STELLENT INC
Form 10-K/A
April 21, 2004

---

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

---

FORM 10-K/A

(AMENDMENT NO. 1)

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED MARCH 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER 0-19817

STELLENT, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| MINNESOTA<br>(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | 41-1652566<br>(I.R.S. EMPLOYER IDENTIFICATION NO.) |
| 7777 GOLDEN TRIANGLE DRIVE<br>EDEN PRAIRIE, MINNESOTA<br>(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) | 55344-3736<br>(ZIP CODE) |

(952) 903-2000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: PREFERRED SHARE PURCHASE RIGHTS; COMMON STOCK, PAR VALUE $.01 PER SHARE

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12 b-2) Yes [X] No [ ]

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of September 30, 2002, the last business day of the registrant's most recently completed second fiscal quarter was $75,156,299, based on the closing sale price for the registrant's common stock on that date as reported by The Nasdaq Stock Market. For purposes of determining such aggregate market value, all officers and directors of the registrant are considered to be affiliates of the registrant, as well as shareholders holding 10% or more of the outstanding common stock as reflected on Schedules 13D or 13G filed with the registrant. This number is provided only for the purpose of this report on Form 10-K and does not represent an admission by either the registrant or any such person as to the status of such person.

As of June 25, 2003, the registrant had 21,793,506 shares of common stock issued and outstanding.

---

STELLENT, INC.

FORM 10-K/A

FOR THE FISCAL YEAR ENDED MARCH 31, 2003

TABLE OF CONTENTS

This Amendment No. 1 on Form 10-K/A amends certain items of the Annual Report on Form 10-K of Stellent, Inc. (the "Company") for the fiscal year ended March 31, 2003, filed with the Securities and Exchange Commission on June 30, 2003. The amended items do not restate or revise the Company's Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Shareholders' Equity or Consolidated Statement of Cash Flows for or as of any period. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K or modify or update those disclosures affected by subsequent events.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement dated for the annual meeting of Shareholders to be held on August 27, 2003 are incorporated by reference in Part III of this Annual Report on Form 10-K. (The Compensation Committee Report and the stock performance graph contained in the registrant's Proxy Statement are expressly not incorporated by reference in this Annual Report on Form 10-K). The Proxy Statement will be filed within 120 days after the end of the fiscal year ended March 31, 2003.

## PART I

## ITEM 1. BUSINESS

### FORWARD-LOOKING STATEMENTS

The information presented in this Annual Report on Form 10-K under the headings "Item 1. Business" and "Item 2. Properties" contain forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are based on the beliefs of our company's management as well as on assumptions made by, and information currently available to, us at the time such statements were made. When used in the Annual Report on Form 10-K, the words "anticipate," "believe," "estimate," "expect," "intend," and similar expressions, as they relate to us, are intended to identify such forward-looking statements. Although we believe these statements are reasonable, such statements are subject to risks and uncertainties, including those discussed under "Risk Factors" in Item 7 of this Annual Report on Form 10-K, that could cause actual results to differ materially from those projected. Because actual results may differ, readers are cautioned not to place undue reliance on these forward-looking statements.

### OVERVIEW

In 1997, we launched one of the first software product suites on the market that was fully developed and created expressly for Web-based content and document management. At the time, content management -- today considered a critical component of an organization's communication and information technology (IT) infrastructure -- was an emerging technology used to help companies easily and quickly share information with employees, partners, customers and prospects using the World Wide Web.

Currently, our solutions -- which are comprised of Universal Content Management software and Content Components software -- help customers worldwide solve business problems related to efficiently creating, managing and sharing critical information.

MARKETS AND CUSTOMERS

Approximately 1,100 customers for our Universal Content Management products and approximately 400 customers for our Content Component software. No one customer accounted for ten percent or more of our revenues in the fiscal year ended March 31, 2003.

Customers use our products as follows:

- Universal Content Management: Organizations deploy the Universal Content Management software to build enterprise-wide content management deployments and line-of-business solutions, such as



public Web sites; intranets for internal-only company information; and extranets, which are web sites available only to select audiences, such as partners and customers.

- Content Components: Other technology companies embed this technology in their own products to enable their users to view and convert business information to formats viewable on handheld devices or in a Web browser. These technologies are also integrated into Stellent's Universal Content Management software.

PRODUCTS

Our product set is comprised of two main categories Universal Content Management Software and Content Components Software.

UNIVERSAL CONTENT MANAGEMENT SOFTWARE

Universal Content Management is Stellent's primary software product, consisting of one server that houses multiple applications. These applications help organizations manage their business information -- such as records, legal documents, Web content and graphics -- from the time it's created to the time it's archived or disposed of, so that employees, customers, partners and investors can more easily find, access and re-use that information. With Stellent software, customers can increase employee productivity, reduce expenses and improve company-wide collaboration and communication.

Our Universal Content Management software addresses the key elements of content management -- web content management, document management, collaboration, digital asset management, and records management -- from one platform, enabling customers to fully utilize their content management investment across the organization. We believe our tightly integrated products allow companies to implement content management applications using fewer products and consulting services than other content management offerings, which can lead to a lower total cost of ownership. For example, while some content management providers have acquired products and companies to fulfill the functionality provided by Universal Content Management, integrating those disparate systems is often difficult and requires customers to spend more time and money on expensive consulting services to get the systems implemented.

The Stellent system is also easy to use. Users can submit, or contribute, business content -- such as a word processing document, spreadsheet or CAD file -- to the Stellent system, and Stellent automatically converts the file to a format that can be viewed on a web site. This automatic conversion capability enables even non-technical users to publish information easily to a site, such as an employee portal or partner extranet, so that the information can be shared with other users.

Our Universal Content Management software is comprised primarily of the Stellent Content Server and five key application modules, described below.

The Stellent Content Server is a fully functional system providing management with a secure, personalized delivery of business information. It provides a set of services -- such as check-in/check-out, revision control and subscription services -- that help ensure users can access only the most current information. Content Server also provides security, workflow, searching, archiving and distribution of information to multiple Content Servers.

On top of the Stellent Content Server, users can add the following five key content management application modules:

- Web Content Manager: Enables organizations to create web content, and manage and publish web sites.

- Document Manager: Provides web-based management, collaboration and access to business documents created in common office software applications.

- Collaboration Manager: Enables creation of a project or team space for sharing documents, schedules and discussions among a team via the web.



- Records Manager: Provides a web-based method for managing business records and creating rules regarding the disposition of that content, such as expiration, archiving and deletion.

- Digital Asset Manager: Enables digital assets -- such as photos, graphics, audio clips and video clips -- to be searched, accessed, viewed, managed and distributed via the web.

CONTENT COMPONENTS SOFTWARE

Stellent's Content Components software makes information created in more than 225 common office software applications more accessible to the business users that need it. Other technology companies embed this technology in their own products to enable their users to view and convert business information to formats viewable on handheld devices or in a web browser. Such information is often difficult to find and view without access to the software application that created it; with Stellent's Content Components software, users can locate and view this information, even if they don't have the software application that created the file installed on their desktop or handheld device. These technologies are also integrated into Stellent's Universal Content Management software.

These technologies support multiple operating systems and international environments, and enable access to documents in applications for diverse markets such as content management, search and retrieval, security and policy management, mobile and wireless, messaging, collaboration and publishing.

SUPPLIERS

We have no sole source or limited source suppliers that we depend upon materially for our products described above.

CONTRACTS

The types of license contracts we enter into with our customers are typically perpetual arrangements for our direct customers or are term-based arrangements for our OEM customers. Virtually all of our customers initially purchase maintenance contracts, which entitle them to unspecified upgrades and product support. The primary reward or benefits to us of a perpetual licensing arrangement is the annual renewal of maintenance. The primary benefit of a term-based license is the ability to predict future license revenue streams from that customer. The primary risk associated with the perpetual licensing arrangement is the non-renewal of maintenance. The primary risk of a term-based license arrangement is the potential non-renewal of that arrangement. Many of our direct customers enter into services arrangements, which may include needs assessment, software integration, security analysis, application development and training. Application development generally is not critical to the functionality of the delivered software.

CONSULTING SERVICES

Our consulting services group is focused on delivering value-based content management solutions to our customers. Our consulting services professionals employ a combination of business analysis, enterprise architecture, application analysis, installation, configuration, development and integration skills with experience-based project methodology and management knowledge to facilitate the rollout of content management solutions at all levels of a customer's organization. Available on a worldwide basis, we act as a business partner to our customers by providing a broad spectrum of services including:

- Technical architecture analysis and needs assessment, e.g. software, security and metadata analysis

- Solutions development and deployment strategies

- Software installation and configuration

- Custom application development

- Third party product integration

3

- Project management

- Knowledge transfer

These services can be offered in conjunction with our software products to new customers, or on a stand alone basis to our existing customers to assist them in driving additional content management solutions across their enterprises. These services are sold in conjunction with our software products and are offered for fees, the amount of which depends on the nature and scope of the project.

PRODUCT SUPPORT

We offer several product support programs that allow customers to select the offering(s) that best satisfies their maintenance and support requirements. From the initial installation and configuration of Stellent to the point of application deployment, our product support resources strive to provide exceptional customer service through quick response time, effective trouble-shooting and the delivery of complete and comprehensive technical solutions. Customers may access product support resources on a worldwide basis for assistance during the customer's normal business hours. Additional support offerings are available which supplement the customer's product support requirements.

Product support offerings are renewable on an annual basis and are typically priced as a percentage of the product license fees.

PRODUCT TRAINING

We provide a full range of educational courses on our Universal Content Management software. The comprehensive web-based modules and instructor-led classes enable business end-users, administrators, site designers, and developers to use Stellent tools more productively. Standard classes are routinely scheduled at designated worldwide training facilities, and both standard and customized classes are frequently taught at customer sites.

