

STELLENT INC
Form 10-K/A
June 21, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A (Amendment No. 1)

(Mark One)

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

For the fiscal year ended March 31, 2006

or

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

Commission file number 0-19817

Stellent, Inc.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-1652566
(I.R.S. Employer
Identification No.)

7500 Flying Cloud Drive, Suite 500

Eden Prairie, MN 55344

(Address of principal executive offices and 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

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Purchase Rights; Common Stock, par value \$.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one)

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of September 30, 2005 was approximately \$221,109,000 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 2, 2006, the registrant had approximately 29,555,000 shares of common stock issued and outstanding.

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of Stellent, Inc. (the "Company") for the fiscal year ended March 31, 2006 (the "Form 10-K") is being filed solely to correct clerical errors in the calculations of non-financial disclosure items contained in Item 12 *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* and Note 5 of Item 15 *Exhibits and Financial Statement Schedules*, related to the maximum number of shares issuable to directors and employees and the number of share remaining available for future issuance under the Company's equity compensation plans.

The number of share remaining available for future issuance under the Company's equity compensation plans is revised from 6,817,416, as originally reported, to 3,073,923. Also, the maximum shares issuable to employees and directors under the terms of the Company's equity compensation plans is revised from 13.4 million, as originally reported, to 12.5 million.

This amendment does not restate any previously reported financial statements, results of operations or related financial data.

EQUITY COMPENSATION PLAN INFORMATION**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information about security ownership of certain beneficial owners and management required by this Item is incorporated by reference to our definitive proxy statement to our 2006 Annual Meeting of Stockholders under the captions Security Ownership of Certain Beneficial Owners and Management.

The following table provides information as of March 31, 2006 for our compensation plans under which securities may be issued:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights			Weighted-average exercise price of outstanding options, warrants and rights			Number of securities remaining available for future issuance under equity compensation plans		
Equity Compensation Plans Approved by Securityholders		5,148,497		\$ 9.84			3,073,923	(1)	
Equity Compensation Plans Not Approved by Securityholders		624,618		\$ 9.06					
Total		5,773,115		\$ 9.76			3,073,923		

(1) Includes securities available for future issuance under the 2005 Equity Incentive Plan (the 2005 Plan) shareholder approved compensation plans other than upon the exercise of an outstanding option, or right.

EQUITY COMPENSATION PLANS NOT APPROVED BY SECURITY HOLDERS***Stellent, Inc. 1999 Employee Stock Option and Compensation Plan***

In November 1999, the board adopted the 1999 Employee Stock Option and Compensation Plan, known as the 1999 Plan. The 1999 Plan has not been approved by our shareholders.

Shares Subject to the 1999 Plan. As of March 31, 2006, 707,166 shares of our common stock were subject to outstanding awards granted under the 1999 Plan. No additional awards may be granted under the 1999 Plan. If any award granted pursuant to the 1999 Plan expires or terminates without being exercised in full, the unexercised shares released from such award will become available for issuance under the 2005 Plan. Previously granted but unexercised awards are subject to adjustment for any future stock dividends, splits, combinations, or other changes in capitalization as described in the 1999 Plan.

Plan Administration. The 1999 Plan is administered by a committee of two or more members of the board or if the board has not designated a committee, the board will constitute the committee and administer the 1999 Plan.

Eligibility. All employees of our company and its subsidiaries who are not also officers or directors of our company, and consultants to our company or its subsidiaries, are eligible to receive awards under the 1999 Plan.

Incentive and Non-Statutory Stock Options. Both incentive stock options and non-statutory stock options may be granted under the terms of the 1999 Plan. However, since the 1999 Plan has not been approved by our shareholders, under the Internal Revenue Code of 1986, incentive stock options may not be granted under the 1999 Plan. The exercise price of an option is determined by the committee. The exercise price may not be less than 100% of the fair market value, as defined in the 1999 Plan, of our common stock on the date the option is granted. Stock options may be granted and exercised at such times as the committee may determine, provided that the term shall not exceed ten years and one day from the

date of grant. The purchase price for common stock purchased upon the exercise of stock options may be payable in cash, uncertified or certified check, bank draft, by delivery of shares of our common stock having a fair market value on the date the option is exercised equal to all or any part of the option price of the stock being purchased, by instructing us to withhold from the shares of common stock issuable upon exercise of the stock option shares having fair market value on the date the option is exercised equal to all or any part of the option price of the stock being purchased or any other manner authorized by the committee.

