

BOTTOMLINE TECHNOLOGIES INC /DE/
Form DEF 14A
October 15, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant ☒ Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

☒ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to §240.14a-12

Bottomline Technologies (de), Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

BOTTOMLINE TECHNOLOGIES (de), INC.

325 Corporate Drive

Portsmouth, New Hampshire 03801

Notice of Annual Meeting of Stockholders

To be held on November 15, 2007

To the stockholders of Bottomline Technologies (de), Inc.:

The annual meeting of stockholders of Bottomline Technologies (de), Inc., a Delaware corporation, will be held on Thursday, November 15, 2007 at 3:00 p.m., local time, at the corporate offices of Bottomline Technologies (de), Inc., at 325 Corporate Drive, Portsmouth, New Hampshire 03801, for the purpose of considering and voting upon the following matters:

1. To elect three Class III directors for the ensuing three years;
2. To ratify the selection of Ernst & Young LLP as our registered public accounting firm for the current fiscal year; and
3. To transact such other business as may properly come before the annual meeting, including any postponements or adjournments thereof.

Our board of directors has no knowledge of any other business to be transacted at the annual meeting.

We are enclosing a copy of our annual report to stockholders for the fiscal year ended June 30, 2007 with the proxy statement that accompanies this notice of meeting. The annual report contains consolidated financial statements and other information of interest to you.

Holders of record of our common stock at the close of business on September 28, 2007 are entitled to receive this notice and to vote at the annual meeting.

We encourage you to attend the annual meeting in person. However, in order to make sure that you are represented at the annual meeting, we urge you to complete, sign and return the enclosed proxy card as promptly as possible in the enclosed postage-prepaid envelope.

By order of the Board of Directors,

/s/ JOSEPH L. MULLEN
Joseph L. Mullen

Chairman of the Board of Directors

October 15, 2007

Portsmouth, New Hampshire

BOTTOMLINE TECHNOLOGIES (de), INC.

325 Corporate Drive

Portsmouth, New Hampshire 03801

Proxy Statement

For the Annual Meeting of Stockholders

To be held on November 15, 2007

This proxy statement is furnished to you in connection with the solicitation of proxies by our board of directors for the annual meeting of stockholders to be held on Thursday, November 15, 2007 at 3:00 p.m., local time, at the corporate offices of Bottomline Technologies (de), Inc., at 325 Corporate Drive, Portsmouth, New Hampshire 03801, including any postponements or adjournments thereof.

The notice of the annual meeting, this proxy statement, our annual report to stockholders for the fiscal year ended June 30, 2007, which we sometimes refer to as fiscal 2007, and the enclosed proxy are first being mailed to stockholders on or about October 15, 2007.

Voting of Proxies

All shares held by stockholders who are entitled to vote and who are represented at the annual meeting by properly executed proxies received prior to or at the annual meeting will be voted in accordance with the instructions indicated on the proxy card, unless it is revoked prior to the vote. If a proxy card does not specify how the proxy is to be voted with respect to a particular matter, the shares will be voted FOR approval of the matter.

A proxy may be revoked before it is used to cast a vote. To revoke a proxy, a stockholder must:

file with the corporate secretary of the company, at or before the taking of the vote, a written notice of revocation bearing a later date than the proxy;

duly execute a later dated proxy relating to the same shares and deliver it to the corporate secretary of the company before the taking of the vote; or

attend the annual meeting and vote in person. Attendance at the annual meeting, if a stockholder does not vote, will not be sufficient to revoke a proxy.

Any written notice of revocation or subsequent proxy should be sent to us at the following address: Bottomline Technologies (de), Inc., 325 Corporate Drive, Portsmouth, New Hampshire 03801, Attention: Corporate Secretary.

Stockholders Entitled to Vote

Our board of directors has fixed September 28, 2007 as the record date for the determination of stockholders entitled to vote at the annual meeting. Only holders of record of our common stock at the close of business on the record date are entitled to notice of and to vote at the annual meeting. On September 28, 2007, there were 24,621,041 shares of our common stock outstanding and entitled to vote. Each share of common stock will have one vote for each matter to be voted upon at the annual meeting.