SALES AND MARKETING

We market and sell our products using a combination of direct and indirect distribution channels primarily in North America and Europe. Our primary distribution channel is our direct sales force, which targets mid- and large-size organizations. Our sales approach is a solution selling sales model which is a consultative approach to selling where sales personnel work in a consultative manner with target accounts to uncover unsolved business needs which can be remedied by the application of a business process solution built around our Stellent Universal Content Management software. The solution discovery process will typically include a business process and technical systems evaluation performed by our pre-sales personnel, followed by demonstrations of our products' capabilities and direct negotiations with our sales staff. As part of our solution selling model, Stellent has chosen to focus on specific vertical markets where we have developed subject matter expertise in these markets to solve common business problems. Our initial vertical industries of focus are manufacturing, insurance, commercial real estate and e-government. We expect this to expand to other vertical industries in the future. In addition, we have an internal telemarketing operation that is responsible for customer prospecting, lead generation and follow-up. These activities identify and develop leads for further sales efforts by our direct sales force. As of March 31, 2003, we had a worldwide total of 113 direct and indirect sales and sales support personnel and 24 marketing personnel, which includes business development and alliances.

We also use indirect sales channels to increase the distribution and visibility of our products through strategic alliances with resellers, OEMs, key systems integrators and other channel partners in both domestic and international markets.

We currently have operations or collaborations in Australia, France, Germany, Japan, Korea, the Netherlands, the United Kingdom and the United States. Our ability to achieve significant revenue growth in the future will depend in large part on how successfully we recruit, train and retain sufficient direct and

4

indirect sales and support personnel, and how well we continue to establish and maintain relationships with our strategic partners' resellers, OEMs, key systems integrators and other channel partners.

We use a variety of marketing programs to build market awareness of our brand name and of our products, as well as to attract potential customers to our products. A broad mix of programs is used to accomplish these goals, including market research, product and strategy updates with industry analysts, public relations activities, direct mail and relationship marketing programs, seminars, trade shows, speaking engagements, Web site marketing and joint marketing programs. Our marketing organization produces marketing materials in support of sales to prospective customers that include brochures, data sheets, white papers, presentations and demonstrations.

RESEARCH AND DEVELOPMENT

We have made substantial investments in research and development through both internal development and technology acquisitions. Our research and development expenditures for fiscal 2001, 2002 and 2003, were approximately $9.8 million, $17.6 million and $15.8 million, respectively. Research and development expenses represented 15%, 20% and 24%, respectively, of total revenue in those years. We expect that we will continue to commit significant resources to research and development in the future. As of March 31, 2003, we had 86 employees engaged in research and development activities.

In order to continue to provide product leadership in the content management and content components market, we intend to make major product releases approximately once per year. The success of new introductions is dependent on several factors, including timely completion and market introduction, differentiation of new products and enhancements from those of our competitors and market acceptance of new products and enhancements.

The market for our products is characterized by rapid technological change, frequent new product introductions and enhancements, evolving industry standards and rapidly changing customer requirements. The introduction of products incorporating new technologies and the emergence of new industry standards could render existing products obsolete and unmarketable. Our future success will depend in part on our ability to anticipate changes, enhance our current products, develop and introduce new products that keep pace with technological advancements and address the increasingly sophisticated needs of our customers. We may not be successful in developing and marketing new products and enhancements that respond to competitive and technological developments and changing customer needs.

ACQUISITIONS

In April 2002, we acquired certain assets and assumed certain liabilities of Kinecta Corporation, a provider of software infrastructure for digital networks, for approximately $2.6 million in cash. We acquired the Kinecta asset primarily to obtain Kinecta's proprietary content distribution technology. We have incorporated Kinecta's technology into our core content management product line to maintain the competitive features of those products. For our fiscal year ended March 31,2003, the acquisition of certain assets and the assumption of certain liabilities of Kinecta resulted in revenues of approximately $0.6 million, cost of revenues of approximately $0.9 million, operating expenses of $0.7 million and acquisition costs of approximately $0.2 million. A significant portion of the operating expenses and all of the acquisition expenses are not anticipated to be recurring.

In March 2003, we acquired certain assets of Active IQ Corporation, a provider of hosted solutions for the commercial real estate industry, for approximately $0.7 million in cash. We acquired the Active IQ assets to expand the market for our content management software products by expanding our access to a particular market segment; the real estate industry. For our fiscal year ended March 31, 2003, the acquisition of certain assets of Active IQ resulted in approximately $0.1 million in acquisition cost.

COMPETITION

The market for content management and content component software is intensely competitive, subject to rapid technological change and significantly affected by new product introductions and other market activities of industry participants. We believe that our competitive advantages include superior technology and lower overall cost of ownership than our competitors. However, we expect competition to persist and intensify in the future. Our primary source of competition, across the range of our product and service offerings, is from Web content management or components products offered by companies such as Documentum, Inc., FileNET Corporation, Interwoven, Inc., Microsoft Corporation, Verity, Inc., and Vignette Corporation. We also compete with current or potential customers who may develop solutions internally.

Many of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do and thus may be able to respond more quickly to new or changing opportunities, technologies and customer requirements. In particular, we believe that Documentum, Inc., FileNet Corporation and Interwoven, Inc. all have larger market positions than we do. Also, many current and potential competitors have greater name recognition and access to larger customer bases than we have. Such competitors may be able to undertake more extensive promotional activities and offer more attractive terms to purchasers than we can. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

Competition in our market could materially and adversely affect our ability to obtain revenues from software license fees from new or existing customers on terms favorable to us. Further, competitive pressures may require us to reduce the price of our software. In either case, we cannot be sure that we will be able to compete successfully with existing or new competitors or that competition will not have a material adverse effect on our business, operating results and financial condition.

PROPRIETARY RIGHTS AND LICENSING

We rely on a combination of copyright, trade secret, trademark, confidentiality procedures and contractual provisions to protect our proprietary rights. United States and international copyright laws provide limited protections for our software, documentation and other written materials. We license our products in object code format for limited use by customers. We treat the source code for our products as a trade secret and we require all employees and third-parties who need access to the source code to sign non-disclosure agreements.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, and while we are unable to determine the extent to which piracy of our software exists, software piracy can be expected to be a persistent problem. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. However, the laws of many countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Any litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results and financial condition. Our efforts to protect our proprietary rights may not be adequate or our competitors may independently develop similar technology. Our failure to meaningfully protect our property could have a material adverse effect on our business, operating results and financial condition.

We cannot be sure that third parties will not make claims of infringement with respect to our current or future products. We expect that developers of content management and content component products will increasingly be subject to infringement claims as the number of products and competitors in our market grows and as the functionality of products in different segments of the software industry increasingly overlaps. Any claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management's attention and resources, cause product shipment delays or require us to enter into royalty or



licensing agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all. A successful claim of product infringement against us and our failure or inability to license the infringed technology or develop or license technology with comparable functionality could have a material adverse effect on our business, operating results and financial condition.

EMPLOYEES

As of March 31, 2003, we had 340 employees. Our future success will depend in part on our ability to attract, retain, integrate and motivate highly qualified sales, technical and management personnel, for whom competition is intense. From time to time we also employ independent contractors to support our services, product development, sales and marketing departments. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage. We believe our relations with our employees are good.

GEOGRAPHIC INFORMATION

Financial information about geographic areas is incorporated by reference from footnote 10 to our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

AVAILABLE INFORMATION

Our Web site is: http://www.stellent.com. We make available, free of charge, through our Web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the Securities and Exchange Commission.

ITEM 2. PROPERTIES

In July 2000, we began a five-year lease of approximately 32,000 square feet in Eden Prairie, Minnesota, which is our corporate headquarters facility. We are currently sub-letting approximately 18,000 square feet of our former headquarters pursuant to a lease expiring in July 2005, and approximately 6,000 square feet of office space in Scottsdale, Arizona pursuant to a lease expiring in February 2004.

Additionally, we lease approximately 8,000 square feet of office space in Boston, Massachusetts with lease terms expiring June 2004 and September 2006; approximately 28,000 square feet of space in downtown Chicago, Illinois with a lease term expiring September 2006; approximately 5,000 square feet of space in New York, New York with a lease term expiring in January 2007; approximately 12,000 square feet in Redmond, Washington with a lease term expiring in December 2007; approximately 9,000 square feet in London, United Kingdom with a lease term expiring in May 2016; and approximately 6,000 square feet in the Netherlands with a lease term expiring in April 2006. Management believes that our facilities are suitable and adequate for current office requirements.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, we are subject to various claims and litigation, including employment matters and intellectual property claims. Management does not believe the outcome of any current legal matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders during the fourth quarter of the fiscal year ended March 31, 2003.



ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Executive Officers of the Registrant

The Executive Officers of our company are:

| NAME | AGE | POSITION |
|---|---|---|
| Robert F. Olson.......................... | 47 | President and Chief Executive Officer and Chairman of the Board |
| David S. Batt............................ | 39 | Executive Vice President of Global Field Operations |
| Frank A. Radichel........................ | 54 | Executive Vice President of Research & Development |
| Daniel P. Ryan........................... | 44 | Executive Vice President of Marketing/Business Development |
| Gregg A. Waldon.......................... | 42 | Executive Vice President, Chief Financial Officer, Secretary, and Treasurer |
| Michael S. Rudy.......................... | 56 | Vice President of Canada |

Robert F. Olson founded our business and has served as Chairman of the Board of Stellent, Inc. and our predecessor company since 1990. He also served as our Chief Executive Officer and Chairman of the Board from October 2000 to July 2001, and as our President, Chief Executive Officer and Chairman of the Board from 1990 to October 2000 and from April 2003 to present. From 1987 to 1990, he served as the General Manager of the Greatway Communications Division of Anderberg-Lund Printing Company, an electronic publishing sales and service organization. Prior to that time, Mr. Olson held management and marketing positions in several electronic publishing service organizations.

David S. Batt has served as our Executive Vice President, Global Field

Operations, since February 2003. From October 2001 to October 2002, he was Executive Vice President of Marketing, Sales and Services for Selectica, Inc., a leading provider of product configuration and pricing solutions. From July 1999 to September 2001, Mr. Batt served as Vice President of CRM Sales for Oracle Corp., an enterprise software company, and from September 1998 to June 1999 as Senior Vice President of Sales for Adaytum Software, Inc., an enterprise business planning software company. From April 1998 to August 1998, he served as Vice President of Middle Markets Sales for Siebel Systems, an eBusiness application software company. Prior to that time, Mr. Batt was employed by Wall Data, Inc.

