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STELLENT INC
Form 10-Q
February 14, 2002

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED
DECEMBER 31, 2001.

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

41-1652566

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

7777 GOLDEN TRIANGLE DRIVE, EDEN PRAIRIE, MINNESOTA

55344-3736

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

(952) 903-2000

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR,
IF CHANGED SINCE LAST REPORT)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$.01 par value - 22,422,042 shares as of February 4, 2002.

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STELLENT, INC.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

STELLENT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)
(UNAUDITED)

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	DECEMBER 31, 2001	MARCH 31, 2001
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,307	\$ 14,355
Short-term marketable securities.....	67,041	81,262
Accounts receivable, net.....	27,649	21,403
Prepaid royalties.....	3,088	2,231
Prepaid expenses, notes and other.....	11,077	3,468
	-----	-----
Total current assets.....	121,162	122,719
Long-term marketable securities.....	14,842	10,893
Property and equipment, net.....	6,398	4,051
Prepaid royalties, net of current.....	3,385	2,074
Other intangible assets, net.....	26,148	31,118
Deferred income taxes.....	6,410	4,894
Investments in and notes with other companies.....	8,273	5,571
Other.....	1,866	266
	-----	-----
Total assets.....	\$ 188,484	\$ 181,586
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 2,375	\$ 1,380
Deferred revenues.....	6,150	5,942
Commissions payable.....	2,434	2,226
Accrued expenses and other.....	3,697	3,951
	-----	-----
Total current liabilities.....	14,656	13,499
Deferred revenue, net of current portion.....	245	606
Other.....	887	37
	-----	-----
Total liabilities.....	15,788	14,142
	-----	-----
Shareholders' equity		
Common stock, 22,400 and 21,984 shares issued and outstanding, respectively.....	224	220
Additional paid-in capital.....	195,687	187,512
Accumulated deficit.....	(25,085)	(20,204)
Accumulated other comprehensive income (loss).....	1,870	(84)
	-----	-----
Total shareholders' equity.....	172,696	167,444
	-----	-----
Total liabilities and shareholders' equity.....	\$ 188,484	\$ 181,586
	=====	=====

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See accompanying notes.

Note: The balance sheet at March 31, 2001 has been derived from audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

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STELLENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2001	2000	2001	2000
Revenues:				
Product licenses.....	\$ 21,563	\$ 15,903	\$ 58,603	\$ 36,000
Services.....	5,005	3,633	15,731	8,500
Total revenues.....	26,568	19,536	74,334	44,600
Cost of revenues:				
Product licenses.....	1,569	1,131	3,487	2,600
Services.....	3,463	1,938	10,034	4,600
Total cost of revenues.....	5,032	3,069	13,521	7,200
Gross profit.....	21,536	16,467	60,813	37,300
Operating expenses:				
Sales and marketing.....	12,827	8,564	35,682	19,300
General and administrative.....	2,603	2,588	7,510	6,300
Research and development.....	4,211	2,783	12,957	6,400
Acquisition and related costs.....	--	185	--	700
Amortization of acquired intangible assets and other.....	3,395	3,381	10,260	7,000
Write-off of in-process research and development.....	--	--	--	10,400

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Total operating expenses.....	23,036	17,501	66,409	50,3
Loss from operations.....	(1,500)	(1,034)	(5,596)	(13,0
Other:				
Interest income, net.....	699	1,577	2,938	5,5
Investment impairment.....	--	(400)	(2,223)	(4
Net income/(loss).....	\$ (801)	\$ 143	\$ (4,881)	\$ (7,8
Net income/(loss) per common share - Basic	\$ (0.04)	\$ 0.01	\$ (0.22)	\$ (0.
Net income/(loss) per common share - Diluted.....	\$ (0.04)	\$ 0.01	\$ (0.22)	\$ (0.
Weighted average common shares outstanding				
- Basic.....	22,336	21,552	22,260	21,3
Weighted average common shares outstanding				
- Diluted.....	22,336	23,849	22,260	21,3

See accompanying notes.

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STELLENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS DECEMBER 3	
	2001	
OPERATING ACTIVITIES:		
Net loss.....	\$ (4,881)	\$
Adjustments to reconcile net loss to cash provided by/(used in) operating activities:		
Depreciation and amortization.....	1,171	
Amortization of intangible assets and other.....	10,260	
Write-off of in-process research and development	--	
Investment impairment.....	2,223	
Other.....	--	

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Tax benefit from employee stock option exercises.....	1,516	
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable.....	(6,246)	
Prepaid expenses and other current assets.....	(6,788)	
Accounts payable and other liabilities	1,845	
Accrued liabilities	(165)	
Deferred revenue.....	(153)	
Accrued commissions.....	208	
Income taxes payable	(1,516)	
	-----	-----
Net cash flows provided by (used in) operating activities.....	(2,526)	
	-----	-----
INVESTING ACTIVITIES:		
Purchases and maturities of marketable securities, net.....	10,272	
Purchases of fixed assets.....	(2,965)	
Acquisitions, net of cash acquired	(100)	
Purchases of investments in and notes with other companies.....	(6,555)	
Other.....	(1,336)	
	-----	-----
Net cash flows used in investing activities.....	(684)	
	-----	-----
FINANCING ACTIVITIES:		
Issuance of common stock, net of offering expenses.....	--	
Proceeds from exercise of stock options and warrants.....	3,326	
Purchase of common stock.....	(2,578)	
Other.....	455	
	-----	-----
Net cash flows provided by financing activities.....	1,203	
	-----	-----
Cumulative effect of foreign currency translation adjustment.....	(41)	
	-----	-----
Net decrease in cash.....	(2,048)	
Cash and equivalents, beginning of period.....	14,355	
	-----	-----
Cash and equivalents, end of period.....	\$ 12,307	\$
	=====	=====
Non-cash financing activity - Issuance of common stock for acquisition.....	\$ 5,496	\$
Non-cash investing activity - Unrealized gain on investment.....	\$ 1,870	\$

See accompanying notes.

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1. NATURE OF THE BUSINESS

Stellent, Inc., (formerly IntraNet Solutions, Inc.) is a leading provider of business content management solutions, providing browser-based Web and wireless access to content-centric business Web sites and content-supported e-business applications. Stellent's products enable customers to rapidly deploy business Web sites by automating the content contribution, editing, management, and publishing processors for these sites.

With headquarters in Eden Prairie, Minnesota, the company maintains offices throughout the United States, Europe, and Australia. The company currently has more than 1,500 customers, primarily located throughout the United States and Europe.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Regulation S-X pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of December 31, 2001 and March 31, 2001 and the results of operations for the three and nine months ended December 31, 2001 and 2000 and cash flows for the nine months ended December 31, 2001 and 2000. The results of operations for the three and nine months ended December 31, 2001 are not necessarily indicative of the results for the full year.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Revenue Recognition: The Company derives all of its revenues from licenses of our software products and related services. Product license revenue is recognized when evidence of a purchase arrangement exists, the product has been shipped and accepted by the customer, the fee is determinable and collectible, and no significant obligations remain related to implementation. Revenues for services consist of fees from consulting and maintenance. Consulting services include needs assessment, software integration, security analysis, application development and fixed price schedule. Our clients typically purchase annual maintenance agreements, and we price maintenance agreements based on a percentage of the product license fee. Clients purchasing maintenance agreements receive product upgrades. Web-based technical support and telephone hot-line support. We recognize revenues from maintenance agreements ratably over the term of the agreement, typically one year.