Stock Appreciation Rights. A stock appreciation right may be granted under the 1999 Plan with or without reference to any related stock option. The recipient of a stock appreciation right receives, without payment to us, a number of shares of common stock, cash or any combination thereof, the amount of which is determined by dividing: (x) the number of shares of common stock as to which the stock appreciation right is exercised multiplied by the amount by which the fair market value of the shares on the exercise date exceeds the purchase price of shares of common stock under the related stock option or, if there is no related stock option, an amount determined by the committee at the time of grant, by (y) the fair market value of a share of common stock on the exercise date.

Performance Shares. A performance share consists of an award that is paid in shares of common stock. Performance shares entitle the recipient to payment in amounts determined by the committee based upon the achievement of specified performance targets during a specified term. Performance shares may be subject to additional terms and conditions as determined by the committee.

Restricted Stock and Other Stock-Based Awards. The committee may grant, either alone or in combination with other types of awards, restricted stock and other stock-based awards. Restricted stock may contain such restrictions, including provisions requiring forfeiture and imposing restrictions on stock transfer, as the committee may determine. To enforce the restrictions imposed by the committee, a recipient must enter into an agreement with us setting forth the conditions of the grant.

Acceleration of Awards, Lapse of Restrictions, Forfeiture. The committee may provide in a recipient's agreement for the lapse or waiver of restrictions or conditions on restricted stock or other awards, or acceleration of the vesting of stock options, stock appreciation rights and other awards, or acceleration of the term with respect to which the achievement of performance targets for performance shares is determined in the event of a fundamental change in the corporate structure of our company, or the replacement of the majority of the board members within a period of less than two years by directors not nominated and approved by the board, or, upon a change of control of our company or a recipient's death, disability or retirement. Options and stock appreciation rights automatically vest upon death or disability, unless otherwise provided in a recipient's agreement, or upon the occurrence of a change in control of our company. If a recipient's employment or other relationship with our company or its affiliates is terminated for any reason other than death or disability, then any unexercised portion of such recipient's award will generally be forfeited, except as provided in the 1999 Plan or such recipient's agreement or by the committee.

Adjustments, Modifications, Termination. The 1999 Plan gives the committee discretion to adjust the kind and number of shares available for awards or subject to outstanding awards, the limitations on the number and type of securities that may be issued to an individual recipient, the exercise price of outstanding stock options, and performance targets for, and payments under, outstanding awards of performance shares upon mergers, recapitalizations, stock dividends, stock splits or similar changes affecting our company. Adjustments in performance targets and payments on performance shares are also permitted upon the occurrence of such other events as may be specified by the committee. The 1999 Plan also gives the board the right to terminate, suspend or modify the 1999 Plan. Amendments to the 1999 Plan are subject to shareholder approval, however, if needed to comply with applicable laws or regulations. The committee may generally also alter or amend any agreement covering an award granted under the 1999

Plan to the extent permitted by law. Under the 1999 Plan, the committee generally may cancel outstanding stock options and stock appreciation rights in exchange for the payment of cash or other consideration to the recipients upon dissolutions, liquidations, mergers, statutory share exchanges or similar events involving our company.

Stellent, Inc. 2000 Employee Stock Incentive Plan

In May 2000, the board adopted the 2000 Employee Stock Incentive Plan, known as the 2000 Employee Plan. The 2000 Employee Plan was amended in October 2001. The 2000 Employee Plan has not been approved by our shareholders.

Shares Subject to the 2000 Employee Plan. As of March 31, 2006, 1,293,291 shares of our common stock were subject to outstanding awards granted. No additional awards may be granted under the 2000 Employee Plan, and any award granted pursuant to the 2000 Employee Plan expires or terminates without being exercised in full, the unexercised shares released from such award will become available for issuance under the 2005 Plan. Previously granted but unexercised awards are subject to adjustment for any future stock dividends, splits, combinations, or other changes in capitalization as described in the 2000 Employee Plan.

Plan Administration. The 2000 Employee Plan is administered by a committee of three or more members of the board or if the board has not designated a committee, the board will constitute the committee and administer the 2000 Employee Plan. The committee may delegate all or any part of its responsibilities under the 2000 Employee Plan to officers or other persons for purposes of determining and administering awards.