Votes Required

The holders of at least a majority of the shares of our common stock issued and outstanding and entitled to vote at the annual meeting will constitute a quorum for the transaction of business at the annual meeting. Shares of common stock present in person or represented by proxy, including shares which abstain or do not vote with

respect to one or more of the matters presented for stockholder approval, will be counted for purposes of determining whether a quorum is present at the annual meeting.

If a broker does not have discretionary voting authority to vote shares for which it is the holder of record with respect to a particular matter at the annual meeting, the shares cannot be voted by the broker, although they will be counted in determining whether a quorum is present. Accordingly, broker non-votes and abstentions would have no effect on the voting on a matter that requires the affirmative vote of a certain percentage of votes cast or shares voting on that matter.

The affirmative vote of the holders of shares representing at least a plurality of the votes cast by the holders of our common stock entitled to vote at the annual meeting is required for the election of the Class III directors. The affirmative vote of the holders of shares representing at least a majority of the stock present or represented and voting on the matter is required for the ratification of our registered public accounting firm.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information, as of August 31, 2007, regarding the beneficial ownership of shares of our common stock by (a) each person or entity known by us to own beneficially more than 5% of the outstanding shares of our common stock, (b) each of the named executive officers, as described in the Summary Compensation Table below, (c) each director of the company, and (d) the directors and executive officers of the company as a group. The address of each of our directors and named executive officers is c/o Bottomline Technologies (de), Inc., 325 Corporate Drive, Portsmouth, New Hampshire 03801. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, which we sometimes refer to as the SEC, and generally includes voting power and/or investment power with respect to securities. Shares of common stock subject to options and/or warrants currently exercisable or exercisable within 60 days of August 31, 2007 are deemed outstanding for purposes of computing the percentage beneficially owned by the person or entity holding the options and/or warrants, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person or entity. Except as indicated by footnote, we believe that the persons and entities named in this table, based on information provided by them, have sole voting and investment power with respect to the shares of common stock indicated.

Name and Address of Beneficial Owner	Shares Beneficially Owned		Options and/or Warrants Included in Shares Beneficially Owned
	Number	Percent	
5% Stockholders			
T. Rowe Price Associates, Inc.	2,840,000(1)	11.54%	
100 E. Pratt Street			
Baltimore, MD 21202			
BlackRock, Inc.	2,749,077(2)	11.17%	
40 East 52nd Street			
New York, NY 10022			
Royce & Associates, LLC	1,446,001(3)	5.87%	
1414 Avenue of the Americas			
New York, NY 10019			
Executive Officers and Directors			
Robert A. Eberle	616,973(4)	2.47%	358,462
Peter S. Fortune	261,830(5)	1.06%	85,225
Kevin M. Donovan	184,301(6)	*	136,782
Joseph L. Barry, Jr.	221,175(7)	*	60,000
Michael J. Curran	8,000(8)	*	
Jeffrey C. Leathe	10,500(9)	*	7,500
James L. Loomis	514,250(10)	2.09%	37,500
Daniel M. McGurl	334,783(11)	1.35%	98,005
Joseph L. Mullen	756,549(12)	3.01%	501,250
Garen K. Staglin	8,000(13)	*	
James W. Zilinski	85,000(14)	*	60,000
All executive officers and directors as a group (11 persons)	3,001,361	11.56%	1,344,724

* Represents less than 1% of the outstanding shares of common stock.

- (1) T. Rowe Price Associates, Inc. holds sole voting power over 538,400 of the shares and sole dispositive power over all 2,840,000 shares. This information is based on an Amendment No. 1 to Schedule 13G filed by T. Rowe Price Associates, Inc. with the SEC on February 13, 2007.

- (2) BlackRock, Inc. shares voting and dispositive power with Master Value Opportunities Trust with respect to these shares. This information is based on an Amendment No. 1 to Schedule 13G filed by BlackRock, Inc. with the SEC on February 13, 2007.

