

BOTTOMLINE TECHNOLOGIES INC /DE/  
Form DEF 14A  
October 20, 2005

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

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

**Bottomline Technologies (de), Inc.**

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(Name of Registrant as Specified in Its Charter)

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

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Payment of Filing Fee (Check the appropriate box):

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:

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

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(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):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

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

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(3) Filing Party:

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(4) Date Filed:

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

**325 Corporate Drive**

**Portsmouth, New Hampshire 03801**

**Notice of Annual Meeting of Stockholders**

**To be held on November 17, 2005**

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 17, 2005 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 I 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, 2005 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 October 11, 2005 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/ Daniel M. McGurl

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Daniel M. McGurl

*Chairman of the Board of Directors*

October 20, 2005

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 17, 2005*

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 17, 2005 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, 2005, which we sometimes refer to as "fiscal 2005," and the enclosed proxy are first being mailed to stockholders on or about October 20, 2005.

**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.

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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 October 11, 2005 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 October 11, 2005, there were 22,888,422 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 I 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, 2005, 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 and director nominee of the company, and (d) the directors and executive officers of the company as a group. The address of each of our directors, except William O. Grabe, and named executive officers is c/o Bottomline Technologies (de), Inc., 325 Corporate Drive, Portsmouth, New Hampshire 03801. The address of FMR Corp. is 82 Devonshire Street, Boston, MA 02109. The address of William O. Grabe and the investment entities affiliated with General Atlantic LLC is c/o General Atlantic Service Corporation, 3 Pickwick Plaza, Greenwich, CT 06830. 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, 2005 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 of Beneficial Owner	Shares Beneficially Owned		Options and/ or Warrants Included in Shares Beneficially Owned
	Number	Percent	Number
<i>5% Stockholders</i>			
FMR Corp.	2,672,107(1)	11.9%	
Investment entities affiliated with General Atlantic LLC	1,390,700(2)	6.2%	
<i>Executive Officers and Directors</i>			
Joseph L. Mullen	607,632(3)	2.7%	353,926
Robert A. Eberle	394,083(4)	1.7%	306,878
Peter S. Fortune	37,104	*	29,562
Kevin M. Donovan	99,969	*	92,125
Joseph L. Barry, Jr.	207,675	*	67,500
John W. Barter	15,000	*	15,000
William O. Grabe	1,409,450(2)	6.3%	18,750
Dianne Gregg	46,000	*	45,000
James L. Loomis	600,750	2.7%	30,000
Daniel M. McGurl	619,287(5)	2.7%	185,509
James W. Zilinski	91,500	*	67,500
Jeffrey C. Leathe		*	
All executive officers and directors as a group (12 persons)	4,128,450	17.4%	1,211,750

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

- (1) Fidelity Management & Research Company is the beneficial owner of 2,077,297 shares as a result of acting as an investment advisor to various investment companies registered under Section 8 of the Investment Company Act of 1940. Edward C. Johnson 3d, FMR Corp. and the funds each has the sole power to dispose of these 2,077,297 shares. Neither FMR Corp. nor Edward C. Johnson 3d has the sole power to vote or direct the voting of the shares owned directly by such funds, which power resides with the funds Board of Trustees. Fidelity Management & Research Company carries out the voting of the shares under written guidelines established by the funds Board of Trustees.



Fidelity Management Trust Company is the beneficial owner of 594,810 shares as a result of its serving as investment manager of the institutional account(s). Edward C. Johnson 3d and FMR Corp. each has the sole dispositive power over these 594,810 shares and sole power to vote or to direct the voting of these 594,810 shares.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, common stock of Bottomline. The interest of one person, Fidelity Small Cap Stock Fund, an investment company registered under the Investment Company Act of 1940, in the common stock of Bottomline amounted to 1,501,818 shares.

This information is based on an Amendment No. 1 to Schedule 13G filed by FMR Corp. with the SEC on February 14, 2005.

- (2) Consists of 1,143,968 shares of common stock held by General Atlantic Partners 74, L.P. ( GAP 74 ), 89,369 shares of common stock held by GapStar, LLC ( GapStar ), 155,582 shares of common stock held by GAP Coinvestment Partners II, L.P. ( GAPCO II ) and 1,781 shares of common stock held by GAPCO GmbH & Co. KG. ( KG ). General Atlantic LLC ( GA LLC ) is the general partner of GAP 74 and the sole member of GapStar. The general partners of GAPCO II are Managing Directors of GA LLC. GAPCO Management GmbH ( Management GmbH ) is the general partner of KG. The Managing Directors of GA LLC are also authorized and empowered to vote and dispose of the securities held by KG and Management GmbH. These entities may be deemed to share voting power and the power to direct the disposition of the shares of common stock, which each owns of record. This information is based on an Amendment No. 8 to Schedule 13D filed by these funds with the SEC on July 11, 2005.

William O. Grabe, a member of our board of directors, is a Managing Director of GA LLC and a general partner of GAPCO II. Mr. Grabe disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein. Mr. Grabe holds vested options to purchase 18,750 shares of common stock.

- (3) 253,706 shares held by Mr. Mullen includes 93,000 shares of restricted stock, of which none are vested as of August 31, 2005.  
(4) 87,205 shares held by Mr. Eberle includes 84,000 shares of restricted stock, of which none are vested as of August 31, 2005.  
(5) 433,778 of these shares are held by the McGurl Family Limited Partnership. Mr. McGurl disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

**PROPOSAL 1 ELECTION OF CLASS I DIRECTORS**

We have three classes of directors, currently consisting of four Class I directors, three Class II directors and three Class III directors. On August 25, 2005, our board of directors increased the size of the board from nine to ten members and elected Jeffrey C. Leathe to fill the vacancy created by such increase. Mr. Leathe serves as a Class I director with a term expiring at the 2005 annual meeting of stockholders. 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. Joseph L. Barry, Jr., Mr. Robert A. Eberle, Ms. Dianne Gregg and Mr. Jeffrey C. Leathe are currently serving as Class I directors. We have not nominated Ms. Gregg for reelection to the board of directors at the 2005 annual meeting of stockholders. The Class I directors elected this year will serve as members of our board of directors until the 2008 annual meeting of stockholders, or until their respective successors are elected and qualified. We have named fewer nominees than the current number of Class I directors. We have not identified an individual to fill the vacancy that will exist on our board after the 2005 annual meeting of stockholders. Proxies can not be voted cumulatively or for a greater number of persons than the number of nominees named in this proxy statement.

The persons named in the enclosed proxy will vote to re-elect Mr. Barry, Mr. Eberle and Mr. Leathe as Class I directors unless the proxy is marked otherwise. Mr. Barry, Mr. Eberle and Mr. Leathe 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. Barry, Mr. Eberle and Mr. Leathe would be unable to serve if elected.

