to include SharePoint-based document management solutions for accounts payable automation and other document-centric business needs.

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At December 31, 2012, we were still finalizing our estimates of fair value for certain intangible assets acquired. Accordingly, the values disclosed for intangible assets and goodwill are subject to change as we finalize our fair value analysis, which we expect to complete during the quarter ending March 31, 2013. In the preliminary allocation of the purchase price we recognized $0.8 million of goodwill, which is deductible for income tax purposes over a period of fifteen years.

5280 s operating results have been included in our operating results from the date of the acquisition forward, as a component of the Payments and Transactional Documents segment, and all of the goodwill was allocated to this segment. Identifiable intangible assets of $0.7 million include customer related assets and core technology that are being amortized over a weighted average useful life of ten years.

For the three months ended December 31, 2012, revenues attributable to the 5280 acquisition represented less than 1% of our consolidated revenues. 5280 was integrated into our existing business lines in a manner that makes tracking or reporting earnings specifically attributable to this acquisition impracticable. As this acquisition was not material to our financial results, pro forma results of operations have not been presented.

Albany Software

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

In the allocation of the purchase price set forth below, we recognized $10.7 million of goodwill. The goodwill arose due to the recognition of certain deferred tax liabilities in purchase accounting and the assembled workforce of Albany. The goodwill is not deductible for income tax purposes.

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

The allocation of the purchase price as of December 31, 2012 is as follows:

	(in thousands)
Current assets	$ 6,442
Property and equipment	334
Customer related intangible assets	21,786
Core technology	1,920
Other intangible assets	145
Goodwill	10,725
Current liabilities	(3,726)
Other liabilities	(5,489)
Total purchase price	$ 32,137

For the six months ended December 31, 2012, revenues attributable to the Albany acquisition represented less than 2% of our consolidated revenues. Albany was integrated into our existing business lines in a manner that makes tracking or reporting earnings specifically attributable to this acquisition impracticable. As this acquisition was not material to our financial results, pro forma results of operations have not been presented.

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

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Note 5 Net Income Per Share

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
	(in thousands)			
Numerator:				
Net (loss) income allocable to common stockholders	$ (7,040)	$ 2,464	$ (7,022)	$ 4,205
Denominator:				
Shares used in computing basic net (loss) income per share attributable to common stockholders	35,284	34,160	35,097	33,935
Effect of dilutive securities		930		1,031
Shares used in computing diluted net (loss) income per share attributable to common stockholders	35,284	35,090	35,097	34,966
Basic net (loss) income per share attributable to common stockholders	$ (0.20)	$ 0.07	$ (0.20)	$ 0.12
Diluted net (loss) income per share attributable to common stockholders	$ (0.20)	$ 0.07	$ (0.20)	$ 0.12

The calculation of basic net (loss) income per share is computed using the weighted average number of common shares outstanding during the period and excludes any dilutive effects of stock options, unvested restricted stock and stock warrants.

For the three months ended December 31, 2012, 2,954,000 stock options and shares of restricted stock were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive.

For the six months ended December 31, 2012, 3,136,000 stock options and shares of restricted stock were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive.

In connection with the Notes we issued in December 2012, we entered into the Note Hedges with respect to our common stock. The Note Hedges are not included in calculating either basic or diluted earnings per share, as their effect would be anti-dilutive. The Warrants we issued in December 2012 are exercisable at a strike price of $40.04 per share and entitle the counterparties to purchase up to 6.3 million shares of our common stock, subject to customary antidilution provisions. For the three and six months ended December 31, 2012 the Warrants were excluded from our earnings per share calculations as their effect would have been anti-dilutive.

As of December 31, 2012, our Notes and related Conversion Feature were required to be settled in cash. Therefore, these instruments did not impact our calculations of earnings per share.

Note 6 Operations by Segments and Geographic Areas

Segment Information

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

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

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

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

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

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

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

Our chief operating decision maker assesses segment performance based on a variety of factors that can include segment revenue and a segment measure of profit or loss. Each segment s measure of profit or loss is on a pre-tax basis and excludes stock compensation expense, acquisition-related expenses (including acquisition related contingent consideration), amortization of intangible assets, impairment losses on equity investments, restructuring related charges and certain non-cash items related to our convertible debt offering. There are no inter-segment sales; accordingly, the measure of segment revenue and profit or loss reflects only revenues from external customers. The costs of certain corporate level expenses, primarily general and administrative expenses, are allocated to our operating segments at predetermined rates that are established as a percentage of the segment s budgeted revenues.