Cash and Equivalents: The Company considers all short-term, highly liquid

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investments that are readily convertible into known amounts of cash and have original maturities of three months or less to be cash equivalents.

Short-term Marketable Securities: Investments in debt securities with a remaining maturity of three months to one year are classified as short-term marketable securities. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The book value of the investments approximates their estimated market value. As of December 31, 2001 the Company's investments were in commercial paper and U.S. Government Agency securities. All investments are held to maturity.

Reclassifications: Certain reclassifications have been made to the consolidated statements of cash flows for the nine month period ending December 31, 2000 to conform with the presentation used at December 31, 2001. Certain reclassifications have been made to the March 31, 2001 consolidated balance sheet to conform with the presentation at December 31, 2001. The reclassifications had no effect on total assets, total liabilities or stockholders equity as previously reported.

Net Income per Common Share: The Company's basic net income per share amounts have been computed by dividing net income by the weighted average number of outstanding common shares. The Company's diluted net income per share is computed by dividing net income by the weighted average number of outstanding common shares and common share equivalents relating to stock options and warrants, when dilutive.

3. ACQUISITIONS

On July 10, 2000, the Company acquired the Information Exchange Division (IED, now called Stellent Software Components Division or SCD) of EBT International, Inc. ("EBTI") formerly Inso Corporation. SCD is the market leader in Web conversion and mobile device viewing technologies and applications. The transaction was accounted for under the purchase method of accounting. The Company paid aggregate consideration to EBTI in the transaction of \$55 million in cash. The Company recorded approximately \$15 million in goodwill and approximately \$36 million in other intangible assets, including approximately \$10.4 million of in-process research and development, which was expensed when the acquisition was recorded.

On July 10, 2001, the Company acquired select assets of RESoft, a leading provider of end-to-end content management solutions for the real estate and legal industries, for 200,000 shares of Stellent common stock. The acquisition was valued at approximately \$5.6 million, including acquisition costs. This acquisition has been accounted for under the purchase method of accounting, and approximately \$4.6 million of the purchase price was allocated to goodwill, \$0.5 million to intangible assets and \$0.5 million to fixed assets.

4. INCOME TAXES

Deferred income taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. A valuation allowance of approximately \$20.7 million has been established for a portion of the deferred tax asset to reflect its anticipated ability to be realized.

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For the periods presented, the financial statements reflect an effective tax rate of zero, due to the utilization of net operating loss carry forwards and adjustment of the deferred tax valuation allowance.

5. INVESTMENTS IN OTHER COMPANIES

We hold investments in eight non-public start-up technology companies, owning approximately 5% to 12% of these companies, and in one public technology company listed on Nasdaq, Active IQ, in which we own 8.5%. These investments are all accounted for using the cost method of accounting. Investments in these companies are made with the intention of giving us opportunities to have new technologies developed for us or to give us leverage into certain vertical markets that we may not otherwise be able to obtain on our own. The totals of all these investments at December 31, 2001 are approximately \$6.4 million. Because we have an investment in a publicly traded company, we adjust our investment value of this company up or down depending upon its current value at the end of a quarter based upon the price per share as listed on Nasdaq. At December 31, 2001, the market value of our equity in Active IQ was approximately \$1.9 million more than our investment value of \$1.2 million. The offsetting amount does not effect our condensed consolidated statements of operations but is shown as "accumulated other comprehensive income (loss)" in the shareholders' equity section on the condensed consolidated balance sheet. During the three months ended December 31, 2001, the Company recognized license revenue of \$1.5 million with Active IQ, as we licensed our technology to them for use in certain ASP vertical markets. At December 31, 2001, we had an accounts receivable balance from Active IQ of \$1.0 million. We believe that the terms of this arrangement are comparable to those given to other companies. Our initial investment in Active IQ was made in the quarter ended December 31, 1999, with subsequent investments made through December 31, 2000. No officers or directors of the Company have an ownership or other financial interest in Active IQ. Revenue recognized for the nine months ended December 31, 2001 from our other related parties was approximately \$0.175 million in the quarter ended June 30, 2001 and \$0.225 million in the quarter ended September 30, 2001, of which all amounts have been collected.

6. NOTE RECEIVABLE

In December 2001, we entered into a note receivable transaction with one of our partners for \$3.5 million. This note was 100% collateralized by all of the assets of the partner and by an unaffiliated accredited investor. We have received payment of \$0.5 million and expect collection of the remaining balance in the near term.

7. NEW ACCOUNTING STANDARDS

BUSINESS COMBINATIONS AND GOODWILL AND INTANGIBLE ASSETS

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for the Company are as follows:

- o Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be

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sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability.

- o Goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective April 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.
- o Effective April 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator.
- o All acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

The Company will continue to amortize goodwill and intangible assets recognized prior to July 1, 2001, under its current method until April 1, 2002, at which time annual and quarterly goodwill amortization of approximately \$5.3 million and \$1.3 million, respectively, and annual and quarterly amortization of approximately \$1.0 million and \$0.25 million, respectively, relating to intangible assets with indefinite lives will no longer be recognized. By March 31, 2003 the Company will have completed a transitional fair value based impairment test of goodwill as of April 1, 2002. By June 30, 2002, the Company will have completed a transitional impairment test of all intangible assets with indefinite lives. Management does not anticipate that the transitional valuation will result in a material reclassification between goodwill and intangible assets with definite lives. Impairment losses, if any, resulting from the transitional testing will be recognized in the quarter ended June 30, 2002, as a cumulative effect of a change in accounting principle.

ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

In September 2001, the FASB issued Statement of Financial Accounting Standards 144, Accounting for the Impairment or Disposal of Long-lived Assets (SFAS 144). This statement supercedes SFAS 121, Accounting for the Impairment of Long Lived Assets and for Long-lived assets to be disposed of, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of the Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business.

SFAS 144 combines the two accounting models for disposals of long-lived assets from SFAS 121 and APB 30. SFAS 144 also resolves implementation issues related to SFAS 121. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. This statement is not anticipated to have a current material effect on the financial statements of the company, but could have a future financial statement effect on the company in the event that an asset impairment has occurred.

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OVERVIEW

Stellent, Inc., is a leading provider of business content management solutions, providing browser-based Web and wireless access to content-centric business Web sites and content-supported e-business applications. Stellent's products enable customers to rapidly deploy business Web sites by automating the content contribution, editing, management, and publishing processes for these sites. Business and Web content from a wide variety of enterprise sources, including desktop applications, business applications, and templates, is automatically converted to output formats. These output formats, which include XML, HTML, WML, cHTML, and PDF, allow content to be viewed on the Web with just a standard browser or on a wireless device. Personalization and compatibility with corporate security models ensure that users access only the information they need. Our customers are primarily located throughout the United States and Europe.