Set forth below for each director, other than Ms. Gregg, including the Class I director nominees, is information as of August 31, 2005 with respect to his or her (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
<b>Class I directors (terms expiring in 2005)</b>			
Joseph L. Barry, Jr.	72	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	44	2000	Mr. Eberle has served as President since August 2004, and as Chief Operating Officer of Bottomline since April 2001. From September 1998 to August 2004, Mr. Eberle also served as Chief Financial Officer of Bottomline and from September 1998 to May 2001, Mr. Eberle also served as Treasurer of Bottomline.
Jeffrey C. Leathe	49	2005	Mr. Leathe has served as the principal of Leathe & Associates LLC, a private investment advisory firm since November 2004. From July 2003 to October 2004 Mr. Leathe served as 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.*

Name	Age	Director Since	Principal Occupation, Other Business Experience During the Past Five Years and Other Directorships
<b>Class II directors (terms expiring in 2006)</b>			
William O. Grabe	67	2002	Mr. Grabe has served as a Managing Director of General Atlantic LLC, a global private equity firm that provides capital for innovative companies where information technology or intellectual property is a key driver of growth, since 1992. Entities affiliated with General Atlantic LLC owned 6.2% of the outstanding shares of our common stock as of August 31, 2005. Mr. Grabe is a director of several public software and service companies including Digital China Holdings, Lenovo Group Limited, Patni Computer Systems, Compuware Corporation and Gartner, Inc. #
Joseph L. Mullen	53	1996	Mr. Mullen has served as Chief Executive Officer of Bottomline since August 2002. 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	61	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. *#
<b>Class III directors (terms expiring in 2007)</b>			
Daniel M. McGurl	69	1989	Mr. McGurl co-founded Bottomline in May 1989, and has served as Chairman of the Board of Directors of Bottomline since May 1989. 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. Mr. McGurl is also a director of Newmarket International, a developer of hospitality software.
James L. Loomis	55	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.
John W. Barter	58	2002	Mr. Barter is a private investor. From January 2000 to May 2001, Mr. Barter served as Chief Financial Officer of Kestrel Solutions, Inc., an optical networking company. Kestrel filed a voluntary petition for bankruptcy protection in October 2002. Mr. Barter is also a director of BMC Software, Inc., a developer of enterprise management software, SRA International, Inc., a provider of information technology services, SSA Global Technologies, Inc., a developer of ERP and related software products and Lenovo Group Limited, a computer manufacturer.*

Member of compensation committee.

# Member of nominations and corporate governance committee.

\* Member of audit committee.

Pursuant to the terms of a stock purchase agreement dated as of January 8, 2002, between Bottomline and General Atlantic Partners 74, L.P., GapStar, LLC, GAP Coinvestment Partners II, L.P., and GAPCO GmbH & Co. KG (collectively, General Atlantic), General Atlantic has the right to designate one person to serve on our board of directors so long as General Atlantic holds in the aggregate either (i) at least 5% of the outstanding shares of our common stock or (ii) 30% of the 2,700,000 shares of common stock purchased pursuant to the stock purchase agreement. We agreed to use our reasonable best efforts to have such director nominee elected to our board of directors, including causing officers of Bottomline who hold proxies (unless otherwise directed by the stockholder submitting such proxy) to vote such proxies in favor of the election of the designee. Mr. Grabe, currently a Class II director and a member of the compensation committee and nominations and corporate governance committee of our board of directors, will serve until the 2006 annual meeting of stockholders, or until his successor is elected and qualified.

### **Director Compensation**

Our non-employee directors have historically received stock options under our 1998 Director Stock Option Plan. The plan provides that each non-employee director will be granted an option to purchase 15,000 shares of our common stock on the date of his or her initial election to our board of directors, which will vest ratably over four years on each anniversary of the date of grant. In addition, the plan provides that each non-employee director, other than a director initially elected to the board of directors at the annual meeting of stockholders or at any time after the prior year's annual meeting, will receive an option to purchase 7,500 shares of our common stock on the date of each annual meeting of stockholders. Such options vest annually upon the earlier of one year from the date of grant or the date immediately preceding the next annual meeting of stockholders, so long as the director remains a director of Bottomline. Options are granted with an exercise price equal to the fair market value determined as of the date of the grant, based on the closing price of a share of our common stock as reported on The NASDAQ National Market. In fiscal 2005, Mr. Barry, Mr. Barter, Ms. Gregg, Mr. Grabe, Mr. Loomis, Mr. McGurl and Mr. Zilinski each received an option to purchase 7,500 shares of our common stock under the plan.

We reimburse our directors for expenses incurred to attend board of directors and committee meetings. In fiscal 2005, each non-employee director received a fee of \$15,000, 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 \$2,000. 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 \$10,000 and the chairman of the compensation committee and the nominations and corporate governance committee each received an annual fee of \$2,000. The chairman of our board of directors received an annual fee of \$65,000.

The compensation terms outlined above for fiscal 2005 will continue to apply in fiscal 2006, except that, beginning in fiscal 2006, each non-employee director will receive a fee of \$17,500 for each fiscal year that the non-employee director serves on the board of directors, payable quarterly in arrears, each non-employee director who serves as a member of the audit committee, other than the chairperson of such committee, will receive an annual fee of \$3,500 and a non-employee director who serves as the chairman of the audit committee will receive an annual fee of \$15,000.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Based solely on our review of copies of reports filed by reporting persons pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or written representations from reporting persons that no Form 5 filing was required for such persons, we believe that, except for the following filings, each of which was filed during fiscal 2005, all filings required to be made by our reporting persons were timely



made in accordance with the requirements of the Exchange Act: (i) a Form 4 reporting a grant of a stock option filed by each of Mr. Mullen, Mr. Eberle, Mr. Peck, Mr. Savory and Mr. Fannon, (ii) a Form 4 reporting two grants of stock options filed by each of Mr. Donovan, Mr. Gaillard, Mr. Fortune, Mr. Mueffelmann and Mr. Jones, (iii) a Form 4 reporting a stock sale filed by Mr. Fortune, and (iv) a Form 4 reporting a decrease in the number of shares held by and subject to an escrow agreement filed by Mr. Mueffelmann.

## Executive Compensation

### Summary Compensation Table

The following table sets forth certain information concerning the compensation for each of the fiscal years indicated for our chief executive officer and each of our three other most highly compensated executive officers who received annual compensation in excess of \$100,000 during fiscal 2005, collectively, the named executive officers. Mr. Fortune was paid in British Pounds Sterling which was converted to US dollars at exchanges rates of 1.86, 1.74 and 1.59 for fiscal years 2005, 2004 and 2003 respectively, for the presentation below.

### Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation	
		Salary	Bonus	Other Annual Compensation(1)	Securities Underlying Options(2)	All Other Compensation
Joseph L. Mullen(3) Chief Executive Officer	2005	\$ 285,796	\$ 193,960	\$	110,000	\$ 15,245(4)
	2004	\$ 270,000	\$ 100,000	\$	100,000	\$ 4,656(5)
	2003	\$ 265,562	\$ 73,125	\$	90,000	\$ 28,752(6)
Robert A. Eberle(3) President and Chief Operating Officer	2005	\$ 262,500	\$ 179,040	\$	100,000	\$ 12,205(7)
	2004	\$ 250,000	\$ 90,000	\$	80,000	\$ 4,706(5)
	2003	\$ 247,500	\$ 65,625	\$	70,000	\$ 5,738(5)
Peter S. Fortune President of Bottomline Europe	2005	\$ 261,414	\$ 184,877	\$	80,000	\$ 20,796(8)
	2004	\$ 235,089	\$ 102,438	\$	50,000	\$ 16,905(9)
	2003	\$ 214,650	\$ 65,446	\$	100,000	\$ 11,812(10)
Kevin M. Donovan Chief Financial Officer and Treasurer	2005	\$ 159,167	\$ 29,900	\$	35,000	\$ 5,079(5)
	2004	\$ 130,000	\$ 23,500	\$	23,500	\$ 3,625(5)
	2003	\$ 127,083	\$ 18,000	\$	20,000	\$ 3,431(5)

- (1) In accordance with the rules of the Securities and Exchange Commission, other annual compensation in the form of perquisites and other personal benefits has been omitted in those instances where such perquisites and other personal benefits constituted less than the lesser of \$50,000 or 10% of the total annual salary and bonus for the named executive officer for the fiscal year indicated.
- (2) Consists of the number of shares covered by stock options to purchase shares of our common stock granted during the fiscal year indicated.
- (3) In August 2004, Mr. Eberle, then serving as Chief Financial Officer and Chief Operating Officer assumed the position of President. Mr. Mullen continues to serve as Chief Executive Officer.
- (4) Consists of a \$6,000 contribution made on behalf of Mr. Mullen to our 401(k) plan and \$9,245 in disability insurance premiums paid on behalf of Mr. Mullen.

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- (5) Consists of a contribution made on behalf of such officer in our 401(k) plan.
- (6) Consists of \$22,827 of relocation expenses paid by Bottomline on behalf of Mr. Mullen and a \$5,925 contribution made on behalf of Mr. Mullen in our 401(k) plan.
- (7) Consists of a \$6,325 contribution made on behalf of Mr. Eberle to our 401(k) plan and \$5,880 in disability insurance premiums paid on behalf of Mr. Eberle.
- (8) Consists of a \$16,243 contribution made on behalf of Mr. Fortune in our United Kingdom group pension plan and \$4,553 in health and life insurance premiums paid on behalf of Mr. Fortune.

- (9) Consists of a \$13,971 contribution made on behalf of Mr. Fortune in our United Kingdom group pension plan and \$2,934 in health and life insurance premiums paid on behalf of Mr. Fortune.
- (10) Consists of an \$8,403 contribution made on behalf of Mr. Fortune in our United Kingdom group pension plan and \$3,409 in health and life insurance premiums paid on behalf of Mr. Fortune.

### Stock Options

The following table sets forth information for each of the named executive officers with respect to the grant of stock options to purchase shares of common stock of the company during fiscal 2005.

#### Option Grants During Fiscal 2005

Name	Number of Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share(2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
					5%	10%
Joseph L. Mullen	110,000	9.1%	\$ 11.93	2/24/15	\$ 825,298	\$ 2,091,468
Robert A. Eberle	100,000	8.2%	\$ 11.93	2/24/15	\$ 750,271	\$ 1,901,335
Peter S. Fortune	80,000	6.6%	\$ 11.93	2/24/15	\$ 600,217	\$ 1,521,068
Kevin M. Donovan	25,000	2.1%	\$ 11.93	2/24/15	\$ 187,568	\$ 475,334
	10,000	0.8%	\$ 14.00	1/13/15	\$ 88,045	\$ 223,124

- (1) The options are exercisable in installments over a four-year period commencing one year after the date of grant, with 25% becoming vested one year after the date of grant and the remainder vesting in equal installments of 6.25% each quarter thereafter. Also see Employment and Other Agreements below with respect to the accelerated vesting of options in connection with certain specified corporate events, such as a merger or acquisition, involving Bottomline.
- (2) Options are granted with an exercise price equal to the fair market value on the date of grant, based on the closing price of a share of our common stock as reported on The NASDAQ National Market.
- (3) Consists of amounts that may be realized upon exercise of the options immediately before the expiration of their respective terms, assuming the specified compound rates of appreciation (5% and 10%) on the market value of our common stock on the date of the option grants over the term of the respective options. These numbers are calculated based on rules promulgated by the SEC and do not reflect our estimate of future stock price growth, if any. Actual gains, if any, on stock option exercises and common stock holdings are dependent, in part, on the timing of exercise and the future performance of our common stock.



*Option Exercises and Fiscal Year-End Option Values*

The following table sets forth information for each of the named executive officers with respect to the exercise of options, if any, to purchase shares of our common stock during fiscal 2005 and the number and value of options outstanding as of June 30, 2005.

**Aggregated Option Exercises in Fiscal Year 2005 and****Fiscal Year-End Option Values**

Name	Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Options at June 30, 2005		Value of Unexercised In-the-Money Options at June 30, 2005(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Joseph L. Mullen	64,200	\$ 649,760	342,050	248,750	\$ 1,875,773	\$ 1,278,275
Robert A. Eberle	60,000	\$ 521,350	306,252	213,750	\$ 1,351,135	\$ 1,075,425
Peter S. Fortune	57,563	\$ 366,218	19,397	155,250	\$ 127,316	\$ 813,874
Kevin M. Donovan		\$	88,125	62,625	\$ 497,937	\$ 276,481

- (1) Based on the aggregate fair market value of the underlying shares of our common stock on June 30, 2005, using the closing price, \$14.97, of a share of our common stock, as reported on The NASDAQ National Market on that date, less the aggregate exercise price.

**Equity Compensation Plan Information**

The following table provides information about the securities authorized for issuance under our equity compensation plans as of June 30, 2005:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders(2)	5,270,461(3)	\$ 11.41(3)	3,386,886(4)
Equity compensation plans not approved by security holders(5)	100,000	\$ 50.00	None
<b>Total</b>	<b>5,370,461</b>	<b>\$ 12.13</b>	<b>3,386,886</b>

- (1) This table excludes 13,720 shares of common stock issuable upon exercise of outstanding options assumed by us in connection with our acquisition of Flashpoint, Inc. in August 2000. The weighted average exercise price of the excluded options as of June 30, 2005, was

\$23.77.