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

Segment information for the three and six months ended December 31, 2012 and 2011 according to the segment descriptions above is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
	(in thousands)			
Segment revenue:				
Payments and Transactional Documents	$ 28,259	$ 25,137	$ 54,408	$ 49,808
Banking Solutions	16,855	13,372	34,974	26,388
Outsourced Solutions	18,495	16,585	35,916	31,374
Total segment revenue	$ 63,609	$ 55,094	$ 125,298	$ 107,570

Segment measure of profit:				
Payments and Transactional Documents	$ 6,795	$ 6,183	$ 13,368	$ 12,159
Banking Solutions	819	2,276	2,834	4,886
Outsourced Solutions	2,908	3,387	4,676	5,235
Total measure of segment profit	$ 10,522	$ 11,846	$ 20,878	$ 22,280

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
	(in thousands)			
Segment measure of profit	$ 10,522	$ 11,846	$ 20,878	$ 22,280
Less:				
Amortization of intangible assets	(5,201)	(3,433)	(9,513)	(7,317)
Stock compensation expense	(4,734)	(3,373)	(8,941)	(6,538)
Acquisition related expenses	(2,565)	(177)	(4,280)	(301)
Restructuring expenses	(834)	(24)	(1,130)	(51)
Add:				
Loss on derivative instruments, net	(4,917)		(4,917)	
Other (expense) income, net	(585)	28	(539)	(85)
(Loss) income before income taxes	$ (8,314)	$ 4,867	$ (8,442)	$ 7,988

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
	(in thousands)			
Depreciation expense:				
Payments and Transactional Documents	$ 515	$ 407	$ 1,000	$ 791
Banking Solutions	515	245	1,040	480
Outsourced Solutions	698	759	1,401	1,514
Total depreciation expense	$ 1,728	$ 1,411	$ 3,441	$ 2,785

Geographic Information

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
	(in thousands)			
Revenues from unaffiliated customers:				
United States	$ 42,057	$ 37,298	$ 84,767	$ 72,892
United Kingdom	19,649	15,924	36,827	31,223
Continental Europe	1,115	1,110	2,162	1,993
Asia-Pacific	788	762	1,542	1,462
Total revenues from unaffiliated customers	$ 63,609	$ 55,094	$ 125,298	$ 107,570

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

	December 31, 2012	June 30, 2012
	(in thousands)	
Long-lived assets		
United States	$ 27,796	$ 19,189
United Kingdom	4,228	4,332
Continental Europe	5	5
Asia-Pacific	106	128
Total long-lived assets	$ 32,135	$ 23,654

Note 7 Income Taxes

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

We recorded an income tax benefit of $1.3 million and income tax expense of $2.4 million for the three months ended December 31, 2012 and 2011, respectively. The tax benefit recorded for the quarter ended December 31, 2012 arose principally from our US operations offset in part by tax expense associated with our UK and Australian operations. The income tax expense recorded for the quarter ended December 31, 2011 was attributable to our UK, Australian, and US operations.

We recorded an income tax benefit of $1.4 million and income tax expense of $3.8 million for the six months ended December 31, 2012 and 2011, respectively. The tax benefit recorded for the six months ending December 31, 2012 arose principally from our US operations, offset in part by tax expense associated with our UK and Australian operations. The income tax expense for the six months ended December 31, 2011 was primarily attributable to our UK, Australian and US operations.

Excluding the impact of discrete events that impact our tax expense, the excess of our effective tax rate over statutory rates is due to our inability to utilize UK foreign tax credits in the determination of US taxable income. This has the effect of taxing certain income twice, once in the UK and again in the US, which results in a higher overall effective tax rate.