Frank A. Radichel has served as our Executive Vice President of Research and Development since April 2003 and our Vice President of Research and Development from March 1995 through March 2003. Prior to that, Mr. Radichel served as CALS Project Leader and Technical Architect for Alliant TechSystems, Inc.

Daniel P. Ryan has served as our Executive Vice President of Marketing and Business Development since April 2003 and as our Senior Vice President of Marketing and Business Development from April 2002 through March 2003. He has also served as our Senior Vice President of Corporate and Business Development from November 2001 to April 2002. From April 1999 to November of 2001, he served as Vice President of Marketing and Business Development. From September 1997 to April 1999, he served as Vice President of Marketing for Foglight Software, Inc., a developer of enterprise performance management solutions. Prior to that time, Mr. Ryan served as Director of Marketing for Compact Devices, Inc.

Gregg A. Waldon has served as our Executive Vice President, Chief Financial Officer, Secretary and Treasurer since April 2003 and Chief Financial Officer, Secretary and Treasurer from April 1999 to March 2003. He has also served as a director from April 1999 to August 2001. From 1992 to April 1999, he held various financial management positions with GalaGen Inc., a publicly traded biopharmaceutical and nutritional ingredients company, where he served as Chief Financial Officer since November 1994. Prior to that time, Mr. Waldon was employed by PricewaterhouseCoopers LLP.

Michael S. Rudy has served as our Vice President of Canada since April 2003 and was our Vice President of Alliances and Services from April 2002 through March 2003. He has also served as our Vice President of

8

Technology Services from January 2001 to April 2002. From 1999 to 2000, Mr. Rudy was President and CEO of Hypertree Corporation, a software startup providing Web infrastructure for building corporate portals. Prior to that time, Mr. Rudy was employed by Workgroup Technology, supplier of software for product data management, from 1994-1999 in various sales and management positions, and by ELDEC from 1983-1994 in various information services positions.

Officers of our company are chosen by and serve at the discretion of the Board of Directors. There are no family relationships among any of the directors or officers of our company.

9

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock, par value $0.01 per share, is traded on the Nasdaq

National Market tier of The Nasdaq Stock Market under the symbol STEL. At June 25, 2003, our common stock was held by approximately 4,900 shareholders consisting of 332 record holders and an estimated 4,600 shareholders whose stock was held in the name of a bank, broker or other nominee. On June 25, 2003, the closing sale price of a share of our common stock was $5.10.

The high and low sale prices per share of our common stock for the four quarters during the fiscal years ended March 31, 2002 and 2003 were as follows:

| | HIGH | LOW |
|---|---|---|
| FISCAL YEAR ENDED MARCH 31, 2002: | | |
| First Quarter | $42.90 | $14.75 |
| Second Quarter | 38.02 | 13.33 |
| Third Quarter | 31.65 | 13.24 |
| Fourth Quarter | 34.72 | 9.51 |
| FISCAL YEAR ENDED MARCH 31, 2003: | | |
| First Quarter | $ 8.85 | $ 3.94 |
| Second Quarter | 5.50 | 3.32 |
| Third Quarter | 5.85 | 3.14 |
| Fourth Quarter | 5.82 | 3.75 |

We have never paid cash dividends on the common stock. The Board of Directors does not anticipate paying cash dividends in the foreseeable future.

EQUITY COMPENSATION PLAN INFORMATION

The information required by Item 201(d) of Regulation S-K is incorporated by reference from Item 12 of this Annual Report on Form 10-K.



ITEM 6. SELECTED FINANCIAL DATA

The Selected Consolidated Financial Data (in thousands except per share data) presented below as of and for each of the fiscal years in the five year period ended March 31, 2003 have been derived from our Consolidated Financial Statements. The Selected Consolidated Financial Data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the related Notes.

| | YEAR ENDED MARCH 31, | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | |
| CONSOLIDATED STATEMENT OF OPERATIONS DATA: | | | | | |
| Revenues: | | | | | |
| Product licenses | $ 9,303 | $ 17,480 | $ 53,853 | $ 66,908 | $ 40,364 |
| Services | 2,099 | 4,880 | 12,868 | 21,432 | 25,070 |
| Hardware integration and support | 5,629 | -- | -- | -- | -- |

| | | | | | |
|---|---|---|---|---|---|
| Total revenues | 17,031 | 22,360 | 66,721 | 88,340 | 65,434 |
| Cost of revenues: | | | | | |
| Product licenses | 811 | 1,708 | 3,899 | 5,005 | 6,480 |
| Amortization of capitalized software from acquisitions | -- | -- | 700 | 966 | 1,892 |
| Services | 1,229 | 2,400 | 7,190 | 13,392 | 12,146 |
| Hardware integration and support | 4,601 | -- | -- | -- | -- |
| Total cost of revenues | 6,641 | 4,108 | 11,789 | 19,363 | 20,518 |
| Gross profit | 10,390 | 18,252 | 54,932 | 68,977 | 44,916 |
| Operating expenses: | | | | | |
| Sales and marketing | 5,742 | 10,076 | 29,448 | 46,672 | 38,343 |
| General and administrative | 3,577 | 3,853 | 9,016 | 11,884 | 11,301 |
| Research and development | 2,214 | 2,878 | 9,756 | 17,601 | 15,766 |
| Acquisition and related costs | -- | 1,972 | 775 | 237 | 1,127 |
| Amortization of acquired intangible assets and other | -- | 460 | 9,808 | 12,914 | 6,635 |
| Restructuring charges | -- | -- | -- | -- | 4,368 |
| Acquired in-process research and development | -- | -- | 10,400 | -- | -- |
| Total operating expenses | 11,533 | 19,239 | 69,203 | 89,308 | 77,540 |
| Loss from operations | (1,143) | (987) | (14,271) | (20,331) | (32,624) |



| | YEAR ENDED MARCH 31, | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | |
| Other income (expense): | | | | | |
| Gain on sale of hardware integration unit | 517 | -- | -- | -- | -- |
| Interest income (expense) net | (212) | 1,466 | 7,000 | 3,755 | 1,957 |
| Investment impairment | -- | -- | (400) | (5,722) | (1,733) |
| Income (loss) from continuing operations | (838) | 479 | (7,671) | (22,298) | (32,400) |
| Loss on discontinued operations | (521) | -- | -- | -- | -- |
| Net income (loss) | (1,359) | 479 | (7,671) | (22,298) | (32,400) |
| Preferred stock dividends and accretion | (718) | -- | -- | -- | -- |
| Income (loss) attributable to common shareholders | $(2,077) | $ 479 | $ (7,671) | $(22,298) | $(32,400) |
| Earnings (loss) per share -- basic and diluted: | | | | | |
| Income (loss) from continuing operations | $ (0.08) | $ 0.03 | $ (0.36) | $ (1.00) | $ (1.45) |

| | | | | | |
|---|---|---|---|---|---|
| Net income (loss) | $ (0.12) | $ 0.03 | $ (0.36) | $ (1.00) | $ (1.45) |
| Income (loss) attributable to common shareholders | $ (0.19) | $ 0.03 | $ (0.36) | $ (1.00) | $ (1.45) |
| Weighted average common shares -- basic | 11,151 | 16,462 | 21,472 | 22,286 | 22,345 |
| Weighted average common shares -- diluted | 11,151 | 18,057 | 21,472 | 22,286 | 22,345 |

| | AS OF MARCH 31, | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| CONSOLIDATED BALANCE SHEET DATA: | | | | | |
| Cash and equivalents | $ 2,177 | $ 8,859 | $ 14,651 | $ 26,656 | $ 37,439 |
| Marketable Securities | -- | 124,883 | 91,859 | 69,502 | 43,730 |
| Working capital | 3,713 | 137,112 | 109,279 | 102,850 | 69,823 |
| Total assets | 8,464 | 147,315 | 181,586 | 165,926 | 129,709 |

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

In 1997, we launched one of the first software product suites on the market that was fully developed and created expressly for Web-based content and document management. At the time, content management -- today considered a critical component of an organization's communication and information technology (IT) infrastructures -- was an emerging technology used to help companies easily and quickly share information internally or externally using the Web.

Currently, our solutions -- which are comprised of universal content management software, content components software and vertical applications -- help customers worldwide solve real business problems related to efficiently creating, managing and sharing critical information. Our company has strategically grown to become one of the foremost content management software vendors in the industry, having been ranked one of the top three content management software providers by industry analyst firms Gartner Dataquest, Giga Information Group and Aberdeen Group.

Our customers are primarily located throughout the United States and Europe. We are responsible for developing our current business which was founded in 1990. In July 1996, we merged with and into a publicly traded corporation, which was organized under Minnesota law in November 1989. In July 2000, we acquired the Information Exchange Division (currently our Content Components Division or "CCD") of eBT



International, Inc. (formerly Inso Corporation) in a transaction accounted for as a purchase. In July 2001, we acquired select assets of RESoft, a leading provider of end-to-end content management solutions for the real estate and legal industries. This acquisition has been accounted for under the purchase method of accounting. In April 2002 and in March 2003, we acquired certain assets of Kinecta Corporation and Active IQ Corporation, respectively. On August 29, 2001, we changed our name to Stellent, Inc. Our headquarters is located in Eden Prairie, Minnesota and we have operations or collaborations in Australia, France, Germany, Japan, Korea, the Netherlands, the United Kingdom and in other cities in the United States.