- (3) Royce & Associates, LLC has sole voting and dispositive power over these shares. This information is based on an Amendment No. 2 to Schedule 13G filed by Royce & Associates, LLC with the SEC on January 18, 2007.
- (4) Includes prior awards of restricted stock, of which 140,250 are unvested as of August 31, 2007.
- (5) Includes prior awards of restricted stock, of which 113,250 are unvested as of August 31, 2007.
- (6) Includes prior awards of restricted stock, of which 17,500 are unvested as of August 31, 2007.
- (7) Includes prior awards of restricted stock, of which 3,000 are unvested as of August 31, 2007.
- (8) Includes prior awards of restricted stock, of which 8,000 are unvested as of August 31, 2007.
- (9) Includes prior awards of restricted stock, of which 3,000 are unvested as of August 31, 2007.
- (10) Includes prior awards of restricted stock, of which 3,000 are unvested as of August 31, 2007.
- (11) Includes prior awards of restricted stock, of which 3,000 are unvested as of August 31, 2007. In addition, 230,778 of the shares are held by the McGurl Family Limited Partnership. Mr. McGurl shares voting and dispositive power over the shares held by the McGurl Family Limited Partnership. Mr. McGurl disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.
- (12) Includes prior awards of restricted stock, of which 121,312 are unvested as of August 31, 2007.
- (13) Includes prior awards of restricted stock, of which 8,000 are unvested as of August 31, 2007.
- (14) Includes prior awards of restricted stock, of which 3,000 are unvested as of August 31, 2007.

PROPOSAL I ELECTION OF CLASS III DIRECTORS

We have three classes of directors, currently consisting of three Class I directors, three Class II directors and three Class III directors. At each annual meeting, directors are elected for a full term of three years to succeed those whose terms are expiring. The terms of the three classes are staggered in a manner so that only one class is elected by stockholders annually. Mr. Daniel M. McGurl, Mr. James L. Loomis and Mr. Garen K. Staglin are currently serving as Class III directors. The Class III directors elected this year will serve as members of our board of directors until the 2010 annual meeting of stockholders, or until their respective successors are elected and qualified. Proxies can not be voted cumulatively.

The persons named in the enclosed proxy will vote to re-elect Mr. McGurl, Mr. Loomis and Mr. Staglin as Class III directors unless the proxy is marked otherwise. Mr. McGurl, Mr. Loomis and Mr. Staglin have indicated their willingness to serve on our board of directors, if elected; however, if any nominee should be unable to serve, the person acting under the proxy may vote the proxy for a substitute nominee designated by our board of directors. Our board of directors has no reason to believe that Mr. McGurl, Mr. Loomis or Mr. Staglin would be unable to serve if elected.

Set forth below for each director, including the Class III director nominees, is information as of August 31, 2007 with respect to his (a) name and age, (b) positions and offices at the company, (c) principal occupation and business experience during at least the past five years, (d) directorships, if any, of other publicly held companies and (e) the year such person became a director of the company.

Name	Age	Director Since	Principal Occupation, Other Business Experience During the Past Five Years and Other Directorships
Class III directors (terms expiring in 2007)			
Daniel M. McGurl	71	1989	Mr. McGurl co-founded Bottomline in May 1989, and served as Chairman of the Board of Directors of Bottomline from May 1989 to May 2007. From May 1989 to August 2002, Mr. McGurl also served as Chief Executive Officer of Bottomline, and from May 1989 to September 2000, Mr. McGurl also served as President of Bottomline.
James L. Loomis	57	1989	Mr. Loomis co-founded Bottomline in May 1989. From August 1998 until his retirement in September 2000, Mr. Loomis served as Senior Executive Advisor of Bottomline.
Garen K. Staglin	62	2007	Mr. Staglin was Chief Executive Officer of eONE Global LP, an emerging payments company, from 2001 to 2004. Mr. Staglin serves as a director of Global Document Solutions, Inc., a digital printing, imaging and customer relationship management outsourcing company, Solera, Inc., a consulting, outsourced services and technology provider focused on auto claims solutions, and EXL, a provider of offshore business process outsourcing solutions. Mr. Staglin is also a senior advisor for FTVentures and a member of the Advisory Board of the Cambridge University Business School in the United Kingdom.