- (2) Consists of the following equity compensation plans: the Amended and Restated 1989 Stock Incentive Plan, the Amended and Restated 1997 Stock Incentive Plan, the 1998 Director Stock Option Plan (the 1998 Director Plan ), the 1998 Employee Stock Purchase Plan (the 1998 ESPP ), the 2000 Employee Stock Purchase Plan, as amended (the 2000 ESPP ), and the 2000 Stock Incentive Plan. Shares of common stock are available for issuance only under the 1998 Director Plan, the 1998 ESPP, the 2000 ESPP and the 2000 Stock Incentive Plan.
- (3) Excludes an aggregate of 922,543 shares issuable under the 2000 ESPP, including shares issuable in connection with the current offering period under such plan; such shares are included in column (c) of the table. Currently, there are no outstanding options to purchase our common stock pursuant to the 1998 ESPP.
- (4) Consists of 45,000 shares issuable under the 1998 Director Plan, 687,599 shares issuable under the 1998 ESPP, 922,543 shares issuable under the 2000 ESPP in connection with current and future offering periods

under such plans, 1,065,932 shares currently issuable under the 2000 Stock Incentive Plan, 545,492 shares issuable under the Amended and Restated 1997 Stock Incentive Plan and 120,320 shares issuable under the Flashpoint Employee Stock Option Plan. In addition, under the 2000 Stock Incentive Plan, the number of shares issuable is automatically increased every July 1 by an amount equal to the lesser of (i) five million shares of common stock, (ii) a number of shares of common stock which, when added to the shares that remain available for grant under the 2000 Stock Incentive Plan, is equal to 12% of the outstanding shares on such date, and (iii) an amount determined by our board of directors. The 2000 Stock Incentive Plan provides for the issuance of incentive stock options, non-qualified stock options and restricted stock to our employees, officers, directors, consultants and advisors.

- (5) Consists of warrants issued to the former shareholders of Checkpoint Holdings, Ltd. for the right to purchase an aggregate of 100,000 shares of common stock at an exercise price of \$50 per share. On August 28, 2005, these warrants expired unexercised.

### **Report of the Compensation Committee on Executive Compensation**

This report is submitted by the compensation committee of our board of directors, which is responsible for making recommendations concerning salary and incentive compensation for our executive officers, and administering and granting awards under our equity plans to our executive officers. In addition, the compensation committee consults with our management regarding pension and other benefit plans and our compensation policies and practices. The compensation committee believes that Bottomline's executive compensation program provides an overall level of compensation that is comparable to other companies within its industry and among companies of comparable size and complexity.

#### *General Compensation Policy*

The compensation committee seeks to achieve the following three broad goals in connection with our executive compensation program:

enable Bottomline to attract and retain qualified executives,

create a performance-oriented environment by rewarding executives for the achievement of Bottomline's business objectives and/or in an individual executive's particular area of responsibility and

provide executives with equity incentives in Bottomline so as to link a portion of the executive's compensation with the performance of Bottomline's common stock.

#### *Components of Compensation*

To achieve these goals, the executive compensation program consists principally of the following three elements:

base salary,

cash bonuses and

stock-based incentives in the form of participation in Bottomline's equity plans.

*General Factors for Establishing Compensation*

The compensation committee reviews the executive compensation of industry peers with which Bottomline competes for employees to compare the competitiveness of Bottomline's executive compensation packages. In addition to reviewing industry compensation levels, the compensation committee also subjectively considers a number of other factors in establishing the components of each executive officer's compensation package, as summarized below.

*Base Salary*

Salaries for executive officers, including the chief executive officer, are generally subjectively determined on an individual basis by evaluating the following:

the executive's scope of responsibility, performance, prior employment experience and salary history,

Bottomline's financial performance, including increases in its revenues and profits, if any, and

internal consistency within Bottomline's salary structure.

*Incentive Compensation*

The compensation committee considers payment of quarterly cash bonuses as part of the compensation packages of Bottomline's executive officers. Certain specified levels of company financial and operational performance must be achieved before any such bonuses can be earned by executive officers. In general, the compensation committee has tied potential bonus compensation to performance factors, including the executive officer's efforts and contributions towards obtaining Bottomline's objectives and overall growth. In determining the aggregate amounts of the cash bonuses to be paid to executive officers in fiscal 2005, including the current chief executive officer, the compensation committee established specific revenue and profit targets. Cash bonuses 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. Determination regarding the bonuses is at the discretion of the compensation committee.

*Long-term Incentive Compensation*

Stock options, and more recently restricted stock, are elements of the compensation packages of Bottomline's executive officers, including the chief executive officer, because we believe they provide an incentive to executives to maximize stockholder value. The compensation committee believes that it is to Bottomline's advantage to increase executive officers' interest in Bottomline's future performance, as these employees share the primary responsibility for Bottomline's management and growth. In order to promote a longer term management focus and to provide incentive for continued employment with Bottomline, stock option and restricted stock grants generally vest over a three or four year period, with the exercise price (in the case of stock options) being equal to 100% of the fair market value of Bottomline's common stock on the date of grant.

The size of the option or restricted stock grant made to each executive officer is subjectively determined after consideration of 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 of options or restricted stock awarded to the executive officer during previous fiscal years and

comparability with option or restricted stock grants made to other Bottomline executives.

In August 2005, the compensation committee authorized restricted stock grants for an aggregate of 245,000 shares of common stock to Mr. Mullen, Mr. Eberle and Mr. Fortune. Going forward, the compensation committee intends to continue to consider the use of restricted stock grants to replace or supplement the use of

stock options as equity incentives, in light of the reduced dilution to shareholders that can be achieved through restricted stock grants, and the adoption of FAS 123R, which eliminates the material accounting differences in the treatment of stock option and restricted stock grants.

In fiscal 2005, stock options were granted under our 2000 Stock Incentive Plan to Mr. Mullen, Mr. Eberle, Mr. Fortune and Mr. Donovan. See Option Grants During Fiscal 2005.

The compensation committee continues to evaluate the appropriate weighting of cash, cash bonus and equity compensation, taking into account the accounting treatment of stock option and restricted stock grants and the aggregate value of the annual compensation for our named executive officers and our chief executive officer.

#### *Chief Executive Officer's Compensation*

Mr. Mullen has served as our chief executive officer since August 2002. We entered into an amended and restated employment agreement with Mr. Mullen in November 2002. Pursuant to the employment agreement, which is more fully described below, Mr. Mullen had a base salary of \$290,000 for fiscal 2005. The compensation of our chief executive officer is based upon the same elements and measures of performance as is the compensation of Bottomline's other executive officers. In its determination to approve a cash bonus to Mr. Mullen of \$193,960 in fiscal 2005, the compensation committee specifically considered achievement of specific revenue and profit targets established by the committee, with the cash bonus based on a percentage of base compensation.

#### *Compliance with Internal Revenue Code Section 162(m)*

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 four 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 four other most highly compensated executive officers, it does not appear that the Section 162(m) limitation will have a significant impact on Bottomline in the near term. However, the committee reserves the right to use its judgment to authorize compensation payments that may be subject to the Section 162(m) limitation when the committee 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, the committee 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.

By the compensation committee of the board of directors of Bottomline Technologies (de), Inc.

Joseph L. Barry, Jr., Chairman

William O. Grabe

James W. Zilinski





**Stock Performance Graph**

The stock performance graph above compares the percentage change in cumulative stockholder return on our common stock for the period from June 30, 2000 through June 30, 2005, with the cumulative total return on The NASDAQ Stock Market (U.S.) and the NASDAQ Computer & Data Processing Index.