Eligibility. All employees of our company and its affiliates who are not officers or directors of our company are eligible to receive awards under the 2000 Employee Plan. Awards may be granted by the committee to any individuals or entities who are not employees of our company, but who provide services to us or our affiliates as a consultant or adviser.

Non-Qualified Stock Options. Non-qualified stock options may be granted under the 2000 Employee Plan. The exercise price of an option is determined by the committee. The exercise price for stock options may not be less than 100% of the fair market value of our common stock on the date the option is granted. Stock options may be granted and exercised at such times as the committee may determine. No more than 500,000 shares of common stock underlying stock options and stock appreciation rights may be granted to any one person in any year. The purchase price for common stock purchased upon the exercise of stock options may be payable in cash, in our common stock having a fair market value on the date the option is exercised equal to the option price of the stock being purchased, or a combination of cash and stock, as provided in each stock option agreement. In addition, the committee may permit recipients of stock options to simultaneously exercise options and sell the common stock purchased upon exercise and to use the sale proceeds to pay the purchase price.

Stock Appreciation Rights and Performance Shares. The recipient of a stock appreciation right receives all or a portion of the amount by which the fair market value of a specified number of shares, as of the date the right is exercised, exceeds a price specified by the committee at the time the right is granted. The price specified by the committee must be at least 100% of the fair market value of our common stock on the date the right is granted. No more than 500,000 shares of stock underlying stock appreciation rights and stock options may be awarded to any one person in any year. Performance shares entitle the recipient to payments in amounts determined by the committee based upon the achievement of specified performance targets during a specified term. No person may receive performance shares relating to more than 500,000 shares of our common stock in any year. Payments with respect to stock appreciation rights and performance shares may be paid in cash, shares of our common stock, or a combination of cash and shares, as determined by the committee.

Restricted Stock and Other Stock-Based Awards. The committee may grant, either alone or in combination with other types of awards, restricted stock and other stock-based awards. Restricted stock may contain such restrictions, including provisions requiring forfeiture and imposing restrictions on stock transfer, as the committee may determine and set forth in each restricted stock agreement. No award of restricted stock may vest earlier than one year from the date of grant, except as provided in each restricted stock agreement. No more than 400,000 of the shares of common stock subject to the 2000 Employee Plan may be granted as restricted stock subject to performance conditions or subject to other stock-based awards.

Acceleration of Awards, Lapse of Restrictions, Forfeiture. The committee may provide in an award agreement for the lapse or waiver of restrictions or conditions on restricted stock or other awards, or acceleration of the vesting of stock options, stock appreciation rights and other awards, or acceleration of the term with respect to which the achievement of performance targets for performance shares is determined in the event of a fundamental change in our corporate structure, upon a change of control of our company or upon a recipient's death, disability or retirement. If a recipient's employment or other relationship with our company or its affiliates is terminated for any reason, then any unexercised portion of such employee's award will generally be forfeited, except as provided in that employee's award agreement or by the committee.

Adjustments, Modifications, Termination. The 2000 Employee Plan gives the committee discretion to adjust the kind and number of shares available for awards or subject to outstanding awards, the limitations on the number and type of securities that may be issued to an individual participant, the exercise price of outstanding stock options, and performance targets for, and payments under, outstanding awards of performance shares upon a merger, recapitalization, stock dividend, stock split or similar change affecting our company. Adjustments in performance targets and payments on performance shares are also permitted upon the occurrence of such other events as may be specified by the committee. The 2000 Employee Plan also gives the board the right to terminate, suspend or modify the 2000 Employee Plan. Amendments to the 2000 Employee Plan are subject to shareholder approval, however, only if needed to comply with any applicable law or regulation. Termination, suspension or modification of the 2000 Employee Plan generally may not materially and adversely affect any right an individual participant may have acquired before the termination, suspension or modification, unless otherwise provided in that individual's award agreement, or otherwise, or required by law. We (with the approval of the committee) may amend any agreement covering an award granted under the 2000 Employee Plan unless the committee determines that the amendment would be materially adverse to the recipient and is not required by law. Under the 2000 Employee Plan, the committee generally may cancel outstanding stock options and stock appreciation rights in exchange for the payment of cash or other consideration to the recipients upon dissolutions, liquidations, mergers, statutory share exchanges or similar events involving our company.