Name	Age	Director Since	Principal Occupation, Other Business Experience During the Past Five Years and Other Directorships
Class I directors (terms expiring in 2008)			
Joseph L. Barry, Jr.	74	1990	Mr. Barry has served as President of Hallmark Mechanical Corp., a machinery service company, since 1990, and as President of Hallamore Corp., a transportation and rigging company, since 1956. Since 1975, Mr. Barry has served as Chairman of Northeast Concrete Products, and since 1978, as co-chairman of New England Teamsters Pension Fund. Mr. Barry is also a director of Heritage Property Investment Trust, Inc., a real estate investment trust. *#
Robert A. Eberle	46	2000	Mr. Eberle has served as Chief Executive Officer of Bottomline since November 2006 and as President since August 2004. Mr. Eberle served as Chief Operating Officer of Bottomline from April 2001 to November 2006. From September 1998 to August 2004, Mr. Eberle served as Chief Financial Officer of Bottomline.
Jeffrey C. Leathe	51	2005	Mr. Leathe has served as a Principal of Leathe & Associates, LLC, a private investment advisory firm since November 2004. From November 2005 to September 2007, Mr. Leathe served as the President of Pelican Life Sciences, a biotechnology company. From July 2003 to October 2004, Mr. Leathe served as Senior Vice President of Harvest Capital Management, a private investment advisory firm. From 1990 to 2003, Mr. Leathe served as Executive Vice President, Chief Financial Officer and Treasurer of Apogent Technologies, a manufacturer of healthcare and life sciences research products. *
Class II directors (terms expiring in 2009)			
Joseph L. Mullen	55	1996	Mr. Mullen served as Chief Executive Officer of Bottomline from August 2002 to November 2006. From September 2000 to August 2004, Mr. Mullen served as President of Bottomline, and from September 2000 to April 2001, Mr. Mullen also served as Chief Operating Officer of Bottomline.
James W. Zilinski	63	1994	From July 1995 until his retirement in December 2004, Mr. Zilinski served as President and Chief Executive Officer of Berkshire Life Insurance Company of America and as a director of its subsidiary, Berkshire Securities Corp. *#
Michael J. Curran	52	2006	Mr. Curran has served as Executive Vice President, Global Solutions Group of Sovereign Bank since June 2007. From March 1995 to April 2006, Mr. Curran served as Executive Vice President Global Treasury Services of Bank of America.

Member of compensation committee.

Member of nominations and corporate governance committee.

* Member of audit committee.

Director Compensation

Compensation for our directors is reviewed from time to time by our chief executive officer and compensation committee, and any determinations with respect to board compensation are made by our board of directors.

Each of our non-employee directors receives a restricted stock award of 3,000 shares of our common stock on the date of each annual meeting of stockholders (other than a director initially elected to the board of directors at the annual meeting or at any time after the prior year's annual meeting). The awards vest as to 100% of the shares underlying the awards on the earlier of the first anniversary of the grant date or the next annual meeting of stockholders. In fiscal 2007, Mr. Barry, Mr. Leathe, Mr. Loomis, Mr. McGurl and Mr. Zilinski each received a restricted stock award for 3,000 shares of our common stock. The awards are granted under our 2000 Stock Incentive Plan.

Upon his or her initial election to the board of directors, a non-employee director receives a restricted stock award for 8,000 shares of our common stock. The restricted stock award vests over a period of four years from the date of grant, with 25% of the shares vesting on the first anniversary of the date of grant and an additional 6.25% of the shares vesting each quarter thereafter. In fiscal 2007, Mr. Curran and Mr. Staglin each received a restricted stock award for 8,000 shares of our common stock. The awards are granted under our 2000 Stock Incentive Plan.