We derive all of our revenues from licenses of our software products and related services. Product license revenue is recognized when evidence of a purchase arrangement exists, the product has been shipped and accepted by the customer, the fee is determinable and collectible, and no significant obligations remain related to implementation. Revenues for services consist of fees from consulting and maintenance. Consulting services include needs assessment, software integration, security analysis, application development and training. We bill consulting fees either on a time and materials basis or on a fixed price schedule. Our clients typically purchase annual maintenance agreements, and we price maintenance agreements based on a percentage of the product license fee. Clients purchasing maintenance agreements receive product upgrades, Web-based technical support and telephone hot-line support. We recognize revenues from maintenance agreements ratably over the term of the agreement, typically one year.

Cost of revenues consists of technology royalties, costs to manufacture, package and distribute our products and related documentation, as well as personnel and other expenses related to providing services. Sales and marketing expenses consist primarily of employee salaries, commissions, and costs associated with marketing programs such as advertising, public relations and trade shows. Research and development expenses consist primarily of salaries and related costs associated with the development of new products, the enhancement of existing products and the performance of quality assurance and documentation activities. General and administrative expenses consist primarily of salaries and other personnel-related costs for executive, financial, human resources, information services and other administrative personnel, as well as legal, accounting, insurance costs and provisions for doubtful accounts.

Since our inception, we have incurred substantial costs to develop and acquire our technology and products, to recruit and train personnel for our sales and marketing, research and development and services departments, and to establish an administrative organization. As a result, we had an accumulated deficit of \$25.1 million at

December 31, 2001. We anticipate that our operating expenses will increase in future quarters as we increase our international operations, increase our sales and marketing operations, develop new distribution channels, fund greater levels

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of research and development, broaden services and improve operational and financial systems. 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 or profitability.

FORWARD-LOOKING STATEMENTS

The information presented in this Item contains forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are subject to risks and uncertainties, including those discussed under "Risk Factors" below, 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.

RESULTS OF OPERATIONS - THREE MONTHS ENDED DECEMBER 31, 2001 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2000

REVENUES

Total revenues increased by \$7.1 million, or 36%, to \$26.6 million for the three months ended December 31, 2001 from \$19.5 million for the three months ended December 31, 2000. The increase in revenues was attributable to the organic expansion of our customer base, increased sales to existing customers both from our direct sales force and through our partners, and an increase in the number of large enterprise transactions during the quarter.

Product Licenses. Revenues for product licenses increased by \$5.7 million, or 36%, to \$21.6 million for the three months ended December 31, 2001 from \$15.9 million for the three months ended December 31, 2000. The increase in revenues for product licenses was attributable to the expansion of our customer base, increased sales to existing customers both from our direct sales force and through our partners and an increase in the number of large enterprise transactions during the quarter.

Services. Revenues for services increased by \$1.4 million or 39%, to \$5.0 million for the three months ended December 31, 2001 from \$3.6 million for the three months ended December 31, 2000. The increase in revenues for services was primarily attributable to a larger installed base of products.

COST OF REVENUES AND GROSS PROFIT

Total cost of revenues increased by \$1.9 million or 64%, to \$5.0 million for the three months ended December 31, 2001 from \$3.1 million for the three months ended December 31, 2000. Total cost of revenues as a percentage of total revenues was 19% for the three months ended December 31, 2001 compared to 16% for the three months ended December 31, 2000. Gross profit increased by \$5.0 million, or 31%, to \$21.5 million for the three months ended December 31, 2001 from \$16.5 million for the three months ended December 31, 2000. Total gross profit as a percentage of total revenues was 81% for the three months ended December 31, 2001 compared to 84% for the three months ended December 31, 2000. The increase in gross profit dollars was primarily due to increased revenues for product licenses and services. The percentage decrease in gross profit as a percentage of revenues was primarily due to a decrease in gross profit as a percentage of revenue in our services.

Product Licenses. Cost of revenues for product licenses increased \$0.5 million for the three months ended December 31, 2001 to \$1.6 million from \$1.1 million for the three months ended December 31, 2000. Gross profit as a percentage of revenues for product licenses remained consistent at 93% for the three months ended December 31, 2001 and 2000.

Services. Cost of revenues for services increased by \$1.6 million or 79%, to \$3.5 million for the three months ended December 31, 2001 from \$1.9 million for the three months ended December 31, 2000. Gross profit as a percentage of revenues for services was 31% for the three months ended December 31, 2001 compared to 47% for the three months ended December 31, 2000. The decrease in the gross profit as a percentage of revenues for services was primarily due to increased employee headcount and other staffing costs for consulting services personnel 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.

OPERATING EXPENSES

Sales and Marketing. Sales and marketing expenses increased by \$4.2 million, or 50%, to \$12.8 million for the three months ended December 31, 2001 from \$8.6 million for the three months ended December 31, 2000. Sales and marketing expenses as a percentage of total revenues were 48% for the three months ended December 31, 2001 compared to 44% for the three months ended December 31, 2000. The increase in sales and marketing expense as a percentage of revenue was primarily due to increased staffing and marketing expenses for advertising and branding associated with changing our name.

General and Administrative. General and administrative expenses remained flat at \$2.6 million for the three months ended December 31, 2001 and 2000. General and administrative expenses as a percentage of total revenues were 10% for the three months ended December 31, 2001 compared to 13% for the three months ended December 31, 2000. General and administrative expenses decreased as a percentage of revenues due primarily to an increase in total revenues with certain expenses remaining constant as well as a reduced rate of increase to our provision for doubtful accounts.

Research and Development. Research and development expenses increased by \$1.4 million, or 51%, to \$4.2 million for the three months ended December 31, 2001 from \$2.8 million for the three months ended December 31, 2000. Research and development expenses as a percentage of total revenues were 16% for the three months ended December 31, 2001 compared to 14% for the three months ended December 31, 2000. The increase in research and development expenses as a percentage of revenue was primarily due to increases in staffing and related costs to support product enhancements.

Amortization of Intangibles. A portion of the purchase price of SCD was allocated to excess cost over fair value of net assets acquired, core technology, customer base, software, trademarks and other intangibles, and is being amortized over the assets' estimated useful lives of three years. A portion of the 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 \$3.4 million for the three month periods ended December 31, 2001 and 2000. See the discussion in the notes to the condensed consolidated financial statements regarding the adoption of new accounting pronouncements involving the amortization of intangible assets.

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OTHER INCOME, NET

Net interest income was \$0.7 million for the three months ended December 31, 2001 compared to net interest income of \$1.6 million for the three months ended December 31, 2000. Net interest income for the three months ended December 31, 2001 and 2000 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 the decrease in funds invested following the purchase of the SCD division from EBTI on July 10, 2000 as well as decreases in the interest rates earned by invested funds resulting from decreases in market interest rates.

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Investment Impairment. During the quarter ended December 31, 2000, the Company determined that a permanent decline in the value of an investment in another company had occurred due to the poor financial performance and cash flow of the company. As a result, the Company recorded a write-down on the investment in the company of approximately \$0.4 million.