This graph assumes the investment of \$100.00 in our common stock (at the closing price of our common stock on June 30, 2000), The NASDAQ Stock Market (U.S.) and the NASDAQ Computer & Data Processing Index on June 30, 2000, and assumes dividends, if any, are reinvested.

	<u>June 30,</u> <u>2000</u>	<u>June 30,</u> <u>2001</u>	<u>June 30,</u> <u>2002</u>	<u>June 30,</u> <u>2003</u>	<u>June 30,</u> <u>2004</u>	<u>June 30,</u> <u>2005</u>
Bottomline Technologies (de), Inc.	\$ 100.00	\$ 15.80	\$ 16.52	\$ 23.60	\$ 31.01	\$ 43.79
NASDAQ Stock Market (U.S.)	\$ 100.00	\$ 55.52	\$ 37.16	\$ 31.63	\$ 43.07	\$ 43.56
NASDAQ Computer & Data Processing Index	\$ 100.00	\$ 57.10	\$ 36.51	\$ 39.31	\$ 48.67	\$ 48.45

## Employment and Other Agreements

### *Employment Agreements*

We entered into an employment agreement with Mr. Mullen as of December 3, 1998 and with Mr. Eberle as of September 30, 1998. Each of these agreements was subsequently amended as of June 1, 2001, amended and restated as of November 21, 2002 and amended as of September 30, 2005. The provisions of each agreement are substantially the same.

The employment agreements with each of Mr. Mullen and Mr. Eberle provide that the term is until the later of November 21, 2008, as renewed, or three years after we experience a change in control; provided however, that each employment agreement automatically renews for successive three-year periods unless the agreement is not renewed by either us or the employee pursuant to written notice, or is sooner terminated in accordance with its terms.

Under each employment agreement, a change in control of Bottomline would occur if:

any person becomes the beneficial owner of more than 50% of the voting power of our outstanding securities,

we are acquired through a merger,

we are liquidated or

all or substantially all of our assets are sold.

If the employee's employment is terminated either by the employee as a result of an involuntary termination or by us without cause prior to a potential change in control (each as described below) or the employee's agreement is not renewed as provided above, then all outstanding options held by the employee would become immediately exercisable in full, all shares of restricted stock would vest in full, and the employee would be entitled to receive a lump sum payment and continuation of benefits for a period of 24 months in the case of Mr. Mullen and for a period of 12 months in the case of Mr. Eberle. In the case of Mr. Mullen, the lump sum payment would equal two times the sum of his then annual salary plus the maximum amount of bonus he was eligible to earn in the then current year. In the case of Mr. Eberle, the lump sum payment would equal the sum of his then annual salary plus the maximum amount of bonus he was eligible to earn in the then current year.

An involuntary termination would occur if an employee's duties were changed in a manner such that it results in a significant diminution in his position, duties or responsibilities, his base compensation were reduced or he were relocated or if the company was in material breach of the employment agreement.

Cause means, prior to a change in control of Bottomline, the discharge of the employee resulting from:

a felony conviction,

willful and persistent failure to attend to material duties or obligations,

the breach of confidentiality, non-competition or similar material obligations by the employee or

an act or omission which would constitute a crime involving Bottomline's property.

The second and third items specified above would not constitute cause after a change in control of Bottomline.

If the employee's employment is terminated upon or after a potential change in control either by the employee as a result of an involuntary termination or by us without cause, then all outstanding options held by the employee would become immediately exercisable in full, all shares of restricted stock would vest in full, and the employee would be entitled to receive a lump sum payment and continuation of benefits for a period of

24 months. In the case of Mr. Mullen, the lump sum payment would equal three times the sum of his then annual salary plus the maximum amount of bonus he was eligible to earn in the then current year. In the case of Mr. Eberle, the lump sum payment would equal two times the sum of his then annual salary plus the maximum amount of bonus he was eligible to earn in the then current year.

A potential change in control of Bottomline would occur if:

we enter into an agreement that would cause a change in control,

any person publicly announces an intention to take any action which, if consummated, would constitute a change in control or

our board of directors adopts a resolution to the effect that, for purposes of the employment agreement, a potential change in control has occurred.

Each of the employment agreements also provides that, in the event of a change in control, we would pay any excise tax which the employee would be liable for under Section 4999 of the Internal Revenue Code as a result of having received the severance benefits, as well as the amount necessary to pay all additional taxes imposed on the respective employee as a result of our payment of the excise tax. Pursuant to their respective employment agreements, in fiscal 2005, Mr. Mullen was paid an annual base salary of \$285,796 and Mr. Eberle was paid an annual base salary of \$262,500. Based upon the recommendations of the compensation committee, and as more fully described above, in fiscal 2005, Mr. Mullen received a bonus of \$193,960 and Mr. Eberle received a bonus of \$179,040.

In addition, following termination of employment by us other than for cause or by the employee, options granted prior to July 1, 2005 held by each of Mr. Mullen and Mr. Eberle would automatically vest in full and would be exercisable for a period of two years (or the remainder of the option term if less than two years) after the date of termination. However, this automatic vesting of options would not apply to any options granted prior to June 1, 2001 with an exercise price of less than \$6.76 per share. Options granted after July 1, 2005 and shares of restricted stock automatically vest in full upon a change in control or appointment of a new chief executive officer other than as a result of the resignation of our current chief executive officer.

#### *Service Agreement*

We are party to a service agreement with Mr. Fortune dated as of March 11, 1999, which we assumed in connection with our acquisition of Checkpoint Holdings, Ltd., which is now our wholly owned subsidiary, Bottomline Technologies Limited (Bottomline Europe). The service agreement remains in effect, absent incapacity or our termination for cause, until terminated by at least 12 months written notice by us or Mr. Fortune. We also have the right to terminate the agreement on less than 12 months written notice, but we are required to pay Mr. Fortune his salary and other contractual benefits under the service agreement for the duration of the period for which notice was not given. If the agreement is terminated for incapacity or cause, we are not required to pay Mr. Fortune any compensation other than accrued compensation.

For purposes of Mr. Fortune's service agreement, cause means the discharge of the employee resulting from, among other things:

material breach of the terms of the agreement,

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conviction of a criminal offense which in the reasonable opinion of our board of directors materially or adversely affects Mr. Fortune's ability to continue as an employee or

deliberate discrimination or harassment on grounds on race, sex or disability.

Pursuant to the service agreement, Mr. Fortune was paid an annual base salary of \$261,414 in fiscal 2005. In accordance with a bonus plan setting forth certain financial and operational goals, Mr. Fortune received a bonus of \$184,877 in fiscal 2005.

Pursuant to the service agreement, Mr. Fortune has agreed not to compete with Bottomline for a period of 12 months after the termination of his employment in any business within the United Kingdom which is competitive with our business and with which Mr. Fortune had been involved with during the 12 months immediately preceding termination. In addition, Mr. Fortune also agreed that during this 12-month period, he would not solicit our customers, potential customers or employees with whom he had dealings during the 12 months immediately preceding termination.