We reimburse our directors for expenses incurred to attend board of directors and committee meetings. In fiscal 2007, each non-employee director received an annual fee of \$17,500, payable quarterly in arrears, and a fee of \$1,250 for each meeting of the board of directors that the non-employee director attended. Each non-employee director who served as a member of the audit committee, other than the chairperson of such committee, received an annual fee of \$3,500. Each non-employee director who served as a member of the compensation committee and each non-employee director who served as a member of the nominations and corporate governance committee, other than the respective chairpersons of such committees, received an annual fee of \$1,000. The chairman of the audit committee received an annual fee of \$15,000 and the chairman of the compensation committee and the nominations and corporate governance committee each received an annual fee of \$2,000. In fiscal 2007, the chairman of our board of directors received an annual fee of \$65,000.

The following table sets forth information concerning the compensation of our directors for fiscal 2007. The compensation information for Mr. Mullen and Mr. Eberle is included in the Summary Compensation Table.

Fiscal 2007 Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)(2)	Option Awards \$(1)(2)	All Other Compensation (\$)	Total (\$)
Joseph L. Barry	\$ 29,000	\$ 34,638			\$ 63,638
John W. Barter	\$ 10,000	\$ 14,372	\$ 6,524		\$ 30,896
Michael J. Curran	\$ 11,500	\$ 13,510			\$ 25,010
William O. Grabe	\$ 12,250	\$ 14,372			\$ 26,622
Jeffrey C. Leathe	\$ 36,250	\$ 20,266	\$ 41,138		\$ 97,654
James L. Loomis	\$ 22,500	\$ 34,638			\$ 57,138
Daniel M. McGurl	\$ 65,000	\$ 34,638			\$ 99,638
Garen K. Staglin		\$ 2,477			\$ 2,477
James W. Zilinski	\$ 29,000	\$ 34,638			\$ 63,638

- (1) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for fiscal 2007, in accordance with Statement of Financial Accounting Standards No. 123R, Share-Based Payment, or SFAS 123R, of equity awards under our equity plans and include amounts for equity awards granted in and prior to fiscal 2007. These amounts do not reflect estimates of forfeiture related to service-based vesting conditions. There can be no assurance that the SFAS 123R amounts will ever be realized. The assumptions we used to calculate these amounts are included in Note 9 to our audited financial statements for fiscal 2007, included in our annual report on Form 10-K for fiscal 2007 filed on September 12, 2007.
- (2) As of June 30, 2007, our non-employee directors had the following aggregate number of stock option awards outstanding: Joseph L. Barry, 60,000; John W. Barter, 30,000; William O. Grabe, 30,000; Jeffrey C. Leathe, 15,000; James L. Loomis, 37,500; Daniel M. McGurl, 98,005; James W. Zilinski, 60,000. As of June 30, 2007, our non-employee directors had the following aggregate number unvested of restricted stock awards outstanding: Joseph L. Barry, 3,000; Michael J. Curran, 8,000; Jeffrey C. Leathe, 3,000; James L. Loomis, 3,000; Daniel M. McGurl, 3,000; Garen K. Staglin, 8,000; James W. Zilinski, 3,000. The grant date fair value of equity awards made to our non-employee directors during fiscal 2007 consisted of the following; Mr. Staglin was awarded 8,000 shares of restricted stock on May 24, 2007, with a grant date fair value of \$98,000. Mr. Curran was awarded 8,000 shares of restricted stock on November 16, 2006 with a grant date fair value of \$87,280. Mr. Barry, Mr. Leathe, Mr. Loomis, Mr. McGurl and Mr. Zilinski were each awarded 3,000 shares of restricted stock on November 16, 2006, each with a grant date fair value of \$32,730.

Executive Compensation

Compensation Discussion and Analysis

The compensation committee of our board of directors oversees, reviews and approves annually all compensation decisions relating to our named executive officers. In the discussion that follows, executives refers to Messrs. Mullen, Eberle, Fortune and Donovan.

The compensation committee has implemented an annual performance and compensation review program for our executives. Annual performance goals are proposed by our chief executive officer and approved by the compensation committee at the end of each fiscal year for the upcoming fiscal year. These corporate goals relate to specific operational and financial milestones and performance against these milestones is considered when determining annual salary increases, annual bonuses, and annual stock option grants and restricted stock awards to our named executive officers.