RESULTS OF OPERATIONS - NINE MONTHS ENDED DECEMBER 31, 2001 COMPARED TO NINE MONTHS ENDED DECEMBER 31, 2000

REVENUES

Total revenues increased by \$29.7 million, or 67%, to \$74.3 million for the nine months ended December 31, 2001 from \$44.6 million for the nine months ended December 31, 2000. The increase in revenues was attributable to the acquisition of SCD in July 2000, organic expansion of our customer base and increased sales to existing customers both from our direct sales force and through our partners and an increase in the number of large enterprise transactions during the current fiscal year.

Product Licenses. Revenues for product licenses increased by \$22.5 million, or 62%, to \$58.6 million for the nine months ended December 31, 2001 from \$36.1 million for the nine months ended December 31, 2000. The increase in revenues for product licenses was attributable to the acquisition of SCD in July 2000, the expansion of our customer base and increased sales to existing customers both from our direct sales force and through our partners and an increase in the number of large enterprise transactions during the current fiscal year.

Services. Revenues for services increased by \$7.2 million or 85%, to \$15.7 million for the nine months ended December 31, 2001 from \$8.5 million for the nine months ended December 31, 2000. The increase in revenues for services was primarily attributable to a larger installed base of products including the acquisition of SCD in July 2000.

COST OF REVENUES AND GROSS PROFIT

Total cost of revenues increased by \$6.2 million or 86%, to \$13.5 million for the nine months ended December 31, 2001 from \$7.3 million for the nine months ended December 31, 2000. Total cost of revenues as a percentage of total revenues was 18% for the nine months ended December 31, 2001 compared to 16% for

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the nine months ended December 31, 2000. Gross profit increased by \$23.5 million, or 63%, to \$60.8 million for the nine months ended December 31, 2001 from \$37.3 million for the nine months ended December 31, 2000. Total gross profit as a percentage of total revenues was 82% for the nine months ended December 31, 2001 compared to 84% for the nine months ended December 31, 2000. The increase in gross profit dollars was primarily due to increased revenues for product licenses and services.

Product Licenses. Cost of revenues for product licenses increased by \$0.9 million, or 33%, to \$3.5 million for the nine months ended December 31, 2001 from \$2.6 million for the nine months ended December 31, 2000. Gross profit as a percentage of revenues for product licenses was 94% for the nine months ended December 31, 2001 compared to 93% for the nine months ended December 31, 2000. The increase in the gross profit as a percentage of revenues was primarily attributable to certain royalty costs remaining constant while revenue has increased.

Services. Cost of revenues for services increased by \$5.4 million or 116%, to \$10.0 million for the nine months ended December 31, 2001 from \$4.6 million for the nine months ended December 31, 2000. Gross profit as a percentage of

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revenues for services was 36% for the nine months ended December 31, 2001 compared to 45% for the nine months ended December 31, 2000. The decrease in the gross profit as a percentage of revenues for services was primarily due to increased employee headcount and other staffing costs for consulting services personnel 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.

OPERATING EXPENSES

Sales and Marketing. Sales and marketing expenses increased by \$16.3 million, or 84%, to \$35.7 million for the nine months ended December 31, 2001 from \$19.4 million for the nine months ended December 31, 2000. Sales and marketing expenses as a percentage of total revenues were 48% for the nine months ended December 31, 2001 compared to 43% for the nine months ended December 31, 2000. The increase in sales and marketing expense as a percentage of revenue was primarily due to increased staffing and marketing expenses for advertising and branding associated with changing our name.

General and Administrative. General and administrative expenses increased by \$1.2 million or 19%, to \$7.5 million for the nine months ended December 31, 2001 from \$6.3 million for the nine months ended December 31, 2000. General and administrative expenses as a percentage of total revenues were 10% for the nine months ended December 31, 2001 compared to 14% for the nine months ended December 31, 2000. General and administrative expenses decreased as a percentage of revenues due primarily to an increase in total revenues with certain expenses remaining constant as well as a reduced rate of increase to our provision for doubtful accounts.

Research and Development. Research and development expenses increased by \$6.5 million, or 100% to \$13.0 million for the nine months ended December 31,

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2001 from \$6.5 million for the nine months ended December 31, 2000. Research and development expenses as a percentage of total revenues were 17% for the nine months ended December 31, 2001 compared to 15% for the nine months ended December 31, 2000. The increase in research and development expenses was primarily due to the acquisition of SCD and increases in staffing and related costs to support product enhancements.

Purchased In-process Research and Development and Acquisition-Related Charges. In connection with our acquisitions, primarily SCD, we incurred certain costs. A portion of the purchase price, \$10.4 million, was allocated to in-process research and development and was expensed.

Amortization of Intangibles. A portion of the purchase price of SCD was allocated to excess cost over fair value of net assets acquired, core technology, customer base, software, trademarks and other intangibles, and is being amortized over the assets' estimated useful lives, of three years. A portion of the 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 \$10.3 million for the nine month period ended December 31, 2001.

OTHER INCOME, NET

Net interest income was \$2.9 million for the nine months ended December 31, 2001 compared to net interest income of \$5.5 million for the nine months ended December 31, 2000. Net interest income for the nine months ended December 31, 2001 and 2000 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 the decrease in funds invested following the purchase of the SCD division from EBTI on July 10, 2000 as well as decreases in the interest rates earned by invested funds resulting from decreases in market interest rates.

Investment Impairment. During the quarter ended September 30, 2001 and the quarter ended December 31, 2000, the Company determined that a permanent decline in the value of several of its investments in and notes with other companies had occurred due to the poor financial performance and cash flow of these companies. As a result, the Company recorded a write-down on the investments in and notes with these companies of approximately \$2.2 million and \$0.4 million for the nine months ended December 31, 2001 and 2000, respectively.

NET OPERATING LOSS CARRYFORWARDS

As of March 31, 2001 we had net operating loss carryforwards of approximately \$43.8 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 of approximately \$18.5 million on a portion of the deferred tax asset because of the uncertainty regarding its realization. Our accounting for deferred taxes and the valuation

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allowance involves the evaluation of a number of factors such as our history of operating losses, potential future losses and the nature of assets and liabilities giving rise to deferred taxes.

Although realization of the net deferred tax asset is not assured, the Company believes based on its projections of future taxable income, that it is more likely than not that the net deferred tax asset will be realized. The amount of net deferred tax assets considered realizable however, could be adjusted in the future based on changes in conditions or assumptions.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations and satisfied our capital expenditure requirements primarily through operating revenues and public offerings of securities. Net cash used by operating activities was \$2.5 million for the nine months ended December 31, 2001, compared to net cash provided by operating activities of \$0.4 million for the nine months ended December 31, 2000. The change in cash flow from operations is primarily due to the increases in accounts receivable, prepaid royalties and prepaid expenses and other current assets. Accounts receivable have increased with increasing revenues. Our prepaid royalties increased because we entered into several software arrangements requiring up-front payments in order to lock-in royalty rates or gain access to technology in order to expand our product lines. Our prepaid expenses, notes and other increased relating primarily to prepayments that we have made for consulting services for development of next generation technology, issuance of a note and inventory purchases.