InfoAccess 1995 Stock Option Plan

In connection with our acquisition of InfoAccess, Inc. on September 29, 1999, we assumed the InfoAccess, Inc. 1995 Stock Option Plan, known as the InfoAccess Plan. The InfoAccess Plan was approved by the shareholders of InfoAccess on May 10, 1995, but has not been approved by our shareholders.

Shares Subject to the InfoAccess Plan. As of March 31, 2006, 3,123 shares of our common stock were subject to outstanding awards granted under the InfoAccess Plan. No additional stock options may be granted under the InfoAccess Plan.

Plan Administration. The InfoAccess Plan is administered by the board or a committee appointed by the board. The board or committee has the authority, subject to the terms of the InfoAccess Plan, to

interpret provisions of the InfoAccess Plan and the options granted under it and to adopt rules and regulations for administering the InfoAccess Plan.

Eligibility. All employees of InfoAccess were eligible to receive option grants under the InfoAccess Plan prior to our adoption of the InfoAccess Plan. Non-statutory stock options could be granted under the InfoAccess Plan prior to our adoption to individuals or entities that were not employees of InfoAccess, but that provided services to InfoAccess or its affiliates as consultants or independent contractors.

Types of Awards under the InfoAccess Plans. Both incentive stock options and non-statutory stock options could be granted under the InfoAccess Plan. The exercise price of an option was determined by the committee of the board of directors of InfoAccess administering the InfoAccess Plan at the time of the grant. The exercise price for all options under the InfoAccess Plan could not be less than 100% of the fair market value of the shares on the date of the grant. The exercise price for incentive stock options granted to persons who beneficially owned 10% or more of the outstanding stock of InfoAccess at the time of the grant could not be less than 110% of the fair market value of the shares on the date of grant. The number of shares and purchase price of each recipient's option grant has been adjusted to reflect the exchange ratio of InfoAccess shares for our shares in the merger of the companies. Stock options were granted and may be exercised at such times as the committee of the board of directors of InfoAccess administering the InfoAccess Plans at the time of the grant determined; however, under the InfoAccess Plan, if no exercise schedule is set forth in a recipient's agreement, 25% of the shares subject to the option shall vest two years following the start of the recipient's continuous relationship with our company, and an additional 25% of the shares subject to the option shall vest following each additional year of the recipient's continuous relationship with our company. The purchase price for common stock purchased upon the exercise of stock options may be payable in cash or the committee may, subject to approval by the board, permit recipients of stock options to deliver a promissory note as full or partial payment for the exercise of a stock option. In addition, shares may be purchased with our common stock, that a recipient has held at least six months, having a fair market value on the date the option is exercised equal to the option price of the stock being purchased.

Termination of Employment or Relationship. If a recipient's relationship with our company or its affiliates is terminated for any reason other than for cause (as defined in the InfoAccess Plan), death or total disability, then any portion of the recipient's option grant that is vested but unexercised may be exercised for a period of thirty days following the termination of employment, unless the option by its terms expires earlier, and except as otherwise provided in the InfoAccess Plan or such recipient's agreement. If a recipient's relationship with us or our affiliates is terminated for cause, as defined in the InfoAccess Plan, such recipient's options granted under the InfoAccess Plan automatically will terminate as of the first discovery by our company of any reason for that recipient's termination for cause. If a recipient's employment with us or our affiliates is terminated by such recipient's total disability, as defined in the InfoAccess Plan, such recipient may exercise vested but unexercised options granted under the InfoAccess Plan for a period of three months after such recipient's termination date, subject to the expiration of the option under the terms of such recipient's agreement. If a recipient's employment with us or our affiliates is terminated by such recipient's death while an employee of our company or its affiliates, or during the period in which options granted under the InfoAccess Plan may be exercised due to the termination of such recipient's employment with us or our affiliates other than for cause (as defined in the InfoAccess Plan) or such recipient's total disability, such recipient's legal representative may exercise vested but unexercised options granted to that recipient under the InfoAccess Plan for a period of one year after that recipient's death, subject to the expiration of the option under the terms of such recipient's option agreement.