Beginning in April 2002 and continuing through April 2003, we have implemented several cost cutting measures, including a reduction in work force of approximately 30% since our December 2001 quarter. These restructuring measures were in response to the economic slowdown both in the United States and internationally and were in all functional areas and geographies. However, although we implemented the restructurings to reduce overall costs, we have recently been investing in certain areas in order to expand our customer base and grow our revenues. Because of this, we anticipate that the percentage of expenses as compared to total revenues represented by sales and marketing expenses, research and development expenses and general and administrative expenses will fluctuate from period to period depending primarily on when we hire new personnel, the timing of certain sales and marketing programs, the research programs that we put in place and the potential expansion of operations. In addition, our limited operating history makes it difficult for us to predict future operating results. We cannot be certain that we will sustain revenue growth. A table summarizing our restructuring plans is shown below:

| | RESTRUCTURING CHARGES | | | | | | |
|---|---|---|---|---|---|---|---|
| | FIRST QUARTER '03 | | SECOND QUARTER '03 | | THIRD QUARTER '03 | | FOURTH QU |
| | EMPLOYEE TERMINATION BENEFITS | OTHER EXIT COSTS | EMPLOYEE TERMINATION BENEFITS | OTHER EXIT COSTS | EMPLOYEE TERMINATION BENEFITS | OTHER EXIT COSTS | EMPLOYEE TERMINATI BENEFITS |
| Balance at April 1, 2002............... | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| Expense.............. | 2,100 | 404 | -- | -- | -- | -- | -- |
| Payments............. | (1,488) | (316) | -- | -- | -- | -- | -- |
| Balance at June 30, 2002............... | 612 | 88 | -- | -- | -- | -- | -- |
| Expense.............. | -- | -- | 434 | 405 | -- | -- | -- |
| Payments............. | (612) | (88) | (230) | (40) | -- | -- | -- |
| Balance at September 30, 2002........... | -- | -- | 204 | 365 | -- | -- | -- |
| Expense.............. | -- | -- | -- | -- | 382 | 292 | -- |
| Payments............. | -- | -- | (36) | (24) | (312) | (256) | -- |
| Balance at December 31, 2002........... | -- | -- | 168 | 341 | 70 | 36 | -- |
| Expense.............. | -- | -- | -- | -- | -- | -- | 305 |
| Payments............. | -- | -- | (114) | (37) | (37) | (36) | (65) |
| Balance at March 31, 2003............... | $ -- | $ -- | $ 54 | $304 | $ 33 | $ -- | $240 |

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are more fully described in Note 1 to our consolidated Financial Statements. The policies described below are particularly important to understanding our financial position and results of operations and may require management to make estimates or judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

13

Revenue Recognition

We currently derive all of our revenues from licenses of software products and related services. We recognize revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions, and Securities and Exchange Commission Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements."

Product license revenue is recognized under SOP 97-2 when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectibility is probable and supported and the arrangement does not require services that are essential to the functionality of the software.

Persuasive Evidence of an Arrangement Exists -- We determine that persuasive evidence of an arrangement exists with respect to a customer under, i) a signature license agreement, which is signed by both the customer and us, or, ii) a purchase order, quote or binding letter-of-intent received from and signed by the customer, in which case the customer has either previously executed a signature license agreement with us or will receive a shrink-wrap license agreement with the software. We do not offer product return rights to end users or resellers.

Delivery has Occurred -- Our software may be either physically or electronically delivered to the customer. We determine that delivery has occurred upon shipment of the software pursuant to the billing terms of the arrangement or when the software is made available to the customer through electronic delivery. Customer acceptance generally occurs at delivery.

The Fee is Fixed or Determinable -- If at the outset of the customer arrangement, we determine that the arrangement fee is not fixed or determinable, revenue is typically recognized when the arrangement fee becomes due and payable. Fees due under an arrangement are generally deemed fixed and determinable if they are payable within twelve months.

Collectibility is Probable and Supported -- We determine whether collectibility is probable and supported on a case-by-case basis. We may generate a high percentage of our license revenue from our current customer base, for whom there is a history of successful collection. We assess the probability of collection from new customers based upon the number of years the customer has been in business and a credit review process, which evaluates the customer's financial position and ultimately their ability to pay. If we are unable to determine from the outset of an arrangement that collectibility is probable based upon our review process, revenue is recognized as payments are received.

With regard to software arrangements involving multiple elements, we allocate revenue to each element based on the relative fair value of each element. Our determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence ("VSOE"). We limit our assessment of VSOE for each element to the price charged when the same element is sold separately. We have analyzed all of the elements included in our multiple-element arrangements and have determined that we have sufficient VSOE to allocate revenue to consulting services and post-contract customer support ("PCS") components of our license arrangements. We sell our consulting services separately, and have established VSOE on this basis. VSOE for PCS is determined based upon the customer's annual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, revenue from perpetual licenses is recognized upon delivery using the residual method in accordance with SOP 98-9, and revenue from PCS is recognized ratably over their respective terms, typically one year.

Our direct customers typically enter into perpetual license arrangements. Our Content Components Division generally enters into term-based license arrangements with its customers, the term of which generally exceeds one year in length. We recognize revenue from time-based licenses at the time the license arrangement is signed, assuming all other revenue recognition criteria are met, if the term of the time-based license arrangement is greater than twelve months. If the term of the time-based license arrangement is twelve months or less, we recognize revenue ratably over the term of the license arrangement.



Services revenue consists of fees from consulting services and PCS. Consulting services include needs assessment, software integration, security analysis, application development and training. We bill consulting services fees either on a time and materials basis or on a fixed-price schedule. In general, our consulting services are not essential to the functionality of the software. Our software products are fully functional upon delivery and implementation and generally do not require any significant modification or alteration for customer use. Customers purchase our consulting services to facilitate the adoption of our technology and may dedicate personnel to participate in the services being performed, but they may also decide to use their own resources or appoint other professional service organizations to provide these services. Software products are billed separately from professional services. We recognize revenue from consulting services as services are performed. Our customers typically purchase PCS annually, and we price PCS based on a percentage of the product license fee. Customers purchasing PCS receive product upgrades, Web-based technical support and telephone hot-line support.

Customer advances and billed amounts due from customers in excess of revenue recognized are recorded as deferred revenue.

Cost of Revenues

We expense all manufacturing, packaging and distribution costs associated with product license revenue as cost of revenues. We expense all technical support service costs associated with service revenue as cost of revenues. We also expense amortization of capitalized software from acquisitions as cost of revenues.

In January 2002, the FASB issued Emerging Issues Task Force (EITF) Issue No. 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, which requires companies to report reimbursements of "out-of-pocket" expenses as revenues and the corresponding expenses incurred as costs of revenues within the income statement. We report our out-of-pocket expenses reimbursed by customers as revenue and the corresponding expenses incurred as costs of revenues within the statement of operations. As a result, this EITF did not have a material effect on our consolidated financial statements.

Investments in and Notes with Other Companies

Investments in other equity securities and related notes with other companies in the software industry are classified as long-term as we anticipate holding them for more than one year. We hold less than 20% interest in, and do not directly or indirectly exert significant influence over, any of the respective investees. A portion of these investments are publicly traded and are deemed by management to be available for sale. We use the specific identification method to determine cost and fair value for computing gains and losses. Accordingly, these investments are reported at fair value with net unrealized gains or losses reported within shareholders' equity as accumulated other comprehensive income or loss. No sales of available for sale investments have occurred through March 31, 2003. During fiscal 2001, 2002 and 2003, we determined that permanent declines in the value of these publicly traded investments had occurred. As a result, we recorded write-downs of $0.4 million, $0.1 million, and $1.1 million during the years ended March 31, 2001, 2002 and 2003, respectively. Investments in other companies also include investments in several non-public, start-up technology companies for which we use the cost method of accounting. For the years ended March 31, 2002 and 2003, we determined that a permanent decline in value of certain investments had occurred and recorded a $5.6 million and $0.7 million write-down on the investments in and advances to these entities. We determined the permanent declines in value of these public and non-public companies using quarterly procedures such as reviewing their operating results and financial position, discussions with company management and review of the overall business climate.

Accounts Receivable

Our accounts receivable balances are due from companies across a broad range of industries -- Government, Finance, Manufacturing, Consumer, Aerospace and Transportation, Health Care/Insurance, and High Tech/Telecom. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable from sales of services are typically due from



customers within 30 days and accounts receivable from sales of licenses are due over terms ranging from 30 days to nine months. Accounts receivable balances are stated at amounts due from customer net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payments terms are considered past due. We determined our allowance by considering a number of factors, including the length of time trade receivables are past due, our previous loss history, the customer's current ability to pay its obligation to us, and the condition of the general economy and the industry as a whole. We write-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

No customer accounted for 10% or more of our revenues in the years ended March 31, 2001, 2002, and 2003.

Goodwill and Other Acquired Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Prior to April 1, 2002, goodwill was amortized on a straight-line basis over three years. Effective April 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) 142, Goodwill and Other Intangible Assets, which provides that goodwill, as well as identifiable intangible assets with indefinite lives, should not be amortized but reviewed for impairment annually. Accordingly, we ceased amortization of goodwill as of April 1, 2002.

At March 31, 2002, other acquired intangible assets represented core technology, customer base, workforce, capitalized software, trademarks, and other intangible assets acquired through business acquisitions, and were amortized on a straight-line basis over three to four years. Effective April 1, 2002, we adopted SFAS 141, Business Combinations, which requires that all business combinations be accounted for utilizing the purchase method of accounting and specifies the criteria to use in determining whether intangible assets identified in purchase accounting must be recorded separately from goodwill. We determined that our acquired workforce did not meet the separability criteria of SFAS 141, and therefore the net unamortized balance at March 31, 2002 was reclassified to goodwill effective April 1, 2002, and amortization of the balance ceased. The remaining other acquired intangible assets continue to be amortized on a straight-line basis over their remaining, definite useful lives.

The carrying value of goodwill and other intangible assets is tested for impairment on an annual basis or when factors indicating impairment are present. We completed our transitional goodwill impairment test on April 1, 2002 and determined that no impairment existed at that time. We have elected to complete the annual impairment test of goodwill on January 1 of each year. We engaged an independent outside professional services firm to assist us in our impairment testing of goodwill. Based on this assistance, we completed our annual goodwill impairment test on January 1, 2003 and determined that there was no impairment of goodwill at that time. Additionally, no circumstances occurred during the fourth quarter of the year ended March 31, 2003 which would have created an impairment loss at March 31, 2003.