#### *Retention Agreements*

We have entered into a retention agreement with Mr. Fortune effective as of October 10, 2005 providing that if Mr. Fortune's employment is terminated by us without cause after a change in control, then all outstanding options and restricted stock granted after October 10, 2005 held by Mr. Fortune would become immediately vested and exercisable in full. Additionally Mr. Fortune would be entitled to receive an amount equal to his then annual base salary, continuation of benefits for an additional 12 months and the payments and benefits under his service agreement with us.

If Mr. Fortune's employment is terminated by Mr. Fortune for good reason within 12 months following a change in control, or if Mr. Fortune's employment is terminated by us without cause prior to a change in control, then all outstanding options and restricted stock granted after October 10, 2005 held by Mr. Fortune would become immediately vested and exercisable in full and Mr. Fortune would be entitled to the payments and benefits under his service agreement with us.

A change in control of Bottomline would occur if:

any person becomes the beneficial owner of securities representing 50% or more of the combined voting power of our outstanding securities,

we are acquired through a merger,

we are liquidated or

all or substantially all of our assets are sold.

We have entered into a retention agreement with Mr. Donovan effective February 5, 2004. The agreement remains in effect until the earlier of (a) June 30, 2006 if a change in control has not occurred prior to such date, (b) termination of Mr. Donovan's employment with Bottomline prior to a change in control, (c) 12 months after a change in control occurring prior to June 30, 2006 if Mr. Donovan is still employed by Bottomline as of such date or (d) the fulfillment by Bottomline of the obligations specified in the retention agreement if Mr. Donovan's employment with Bottomline terminates within 12 months after a change in control occurring prior to June 30, 2006.

A change in control of Bottomline would occur under the same circumstances noted above for Mr. Fortune.

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If Mr. Donovan's employment is terminated by us without cause or by Mr. Donovan for good reason within 12 months following a change in control occurring prior to June 30, 2006, then all outstanding options held by Mr. Donovan (other than options issued prior to, and at a price lower than the stock price on February 5, 2004) would become immediately exercisable in full. In addition, Mr. Donovan would be entitled to the sum of any base salary earned and owed through the date of termination, his base salary for six months prior to the date of termination, 50% of his annual bonus opportunity for the most recently completed fiscal year, a prorated portion of the annual bonus paid or payable to Mr. Donovan for the most recently completed fiscal year through the date of termination and the continuation of benefits for a period of 12 months after the date of termination.

### *Restricted Stock Agreements*

On August 25, 2005, our board of directors authorized and granted a restricted stock award of 93,000 shares of our common stock to Mr. Mullen, and a restricted stock award of 84,000 shares of our common stock to Mr. Eberle. The restricted stock granted to Mr. Mullen and Mr. Eberle 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 the grant and an additional 6.25% of the shares vesting every three-month period thereafter. In addition, on August 25, 2005, our board of directors authorized a restricted stock award of 68,000 shares of our common stock to Mr. Fortune that has not yet been granted but is expected to be granted in the next 90 days.

### **Compensation Committee Interlocks and Insider Participation**

During fiscal 2005, the members of the compensation committee of our board of directors were Mr. Barry, Mr. Grabe and Mr. Zilinski. During fiscal 2005, no executive officer of Bottomline served as a director or member of the compensation committee (or other committee serving an equivalent function) of any other entity whose executive officer served as a director or member of our compensation committee.

### **Certain Relationships and Related Transactions**

Pursuant to the terms of a stock purchase agreement dated as of January 8, 2002, between Bottomline and General Atlantic Partners 74, L.P. and its affiliated entities (collectively, General Atlantic), we issued and sold to General Atlantic an aggregate of 2,100,000 shares of our common stock for gross proceeds to us of \$17,325,000 and Mr. McGurl and Mr. Loomis each sold 300,000 shares of common stock to General Atlantic for gross proceeds to each such person of \$2,475,000. Pursuant to the agreement, General Atlantic has the right to designate one person to serve on our board of directors so long as General Atlantic holds in the aggregate either (i) at least 5% of the outstanding shares of our common stock or (ii) 30% of the 2,700,000 shares of common stock purchased pursuant to the stock purchase agreement. We agreed to use our reasonable best efforts to have such director nominee elected to our board of directors, including causing officers of Bottomline who hold proxies (unless otherwise directed by the stockholder submitting such proxy) to vote such proxies in favor of the election of the designee. Mr. Grabe, currently a Class II director and a member of the compensation committee and nominations and corporate governance committee of our board of directors, will serve until the 2006 annual meeting of stockholders, or until his successor is elected and qualified.

### **Corporate Governance**

Our board of directors believes that good corporate governance is important to ensure that Bottomline is managed for the long-term benefit of stockholders. This section describes key corporate governance practices that we have adopted. Complete copies of the committee charters and code of conduct described below are available on our website at [www.bottomline.com](http://www.bottomline.com). Alternatively, you can request a copy of any of these documents by writing to Bottomline Technologies (de), Inc., 325 Corporate Drive, Portsmouth, New Hampshire 03801, Attention: Corporate Secretary.

### *Board Determination of Independence*

Under applicable NASDAQ rules, a director of Bottomline will only qualify as an independent director if, in the opinion of our board of directors, that person does not have a relationship which would interfere with the exercise of independent judgment in carrying out the



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responsibilities of a director. Our board of directors has determined that none of Joseph L. Barry, Jr., John W. Barter, William O. Grabe, Dianne Gregg, Jeffrey C. Leathe, James L. Loomis or James W. Zilinski has a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is an independent director as defined under Rule 4200(a)(15) of The NASDAQ Stock Market, Inc. Marketplace Rules.

*Director Attendance at Annual Meeting of Stockholders*

We do not have a written policy with respect to director attendance at annual meetings; however, we do encourage our directors to attend all of our meetings of stockholders. Eight of the nine individuals serving on our board at that time attended the 2004 annual meeting of stockholders.

*Board of Directors and Committee Meetings*

Our board of directors held 6 meetings, including by telephone conference, during fiscal 2005. The compensation committee of our board of directors held 4 meetings during fiscal 2005. The audit committee of our board of directors held 14 meetings, including by telephone conference, during fiscal 2005. The nominations and corporate governance committee of our board of directors met as part of our regularly scheduled quarterly board meetings during fiscal 2005. All directors attended at least 75% of the meetings of our board of directors and the committees on which they served, if any, during the period that they served on our board of directors or any such committees.

*Board Committees*

Our board of directors has established three standing committees – audit, compensation, and nominations and corporate governance – each of which operates under a charter that has been approved by our board. Current copies of each committee’s charter are posted on the Corporate Governance section our website, [www.bottomline.com](http://www.bottomline.com).

Our board of directors has determined that all of the members of each of the board’s three standing committees are independent as defined under the rules of The NASDAQ Stock Market, including, in the case of all members of the audit committee, the independence requirements contemplated by Rule 10A-3 under the Exchange Act.