Adjustments and Modifications. The InfoAccess Plan provides that each option will be proportionately adjusted for any increase or decrease in the number of issued shares of our common stock resulting from a split-up or consolidation of shares or any like capital adjustment, or the payment of any

stock dividend. The InfoAccess Plan gives the board the right to terminate, suspend, or modify the InfoAccess Plan as long as the rights and obligation related to outstanding option grants are not adversely affected.

Exhibits

Exhibit

Number	Description	Reference
31.1	Certification by Robert F. Olson, Chairman of the Board, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Electronic Transmission
31.2	Certification by Darin P. McAreavey, Executive Vice President, CFO, Treasurer and Secretary, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Electronic Transmission
32.1	Certification by Robert F. Olson, Chairman of the Board, President and Chief Executive Officer, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Electronic Transmission
32.2	Certification by Darin P. McAreavey, Executive Vice President, CFO, Treasurer and Secretary, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Electronic Transmission

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By:

/s/ ROBERT F. OLSON

Robert F. Olson,

Chairman of the Board, President and

Chief Executive Officer

Date: June 21, 2006

SIGNATURES AND POWER OF ATTORNEY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on June 21, 2006.

/s/ ROBERT F. OLSON
Robert F. Olson,
Chairman of the Board,
Chief Executive Officer
and President (Principal Executive Officer)
/s/ DARIN P. MCAREAVEY
Darin P. McAreavey,
Executive Vice President,
Chief Financial Officer,
Secretary, Treasurer
(Principal Financial Officer and Principal Accounting Officer)
*
William B. Binch, Director
*
Kenneth H. Holec, Director
*
Alan B. Menkes, Director
*
Philip E. Soran, Director
*
Raymond A. Tucker, Director
*
Steven C. Waldron, Director

* Darin P. McAreavey, by signing his name below, does hereby sign this document on behalf of each of the above-named directors of the registrant pursuant to power of attorney duly reported by such persons.

By: /s/ DARIN P. MCAREAVEY
Darin P. McAreavey

STELLENT, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Stellent, Inc.

We have audited the accompanying consolidated balance sheets of Stellent, Inc. (a Minnesota Corporation) and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2006. These financial statements are the responsibility of Stellent, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stellent, Inc. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Stellent, Inc. and subsidiaries' internal control over financial reporting as of March 31, 2006, based on *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 12, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of Stellent, Inc. and subsidiaries' internal control over financial reporting.

/s/ GRANT THORNTON LLP

Minneapolis, Minnesota

June 12, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Stellent, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Stellent, Inc. and subsidiaries (a Minnesota Corporation) maintained effective internal control over financial reporting as of March 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Stellent, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that an audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Stellent, Inc. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework* issued by COSO. Also, in our opinion, Stellent, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2006, based on the criteria established in Internal Control-Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stellent, Inc. and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, and our report dated June 12, 2006 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Minneapolis, Minnesota
June 12, 2006

STELLENT, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	March 31, 2005	2006
ASSETS		
Current assets		
Cash and equivalents	\$ 49,113	\$ 34,741
Short-term marketable securities	17,523	29,900
Trade accounts receivable, net	30,063	31,320
Prepaid royalties, current portion	965	941
Prepaid expenses and other current assets	3,884	4,512
Total current assets	101,548	101,414
Long-term marketable securities	6,114	17,112
Property and equipment, net	4,333	7,822
Prepaid royalties, net of current portion	1,044	923
Goodwill	67,640	74,409
Other acquired intangible assets, net	5,615	4,003
Other	1,358	866
	\$ 187,652	\$ 206,549
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 3,867	\$ 3,072
Deferred revenues, current portion	19,854	20,143
Commissions payable	2,419	3,839
Accrued expenses and other	7,867	7,442
Current portions of obligations under capital leases	170	473
Total current liabilities	34,177	34,969
Deferred revenue, net of current portion	946	1,079
Deferred rent, net of current portion		1,264
Obligations under capital leases, net of current portions		281
Total liabilities	35,123	37,593
Shareholders' equity		
Capital stock, \$0.01 par value, 100,000 shares authorized		
Preferred stock, 10,000 shares authorized, no shares issued and outstanding at March 31, 2005 and 2006		
Common stock, 90,000 shares authorized, 27,476 and 29,443 shares issued and outstanding at March 31, 2005 and 2006	275	294
Additional paid-in capital	243,013	254,381
Unearned compensation	(469)	(123)
Accumulated deficit	(91,256)	(85,793)
Accumulated other comprehensive income	966	197
Total shareholders' equity	152,529	168,956
	\$ 187,652	\$ 206,549

The accompanying notes are an integral part of the consolidated financial statements.

STELLENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended March 31,		
	2004	2005	2006
Revenues			
Product licenses	\$ 41,571	\$ 54,376	\$ 56,950
Services	14,349	19,772	26,836
Post-contract support	19,854	32,663	39,599
Total revenues	75,774	106,811	123,385
Cost of revenues			
Product licenses	4,936	5,017	3,886
Services	13,272	19,550	25,046
Post-contract support	3,885	5,350	7,269
Amortization of capitalized software from acquisitions	1,574	2,390	1,879
Total cost of revenues	23,667	32,307	38,080
Gross profit	52,107	74,504	85,305
Operating expenses			
Sales and marketing	39,122	42,365	46,787
General and administrative	8,856	14,097	12,282
Research and development	13,263	17,958	20,153
Acquisition related sales, marketing and other costs		886	
Amortization of acquired intangible assets and other	2,006	677	626
Impairment charge on fixed assets		375	
Restructuring charges	743	3,673	1,123
Total operating expenses	63,990	80,031	80,971
Income (loss) from operations	(11,883)	(5,527)	4,334
Other income (expense)			
Interest income, net	982	822	2,181
Investment (impairment) gain on sale	388	(1,136)	
Total other income (expense)	1,370	(314)	2,181
Net income (loss) before income taxes	(10,513)	(5,841)	6,515
Provision for income taxes			173
Net income (loss)	\$ (10,513)	\$ (5,841)	\$ 6,342
Net income (loss) per common share:			
Basic	\$ (0.48)	\$ (0.22)	\$ 0.22
Diluted	\$ (0.48)	\$ (0.22)	\$ 0.21
Weighted average shares outstanding:			
Basic	22,028	26,224	28,266
Diluted	22,028	26,224	29,615

The accompanying notes are an integral part of the consolidated financial statements.

STELLENT, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except per share data)

	Common Shares	Stock Amount	Additional Paid-in Capital	Accumulated (Deficit)/ Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss)
Balance at April 1, 2003	21,856	\$ 219	\$ 186,604	\$ (74,902)	\$	\$ 315	\$ 112,236	
Exercise of stock options	274	3	1,341				1,344	
Stock issued in acquisition	100	1	753				754	
Issuance of common stock in employee stock purchase plan	172	1	831				832	
Repurchase of common stock	(63)	(1)	(308)				(309)	
Foreign currency translation adjustment gain						361	361	\$ 361
Net loss				(10,513)			(10,513)	(10,513)
Balance at March 31, 2004	22,339	223	189,221	(85,415)		676	104,705	\$ (10,152)
Exercise of stock options	778	8	3,621				3,629	
Stock issued and options assumed in acquisition	4,203	42	49,338				49,380	
Issuance of common stock in employee stock purchase plan	156	2	930				932	
Unearned stock-based compensation					(895)		(895)	
Reversal of compensation expense for terminated employees			(97)		97			
Compensation expense					329		329	
Foreign currency translation adjustment gain						290	290	\$ 290
Net loss				(5,841)			(5,841)	(5,841)
Balance at March 31, 2005	27,476	275	243,013	(91,256)	(469)	966	152,529	\$ (5,551)
Exercise of stock options	1,547	15	8,378				8,393	
Issuance of common stock in employee stock purchase plan	146	1	1,048				1,049	
Stock issued in acquisition	274	3	2,005				2,008	
Reversal of compensation expense for terminated employees			(63)		63			
Compensation expense					283		283	
Dividend (\$0.03 per share)				(879)			(879)	
Foreign currency translation adjustment loss						(769)	(769)	\$ (769)
Net income				6,342			6,342	6,342
Balance at March 31, 2006	29,443	\$ 294	\$ 254,381	\$ (85,793)	\$ (123)	\$ 197	\$ 168,956	\$ 5,573

The accompanying notes are an integral part of the consolidated financial statements.

STELLENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended March 31,		
	2004	2005	2006
Operating activities:			
Net income (loss)	\$ (10,513)	\$ (5,841)	\$ 6,342
Adjustments to reconcile net income (loss) to cash flows provided by (used in) operating activities:			
Depreciation and amortization	3,369	3,481	3,118
Amortization of acquired intangible assets and other	3,580	3,067	2,505
Impairment charge on fixed assets		451	
Lease incentives			1,043
Changes in operating assets and liabilities, net of amounts acquired:			
Trade accounts receivable, net	(3,563)	(8,102)	(1,196)
Prepaid expenses and other current assets	(692)	2,354	(183)
Accounts payable	461	756	(730)
Accrued commissions and other liabilities	1,067	1,157	1,478
Deferred revenue	870	4,458	548
Investment impairment (gain on sale)	(388)	1,136	
Net cash flows provided by (used in) operating activities	(5,809)	2,917	12,925
Investing activities:			
Maturities (purchases) of marketable securities, net	14,383	10,857	(23,375)
Business acquisitions, net of cash acquired	(2,184)	(11,094)	(5,453)
Purchases of property and equipment	(2,263)	(1,934)	(5,490)
Purchase of intangibles			(84)
Proceeds from sale of investment in other companies	388		
Other	(17)		
Net cash flows provided by (used in) investing activities	10,307	(2,171)	(34,402)
Financing activities:			
Repurchase of common stock	(309)		
Issuance of common stock	832	932	1,049
Proceeds from stock options and warrants	1,344	3,629	8,393
Payments under capital leases		(649)	(558)
Cash dividend paid			(879)
Net cash flows provided by financing activities	1,867	3,912	8,005
Effect of exchange rate changes on cash and equivalents	361	290	(900)
Net increase (decrease) in cash	6,726	4,948	(14,372)
Cash and equivalents at beginning of year	37,439	44,165	49,113
Cash and equivalents at end of year	\$ 44,165	\$ 49,113	\$ 34,741
Supplemental disclosure of cash flows information:			
Cash paid for interest	\$	\$ 24	\$ 31
Non-cash investing and financing activities:			
Common stock issued in business acquisitions	\$ 754	\$ 41,416	\$ 2,008
Assumption of stock option plan related to business combination		7,964	
Purchase of equipment through capital leases		819	1,142

The accompanying notes are an integral part of the consolidated financial statements.

STELLENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

1. Summary of Significant Accounting Policies

Stellent, Inc. (the Company) develops, markets, and services content management software with the primary focus of helping organizations derive maximum value from their content that exists in the normal course of business such as Microsoft Office documents, web pages, images, graphics, multimedia, CAD, and other files. With headquarters in Eden Prairie, Minnesota, the Company maintains offices throughout the United States and the rest of the world. The Company's customers are also located throughout the United States and the rest of the world.

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 currently derives all of its revenues from licenses of software products and related services. The Company recognizes 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 104, *Revenue Recognition*.

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 additional services or modifications that are essential to the functionality of the software.

Persuasive Evidence of an Arrangement Exists The Company determines 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 the Company, 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 the Company or will receive a shrink-wrap license agreement with the software. The Company does not offer product return rights to end users or resellers.

Delivery has Occurred The Company's software may be either physically or electronically delivered to the customer. The Company determines 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, the Company determines 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 The Company determines whether collectibility is probable and supported on a case-by-case basis. The Company may generate a high percentage of its license revenue from its current customer base, for whom there is a history of successful collection. The Company assesses 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 the Company is unable to determine from the

STELLENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

outset of an arrangement that collectibility is probable based upon its review process, revenue is recognized as payments are received.

With regard to software arrangements involving multiple elements, the Company allocates revenue to each element based on the relative fair value of each element. The Company's determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence (VSOE). The Company limits its assessment of VSOE for each element to the price charged when the same element is sold separately. The Company has analyzed all of the elements included in its multiple-element arrangements and has determined that it has sufficient VSOE to allocate revenue to consulting services and post-contract customer support (PCS) components of its license arrangements. The Company sells its consulting services separately, and has 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.

The Company's direct customers typically enter into perpetual license arrangements. The Company's OEM group generally enters into term-based license arrangements with its customers, the term of which generally exceeds one year in length. The Company recognizes 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, the Company recognizes revenue ratably over the term of the license arrangement.