Impairment of Long-Lived Assets

We evaluate the recoverability of its long-lived assets in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 requires recognition of impairment of long-lived assets in the event that events or circumstances indicate an impairment may have occurred and when the net book value of such assets exceeds the future undiscounted cash flows attributed to such assets. We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. No impairment of long-lived assets has occurred through the year ended March 31, 2003.

New Accounting Pronouncements

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, which requires the assets, liabilities and results of operations of variable interest entities (VIE) be consolidated into the



financial statements of the company that has controlling financial interest. FIN 46 is not anticipated to have a material effect on our consolidated financial statements.

Accounting for Income Taxes

Deferred tax liabilities and deferred tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The valuation allowance has been established due to the uncertainty of future taxable income, which is necessary to realize the benefits of the deferred tax assets. The Company had net operating loss (NOL) carryforwards of approximately $84,300 at March 31, 2003, which begin to expire in 2011. These NOL's are subject to annual utilization limitations due to prior ownership changes.

Realization of the NOL carryforwards and other deferred tax temporary differences are contingent on future taxable earnings. The deferred tax asset was reviewed for expected utilization using a "more likely than not" approach as required by SFAS No. 109, Accounting for Income Taxes, by assessing the available positive and negative evidence surrounding its recoverability. Accordingly, in fiscal 2003 we increased the valuation allowance to fully offset the deferred tax asset. The increase in the valuation allowance has been recognized as a reduction in paid in capital to the extent that a tax benefit from employee stock option exercises was previously recognized as additional paid in capital.

We will continue to assess and evaluate strategies that will enable the deferred tax asset, or portion there of, to be utilized, and will reduce the valuation allowance appropriately at such time when it is determined that the "more likely than not" approach is satisfied.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In general, these estimates and assumptions are based on historical experience of our management; but may include consideration of industry trends or information from other outside sources. Actual results could differ from those estimates.

RESULTS OF OPERATIONS -- THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

REVENUES

Total revenues increased by $2.8 million, or 20%, to $16.8 million for the three months ended March 31, 2003 from $14.0 million for the three months ended March 31, 2002. The increase in total revenues was attributable to an increase of approximately $3.2 million in Content Components revenues, an increase of approximately $0.6 million in post-contract customer support due to a larger installed base of products, offset by a decrease of approximately $1.0 million in Universal Content Management revenues. As we license our products, whether perpetual for our Universal Content Management software or term for our Content Components software, our installed base of products increases. Since the rate of annual renewal of post contract customer support services on our Universal Content Management and Content Component software has remained high, our post contract customer support revenues grow because we have a larger installed base of products as our customer base grows. Also, Universal Content Management revenues related to consulting services work can increase as a result of a larger installed base of products since more of our customers continue to elect to have our consulting services employees perform the work versus having the customers' internal staff perform the work. We expect this trend to continue.

Product Licenses. Revenues for product licenses increased by $1.7 million, or 20%, to $10.0 million for the three months ended March 31, 2003 from $8.3 million for the three months ended March 31, 2002. The increase in revenues was attributable to an increase of approximately $3.5 million in Content Components



software revenues in the United States offset by a decrease of approximately $1.8 million in Universal Content Management license revenues. The increase in our Content Components software was due to the licensing of our technology to one particular current customer for new applications. The decrease in our Universal Content Management software licenses was due to less than expected demand and longer than expected sales cycles for those products. Due to varying revenue size of customer contracts and long lead times associated with many contracts, our revenue results in total and from individual product groups can vary between fiscal years or quarters. Licensing additional software to existing customers enhances our revenue predictability, which helps us to better manage our sales, marketing, and other operational functions.

Services. Revenues for services, consisting of consulting services, training and post-contract customer support, increased by $1.1 million, or 20%, to $6.8 million for the three months ended March 31, 2003 from $5.7 million for the three months ended March 31, 2002, as follows (in thousands):

| | THREE MONTHS ENDED MARCH 31, 2003 | | THREE MONTHS ENDED MARCH 31, 2002 | |
|---|---|---|---|---|
| Consulting services and training | $2,590 | 38% | $2,109 | 37% |
| Post-contract support | 4,227 | 62 | 3,592 | 63 |
| Total services revenues | $6,817 | 100% | $5,701 | 100% |

The increase in revenues for services was attributable to an increase of approximately $0.6 in post-contract customer support due to a larger installed base of products from both our Universal Content Management software and Content Component software and an increase of approximately $0.5 million in consulting services dues to increased utilization of personnel as a result of a larger installed base of products. Our consulting services revenue is derived almost exclusively from our Universal Content Management software, as our Content Component software is licensed to other companies that embed our technology in their products and require very limited or no consulting services work.

COST OF REVENUES AND GROSS PROFIT

Total cost of revenues increased by $0.1 million, or 1.5%, to $5.2 million for the three months ended March 31, 2003 from $5.1 million for the three months ended March 31, 2002. Total cost of revenues as a percentage of total revenues was 31% for the three months ended March 31, 2003 compared to 37% for the three months ended March 31, 2002. Gross profit increased by $2.7 million, or 31%, to $11.6 million for the three months ended March 31, 2003 from $8.9 million for the three months ended March 31, 2002. Total gross profit as a percentage of total revenues was 69% for the three months ended March 31, 2003 compared to 63% for the three months ended March 31, 2002. The increase in gross profit dollars and percentage was primarily due to increased revenues from our Content Component software product licenses and post-contract customer support from both our Universal Content Management and Content Component software.

Product Licenses. Cost of revenues for product licenses decreased by $0.1 million, or 4%, to $1.4 million for the three months ended March 31, 2003 from $1.5 million for the three months ended March 31, 2002. Gross profit as a percentage of revenues for product licenses was 85% for the three months ended March 31, 2003 compared to 82% for the three months ended March 31, 2002. The increase in gross profit percentage was due to increased revenues of Content Components software in the quarter ended March 31, 2003 versus the quarter ended March 31, 2002. Our Content Components software typically has a lower cost of revenues than our Universal Content Management software.

Amortization of capitalized software from acquisitions. Cost of revenues related to amortization of capitalized software from acquisitions increased $0.2 million for the three months ended March 31, 2003 to $0.5 million from $0.3 million for the three months ended March 31, 2002. The increase in cost of revenues for amortization of capitalized software from acquisitions was attributable to the amortization of capitalized software obtained in the acquisition of the assets of Kinecta Corporation in April 2002.

18

Services. Cost of revenues, consisting of personnel for consulting services, training and post-contract customer support, decreased by $0.1 million, or 3%, to $3.3 million for the three months ended March 31, 2003 from $3.4 million for the three months ended March 31, 2002, as follows (in thousands).

| | THREE MONTHS ENDED MARCH 31, 2003 | | THREE MONTHS ENDED MARCH 31, 2002 | |
|---|---|---|---|---|
| Consulting services and training | $ 914 | 28% | $ 940 | 28% |
| Post-contract support | 2,352 | 72 | 2,418 | 72 |

| | | | | |
|---|---|---|---|---|
| Total services cost of revenues | $3,266 | 100% | $3,358 | 100% |

The increase in the gross profit dollars of approximately $1.2 million was primarily due to the increase in revenues from post-contract customer support from a larger installed base of Universal Content Management products, with little additional support staff needed, and a higher installed base of Content Component software, which requires very little support staff needed as support is generally provided by the company that embeds our software. In general, we have had a fairly consistent rate of annual post-contract support renewals in both our Universal Content Management and Content Component software and better utilization of consulting services personnel related to our Universal Content Management software.

OPERATING EXPENSES

Sales and Marketing. Sales and marketing expenses decreased by $2.2 million, or 20%, to $8.8 million for the three months ended March 31, 2003 from $11.0 million for the three months ended March 31, 2002. Sales and marketing expenses as a percentage of total revenues were 52% for the three months ended March 31, 2003 compared to 78% for the three months ended March 31, 2002. The decrease in sales and marketing expense was due to decreased staffing and related costs as a result of the restructurings undertaken during the year of approximately $1.2 million and decreased marketing communication expenses for name and brand awareness, advertising, trade shows and other costs of approximately $1.0 million. We decreased our marketing communication expenses to better align our operations with our revenue base.

General and Administrative. General and administrative expenses decreased by $1.0 million, or 23% to $3.4 million for the three months ended March 31, 2003 from $4.4 million for the three months ended March 31, 2002. General and administrative expenses as a percentage of total revenues were 20% for the three months ended March 31, 2003 compared to 31% for the three months ended March 31, 2002. General and administrative expenses decreased due to decreased staffing and related costs as a result of the restructurings undertaken during fiscal year 2003 of approximately $0.8 million and a decrease of approximately $0.2 million in bad debt expense.

Research and Development. Research and development expenses decreased by $1.4 million, or 31%, to $3.2 million for the three months ended March 31, 2003 from $4.6 million for the three months ended March 31, 2002. Research and development expenses as a percentage of total revenues were 19% for the three months ended March 31, 2003 compared to 33% for the three months ended March 31, 2002. The decrease in research and development expenses was due to decreased staffing related to the restructurings undertaken by the company. The downsizing is not anticipated to affect any of our new products currently in development or new version releases of our current products, but may delay or prevent progress on potential products not yet in development, particularly with our Content Component products.

Acquisition and Related Costs. For the three months ended March 31, 2003, acquisition and related costs represent charges associated with the payment of employee costs which resulted from the acquisition of certain assets of Active IQ Corporation in March 2003. For the three months ended March 31, 2002, acquisition and related costs represent costs associated with developing the Japanese market through a potential acquisition.

Amortization of Intangibles. Approximately $40.8 million of the $55.3 million purchase price of CCD was allocated to excess cost over fair value of net assets acquired, core technology, customer base, trademarks



and other intangibles, and is being amortized over the assets' estimated useful lives of three years. Approximately $5.1 million of the $5.6 million purchase price of RESoft was allocated to certain intangible assets, such as trademarks, and is also being amortized over their useful lives of three years. Intangible amortization and other expense was $1.7 million for the three month period ended March 31, 2003 and $3.4 million for the three months ended March 31, 2002. The decrease in amortization expense was due to the adoption of SFAS 142 in April 2002, which ended amortization of goodwill.