*Audit Committee*

The audit committee’s responsibilities include:

appointing, approving the compensation of, and assessing the independence of our registered public accounting firm,

overseeing the work of our registered public accounting firm, including through the receipt and consideration of certain reports from the registered public accounting firm,

reviewing and discussing with management and our registered public accounting firm our annual and quarterly financial statements and related disclosures,

monitoring our internal control over financial reporting, disclosure controls and procedures and code of business conduct and ethics,

establishing procedures for the receipt and retention of accounting related complaints and concerns,

meeting independently with our registered public accounting firm and management and

preparing the audit committee report required by SEC rules (which is included on page 21 of this proxy statement).

Our board of directors has determined that each of John W. Barter and Jeffrey C. Leathe is an audit committee financial expert as defined in Item 401(h) of Regulation S-K.

No member of the audit committee is the beneficial owner of more the 10% of our common stock.

*Compensation Committee*

The compensation committee's responsibilities include:

annually reviewing and approving corporate goals and objectives relevant to CEO compensation,

determining the CEO's compensation,

reviewing and approving, or making recommendations to the board with respect to, the compensation of our other executive officers,

making recommendations to the board with respect to incentive compensation and equity-based plans,

overseeing and administering our incentive compensation and equity-based plans and

reviewing and making recommendations to the board with respect to director compensation.

*Nominations and Corporate Governance Committee*

The nominations and corporate governance committee's responsibilities include:

identifying individuals qualified to become board members,

recommending to the board the persons to be nominated for election as directors and to each of the board's committees,

developing and recommending to the board corporate governance principles and

overseeing the evaluation of the board.

*Director Candidates*

The process followed by the nominations and corporate governance committee to identify and evaluate director candidates includes requests to board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the committee and the board.

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In considering whether to recommend any particular candidate for inclusion in the board's slate of recommended director nominees, the nominations and corporate governance committee will apply the criteria attached to the committee's charter. These criteria include the candidate's integrity, business acumen, commitment to our business and industry, experience, conflicts of interest and the ability to act in the interests of all stockholders. The committee does not assign specific weights to particular criteria and no particular criterion is a prerequisite for each prospective nominee. We believe that the backgrounds and qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the board to fulfill its responsibilities.

Stockholders may recommend individuals to the nominations and corporate governance committee for consideration as potential director candidates by submitting their names, together with appropriate biographical information and background materials and a statement as to whether the stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of our common stock for at least a year as of the date such recommendation is made, to nominations and corporate governance committee, c/o Corporate Secretary, Bottomline Technologies (de), Inc., 325 Corporate Drive, Portsmouth, New Hampshire 03801. Assuming that appropriate biographical and background material has been provided on a timely basis, the committee will evaluate stockholder-recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates submitted by others.

Stockholders also have the right under our bylaws to directly nominate director candidates, without any action or recommendation on the part of the committee or the board, by following the procedures set forth under Stockholder Proposals for 2006 Annual Meeting.

#### *Communicating with the Directors*

The board will give appropriate attention to written communications that are submitted by stockholders and will respond if and as appropriate. The chairman of the board is primarily responsible for monitoring communications from stockholders and for providing copies or summaries to the other directors as he or she considers appropriate.

Communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that the chairman of the board considers to be important for the directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we tend to receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to the board should address such communications to our board of directors c/o Corporate Secretary, Bottomline Technologies (de), Inc., 325 Corporate Drive, Portsmouth, New Hampshire 03801.

#### *Code of Business Conduct and Ethics*

We have adopted a written code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted a current copy of the code on our website, which is located at [www.bottomline.com](http://www.bottomline.com). In addition, we intend to post on our website all disclosures that are required by law or NASDAQ stock market listing standards concerning any amendments to, or waivers from, any provision of the code.

#### **Report of the Audit Committee of the Board of Directors**

The audit committee oversees Bottomline's financial reporting process on behalf of the board of directors. Management has the primary responsibility for the preparation of Bottomline's financial statements and for maintaining an appropriate reporting process, including adequate systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed and discussed Bottomline's audited financial statements for the fiscal year ended June 30, 2005 with management, including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures contained in the financial statements.

The Committee reviewed with Bottomline's registered public accounting firm (Ernst & Young LLP), who is responsible for expressing an opinion as to the conformity of Bottomline's audited financial statements with generally accepted accounting principles, the judgments of Ernst & Young as to the quality, not just the acceptability, of Bottomline's accounting principles and discussed such other matters as are required to be discussed with Ernst & Young under generally accepted auditing standards, including Statement on Auditing Standards No. 61. In addition, the committee has received the written disclosures and the letter from Ernst & Young required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with Ernst & Young its independence from management and Bottomline, including the compatibility of non-audit services with its independence.



The committee discussed with Ernst & Young the overall scope and plans for its audits. The committee meets with Ernst & Young, with and without management present, to discuss the results of its examinations, its evaluations of Bottomline's internal controls, and the overall quality of Bottomline's financial reporting. The committee held 14 meetings, including by telephone conference, during fiscal year 2005.

In reliance on the reviews and discussions referred to above, the committee recommended to the board of directors that the audited financial statements be included in Bottomline's annual report on Form 10-K for the fiscal year ended June 30, 2005 for filing with the Securities and Exchange Commission. The committee and the board of directors have also recommended, subject to stockholder ratification, the selection of Ernst & Young LLP as Bottomline's registered public accounting firm for the fiscal year ending June 30, 2006.

By the audit committee of the board of directors of Bottomline Technologies (de), Inc.

John W. Barter, Chairman

Joseph L. Barry, Jr.

Dianne Gregg

Jeffrey C. Leathe

James W. Zilinski



**Principal Accountant Fees and Services**

The following table discloses the fees that Ernst & Young LLP billed us for professional services rendered in each of the last two fiscal years. For fiscal 2005, audit fees include an estimate of amounts not yet billed.

<u>Type of Fee</u>	<u>Fiscal Year Ended June 30, 2005</u>	<u>Fiscal Year Ended June 30, 2004</u>
Audit Fees(1)	\$ 818,694	\$ 413,422
Audit-Related Fees(2)	\$ 41,160	\$ 44,690
Tax Fees(3)	\$ 146,360	\$ 304,118
All Other Fees(4)	\$ 3,500	\$ 3,500

- (1) Represents fees for professional services rendered in connection with the audit of our financial statements for the fiscal year indicated, reviews of the financial statements included in each of our quarterly reports on Form 10-Q during the fiscal year indicated, and services performed in connection with certain registration statements we filed. Additionally, for 2005, it represents fees incurred in connection with the audit of management's report on internal control.
- (2) Represents fees for assurance advisory services related to implementation of accounting standards, financial due diligence, acquisition accounting and the audit of our 401(k) plan.
- (3) Represents fees for services related to tax compliance, including the preparation of domestic and international tax returns, and domestic and international tax planning.
- (4) Represents annual fee for access to accounting and financial reporting research tool.

**Pre-Approval Policies and Procedures**

The audit committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by our registered public accounting firm. This policy generally provides that we will not engage our registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the audit committee or the engagement is entered into pursuant to one of the pre-approval procedures described below.