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

We record a deferred tax asset if we believe it is more likely than not that we will recover that asset against future taxable income. In making this determination we consider historical and projected financial results, the planned reversal of existing deferred tax liabilities that provide a source of future taxable income and the availability of tax planning strategies. Our issuance of the Notes will result in a significant future expense burden for interest expense, in particular non-cash interest expense, as the debt is accreted to the principal amount due on maturity. While we expect to deploy the offering proceeds in a manner that offsets the impact of this expense, if we were unable to do so, all or a portion of our US based deferred tax assets might become impaired which would give rise to the recognition of significant deferred tax expense in the period in which that determination was made.

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Note 8 Goodwill and Other Intangible Assets

The following tables set forth the information for intangible assets subject to amortization and for intangible assets not subject to amortization. Other intangible assets consist of acquired tradenames, backlog, patents and below market lease arrangements.

	As of December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Value	Weighted Average Remaining Life (in years)
Amortized intangible assets:				
Customer related	$ 134,374	$ (65,285)	$ 69,089	11.4
Core technology	51,550	(34,002)	17,548	7.1
Other intangible assets	11,952	(4,006)	7,946	5.6
Total	$ 197,876	$ (103,293)	$ 94,583	
Unamortized intangible assets:				
Goodwill			112,180	
Total intangible assets			$ 206,763	

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

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

	(in thousands)
2013	$ 19,626
2014	15,968
2015	13,832
2016	11,750
2017	9,390
2018 and thereafter	33,530

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

	Payments and Transactional Documents	Banking Solutions (in thousands)	Outsourced Solutions
Balance at June 30, 2012	$ 54,329	$ 8,420	$ 36,225
Goodwill acquired during the period	11,561		
Impact of foreign currency translation	1,383		262
Balance at December 31, 2012	$ 67,273	$ 8,420	$ 36,487

Note 9 Restructuring Costs

During the six months ended December 31, 2012, in response to recent acquisitions and business events, we realigned our workforce and recorded pre-tax restructuring expenses associated with severance related benefits to employees and facility exit costs.

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A rollforward of the restructuring activity for the six months ended December 31, 2012 is as follows:

	Severance Costs (in thousands)	Facility Exit Costs (in thousands)
Accrued at June 30, 2012	$ 228	$
Charged to expense	955	175
Payments charged against the accrual	(820)	(17)
Accrued at December 31, 2012	$ 363	$ 158

In addition to the costs associated with severance related benefits and facility exit costs noted above, we also recorded $0.3 million of expense related to stock based compensation.

Note 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 $167.4 million after adjusting for debt issue costs, including the underwriting discount, as well as the net cash used to purchase the Note Hedges and sell the Warrants, as 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. At the time we issued the Notes and at December 31, 2012, we did not have a sufficient number of available authorized shares of our common stock to enable us to settle, with shares of our common stock, the maximum obligations we may have under the Conversion Feature of the Notes. Therefore the Notes require, prior to us receiving an approval from our shareholders to increase the authorized shares of our common stock to an amount that would allow us to settle the maximum potential obligations under the Conversion Feature in shares, that we settle any such obligation in cash.

The Notes provide that once we receive approval to increase our authorized shares of common stock to an amount that would permit us to settle the entire maximum conversion obligation in shares, 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. On January 17, 2013, our shareholders approved a proposal to amend our Amended and Restated Certificate of Incorporation to increase our authorized shares from 50,000,000 to 100,000,000 shares and this is a sufficient number of shares to enable us to settle the entire maximum potential obligation under the Conversion Feature in shares, should we so elect. The principal balance of the Notes is always required to be settled in cash.

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 December 31, 2012, 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 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 December 31, 2012 was as follows:

	(in thousands)
Principal amount	$ 189,750
Unamortized discount	(56,009)
Net carrying value	$ 133,741

We incurred certain third party costs in connection with our issuance of the convertible notes, principally related to underwriting and legal fees. These costs will be amortized to interest expense over the five-year term of the notes.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
	(in thousands)			
Contractual interest expense (cash)	$ 145		$ 145	
Amortization of debt issue costs (non-cash)	61		61	
Amortization of debt discount (non-cash)	486		486	
	$ 692		$ 692	
Effective interest rate of the liability component	6.66%	%	6.66%	%

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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 did not satisfy the accounting requirements necessary for classification within stockholders equity, as upon issuance and at December 31, 2012 any transaction under the Note Hedges was required to be settled in cash. Accordingly, the Note Hedges have been recorded as a derivative asset, measured at fair value, in our balance sheet.