Restructuring Charges. In the quarter ended March 31, 2003, in connection with management's plan to reduce costs and improve operating efficiencies, we recorded a restructuring charge of approximately $0.4 million, compared to no restructuring charges in the quarter ended March 31, 2002. The restructuring charge was comprised primarily of severance pay and benefits related to the involuntary termination of several employees. The effect on expenses and cash flows over the next several quarters associated with the termination of these employees is expected to be a reduction of expenses and increase in cash flow of approximately $0.1 million per quarter. These cost reduction measures were taken to better align our business with our current revenue base and what we believe will be continued slow spending by companies in the high tech sector over the next year. However, we may be required to re-invest in certain areas to expand our customer base, grow our revenues and invest in new product development, which may eliminate or exceed these cost savings.

OTHER INCOME (EXPENSE)

Interest income. Interest income was $0.3 million for the three months ended March 31, 2003 compared to $0.8 million for the three months ended March 31, 2002. Interest income is primarily related to marketable securities purchased with the proceeds of our public stock offerings completed in June 1999 and March 2000. The decrease in net interest income was due to decreases in the interest rates earned by invested funds, which have declined over 50%, and a 13% reduction in the amount of invested funds due to use of cash in acquisitions and in operations.

Investment impairment. During the three months ended March 31, 2003, after purchasing certain assets of Active IQ and reviewing its public disclosure, which stated it was selling the remaining operating assets of the company to another party, we determined that a permanent decline in value had occurred and recorded a write-down of approximately $1.1 million. During the three months ended March 31, 2002, we determined that a permanent decline in the value of certain of its investments in other companies, had occurred. We made this determination after reviewing financial statements of these companies or discussing their future business plans and prospects with their management. As a result, we recorded a write-down on the investments in these companies of approximately $3.5 million for the three months ended March 31, 2002.

RESULTS OF OPERATIONS -- FISCAL YEAR ENDED MARCH 31, 2003 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2002

REVENUES

Total revenues decreased by $22.9 million, or 26%, to $65.4 million for the year ended March 31, 2003 from $88.3 million for the year ended March 31, 2002. The decrease in revenues was due to a $26.5 million decrease in our product license revenues as a result of the worldwide economic slowdown, which has resulted in a reduction in overall customer spending in information technology initiatives, partially offset by a $3.7 million increase in revenues for services due to a larger base of installed products. As we license our products, whether perpetual for our Universal Content Management software or term for our Content Components software, our installed base of products increases. Since the rate of annual renewal of post contract customer support services on our Universal Content Management and Content Component software has remained high, our post contract customer support revenues grow because we have a larger installed base of products. Also, Universal Content Management revenues related to consulting services work can increase as a result of a larger installed base of products. We expect this trend to continue.

Product Licenses. Revenues for product licenses decreased by $26.5 million, or 40%, to $40.4 million for the year ended March 31, 2003 from $66.9 million for the year ended March 31, 2002. The decrease in

20

revenues was attributable to a decrease of approximately $20.5 million in Universal Content Management and $6.5 million in Content Components software revenues in the United States partially offset by a $0.5 million increase in software revenues internationally.

Services. Revenues for services, consisting of consulting services, training and post-contract customer support, increased by $3.7 million, or 17%, to $25.1 million for the year ended March 31, 2003 from $21.4 million for the year ended March 31, 2002, as follows (in thousands):

| | YEAR ENDED MARCH 31, 2003 | | YEAR ENDED MARCH 31, 2002 | |
|---|---|---|---|---|
| Consulting services and training | $ 7,772 | 31% | $ 9,644 | 45% |
| Post-contract support | 17,298 | 69 | 11,788 | 55 |
| Total services revenues | $25,070 | 100% | $21,432 | 100% |

The increase in revenues for services was attributable to an increase in post-contract customer support of approximately $5.5 million due to a larger installed base of Universal Content Management and Content Component products and partially offset by a decrease in Universal Content Management consulting services of approximately $1.9 million due to a decrease in product license revenue, which led to a decreased need for implementation services. Our consulting services revenue is derived almost exclusively from our Universal Content Management software, as our Content Component software is licensed to other companies that embed our technology in their products and require very limited to no consulting services work.

COST OF REVENUES AND GROSS PROFIT

Total cost of revenues increased by $1.1 million, or 6%, to $20.5 million for the year ended March 31, 2003 from $19.4 million for the year ended March 31, 2002. Total cost of revenues as a percentage of total revenues was 31% for the year ended March 31, 2003 compared to 22% for the year ended March 31, 2002. Gross profit decreased by $24.1 million, or 35%, to $44.9 million for the year ended March 31, 2003 from $69.0 million for the year ended March 31, 2002. Total gross profit as a percentage of total revenues was 69% for the year ended March 31, 2003 compared to 78% for the year ended March 31, 2002. The decrease in gross profit dollars and percentage was attributable to the decrease in product license revenues described above. The increase in cost of revenues was due to increased amortization of prepaid royalties and capitalized software.

Product Licenses. Cost of revenues for product licenses increased by $1.5 million or 29%, to $6.5 million for the year ended March 31, 2003 from $5.0 million for the year ended March 31, 2002. Gross profit as a percentage of revenues for product licenses was 84% for the years ended March 31, 2003 and 93% for the year ended March 31, 2002. The increase in cost of revenues was attributable to the increased amortization of prepaid royalties of approximately $1.1 million and the increased amortization of capitalized software developed for us by a third party or purchased from a third party of approximately $0.4 million. As new versions of our Universal Content Management software continue to be released, we have elected to license or purchase more third party software to be included in our Universal Content Management products in order for us to provide certain functionality we believe is necessary to be competitive. The fixed costs associated with the amortization of these prepaid royalties and capitalized software was approximately $3.1 million for the year ended March 31, 2003 versus approximately $2.0 million for the year ended March 31, 2002.

Amortization of Capitalized Software from Acquisitions. Cost of revenues related to amortization of capitalized software from acquisitions increased $0.9 million for the year ended March 31, 2003 to $1.9 million from $1.0 million for the year ended March 31, 2002. The increase in cost of revenues for amortization of capitalized software from acquisitions was attributable to the amortization over a three year period of $2.7 million of capitalized software obtained in the acquisition of the assets of Kinecta Corporation in April 2002. We acquired Kinecta for its proprietary content distribution technology and have incorporated the technology into our Universal Content Management products in order to maintain competitive functionality.



Services. Cost of revenues, consisting of primarily personnel for consulting services, training and post-contract customer support, decreased by $1.3 million, or 9%, to $12.1 million for the year ended March 31, 2003 from $13.4 million for the year ended March 31, 2002, as follows (in thousands):

| | YEAR ENDED MARCH 31, 2003 | | YEAR ENDED MARCH 31, 2002 | |
|---|---|---|---|---|
| Consulting services and training | $ 8,381 | 69% | $10,044 | 75% |
| Post-contract support | 3,765 | 31 | 3,348 | 25 |
| Total services cost of revenues | $12,146 | 100% | $13,392 | 100% |

The increase in the gross profit dollars of approximately $4.9 million was primarily due to the increase in revenues from post-contract customer support from a larger installed base of Universal Content Management products, with little additional support staff needed, and a higher installed base of Content Component software, which requires very little support staff needed as support is generally provided by the company that embeds our software. In general, we have had a fairly consistent rate of annual post-contract support renewals in both our Universal Content Management and Content Component software and better utilization of consulting services personnel related to our Universal Content Management software.

OPERATING EXPENSES

Sales and Marketing. Sales and marketing expenses decreased by $8.4 million, or 18%, to $38.3 million for the year ended March 31, 2003 from $46.7 million for the year ended March 31, 2002. Sales and marketing expenses as a percentage of total revenues were 59% for the year ended March 31, 2003 compared to 53% for the year ended March 31, 2002. Approximately $6.4 million of the decrease in sales and marketing expense was due to decreased staffing and related costs attributable to the restructurings of our company during the year ended March 31, 2003, reduced commission expense of approximately $1.5 million as a result of decreased sales and decreased travel expense of approximately $0.5 million. Sales and marketing expenses increased as a percentage of revenues due primarily to the decrease in product license revenues as described above. We reduced sales and marketing expenses in connection with management's plan to reduce costs and improve operating efficiencies to better align our operations with our revenue base.

General and Administrative. General and administrative expenses decreased by $0.6 million, or 5%, to $11.3 million for the year ended March 31, 2003 from $11.9 million for the year ended March 31, 2002. General and administrative expenses as a percentage of total revenues were 17% for the year ended March 31, 2003 and 13% for the year ended March 31, 2002. General and administrative expense dollars decreased due to decreased personnel expenses associated with fewer personnel as a result of the restructurings of approximately $1.6 million, partially offset by an increase in the bad debt expense of approximately $1.0 million. The increase in bad debt was caused by certain of our customers becoming unable to pay their debts due to the downturn in their business, or discontinuation of their business caused by the downturn in the economy and the reduction in spending for high technology products.

Research and Development. Research and development expenses decreased by $1.8 million, or 10%, to $15.8 million for the year ended March 31, 2003 from $17.6 million for the year ended March 31, 2002. Research and development expenses as a percentage of total revenues were 24% for the year ended March 31, 2003 and 20% for the year ended March 31, 2002. The decrease in research and development expense dollars was due to decreased staffing and related costs as a result of the restructurings. We reduced research and development expenses in connection with management's plan to reduce costs and improve operating efficiencies to better align our operations with our revenue base. The downsizing is not anticipated to affect any of our new products currently in development or new version releases of our current products, but may delay or prevent progress on potential products not yet in development, particularly with our Content Component products.

Acquisition and Related Costs. Acquisition and related costs were $1.1 million in the year ended March 31, 2003 and $0.2 million in the year ended March 31, 2002. For the year ended March 31, 2003, these



costs were primarily related to a potential transaction with a Japanese company that would have given us new wireless technologies and an avenue to generate revenues for our Universal Content Management software. After proceeding with the due-diligence, it was determined that the target company was not situated well enough for us to accomplish previously established goals. Approximately $0.7 million of expenses are associated with this project and represent funds that we advanced to the company for a trade show, product integration testing, test marketing costs of the products and other. The remaining $0.4 million of acquisition costs represent final development milestone and bonus payments related to the acquisition of Kinecta Corporation in April 2002 and the acquisition of selected assets of Active IQ Corporation.