Objectives and Philosophy of Our Executive Compensation Program

The primary objectives of the compensation committee with respect to executive compensation are to:

enable us to attract, retain and motivate the best possible executive talent,

ensure executive compensation is aligned with our corporate strategies and business objectives,

promote the achievement of key strategic and financial performance measures by linking short- and long-term cash and equity incentives to the achievement of measurable corporate and individual performance goals, and

align executives incentives with the creation of stockholder value.

To achieve these objectives, the compensation committee evaluates our executive compensation program with the goal of setting compensation at levels the committee believes are competitive with those of other companies of a similar size within our industry. In addition, our executive compensation program ties a portion

of each executive's overall compensation to key strategic, financial and operational goals such as establishment and maintenance of key strategic relationships, product development initiatives, customer service execution, employee retention, as well as our financial and operational performance, such as metrics related to revenue, orders and profitability. The compensation committee may also assess overall compensation based on the individual performance of the executive. We also provide a portion of our executive compensation in the form of stock options and restricted stock awards that vest over time, which we believe promotes the retention of our executives and aligns their interests with those of our stockholders by allowing them to participate in the long-term success of our company as reflected in stock price appreciation.

In making compensation decisions, the compensation committee compares our executive compensation against that of a peer group of publicly traded companies. This peer group, which is periodically reviewed and updated, consists of companies generally comparable to our company. The companies included in this peer group for fiscal 2007 compensation comparisons were: Art Technology Group, Inc., Blackbaud, Inc., Carreker Corporation, Chordiant Software, Inc., Cogent Communications, Inc., Concur Technologies, Inc., Docucorp International, Inc., Interwoven, Inc., Open Solutions, Inc., Netmanage, Inc., Pervasive Software Inc., The SCO Group, Inc., Selectica, Inc., Stellant, Inc., and The Ultimate Software Group, Inc.

Components of our Executive Compensation Program

The primary elements of our executive compensation program are:

base salary,

cash bonuses,

stock option and restricted stock awards,

insurance, retirement and other employee benefits, and

severance and change of control benefits.

We do not have any formal or informal policy or target for allocating compensation between long-term and short-term compensation, between cash and non-cash compensation or among the different forms of non-cash compensation. Instead, the compensation committee determines what it believes to be the appropriate level and mix of the various compensation components based on recommendations from our chief executive officer, company performance against stated objectives, individual performance and overall comparisons to the aforementioned peer group.

Base Salary

Base salary is used to recognize the experience, skills, knowledge and responsibilities required of all our employees, including our executives. When establishing base salaries for fiscal 2007, the compensation committee considered the survey data of compensation in the peer group, as well as a variety of other factors, including the executive's scope of responsibility, performance, prior employment experience and salary history, and our financial performance, including increases in revenue and profits.

Base salaries are reviewed at least annually by our compensation committee, and may be adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, company and individual performance and experience. During fiscal 2007, the base salaries of Messrs. Eberle and Fortune were adjusted commensurate with their new roles as chief executive officer and chief operating officer, respectively. Mr. Donovan received a base salary increase that on average was consistent with the percentage salary increases received by other employees during fiscal 2007. Mr. Mullen's base salary was not adjusted during fiscal 2007 from fiscal 2006 levels.

Cash Bonuses

The compensation committee approves payment of quarterly cash bonuses as part of the overall compensation packages of Bottomline's executive officers. Certain specified levels of company financial and operational performance must be achieved before any bonuses can be paid. In general, the compensation committee has tied potential bonus compensation to performance factors, including the executive officer's individual efforts and contributions towards obtaining Bottomline's stated performance objectives. In determining the aggregate amounts of cash bonuses to be paid to executive officers in fiscal 2007 under our Executive Officer Bonus Plan, the compensation committee established specific revenue and profit targets. Each quarter, our chief executive officer prepares a summary of Bottomline's actual corporate performance against the established performance objectives, and submits his recommendation to the compensation committee in respect of bonuses, if any, that should be paid to our executives for that quarter. Cash bonus opportunities are based on a percentage of base compensation and are intended to be measured and paid quarterly, with an opportunity for review of the overall bonus at year end. Mr. Donovan's bonus is recommended by our chief executive officer based on both corporate and individual performance, and approved by the compensation committee. Determination regarding the ultimate payment of bonuses, in respect of both timing and amount, is at the discretion of the compensation committee.