To date, we have invested our capital expenditures primarily in property and equipment, consisting largely of computer hardware and software. Capital expenditures for the nine months ended December 31, 2001 and 2000 were \$3.0 million and \$1.8 million, respectively. We have also entered into capital and operating leases for facilities and equipment. We expect that our capital expenditures will increase as our employee base grows.

As of December 31, 2001, we had \$ 12.3 million in cash and equivalents, \$81.9 million in marketable securities and \$106.5 million in working capital. Net cash provided by financing activities was \$1.2 million for the nine months ended December 31, 2001 and \$25.2 million for the nine months ended December 31, 2000. In the nine months ended December 31, 2001 we used approximately \$2.6 million in cash to repurchase 181,000 of our shares on the open market.

We currently believe that the cash and equivalents and marketable securities on hand will be sufficient to meet our working capital requirements for the foreseeable future. After that time, we may require additional funds to support our working capital requirements or for other purposes and may seek to raise such additional funds through public or private equity financings or from other sources. We cannot be certain that additional financing will be available on terms favorable to us, or on any terms, or that any additional financing will not be dilutive.

The Company continues to evaluate potential strategic acquisitions that could utilize equity and, or, cash resources. Such opportunities could develop quickly due to market and competitive factors.

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RELATED PARTY TRANSACTIONS

We hold investments in eight non-public start-up technology companies, owning approximately 5% to 12% of these companies, and in one public technology company listed on Nasdaq, Active IQ, in which we own 8.5%. These investments are all accounted for using the cost method of accounting. Investments in these companies are made with the intention of giving us opportunities to have new technologies developed for us or to give us leverage into certain vertical markets that we may not otherwise be able to obtain on our own. The totals of all these investments at December 31, 2001 are approximately \$6.4 million. Because we have an investment in a publicly traded company, we adjust our investment value of this company up or down depending upon its current value at the end of a quarter based upon the price per share as listed on Nasdaq. At December 31, 2001, the market value of our equity in Active IQ was approximately \$1.9 million more than our investment value of \$1.2 million. The offsetting amount does not effect our condensed consolidated statements of operations but is shown as "accumulated other comprehensive income (loss)" in the shareholders' equity section on the condensed consolidated balance sheet. During the three months ended December 31, 2001, the Company recognized license revenue of \$1.5 million with Active IQ, as we licensed our technology to them for use in certain ASP vertical markets. At December 31, 2001, we had an accounts receivable balance from Active IQ of \$1.0 million. We believe that the terms of this arrangement are comparable to those given to other companies. Our initial investment in Active IQ was made in the quarter ended December 31, 1999, with subsequent investments made through December 31, 2000. No officers or directors of the Company have an ownership or other financial interest in Active IQ. Revenue recognized for the nine months ended December 31, 2001 from our other related parties was approximately \$0.175 million in the quarter ended June 30, 2001 and \$0.225 million in the quarter ended September 30, 2001, of which all amounts have been collected.

PRO FORMA NET INCOME PER COMMON SHARE

The Company's pro forma basic net income per share is computed by dividing pro forma net income by the weighted average number of outstanding common shares and the Company's pro forma diluted net income per share is computed by dividing pro forma net income by the weighted average number of outstanding common shares and common share equivalents relating to stock options and warrants, when dilutive. Common stock equivalent shares consist of stock options and warrants (using the treasury stock method). The accompanying pro forma supplemental financial information is presented for informational purposes only and is not a substitute for the historical financial information presented in accordance with accounting principles generally accepted in the United States.

STELLENT, INC.
 PRO FORMA SUPPLEMENTAL INFORMATION
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
SUPPLEMENTAL INFORMATION:	2001	2000	2001	2000
Net income (loss).....	\$ (801)	\$ 143	\$ (4,881)	\$ (7,000)
Add back charges:				

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Amortization of acquired intangible assets and other.....	3,395	3,381	10,260	7
Write-off of in-process research and development.....	--	--	--	10
Acquisition and related costs.....	--	185	--	
Investment impairment	--	400	2,223	
	-----	-----	-----	-----
Total add back charges.....	3,395	3,966	12,483	18
	-----	-----	-----	-----
Pro forma net income before pro forma income taxes.....	2,594	4,109	7,602	10
Pro forma income taxes.....	(908)	(1,438)	(2,661)	(3)
	-----	-----	-----	-----
Pro forma net income.....	\$ 1,686	\$ 2,671	\$ 4,941	\$ 6
	=====	=====	=====	=====
Pro forma basic net income per share.....	\$ 0.08	\$ 0.12	\$ 0.22	\$
Pro forma diluted net income per share.....	\$ 0.07	\$ 0.11	\$ 0.21	\$
Weighted average common shares outstanding				
- Basic.....	22,336	21,552	22,260	21
Weighted average common shares outstanding				
- Diluted.....	23,864	23,849	23,745	23

The accompanying supplemental financial information is presented for informational purposes only and is not a substitute for the historical financial information presented in accordance with accounting principles generally accepted in the United States.

Pro forma net income per share is computed using the weighted average number of shares of Common Stock outstanding. The Company has included the dilutive effect of options and warrants for common stock as calculated using the treasury stock method.

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RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

BUSINESS COMBINATIONS AND GOODWILL AND INTANGIBLE ASSETS

In July 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) 141 Business Combinations and SFAS 142 Goodwill and Intangible Assets. These pronouncements, among other things, eliminate the pooling-of-interest method of accounting for business combinations and eliminate the amortization of goodwill for financial reporting purposes. However, goodwill will then be tested for impairment annually or whenever an impairment indicator arises. SFAS 142 is effective for the Company April 1, 2002. As of April 1, 2002, the amortization of certain of the Company's intangible assets related to goodwill and workforce with an original cost of approximately \$19 million and an estimated net unamortized value of approximately \$8 million as of April 1, 2002 will cease and only future impairments of these assets as they occur will be recorded. These assets were acquired in July 2000 and are currently being amortized over their

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estimated useful life of three years.

ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

In September 2001, the FASB issued Statement of Financial Accounting Standards 144, Accounting for the Impairment or Disposal of Long-lived Assets (SFAS 144). This statement supercedes SFAS 121, Accounting for the Impairment of Long Lived Assets and for Long-lived Assets to be Disposed of, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of the Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business.

SFAS 144 combines the two accounting models for disposals of long-lived assets from SFAS 121 and APB 30. SFAS 144 also resolves implementation issues related to SFAS 121. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. This statement is not anticipated to have a current material effect on the financial statements of the company, but could have a future financial statement effect on the company in the event that an asset impairment has occurred.