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. A portion of the Warrants met the stockholders equity classification requirements upon issuance and, as such, were recorded in equity as of that date. Certain of the Warrants, however, did not satisfy the requirements necessary for classification as a derivative within stockholders equity as, for the period of December 6, 2012 through December 12, 2012 we would have been required, under specific circumstances, to settle obligations with the counterparty to those Warrants in cash. Accordingly, for this period, the Warrants for which cash settlement might have been required were recorded as a derivative liability. The requirement to potentially cash settle a portion of the Warrants expired on December 12, 2012, and we did not incur any actual cash payment obligation thereunder prior to that date. On December 12, 2012 we remeasured the fair value of those Warrants that were initially recorded as a derivative liability and recorded a $2.8 million loss related to a change in fair value. Since as of December 12, 2012 we met the stockholders equity classification requirements, the fair value of the Warrants were reclassified to equity as of that date. At December 31, 2012 all of the Warrants were recorded as a component of stockholders equity and, as part of equity, the Warrants are not subject to ongoing fair value remeasurement.

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.

Subsequent Accounting for Derivative Instruments

As of January 17, 2013, we believe that the Conversion Feature and Note Hedges meet the stockholders equity classification requirements since we had an adequate level of authorized shares to settle the Conversion Feature in shares of our common stock should we so elect, and we anticipate that those instruments will be remeasured at fair value and reclassified to stockholders equity as of that date, net of tax. However 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 need 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.

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Note 11 Derivative Instruments

Our derivative instruments for the three and six month periods ending December 31, 2012 consisted of the Note Hedges, Conversion Feature and Warrants as discussed in Note 10. Derivative instruments are reported in our balance sheet at fair value.

Changes in the fair value of our derivative instruments are recognized in earnings as a component of Loss on derivative instruments, net . The following table summarizes our loss on changes in fair value (in thousands) and provides a rollforward of activity from inception through December 31, 2012. Our derivative instruments were valued using significant unobservable inputs (Level 3) as discussed in Note 3, Fair Value.

	Fair Value at Inception	Fair Value upon reclassification to equity	Fair Value at December 31, 2012	Gain/(loss) on derivative instruments for the three and six months ending December 31, 2012
Note Hedges	$ 42,390		$ 47,817	$ 5,427
Conversion Feature	56,495		64,009	(7,514)
Warrants	12,950	15,780 [1]	n/a	(2,830)
Net loss on derivative instruments				$ (4,917)

[1] The conditions that gave rise to the potential cash settlement of a portion of the Warrants expired on December 12, 2012 and, as of that date, we re-measured the fair value of these instruments and reclassified that amount to stockholders equity. The fair value and resulting loss is based on re-measurement at December 12, 2012.

Note 12 Contingencies

On June 29, 2012, ACI Worldwide, Inc. (ACI) filed a lawsuit in the Superior Court of Fulton County, Georgia against us and one of our employees alleging, among other things, tortious interference with contract and business relations, unjust enrichment and violation of the Georgia Trade Secrets Act of 1990, in connection with our hiring of several former ACI employees. The complaint sought injunctive relief, costs and unspecified monetary damages. This lawsuit was subsequently removed to the U.S. District Court for the Northern District of Georgia, Atlanta Division. The lawsuit was settled by the parties on January 21, 2013 and the case was dismissed with prejudice on February 4, 2013. The lawsuit and the settlement did not have a material adverse effect on our financial statements.

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 currently 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.

Note 13 Subsequent Event

On January 17, 2013, our shareholders approved a proposal to amend our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock, par value $.001 per share, from 50,000,000 to 100,000,000.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Without limiting the foregoing, the words may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, potential and similar expressions are intended to identify forward-looking statements. All forward-looking statements included in this Quarterly Report on Form 10-Q are based on information available to us up to and including the date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors,

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including those set forth below under Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 1A. Risk Factors and elsewhere in this Form 10-Q. You should carefully review those factors and also carefully review the risks outlined in other documents that we file from time to time with the Securities and Exchange Commission.