During fiscal 2007, cash bonuses in the amount of \$187,750, \$153,917 and \$51,000 were paid to Messrs. Eberle, Fortune and Donovan, respectively, which represented 61%, 55% and 68% of their total bonus opportunity for the fiscal year. A cash bonus of \$83,400 was paid to Mr. Mullen during fiscal 2007, consisting of the bonuses earned for that portion of fiscal 2007 during which he served as our chief executive officer and representing 67% of his bonus opportunity during the period in which he served as chief executive officer.

For fiscal 2007 for Messrs. Eberle and Fortune, payment at 54% of their respective bonus opportunity would have occurred only in the event that Bottomline and the executive achieved 100% of the stated performance objectives. We would characterize the 54% level of achievement as attainable based on the performance measures in place for fiscal 2007. Payouts above the 54% threshold would have occurred only upon Bottomline and the executive exceeding performance requirements and we would characterize this level of achievement as difficult. For fiscal 2008, the compensation committee, based on recommendations from our chief executive officer, adjusted our Executive Officer Bonus Plan thresholds such that a 75% payout would occur upon the achievement of 100% of the stated performance objectives. In the past our executives have, in certain instances, declined some or all of the bonus amounts they had earned so that these amounts could be allocated to specific corporate initiatives or strategic investments.

Stock Option and Restricted Stock Awards

Our equity award program is the primary vehicle for offering long-term incentives to our executives. We believe that equity grants provide a strong link to Bottomline's long-term performance, create an ownership culture and help to align the interests of our executives and our stockholders. In addition, the vesting feature of our equity grants should further our goal of executive retention because this feature provides an incentive to remain in our employ during the vesting period. In determining the size of equity grants to our executives, including for fiscal 2007, our compensation committee considers the following factors:

an evaluation of the executive's past performance,

the total compensation being paid to the executive,

the anticipated value of the executive's contribution to Bottomline's future performance,

the executive's scope of responsibility,

the executive's current position with Bottomline,

the number and size of equity awards to the executive officer during previous fiscal years and

comparability with equity awards made by a peer group of publicly traded companies.

We typically make an initial equity award of stock options or restricted stock when a new executive is hired, after which annual equity awards are granted as part of the overall executive compensation program. All equity awards to our executives are approved by the compensation committee. When restricted stock awards are granted, they are typically granted at no cost to the executive. Since awards of restricted stock have a built-in value at the time the awards are made, we generally grant fewer shares of restricted stock than the number of stock options that might have been granted for a similar purpose, thus reducing dilution to our stockholders. To maximize the long-term incentives for our executives and to minimize the dilutive effect on existing stockholders, we consider it more likely that future equity awards to our executives will be in the form of restricted stock rather than stock options.

Typically, the equity awards we grant to our executives vest at a rate of 25% after the first year and 6.25% at the end of each quarter thereafter. Except in the case of death or disability and certain severance and change-in-control situations, vesting typically ceases on the date of termination of employment and exercise rights (in the case of stock options) cease shortly thereafter. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents. However, restricted stock awards entitle the recipient to full rights as a stockholder at the time of the award, regardless of any vesting provisions.

We do not have any equity ownership guidelines for our executives.

Stock awards to our executives are typically granted annually in conjunction with the review of their individual performance and the financial and operational performance of the company. This review typically takes place at the regularly scheduled meeting of the compensation committee held in the first fiscal quarter of each year. The exercise price of option grants is equal to the closing price of our common stock on NASDAQ Global Market on the date of grant.