RISK FACTORS

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q for the third quarter ended December 31, 2001 contains certain forward looking statements within the meaning of Section 21E of the Exchange Act. Such forward-looking statements are based on the beliefs of the Company's management as well as on assumptions made by and information currently available to the Company at the time such statements were made. When used in this Form 10-Q, the words "anticipate", "believe", "estimate", "expect", "intend" and similar expressions, as they relate to the Company, are intended to identify such forward-looking statements. Although the Company believes these statements are reasonable, readers of this Form 10-Q should be aware that actual results could differ materially from those projected by such forward-looking statements as a result of the risk factors listed below and set forth in the Company's Annual Report on Form 10-K for fiscal year 2001 ("Form 10-K") under the caption "Risk Factors." Readers of this Form 10-Q should consider carefully the factors listed below and under the caption "Risk Factors" in the Company's Form 10-K, as well as the other information and data contained in this Form 10-Q. The Company cautions the reader, however, that such list of factors under

the caption "Risk Factors" in the Company's Form 10-K may not be exhaustive and that those or other factors, many of which are outside of the Company's control, could have a material adverse effect on the Company and its results of operations. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements set forth hereunder and under the caption "Risk Factors" in the Company's Form 10-K. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

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FLUCTUATIONS IN OUR OPERATING RESULTS MAY MAKE IT DIFFICULT TO PREDICT OUR FUTURE PERFORMANCE.

While our products and services are not seasonal, our revenues and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. If our quarterly revenues or operating results fall below the expectations of investors or securities analysts, the price of our common stock could fall substantially. A large part of our sales typically occurs in the last month of a quarter, frequently in the last week or even the last days of the quarter. If these sales were delayed from one quarter to the next for any reason, our operating results could fluctuate dramatically. In addition, our sales cycles may vary, making the timing of sales difficult to predict. Furthermore, our infrastructure costs are generally fixed. As a result, modest fluctuations in revenues between quarters may cause large fluctuations in operating results. These factors all tend to make the timing of revenues unpredictable and may lead to high period-to-period fluctuations in operating results.

Our quarterly revenues and operating results may fluctuate for several additional reasons, many of which are outside of our control, including the following:

- o demand for our products and services;
- o the timing of new product introductions and sales of our products and services;
- o unexpected delays in introducing new products and services;
- o increased expenses, whether related to sales and marketing, research and development or administration;
- o changes in the rapidly evolving market for Web content management solutions;
- o the mix of revenues from product licenses and services, as well as the mix of products licensed;
- o the mix of services provided and whether services are provided by our staff or third-party contractors;
- o the mix of domestic and international sales;
- o costs related to possible acquisitions of technology or businesses;
- o general economic conditions; and
- o public announcements by our competitors.

OUR SUCCESS DEPENDS ON OUR ABILITY TO EXPAND OUR SALES FORCE AND DISTRIBUTION CHANNELS.

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To increase our market share and revenues, we must increase the size of our sales force and the number of our partners. Our failure to do so may have a material adverse effect on our business, operating results and financial condition. There is intense competition for sales personnel in our business, and we cannot be sure that we will be successful in attracting, integrating, motivating and retaining new sales personnel. Our existing or future partners may choose to devote greater resources to marketing and supporting the products of other companies. In addition, we will need to resolve potential conflicts, if any, among our sales force and partners.

POTENTIAL ACQUISITIONS MAY BE DIFFICULT TO COMPLETE OR TO INTEGRATE AND MAY DIVERT MANAGEMENT'S ATTENTION.

We may seek to acquire or invest in businesses, products or technologies that are complementary to our business. If we identify an appropriate acquisition opportunity, we may be unable to negotiate favorable terms for that acquisition, successfully finance the acquisition or integrate the new business or products into our existing business and operations. In addition, the negotiation of potential acquisitions and the integration of acquired businesses or products may divert management time and resources from our existing business and operations. To finance acquisitions, we may use a substantial portion of our available cash or we may issue additional securities, which would cause ownership dilution to our shareholders.

WE MAY NOT BE PROFITABLE IN THE FUTURE.

Our revenues may not grow in future periods, may not grow at past rates and we may not sustain our quarterly pro forma profitability. If we do not sustain our recent pro forma profitability, the market price of our stock may fall. Our ability to sustain our recent pro forma profitable operations depends upon many factors beyond our direct control. These factors include, but are not limited to:

- o the demand for our products;
- o our ability to quickly introduce new products;
- o the level of product and price competition;
- o our ability to control costs; and
- o general economic conditions.

THE INTENSE COMPETITION IN OUR INDUSTRY MAY REDUCE OUR FUTURE SALES AND PROFITS.

The market for our products is highly competitive and is likely to become more competitive. We may not be able to compete successfully in our chosen marketplace, which may have a material adverse effect on our business, operating results and financial condition. Additional competition may cause pricing pressure, reduced sales and margins, or prevent our products from gaining and sustaining market acceptance. Many of our current and potential competitors have

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greater name recognition, access to larger customer bases, and substantially more resources than we have. Competitors with greater resources than ours may be able to respond more quickly than we can to new opportunities, changing technology, product standards or customer requirements.

WE MAY HAVE DIFFICULTY MANAGING OUR GROWTH.

Any failure to properly manage our growth may have a material adverse effect on our business, operating results and financial condition. The rapid growth that we have experienced places significant challenges on our management, administrative and operational resources. To properly manage this growth, we must, among other things, implement and improve additional and existing administrative, financial and operational systems, procedures and controls on a timely basis. We will also need to expand our finance, administrative and operations staff. We may not be able to complete the improvements to our systems, procedures and controls necessary to support our future operations in a timely manner. Management may not be able to hire, train, integrate, retain, motivate and manage required personnel and may not be able to successfully identify, manage and exploit existing and potential market opportunities. In connection with our expansion, we plan to increase our operating expenses to expand our sales and marketing operations, develop new distribution channels, fund greater levels of research and development, broaden services and support and improve operational and financial systems. Our failure to generate additional revenue commensurate with an increase in operating expenses during any fiscal period could have a material adverse effect on our financial results for that period.

WE DEPEND ON THE CONTINUED SERVICE OF OUR KEY PERSONNEL.

We are a small company and depend greatly on the knowledge and experience of our senior management team and other key personnel. If we lose any of these key personnel, our business, operating results and financial condition could be materially adversely affected. We must hire additional employees to meet our business plan and alleviate the negative effect that the loss of a senior manager could have on us. Our success will depend in part on our ability to attract and retain additional personnel with the highly specialized expertise necessary to engineer, design and support our products and services. Like other software companies, we face intense competition for qualified personnel. We may not be able to attract or retain such personnel.

WE HAVE RELIED AND EXPECT TO CONTINUE TO RELY ON SALES OF OUR CONTENT MANAGEMENT, CONVERSION AND VIEWING SOFTWARE PRODUCTS FOR OUR REVENUES.

We currently derive all of our revenues from product licenses and services associated with our suite of content management, conversion and viewing software products. The market for content management and viewing software products is new and rapidly evolving. We cannot be certain that a viable market for our products will emerge, or if it does emerge, that it will be sustainable. If we do not continue to increase revenues related to our existing products or generate revenues from new products and services, our business, operating results and financial condition may be materially adversely affected. We will continue to depend on revenues related to new and enhanced versions of our software products for the foreseeable future. Our success will largely depend on our ability to increase sales from existing products and generate sales from product enhancements and new products.