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

Overview

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

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

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

Convertible Note Offering

In December 2012 we raised approximately $167 million in net proceeds upon completion of an underwritten public offering of convertible senior notes (the Notes). The Notes pay semi-annual interest at a rate of 1.50% per annum on the $189.8 million principal balance and mature in December 2017. We are required to settle the principal balance of the Notes in cash upon conversion or maturity, however as of January 17, 2013 we are permitted to settle any conversion obligation 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 entered into hedging transactions designed to offset dilution to our common stock in the event of a conversion under the Notes. The note hedge instruments (Note Hedges) have a strike price of $30.03, which is equal to the conversion rate under the Notes, are exercisable by us upon any conversion under the Notes and expire in December 2017. To help offset the cost of the Note Hedges, we also sold warrants (Warrants) in our common stock. The Warrants have a strike price of $40.04, and are exercisable in equal tranches over a 150 day period beginning on March 1, 2018 and ending on October 2, 2018. The Note Hedges and Warrants each cover approximately 6.3 million shares of our common stock, subject to customary anti-dilutive provisions.

We intend to use the net offering proceeds for general corporate purposes which may include the acquisition of businesses or assets, or working capital needs. Refer to Note 10 and 11 of the accompanying unaudited interim financial statements for a complete discussion of these transactions and their accounting implications.

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Recent Acquisitions

In October 2012, we acquired the assets of 5280 Dynamic Solutions LLC (5280), a US based software company, in exchange for a cash payment of $1.6 million. The acquisition provides us with new technology with which we intend to expand our product offerings to include SharePoint-based document management solutions for accounts payable automation and other document-centric business needs.

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

Financial Highlights

For the six months ended December 31, 2012, our revenue increased by $17.7 million to $125.3 million from $107.6 million in the same period of fiscal year 2012. This was attributable to revenue increases of $8.6 million in our Banking Solutions segment, $4.6 million in our Payments and Transactional Documents segment and $4.5 million in our Outsourced Solutions segment. The Banking Solutions segment s revenue increase was primarily the result of our fiscal year 2012 commercial banking acquisition. Legal spend management, SWIFT Access Service and Paymode-X solutions accounted for the majority of the revenue increase in our Outsourced Solutions segment. The increased revenue in our Payments and Transactional Documents segment was related to higher revenue in both North America and Europe.

We had a net loss of $7.0 million in the six months ended December 31, 2012 compared to net income of $4.2 million in the six months ended December 31, 2011. Our net loss for the six months ended December 31, 2012 included a loss of $4.9 million related to derivative instruments associated with our Notes; there were no similar derivative instruments during the six months ended December 31, 2011. Our gross margin increased $6.3 million in the first six months of fiscal year 2013 related primarily to revenue increases across all segments. The increased gross margin was offset by increased operating expense of $17.4 million which was primarily due to increased acquisition related expenses, increased employee related costs, including increases in compensation costs, and increased intangible asset amortization expense as compared to the same period in the prior year. The increase in operating expenses was also attributable to marketing initiatives to support our new and existing products, particularly our commercial banking and Paymode-X solutions. In addition our operating expenses were impacted by increased development costs as we continue to invest in our SaaS-based solutions that we believe will drive future revenue growth, such as our commercial banking, Paymode-X and legal spend management solutions.

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

Critical Accounting Policies

We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates which also would have been reasonable could have been used.

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended June 30, 2012 related to stock based compensation, revenue recognition, the valuation of goodwill and intangible assets and the valuation of acquired deferred revenue. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed in our Annual Report on Form 10-K, as filed with the SEC on August 27, 2012 and in conjunction with the discussion of income taxes which follows below.

Income Taxes

We are subject to the income tax laws of the United States (including its states and municipalities) as well as the tax laws of the foreign jurisdictions in which we operate. Our annual tax rate is determined based on our income, statutory tax rates and the tax impact of items treated differently for tax purposes than for financial statement purposes. The income tax expense we record in any interim period is based on our estimated tax rate for the full fiscal year, which requires us to

estimate our annual pretax income and tax expense by jurisdiction. This process is inherently subjective and requires us to make estimates relative to our business plans, planning opportunities and operating results. An interim tax rate is subject to adjustment if, in later periods, there are changes to our estimate of total tax expense or pretax income, including income by jurisdiction. We update these estimates on a quarterly basis, 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 historical and projected operating results, the reversal of existing deferred tax liabilities that provide a source of future taxable income and the availability of tax planning strategies. We establish a valuation allowance against any deferred tax asset for which we are unable to conclude that recoverability is more likely than not. The particularly sensitive component of this evaluation is our projection of future operating results since this relies heavily on our estimates of future revenue and expense levels by tax jurisdiction. We continuously reassess the recoverability of our deferred tax assets and our conclusion can change at any time.