In fiscal 2007, the compensation committee approved equity awards of 93,000 and 75,000 shares of restricted stock to Messrs. Eberle and Fortune, respectively, and 10,000 shares of restricted stock and an option to purchase 5,000 shares of our common stock at an exercise price of \$9.61 per share to Mr. Donovan. These awards were comparable to the level of awards granted to the executives who occupied these roles in fiscal 2006.

Historically, the compensation committee has fixed an aggregate annual level of equity awards for all employees, including our executives, on an annual basis. In fiscal 2007, management proposed to the compensation committee that our ability to attract, retain, motivate and incent the best possible talent would be best achieved with a program that provided greater certainty regarding the level of such awards over time. Management therefore proposed that the annual percentage increase or decrease in the equity pool be tied to levels of stock performance, net income (as reported on a non-GAAP basis) and corporate revenues for the previous fiscal year. The compensation committee considered these recommendations and approved a formal equity compensation policy providing that the annual equity pool be adjusted upwards or downwards depending upon Bottomline's stock price (based on a 30-day trailing average as of July first of each year), non-GAAP income and revenues for the preceding year. The percentage change in each metric would be multiplied by one-third (weighting each equally), and the net percentage divided by two. The equity pool for the prior fiscal year would then be adjusted upwards or downwards by a percentage equal to the resulting amount, to determine the equity pool for the coming year. The compensation committee anticipates that this policy will remain in place for fiscal years 2009 through 2011.

Benefits and Other Compensation

We maintain broad-based benefits that are provided to all employees, including health and dental insurance, life and disability insurance, an employee stock purchase plan and a 401(k) plan. Executives are eligible to participate in all of our employee benefit plans, in each case on the same basis as other employees.

During fiscal 2007, we provided supplemental executive long-term disability insurance to Mr. Mullen, Mr. Eberle and Mr. Fortune. In addition, we paid a portion of premiums for private medical insurance and provided an automobile allowance to Mr. Fortune.

Severance and Change of Control Benefits

Pursuant to employment and retention agreements we have entered into with our executives, the terms of our 2000 Stock Incentive Plan and certain resolutions of our board of directors in connection with our equity programs, our executives are entitled to specified benefits in the event of the termination of their employment under specified circumstances, including termination following a change of control of our company. We have provided more detailed information about these benefits, along with estimates of their value under various circumstances, under the caption Employment and Other Agreements and Potential Payments Upon Termination or Change-in-Control below.

Tax Considerations

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally disallows a tax deduction to public companies for certain compensation over \$1,000,000 paid to its chief executive officer and its three other most highly compensated executive officers. Qualifying performance-based compensation is not subject to the deduction limitation if certain requirements are met. Based on the compensation awarded to our chief executive officer and our three other most highly compensated executive officers, it does not appear Section 162(m) will limit the deductibility of compensation paid by Bottomline in the near term. However, the compensation committee reserves the right to use its judgment to authorize compensation payments that may be subject to the Section 162(m) limitation when it believes that such payments are appropriate and in the best interests of Bottomline and its stockholders, after taking into account changing business conditions or the officer's performance. Although the compensation committee considers the impact of Section 162(m) when administering Bottomline's long-term compensation plans, it does not make decisions regarding executive compensation based solely on the expected tax treatment of such compensation. As a result, the compensation committee may deem it appropriate at times to forego qualified performance based compensation under Section 162(m) in favor of awards that may not be fully tax-deductible.

Summary Compensation

The following table sets forth certain information concerning the compensation for the individuals who served as our principal executive officer and our principal financial officer during fiscal 2007 and our only other executive officer, who we collectively refer to as our named executive officers.

Fiscal 2007 Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan	All Other Compensation	Total
		(\$)				Compensation		
			(\$)	(\$)(1)	(\$)(1)	(\$)(2)	(\$)(3)	(\$)
Joseph L. Mullen, Chief Executive Officer(4)	2007	\$ 300,000		\$ 499,179	\$ 502,943	\$ 83,400	\$ 41,170	\$ 1,426,692
Robert A. Eberle, President and Chief Executive Officer(5)	2007	\$ 296,875		\$ 500,830	\$ 424,494	\$ 187,750	\$ 12,098	\$ 1,422,047