We cannot be certain that we will be successful in upgrading and marketing our existing products or that we will be successful in developing and marketing

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new products and services. The market for our products is highly competitive and subject to rapid technological change. Technological advances could make our

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products less attractive to customers and adversely affect our business. In addition, complex software product development involves certain inherent risks, including risks that errors may be found in a product enhancement or new product after its release, even after extensive testing, and the risk that discovered errors may not be corrected in a timely manner.

OUR SUCCESS DEPENDS ON OUR ABILITY TO PROTECT OUR PROPRIETARY TECHNOLOGY.

If we are unable to protect our intellectual property, or incur significant expense in doing so, our business, operating results and financial condition may be materially adversely affected. Any steps we take to protect our intellectual property may be inadequate, time consuming and expensive. We currently have no patents or pending patent applications. Without significant patent or copyright protection, we may be vulnerable to competitors who develop functionally equivalent products. We may also be subject to claims that our current products infringe on the intellectual property rights of others. Any such claim may have a material adverse effect on our business, operating results and financial condition.

We anticipate that software product developers will be increasingly subject to infringement claims due to growth in the number of products and competitors in our industry, and the overlap in functionality of products in different industries. Any infringement claim, regardless of its merit, could be time-consuming, expensive to defend, or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements may not be available on commercially favorable terms, or at all. We are not currently involved in any intellectual property litigation.

We rely on trade secret protection, confidentiality procedures and contractual provisions to protect our proprietary information. Despite our attempts to protect our confidential and proprietary information, others may gain access to this information. Alternatively, other companies may independently develop substantially equivalent information.

OUR PRODUCTS MAY NOT BE COMPATIBLE WITH COMMERCIAL WEB BROWSERS AND OPERATING SYSTEMS.

Our products utilize interfaces that are compatible with commercial Web browsers. In addition, our Stellent Content Management System is a server-based system written in Java that functions in both Windows NT and UNIX environments. We must continually modify our products to conform to commercial Web browsers and operating systems. If our products were to become incompatible with commercial Web browsers and operating systems, our business would be harmed. In addition, uncertainty related to the timing and nature of product introductions or modifications by vendors of Web browsers and operating systems may have a material adverse effect on our business, operating results and financial condition.

WE COULD BE SUBJECT TO PRODUCT LIABILITY CLAIMS IF OUR PRODUCTS FAIL TO PERFORM

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TO SPECIFICATIONS.

If software errors or design defects in our products cause damage to customers' data and our agreements do not protect us from related product liability claims, our business, operating results and financial condition may be materially adversely affected. In addition, we could be subject to product liability claims if our security features fail to prevent unauthorized third parties from entering our customers' intranet, extranet or Internet Web sites. Our software products are complex and sophisticated and may contain design defects or software errors that are difficult to detect and correct. Errors,

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bugs or viruses spread by third parties may result in the loss of market acceptance or the loss of customer data. Our agreements with customers that attempt to limit our exposure to product liability claims may not be enforceable in certain jurisdictions where we operate.

FUTURE REGULATIONS COULD BE ADOPTED THAT RESTRICT OUR BUSINESS.

Federal, state or foreign agencies may adopt new legislation or regulations governing the use and quality of Web content. We cannot predict if or how any future laws or regulations would impact our business and operations. Even though these laws and regulations may not apply to our business directly, they could indirectly harm us to the extent that they impact our customers and potential customers.

SIGNIFICANT FLUCTUATION IN THE MARKET PRICE OF OUR COMMON STOCK COULD RESULT IN SECURITIES LITIGATION AGAINST US.

In the past, securities class action litigation has been brought against publicly held companies following periods of volatility in the price of their securities. If we were subject to such litigation due to volatility in our stock price, we may incur substantial costs. Such litigation could divert the attention of our senior management away from our business, which could have a material adverse effect on our business, operating results and financial condition.

The market price of our common stock has fluctuated significantly in the past and may do so in the future. The market price of our common stock may be affected by each of the following factors, many of which are outside of our control:

- o variations in quarterly operating results;
- o changes in estimates by securities analysts;
- o changes in market valuations of companies in our industry;
- o announcements by us of significant events, such as major sales, acquisitions of businesses or losses of major customers;
- o additions or departures of key personnel; and
- o sales of our equity securities.

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OUR PERFORMANCE WILL DEPEND ON THE CONTINUING GROWTH AND ACCEPTANCE OF THE WEB.

Our products are designed to be used with intranets, extranets and the Internet. If the use of these methods of electronic communication does not grow, our business, operating results and financial condition may be materially adversely affected. Continued growth in the use of the Web will require ongoing and widespread interest in its capabilities for communication and commerce. Its growth will also require maintenance and expansion of the infrastructure supporting its use and the development of performance improvements, such as high speed modems. The Web infrastructure may not be able to support the demands placed on it by continued growth. The ongoing development of corporate intranets depends on continuation of the trend toward network-based computing and on the willingness of businesses to reengineer the processes used to create, store, manage and distribute their data. All of these factors are outside of our control.

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OUR EXISTING SHAREHOLDERS HAVE SIGNIFICANT INFLUENCE OVER US.

Robert F. Olson, our Chairman, holds approximately 9.8% of our outstanding common stock. Accordingly, Mr. Olson is able to exercise significant control over the affairs of Stellent. Additionally, our directors and executive officers beneficially own approximately 10.0% of our common stock. These persons have significant influence over Stellent's affairs, including approval of the acquisition or disposition of assets, future issuances of common stock or other securities and the authorization of dividends on our common stock. Our directors and executive officers could use their stock ownership to delay, defer or prevent a change in control of Stellent, depriving shareholders of the opportunity to sell their stock at a price in excess of the prevailing market price.

WE CAN ISSUE SHARES OF PREFERRED STOCK WITHOUT SHAREHOLDER APPROVAL, WHICH COULD ADVERSELY AFFECT THE RIGHTS OF COMMON SHAREHOLDERS.

Our Articles of Incorporation permit us to establish the rights, privileges, preferences and restrictions, including voting rights, of unissued shares of our capital stock and to issue such shares without approval from our shareholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that may be issued in the future. In addition, we could issue preferred stock to prevent a change in control of Stellent, depriving shareholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

CERTAIN PROVISIONS OF MINNESOTA LAW MAY MAKE A TAKEOVER OF STELLENT DIFFICULT, DEPRIVING SHAREHOLDERS OF OPPORTUNITIES TO SELL SHARES AT ABOVE-MARKET PRICES.

Certain provisions of Minnesota law may have the effect of discouraging attempts to acquire Stellent without the approval of our Board of Directors. Consequently, our shareholders may lose opportunities to sell their stock for a price in excess of the prevailing market price.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our interest income on cash and marketable securities is affected by

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changes in interest rates in the United States. Through December 31, 2001, changes in these rates have had a significant effect on the Company. Interest rates earned on invested funds have fallen by over 50% since December 2000. The Company believes that there may be future exposure to interest rate market risk.