Amortization of Acquired Intangible Assets and Other. Amortization of intangible assets acquired related to our acquisition of CCD in July 2000, our acquisition of RESoft in July 2001, and our acquisition of Kinecta in April 2002. Amortization of goodwill and acquired workforce ceased as of April 1, 2002 in connection with the adoption of SFAS 142. As a result, amortization expense decreased $6.3 million for the year ended March 31, 2003 as compared to fiscal year 2002. We believe the technology that was acquired in these acquisitions is necessary functionality to be competitive.

Restructuring Charges. For the fiscal year ended March 31, 2003, in connection with management's plan to reduce costs and improve operating efficiencies, we recorded restructuring charges of approximately $4.4 million, compared to no restructuring charges in the fiscal year ended March 31, 2002. These restructuring expenses were taken in the June 30, 2002 quarter of $2.5 million, the September 30, 2002 quarter of $0.8 million, the December 31, 2002 quarter of $0.7 million and the March 31, 2003 quarter of $0.4 million. We assessed many factors in making our decisions on a quarterly basis, with a significant issue being the continued sluggishness or decline in the market for information technology in the United States and in Europe. These restructuring charges were comprised primarily of severance pay and benefits related to the involuntary termination of employees of approximately $3.2 million and the closing of facilities and other exit costs of approximately $1.2 The effect on expenses and cash flows over the next year associated with the termination of these employees is expected to be a decrease in expenses and increase in cash flow of approximately $13.4 million. The effect on expenses over the next year associated with the closing of the facilities and other exit costs is expected to be a decrease of approximately $0.2 million, but is expected to have an immaterial effect on cash flows. The combined expense decrease of approximately $13.6 million is anticipated to be in the areas of cost of revenues for services of $1.6 million, selling and marketing of $5.0 million, research and development of $4.1 million and general and administrative of $2.9 million. These cost reduction measures were taken to better align our business with our current revenue base and what we believe will be continued slow spending by companies in the high tech sector over the next year. However, we may be required to re-invest in certain areas to expand our customer base, grow our revenues and invest in product development, which may eliminate or exceed these cost savings.

OTHER INCOME (EXPENSE)

Interest income. Interest income was $2.0 million for the year ended March 31, 2003 compared to $3.8 million for the year ended March 31, 2002. Interest income for both years was primarily related to short-term investments purchased with the proceeds of our public stock offerings completed in June 1999 and March 2000. The decrease in net interest income was primarily due to decreases in the interest rates earned by invested funds resulting from decreases in market interest rates, which have declined over 50%.

Investment impairment. During the year ended March 31, 2003, our investment impairment was approximately $1.7 million. In the March 31, 2003 quarter, after purchasing certain assets of Active IQ and reviewing its public disclosures, which stated it was selling the remaining operating assets of the company to another party. We determined that a permanent decline in value had occurred and recorded a write-down of approximately $1.1 million. During the first nine months in the year ended March 31, 2003, we determined that a permanent decline in the value of certain of its investments in other companies had occurred. We made this determination after reviewing financial statements of these companies or discussing their future business plans and prospects with their management. As a result, we recorded a write-down on the investments in these companies of approximately $0.6 million for the year ended March 31, 2003. During the year ended March 31, 2002, we determined that a permanent decline in the value of certain of its investments in other companies



had occurred. We made this determination after reviewing financial statements of these companies or discussing their future business plans and prospects with their management. As a result, we recorded a write-down on the investments in these companies of approximately $5.7 million for the year ended March 31, 2002.

RESULTS OF OPERATIONS -- FISCAL YEAR ENDED MARCH 31, 2002 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2001

REVENUES

Total revenues increased by $21.6 million, or 32%, to $88.3 million for the year ended March 31, 2002 from $66.7 million for the year ended March 31, 2001. The increase in revenues was attributable to the growth in our Universal Content Management customer base and increased sales to existing customers of approximately $8.8 million, an increase of approximately $7.8 million in sales of our products and services in Europe and an increase of approximately $5.0 million in sales of our Content Component products. As we license our products, whether perpetual for our Universal Content Management software or term for our Content Components software, our installed base of products increases. Since the rate of annual renewal of post contract customer support services on our Universal Content Management and Content Component software has remained high, our post contract customer support revenues grow because we have a larger installed base of products. Also, Universal Content Management revenues related to consulting services work can increase as a result of a larger installed base of products since more of our customers continue to elect to have our consulting services employees perform the work versus having the customers' internal staff perform the work. We expect this trend to continue.

Product Licenses. Revenues for product licenses increased by $13.0 million, or 24%, to $66.9 million for the year ended March 31, 2002 from $53.9 million for the year ended March 31, 2001. The increase in revenues was attributable to an increase of approximately $6.1 million in sales of our products and services in Europe, the growth in our Universal Content Management customer base and increased sales to existing customers of approximately $4.2 million and an increase of approximately $2.7 million in sales of our Content Component products.

Services. Revenues for services, consisting of consulting services, training and post-contract customer support, increased by $8.6 million, or 67%, to $21.4 million for the year ended March 31, 2002 from $12.9 million for the year ended March 31, 2001, as follows (in thousands).

| | YEAR ENDED MARCH 31, 2002 | | YEAR ENDED MARCH 31, 2001 | |
|---|---|---|---|---|
| Consulting services and training | $ 9,644 | 45% | $ 6,398 | 50% |
| Post-contract support | 11,788 | 55 | 6,470 | 50 |
| Total services revenues | $21,432 | 100% | $12,868 | 100% |

The increase in revenues for services was primarily attributable to an increase in post-contract customer support of approximately $5.3 million due to a larger installed base of products and an increase in consulting services of approximately $3.4 million due to an increase in product license revenues, which lead to an increased need for services. Our consulting services revenue is derived almost exclusively from our Universal Content Management software, as our Content Component software is licensed to other companies that embed our technology in their products and require very limited or no consulting services work.

COST OF REVENUES AND GROSS PROFIT

Total cost of revenues increased by $7.6 million, or 64%, to $19.4 million for the year ended March 31, 2002 from $11.8 million for the year ended March 31, 2001. Total cost of revenues as a percentage of total revenues was 22% for the year ended March 31, 2002 compared to 18% for the year ended March 31, 2001. Gross profit increased by $14.1 million, or 26%, to $69.0 million for the year ended March 31, 2002 from $54.9 million for the year ended March 31, 2001. Total gross profit as a percentage of total revenues was 78% for the year ended March 31, 2002 compared to 82% for the year ended March 31, 2001. The increase in gross



profit dollars was primarily attributable to the increase in product license revenues while the decrease in gross profit percentage was primarily due to lower gross profits on services.

Product Licenses. Cost of revenues for product licenses increased by $1.1 million or 28%, to $5.0 million for the year ended March 31, 2002 from $3.9 million for the year ended March 31, 2001. Gross profit as a percentage of revenues for product licenses was 93% for the years ended March 31, 2002 and 2001.

Amortization of Capitalized Software from Acquisitions. Cost of revenues related to amortization of capitalized software from acquisitions increased $0.3 million for the year ended March 31, 2002 to $1.0 million from $0.7 million for the year ended March 31, 2001. The increase in cost of revenues for amortization of capitalized software from acquisitions was attributable to the amortization of capitalized software obtained in the acquisition of the assets of RESoft in July 2001.

Services. Cost of revenues, consisting of personnel for consulting services, training and post-contract customer support, increased by $6.2 million, or 86%, to $13.4 million for the year ended March 31, 2002 from $7.2 million for the year ended March 31, 2001, as follows (in thousands):

| | YEAR ENDED MARCH 31, 2002 | | YEAR ENDED MARCH 31, 2001 | |
|---|---|---|---|---|
| Consulting services and training | $10,044 | 75% | $5,249 | 73% |
| Post-contract support | 3,348 | 25 | 1,941 | 27 |
| Total services cost of revenues | $13,392 | 100% | $7,190 | 100% |

The increase in the gross profit dollars of approximately $2.5 million was due to the increase in gross profit dollars of approximately $3.9 million from post-contract customer support offset by a decrease in gross profit dollars of approximately $1.4 million from consulting services. The decrease in the gross profit from consulting services was primarily due to increased employee headcount and other staffing costs associated with increased training for our partners for which we receive minimal revenue, and an increase in the amount of services work performed by our partners, which typically would have been performed by us and which led to under-utilization of certain of our employees in the quarters ended September 30, 2001 and December 31, 2001.

OPERATING EXPENSES

Sales and Marketing. Sales and marketing expenses increased by $17.2 million, or 58%, to $46.7 million for the year ended March 31, 2002 from $29.5 million for the year ended March 31, 2001. Sales and marketing expenses as a percentage of total revenues were 53% for the year ended March 31, 2002 compared to 44% for the year ended March 31, 2001. Sales and marketing expenses increased as a result of increased headcount and increased spending on marketing communications and programs which management intended to better align business operations with expected revenues. Sales and marketing expenses increased as a percentage of total revenues due to the decrease in fourth quarter fiscal year 2002 revenues.

General and Administrative. General and administrative expenses increased by $2.9 million, or 32%, to $11.9 million for the year ended March 31, 2002 from $9.0 million for the year ended March 31, 2001. General and administrative expenses as a percentage of total revenues were 13% for the years ended March 31, 2002 and 2001. General and administrative expense dollars increased due to increased personnel expenses of approximately $2.4 million, increased professional services of approximately $0.3 million and an increase of approximately $0.2 million in the bad debt expense. We increased our general and administrative expenses to better align our operations with our revenue base. The increase in personnel costs was caused primarily by the addition of more personnel from the acquisition of CCD in July 2000, expansion of European operations and the addition of a president and chief operating officer and other senior staff at our headquarters.