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

Recent Accounting Pronouncements

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

Results of Operations

Three Months Ended December 31, 2012 Compared to the Three Months Ended December 31, 2011

Segment Information

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

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

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Our operating segments are organized principally by the type of product or service offered and by geography. Similar operating segments have been aggregated into three reportable segments: Payments and Transactional Documents, Banking Solutions and Outsourced Solutions. The following tables represent our segment revenues and our segment measure of profit:

	Three Months Ended December 31,		Increase (Decrease) Between Periods 2012 Compared to 2011	
	2012	2011	(in thousands)	%
	(in thousands)			
Segment revenue:				
Payments and Transactional Documents	$ 28,259	$ 25,137	$ 3,122	12.4
Banking Solutions	16,855	13,372	3,483	26.0
Outsourced Solutions	18,495	16,585	1,910	11.5
	$ 63,609	$ 55,094	$ 8,515	15.5
Segment measure of profit:				
Payments and Transactional Documents	$ 6,795	$ 6,183	$ 612	9.9
Banking Solutions	819	2,276	(1,457)	(64.0)
Outsourced Solutions	2,908	3,387	(479)	(14.1)
Total measure of segment profit	$ 10,522	$ 11,846	$ (1,324)	(11.2)

A reconciliation of the measure of segment profit to GAAP (loss) income for the three months ended December 31, 2012 and 2011, before the provision for income taxes, is as follows:

	Three Months Ended December 31,	
	2012	2011
	(in thousands)	
Segment measure of profit	$ 10,522	$ 11,846
Less:		
Amortization of intangible assets	(5,201)	(3,433)
Stock compensation expense	(4,734)	(3,373)
Acquisition related expenses	(2,565)	(177)
Restructuring expenses	(834)	(24)
Add:		
Loss on derivative instruments, net	(4,917)	
Other (expense) income, net	(585)	28
(Loss) income before income taxes	$ (8,314)	$ 4,867

Payments and Transactional Documents. The Payments and Transactional Documents segment revenue increased $3.1 million for the three months ended December 31, 2012 as compared to the same period in the prior year as a result of increases of $1.3 million in software license revenue, $0.3 million in subscriptions and transactions revenue, $1.4 million in service and maintenance revenue and equipment and supplies revenue of $0.1 million. The revenue increases were primarily attributable to increased European revenue as a result of our fiscal 2013 acquisition of Albany. The revenue includes a favorable effect of foreign exchange rates of $0.3 million associated with the British Pound Sterling which appreciated against the US Dollar when compared to the same period in the prior fiscal year. The segment profit increase of $0.6 million for the three months ended December 31, 2012 was primarily attributable to increased gross margins related to the increased sales volume offset in part by increased operating expenses of $1.6 million, primarily attributable to increased sales and marketing and product development expenses. We expect revenue and profit for the Payments and Transactional Documents segment to increase during the remaining two quarters of fiscal year 2013 primarily as a result of our recent acquisition of Albany.

Banking Solutions. Revenues from our Banking Solutions segment increased as compared to the same period in the prior fiscal year due to increases in subscription and transactions revenues of $8.6 million and maintenance revenue of $0.2 million offset by a decrease in professional services revenue of $5.1 million as a result of the completion of several large projects in fiscal year 2012 and a decrease in software licenses of $0.2 million. Segment profit decreased $1.5 million for the three months ended December 31, 2012 as compared to the same period in the prior fiscal year primarily due to increased sales and marketing and product development related costs. The increased sales and marketing and product development costs were primarily related to increased headcount costs related to our commercial banking acquisition. We expect revenue and profit for the Banking Solutions segment to decrease during the remainder of the fiscal year as a result of customer losses and increased expenses related to the hosted infrastructure and sales and marketing efforts associated with our commercial banking business. The customer losses have been anticipated as the acquired commercial banking business had been experiencing customer attrition prior to our acquisition, due in large part to customers views that the business s solutions required further investment and improvement. The increased infrastructure and sales and marketing expenses are attributable to investments we are making to support, improve and grow the commercial banking business.