Our investments are held in commercial paper which are affected by equity price market risk and other factors. The Company does not anticipate that exposure to these risks will have a material impact on the Company, due to the nature of its investments.

The Company has no history of, and does not anticipate in the future, investing in derivative financial instruments. Many transactions with international customers are entered into in U.S. dollars, precluding the need for foreign currency hedges. Any transactions that are currently entered into in foreign currency are not deemed material to the financial statements. Thus, the exposure to market risk is not material.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K. (A.) EXHIBITS

EXHIBIT INDEX

FILE -----	DESCRIPTION -----	REFERENCE -----
3.1	Amended and Restated Articles of Incorporation, as amended	Incorporated by reference to Exhibit 3. of the Registrant's Form 8-K dated August 1, 2001.
3.2	Bylaws	Incorporated by reference to Exhibit 4. of the Registrant's Registration Statement File No. 333-75828.
4.7	Warrant to purchase 225,000 shares of common stock to Merrill, Lynch, Pierce, Fenner & Smith dated February 22, 2000	Incorporated by reference to Exhibit 4. of the Registrant's Form 10-K for the year ended March 31, 2001.
10.4	Stellent, Inc. 1994-1997 Stock Option and Compensation Plan*	Incorporated by reference to Exhibit A of the Registrant's Definitive Proxy Statement Schedule 14A, filed with the Securities and Exchange Commission July 1, 2001.
10.28	InfoAccess, Inc. 1990 Stock Option Plan as amended September 29, 1999	Incorporated by reference to Exhibit 99 of the Registrant's statement on Form S-1 File No. 333-90843
10.29	InfoAccess, Inc. 1995 Stock Option Plan as amended September 29, 1999	Incorporated by reference to Exhibit 99 of the Registrant's statement on Form S-1 File No. 333-90843

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10.30	Employment Agreement Dated August 1, 1999, by and between the Registrant and Robert F. Olson*	Incorporated by reference to Exhibit 10.30 of the Registrant's Form 10-Q for the quarter ended September 30, 1999
10.31	Stellent, Inc. 1999 Employee Stock Option and compensation plan	Incorporated by reference to Exhibit 10.31 of the Registrant's Form 10-Q for the three months ended September 30, 1999
10.32	Agreement and Plan of Merger among Stellent, Inc., IntraNet Chicago Acquisition Corporation, IntraNet Kansas City Acquisition Corporation, Inso Chicago Corporation, Inso Kansas City Corporation and Inso Corporation, dated as of July 10, 2000	Incorporated by reference to Exhibit 2 of the Registrant's Current Report on Form 10-Q dated July 10, 2000
10.33	Stellent, Inc. 2000 Stock Incentive Plan*	Incorporated by reference to Exhibit B of the Registrant's Definitive Proxy statement on Schedule 14A, filed with the Securities and Exchange Commission on July 25, 2000
10.34	Stellent, Inc. 2000 Employee Stock Incentive Plan	Incorporated by reference to Exhibit 99 of the Registrant's Registration Statement on File No. 333-75828.
10.35	Stellent, Inc. 1997 Directors Stock Option Plan*	Incorporated by reference to Exhibit B of the Registrant's Definitive Proxy Statement Schedule 14A, filed with the Securities and Exchange Commission July 29, 1999
10.36	Stellent, Inc. Employee Stock Purchase Plan*	Incorporated by reference to Exhibit A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission July 29, 1999
10.37	Employment Agreement Dated April 1, 2001 by and between the Registrant and Gregg A. Waldon*	Incorporated by reference to Exhibit 10.37 of the Registrant's Form 10-Q for the quarter ended June 30, 2001
10.38	Employment Agreement Dated October 1, 2001 by and between the Registrant and Vernon J. Hanzlik*	Incorporated by reference to Exhibit 10.38 of the Registrant's Form 10-Q for the quarter ended September 30, 2001
10.39	Employment Agreement Dated May 10, 2001 by and between the Registrant and Scott Norder*	Incorporated by reference to Exhibit 10.39 of the Registrant's Form 10-Q for the quarter ended September 30, 2001
10.40	Employment Agreement Dated June 14, 2000 by and between the Registrant and Robin Pederson*	Incorporated by reference to Exhibit 10.40 of the Registrant's Form 10-Q for the quarter ended September 30, 2001
10.41	Employment Agreement Dated April 1, 2001 by and between the Registrant and Daniel Ryan*	Incorporated by reference to Exhibit 10.41 of the Registrant's Form 10-Q for the quarter ended September 30, 2001
10.42	Employment Agreement Dated March 9, 2001 by and between the Registrant and Mitch Berg*	Incorporated by reference to Exhibit 10.42 of the Registrant's Form 10-Q for the quarter ended September 30, 2001
11.1	Computation of Earnings Per Share	Electronic Transmission

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*Management contract, compensation plan or arrangement.

(B) REPORTS ON FORM 8-K

No current reports on Form 8-K were filed during the period.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Stellent, Inc.

(Registrant)

Date: February 14, 2002

By: /s/ Vern Hanzlik

Vern Hanzlik,
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2002

By: /s/ Gregg A. Waldon

Gregg A. Waldon
Chief Financial Officer,
Secretary and Treasurer
(Principal Financial and Accounting
Officer)

EXHIBITS

FILE -----	DESCRIPTION -----	REFERENCE -----
3.1	Amended and Restated Articles of Incorporation, as amended	Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K dated August 14, 2001

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3.2	Bylaws	Incorporated by reference to Exhibit 4. the Registrant's Registration Statement File No. 333-75828.
4.7	Warrant to purchase 225,000 shares of common stock to Merrill, Lynch, Pierce, Fenner & Smith dated February 22, 2000	Incorporated by reference to Exhibit 4. Registrant's Form 10-K for the year end March 31, 2001.
10.4	Stellent, Inc. 1994-1997 Stock Option and Compensation Plan*	Incorporated by reference to Exhibit A the Registrant's Definitive Proxy Statement Schedule 14A, filed with the Securities and Exchange Commission July
10.28	InfoAccess, Inc. 1990 Stock Option Plan as amended September 29, 1999	Incorporated by reference to Exhibit 99 of the Registrant's statement on Form S File No. 333-90843
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10.30	Employment Agreement Dated August 1, 1999, by and between the Registrant and Robert F. Olson*	Incorporated by reference to Exhibit 10.30 of the Registrant's Form 10-Q for the quarter ended September 30, 1999
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	2001 by and between the Registrant and Vernon J. Hanzlik*	of the Registrant's Form 10-Q for the quarter ended September 30, 2001
10.39	Employment Agreement Dated May 10, 2001 by and between the Registrant and Scott Norder*	Incorporated by reference to Exhibit 10 of the Registrant's Form 10-Q for the quarter ended September 30, 2001
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10.42	Employment Agreement Dated March 9, 2001 by and between the Registrant and Mitch Berg*	Incorporated by reference to Exhibit 10 Form of the Registrant's Form 10-Q for the quarter ended September 30, 2001
11.1	Computation of Earnings Per Share	Electronic Transmission

* Management contract, compensation plan or arrangement.