From time to time, the audit committee may pre-approve specified types of services that are expected to be provided to us by our registered public accounting firm during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.

The audit committee has also delegated to the chairman of the audit committee the authority to approve any audit or non-audit services to be provided to us by our registered public accounting firm. Any approval of services by the chairman of the audit committee pursuant to this delegated authority is reported on at the next meeting of the audit committee.

**PROPOSAL 2 RATIFICATION OF THE SELECTION OF REGISTERED PUBLIC ACCOUNTING FIRM**

The audit committee of our board of directors has selected Ernst & Young LLP as our registered public accounting firm for the current fiscal year, subject to ratification by our stockholders at the annual meeting. If our stockholders do not ratify the selection of Ernst & Young LLP, our audit committee will reconsider the matter. A representative of Ernst & Young LLP, which served as our registered public accounting firm for

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fiscal 2005, is expected to be present at the annual meeting to respond to appropriate questions and to make a statement if he or she so desires. Even if the selection of Ernst & Young LLP is ratified, our audit committee may, in its discretion, select a different registered public accounting firm at any time during the year if it is determined that such a change would be in the best interest of Bottomline and our stockholders.

### **STOCKHOLDER PROPOSALS FOR 2006 ANNUAL MEETING**

Any proposal that a stockholder intends to present at the 2006 annual meeting of stockholders must be submitted to our principal executive offices at 325 Corporate Drive, Portsmouth, New Hampshire 03801, Attention: Corporate Secretary, no later than June 22, 2006 in order to be considered for inclusion in the proxy statement and proxy card relating to the 2006 annual meeting of stockholders. However, if the date of our 2006 annual meeting is prior to October 20, 2006 or after December 17, 2006, the deadline is 10 business days before we begin to print and mail our proxy materials for the 2006 annual meeting.

If a stockholder wishes to present a proposal at the 2006 annual meeting but has not complied with the requirements for inclusion of the proposal in our proxy materials pursuant to Rule 14a-8 under the Exchange Act, the stockholder must also give notice of the proposal to our corporate secretary at our principal executive offices. Our amended and restated by-laws require that we be given advance written notice of stockholder nominations regarding election to our board of directors and certain other matters which stockholders wish to present for action at an annual meeting of stockholders (other than matters included in our proxy discussed above). We must receive this notice at least 60 days, but not more than 90 days, prior to the date of the 2006 annual meeting, which is expected to be November 16, 2006. Our by-laws also specify requirements relating to the content of the notice which stockholders must provide, including a stockholder nomination for director, to be properly presented at a stockholder meeting.

### **HOUSEHOLDING OF PROXY STATEMENT**

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of our proxy statement or annual report may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of our annual report and/or proxy statement to you if you call or write us at the following address or phone number: Bottomline Technologies (de), Inc., 325 Corporate Drive, Portsmouth, New Hampshire 03801, Attention: Corporate Secretary, (603) 436-0700. If you would like to receive separate copies of the annual report and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker, or other nominee record holder, or you may contact us at the above address and phone number.

**OTHER MATTERS**

Our board of directors knows of no other business that will be presented for consideration at the annual meeting other than that described above. Under our bylaws, the deadline for stockholders to notify us of any proposals or director nominations to be presented at the annual meeting has passed. However, if any other business should come before the annual meeting, it is the intention of the persons named in the enclosed proxy to vote, or otherwise act, in accordance with their best judgment on such matters.

We will bear the costs of soliciting proxies. In addition to solicitations by mail, our directors, officers and regular employees may, without additional remuneration, solicit proxies by telephone, telegraph, facsimile and personal interviews. We will also request brokerage houses, custodians, nominees and fiduciaries to forward copies of the proxy material to those persons for whom they hold shares and request instructions for voting the proxies. We will reimburse brokerage houses and other persons for their reasonable expenses in connection with this distribution.

*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. Stockholders who attend the meeting may vote their stock personally even though they have sent in their proxies.*

By order of the Board of Directors,

/s/ DANIEL M. MCGURL

Daniel M. McGurl  
*Chairman of the Board of Directors*

October 20, 2005

Portsmouth, New Hampshire

**PROXY**

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

**ANNUAL MEETING OF STOCKHOLDERS**

November 17, 2005

**This Proxy is solicited on behalf of the Board of Directors of Bottomline Technologies (de), Inc. (the Company ).**

The undersigned, having received notice of the annual meeting of stockholders and the proxy statement thereof and revoking all prior proxies, hereby appoints Joseph L. Mullen, Daniel M. McGurl, Robert A. Eberle and John A. Burgess (with full power of substitution), as proxies of the undersigned, to attend the annual meeting of stockholders of the Company to be held on Thursday, November 17, 2005, and any adjourned or postponed session thereof, and there to vote and act as indicated upon the matters on the reverse side in respect of all shares of common stock which the undersigned would be entitled to vote or act upon, with all powers the undersigned would possess if personally present.

Attendance of the undersigned at the annual meeting of stockholders or at any adjourned or postponed session thereof will not be deemed to revoke this proxy unless the undersigned affirmatively indicate(s) thereat the intention of the undersigned to vote said shares of common stock in person. If the undersigned hold(s) any of the shares of common stock in a fiduciary, custodial or joint capacity or capacities, this proxy is signed by the undersigned in every such capacity as well as individually.

Please vote, date and sign on reverse side and return promptly in the enclosed postage pre-paid envelope.

Has your address changed? Do you have any comments?

_____	_____
_____	_____
_____	_____

**CONTINUED AND TO BE SIGNED ON REVERSE SIDE**

**SEE REVERSE SIDE**

DETACH HERE

x Please mark votes as in this example.

**The shares of common stock of Bottomline Technologies (de), Inc. represented by this proxy will be voted as directed by the undersigned for the proposals herein proposed by the Company. If no direction is given with respect to any proposal specified herein, this proxy will be voted FOR the proposal. In their discretion, the proxies are authorized to vote upon any other business that may properly come before the meeting or any adjournment thereof.**

1. To elect the following people as Class I directors for the ensuing three years:

(01) Joseph L. Barry

(02) Robert A. Eberle

(03) Jeffrey C. Leathe

FOR ALL NOMINEES " WITHHOLD "

FOR ALL EXCEPT " \_\_\_\_\_

Instruction: For all nominees except as noted above (write nominee(s) name in the space provided above).

2. To ratify the selection of Ernst & Young LLP as the Company's registered public accounting firm for the current fiscal year.

" FOR " AGAINST " ABSTAIN

MARK HERE FOR ADDRESS CHANGE AND NOTE ON REVERSE SIDE [ ]

Please sign exactly as your name(s) appear(s) hereon. All holders must sign. When signing as attorney, executor, administrator or other fiduciary, please give your full title as such. Joint owners should each sign personally. If a corporation, please sign in full corporate name, by authorized officer. If a partnership, please sign in partnership name by authorized person.

Please be sure to sign and date this proxy below.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_