Research and Development. Research and development expenses increased by $7.8 million, or 80% to $17.6 million for the year ended March 31, 2002 from $9.8 million for the year ended March 31, 2001. Research and development expenses as a percentage of total revenues were 20% for the year ended March 31,



2002 and 15% for the year ended March 31, 2001. The increase in research and development expenses was due to increased staffing and related costs of $6.3 million and purchased services of $0.7 million. We increased our research and development expenses to better align our operations with our revenue base. The increase in personnel costs was caused primarily by the addition of more personnel from the acquisition of CCD in July 2000. Most of the personnel acquired in the acquisition of CCD were associated with research and development. The services that were purchased were certain translation and development services for our Universal Content Management software.

Acquisition and Related Costs. Acquisition costs of approximately $0.2 million in the year ended March 31, 2002 consisted of uncapitalized costs related to our acquisition of RESoft in July 2001 and the costs associated with developing the Japanese market through a potential acquisition. The acquisition costs of approximately $0.8 million in the fiscal year ended March 31, 2001 consisted primarily of uncapitalized costs related to our acquisition of CCD in July 2000, accounted for as a purchase.

Amortization of Acquired Intangible Assets and Other. Amortization of intangible assets acquired related to our acquisition of CCD in July 2000, and our acquisition of RESoft in July 2001, accounted for as purchases. Amortization of goodwill and acquired workforce ceased as of April 1, 2002 in connection with the adoption of SFAS 142.

OTHER INCOME (EXPENSE)

Interest income was $3.8 million for the year ended March 31, 2002 compared to $7.0 million for the year ended March 31, 2001. Interest income for both years was primarily related to short-term investments purchased with the proceeds of our public stock offerings completed in June 1999 and March 2000. The decrease in net interest income was primarily due to decreases in the interest rates earned by invested funds resulting from decreases in market interest rates, which have declined over 50%.

Investment impairment. During the year ended March 31, 2002, the Company determined that a permanent decline in the value of certain of its investments in other companies had occurred. The Company made this determination after reviewing financial statements of these companies or discussing their future business plans and prospects with their management. As a result, the Company recorded a write-down on the investments in these companies of approximately $5.7 million for the year ended March 31, 2002.

26

QUARTERLY RESULTS

The following tables present unaudited consolidated statements of operations data both in absolute dollars and as a percentage of total revenues for each of our last eight quarters. This data has been derived from unaudited consolidated financial statements that have been prepared on the same basis as the annual audited consolidated financial statements and, in our opinion, include all normal recurring adjustments necessary for a fair presentation of such information. These unaudited quarterly results should be read in conjunction with the Consolidated Financial Statements and related Notes appearing elsewhere in this Annual Report on Form 10-K. The consolidated results of operations for any quarter are not necessarily indicative of the results for any future period.

| | THREE MONTHS ENDED | | | | |
|---|---|---|---|---|---|
| | JUNE 30, 2001 | SEPT. 30, 2001 | DEC. 31, 2001 | MAR. 31, 2002 | JUNE 30, 2002 |
| | | | (IN THOUSANDS, EXCEPT FOR PER SHARE | | |
| CONSOLIDATED STATEMENT OF OPERATIONS DATA: | | | | | |
| Revenues: | | | | | |
| Product licenses............... | $19,072 | $17,968 | $21,563 | $ 8,305 | $ 11,118 |
| Services....................... | 5,527 | 5,199 | 5,005 | 5,701 | 5,937 |
| Total revenues................... | 24,599 | 23,167 | 26,568 | 14,006 | 17,055 |
| Cost of revenues: | | | | | |
| Product licenses............... | 1,071 | 847 | 1,569 | 1,518 | 1,799 |
| Amortization of capitalized | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| software from acquisitions.... | 233 | 233 | 256 | 244 | 474 |
| Services....................... | 2,984 | 3,587 | 3,463 | 3,358 | 3,076 |
| Total cost of revenues........... | 4,288 | 4,667 | 5,288 | 5,120 | 5,349 |
| Gross profit..................... | 20,311 | 18,500 | 21,280 | 8,886 | 11,706 |
| Operating expenses: | | | | | |
| Sales and marketing............ | 11,277 | 11,578 | 12,827 | 10,990 | 10,307 |
| General and administrative...... | 2,432 | 2,475 | 2,603 | 4,374 | 2,722 |
| Research and development........ | 4,151 | 4,595 | 4,211 | 4,644 | 4,724 |
| Acquisitions and related costs........................ | -- | -- | -- | 237 | -- |
| Amortization of acquired intangible assets and other... | 3,148 | 3,251 | 3,139 | 3,376 | 1,661 |
| Restructuring charges........... | -- | -- | -- | -- | 2,504 |
| Total operating expenses.......... | 21,008 | 21,899 | 22,780 | 23,621 | 21,918 |
| Income (loss) from operations..... | (697) | (3,399) | (1,500) | (14,735) | (10,212) |
| Other income (expense): | | | | | |
| Interest income net............. | 1,258 | 981 | 699 | 817 | 601 |
| Investment impairment........... | -- | (2,223) | -- | (3,499) | -- |
| Net income (loss)................ | $ 561 | $(4,641) | $ (801) | $(17,417) | $ (9,611) |
| Net income (loss) per common share | | | | | |
| Basic.......................... | $ 0.03 | $ (0.21) | $ (0.04) | $ (0.78) | $ (0.43) |
| Diluted........................ | 0.02 | (0.21) | (0.04) | (0.78) | (0.43) |



| | THREE MONTHS ENDED | | | | |
|---|---|---|---|---|---|
| | JUNE 30, 2001 | SEPT. 30, 2001 | DEC. 31, 2001 | MAR. 31, 2002 | JUNE 30, 2002 |
| AS A PERCENTAGE OF TOTAL REVENUES: | | | | | |
| Revenues: | | | | | |
| Product licenses................ | 77.5% | 77.6% | 81.2% | 59.3% | 65.2% |
| Services....................... | 22.5 | 22.4 | 18.8 | 40.7 | 34.8 |
| Total revenues................... | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenues: | | | | | |
| Product licenses................ | 4.4 | 3.7 | 5.9 | 10.8 | 10.5 |
| Amortization of capitalized software from acquisitions.... | 0.9 | 1.0 | 1.0 | 1.7 | 2.8 |
| Services....................... | 12.1 | 15.5 | 13.0 | 24.0 | 18.0 |
| Total cost of revenues........... | 17.4 | 20.2 | 19.9 | 36.5 | 31.3 |
| Gross profit..................... | 82.6 | 79.8 | 80.1 | 63.5 | 68.7 |
| Operating expenses: | | | | | |
| Sales and marketing............ | 45.8 | 50.0 | 48.3 | 78.5 | 60.4 |
| General and administrative...... | 9.9 | 10.7 | 9.8 | 31.2 | 16.0 |

| | | | | | |
|---|---|---|---|---|---|
| Research and development........ | 16.9 | 19.8 | 15.8 | 33.2 | 27.7 |
| Acquisition and related costs... | -- | -- | -- | 1.7 | -- |
| Amortization of acquired intangible assets and other... | 12.8 | 14.0 | 11.8 | 24.1 | 9.7 |
| Restructuring charges........... | -- | -- | -- | -- | 14.7 |
| Total operating expenses.......... | 85.4 | 94.5 | 85.7 | 168.7 | 128.5 |
| Income (loss) from operations..... | (2.8) | (14.7) | (5.6) | (105.2) | (59.8) |
| Other income (expense): | | | | | |
| Interest income, net............ | 5.1 | 4.2 | 2.6 | 5.8 | 3.5 |
| Investment impairment........... | -- | (9.6) | -- | (25.0) | -- |
| Net income (loss)................. | 2.3% | (20.1)% | (3.0)% | (124.4)% | (56.3)% |

As a result of our limited operating history and the significant changes that are occurring in the Web content management software sector in which we compete, it is difficult for us to forecast our revenues or earnings accurately. It is possible that in some future periods our results of operations may not meet or exceed the expectations of current and future public market analysts and investors. For instance, if revenues or earnings per share do not meet projections, we expect our business, operating results and financial condition to be materially adversely affected and the price of our common stock to decline. We expect our revenues and operating results may vary significantly from quarter to quarter. Factors that have caused our results to fluctuate in the past, and will likely cause fluctuations in the future, include:

- demand for our products and services;

- the timing of new product introductions and sales of our products and services;

- unexpected delays in introducing new products and services;

- increased expenses, whether related to sales and marketing, research and development or administration;

- changes in the rapidly evolving market for Web content management solutions;

- the mix of revenues from product licenses and services, as well as the mix of products licensed;

- the mix of services provided and whether services are provided by our staff or third-party contractors;

- the mix of domestic and international sales;



- costs related to possible acquisitions of technology or businesses;

- general economic conditions; and

- public announcements by our competitors.

In addition, our products are typically shipped when the orders are received, so our license backlog at the beginning of any quarter in the past has represented only a small portion of expected license revenues for that quarter. Further, we recognize a substantial percentage of product license revenues in the last month of the quarter, frequently in the last week or even the last days of the quarter. As a result, our sales pipeline at the beginning of a quarter may not give us reasonable assurance about the sales that will be closed in that quarter, and the delay or cancellation of any large orders could result in a significant shortfall from anticipated revenues. Since our expenses are relatively fixed in the near term, any shortfall from anticipated revenues could result in significant variations in operating results from quarter to quarter.

As a result of these and other factors, we believe that period-to-period comparisons of our results of operations may not be meaningful and should not be relied upon as indicators of our future performance.

NET OPERATING LOSS CARRYFORWARDS

As of March 31, 2003, we had net operating loss carryforwards of approximately $84.3 million. The net operating loss carryforwards will expire at various dates beginning in 2011, if not utilized. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Our ability to utilize net operating loss carryforwards on an annual basis will be limited as a result of "ownership changes" in connection with the sale of equity securities. We have provided a valuation allowance against the entire amount of the deferred tax asset as of March 31, 2003 because of uncertainty regarding its full realization. Our accounting for deferred taxes involves the evaluation of a number of factors concerning the realizability of our deferred tax assets. In concluding that a valuation allowance was required, management considered such factors as our history of operating losses, potential future losses and the nat