Outsourced Solutions. Revenues from our Outsourced Solutions segment increased as compared to the same period in the prior fiscal year due primarily to the increased revenue contributions from our Paymode-X solution of $1.2 million and, to a lesser extent, increases in revenue from our legal spend management and SWIFT Access Service solutions. The legal spend management solutions revenue growth and the SWIFT Access Service revenue growth was driven by volume increases as more customers moved to these SaaS platforms. Segment profit decreased $0.5 million as compared to the same period in the prior fiscal year as a result of increased sales and marketing and product development expenses. We expect revenue and profit for the Outsourced Solutions segment to increase during the remainder of the fiscal year as a result of the revenue contribution from our legal spend management, Paymode-X and SWIFT Access Service solutions.

Revenues by category

	Three Months Ended December 31, 2012		2011		Increase (Decrease) Between Periods 2012 Compared to 2011	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Revenues:						
Subscriptions and transactions	$ 30,361	47.7	$ 19,054	34.6	$ 11,307	59.3
Software licenses	5,469	8.6	4,402	8.0	1,067	24.2
Service and maintenance	25,735	40.5	29,667	53.8	(3,932)	(13.3)
Equipment and supplies	2,044	3.2	1,971	3.6	73	3.7
Total revenues	$ 63,609	100.0	$ 55,094	100.0	$ 8,515	15.5

Subscriptions and Transactions. The increase in subscriptions and transactions revenue was due principally to the revenue contribution from our Banking Solutions segment of $8.6 million and our Paymode-X solution of $1.2 million, and, to a lesser extent, revenue increases in our SWIFT Access Service solution, legal spend management solution and our payments and document automation products. The increases in the Banking Solutions segment revenues relates primarily to our fiscal year 2012 commercial banking acquisition. The increases in legal spend management and SWIFT Access Service revenues were due to our continued customer adoption of these SaaS platforms. We expect subscriptions and transactions revenues to increase during the remainder of the fiscal year, primarily as a result of the revenue contribution from our legal spend management and SWIFT Access Service solutions.

Software Licenses. The increase in software license revenue was due to an increase in European payments and document automation products of approximately $0.9 million as well as increased US revenue for payment and document automation products of $0.4 million, which was partially offset by a decrease of $0.2 million in our Banking Solutions segment as compared to the same period in the prior fiscal year. We expect software license revenues to increase during the remainder of fiscal year 2012, principally as a result of increased software license revenue from our Payments and Transactional Documents segment.

Service and Maintenance. The decrease in service and maintenance revenues was primarily the result of a decrease in professional services revenues of $5.1 million associated with the completion of banking projects in prior periods and decreased revenues from our SWIFT Access Service solution of $0.4 million partially offset by increased European service and maintenance revenue from our payment and document automation products of $1.3 million. We expect that service and maintenance revenues will decrease during the remainder of the fiscal year as a result of the recent completion of several large projects within our Banking Solutions segment.

Equipment and Supplies. The slight increase in equipment and supplies revenues was principally due to an increase in revenue from our European payments and transactional document products. We expect that equipment and supplies revenues will remain relatively consistent during the remainder of 2013.

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Cost of revenues by category

	Three Months Ended December 31, 2012		2011		Increase (Decrease) Between Periods 2012 Compared to 2011	
	(in thousands)	As % of total Revenues	(in thousands)	As % of total Revenues	(in thousands)	%
Cost of revenues:						
Subscriptions and transactions	$ 16,573	26.1	$ 9,215	16.7	$ 7,358	79.8
Software licenses	617	1.0	529	1.0	88	16.6
Service and maintenance	11,977	18.8	13,239	24.0	(1,262)	(9.5)
Equipment and supplies	1,540	2.4	1,565	2.9	(25)	(1.6)
Total cost of revenues	$ 30,707	48.3	$ 24,548	44.6	$ 6,159	25.1
Gross profit	$ 32,902					