Services revenue consists of fees from consulting services, PCS and out-of-pocket expenses reimbursed by the Company. Consulting services include needs assessment, software integration, security analysis, application development and training. The Company bills consulting services fees either on a time and materials basis or on a fixed-price schedule. In general, the Company's consulting services are not essential to the functionality of the software. The Company's software products are fully functional upon delivery and implementation and generally do not require any significant modification or alteration for customer use. Customers purchase the Company's consulting services to facilitate the adoption of the Company's 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. The Company recognizes revenue from consulting services as services are performed. The Company's customers typically purchase PCS annually, and prices 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. Unspecified product upgrades are not provided without the purchase of PCS. The Company typically has not granted specific upgrade rights in its license agreements. Specified undelivered elements are allocated a relative fair value amount within a license agreement and the revenue allocated for these elements are deferred until delivery occurs.

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

Cost of Revenues: The Company expenses all manufacturing, packaging and distribution costs associated with product license revenue as cost of revenues. The Company expenses all technical support

STELLENT, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)**

service costs associated with service revenue as cost of revenues. The Company also expenses amortization of capitalized software from acquisitions as cost of revenues. The Company reports out-of-pocket expenses reimbursed by customers as revenue and the corresponding expenses incurred as costs of revenues.

Cash and Equivalents: The Company considers all short-term, highly liquid investments that are readily convertible into known amounts of cash and have original maturities of three months or less to be cash equivalents. At March 31, 2005 and 2006, \$7,311 and \$6,664 was held at various financial institutions located in Europe and other foreign countries.

Marketable Securities: Investments in debt securities with a remaining maturity of one year or less at the date of purchase are classified as short-term marketable securities. Investments in debt securities with a remaining maturity of greater than one year are classified as long-term marketable securities. All marketable securities are classified as held to maturity and recorded at amortized cost as the Company has the ability and positive intent to hold to maturity. At March 31, 2005 and 2006, cost approximated market value of these investments. Purchases of investments were \$184,108, \$201,537 and \$271,165 for the years ended March 31, 2004, 2005 and 2006, respectively. Maturities of investments were \$198,491, \$212,394 and \$247,790 for the years ended March 31, 2004, 2005 and 2006, respectively. The contractual maturities of the marketable securities held at March 31, 2006 are \$29,900 in fiscal 2007 and \$17,112 in fiscal years thereafter.

At March 31, 2006, short and long-term marketable securities consisted of the following:

	U.S. government and agency securities	Corporate debt securities	Total
Short-term marketable securities	\$ 7,688	\$ 22,212	\$ 29,900
Long-term marketable securities	\$	\$ 17,112	\$ 17,112

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 the Company anticipates holding them for more than one year. The Company holds less than 20% interest in, and does not directly or indirectly exert significant influence over any of the respective investees.

Investments in other companies include investments in several non-public, start-up technology companies for which the Company uses the cost method of accounting. During fiscal 2005, the Company determined, based on its review of the financial statements of such other companies, incremental financing that they received, discussions of business plans and forecasts with other companies' executives and judgments and assumptions about the respective other companies' industry, as well as the U.S. and world economies in general, that a permanent decline in value of certain investments had occurred and recorded a \$1,136 write-down on the investments in and advances to the companies. No permanent decline in value of investments occurred during fiscal years 2004 or 2006.

Accounts Receivable: Accounts receivable are presented net of allowances of \$803 and \$828 as of March 31, 2005 and 2006. The Company's 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

STELLENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

are due over terms ranging from 30 days to twelve 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. The Company determines its allowance by considering a number of factors, including the length of time trade receivables are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-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 the Company's revenues in the years ended March 31, 2004, 2005, and 2006.

Property and Equipment: Property and equipment, including leasehold improvements, are recorded at cost. Maintenance, repairs and minor renewals are expensed when incurred. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, ranging from two to eight years, or the life of the lease for leasehold improvements, whichever is shorter. Equipment under capital leases is depreciated to its expected value at the end of the lease term. Fully depreciated assets are retained in the asset and accumulated depreciation accounts until disposal. Upon disposal, assets and related accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to operations. Property and equipment amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis. During fiscal year 2005, the Company completed a physical inventory of our fixed assets which includes equipment, furniture and leasehold improvement on its leased facilities. As a result of this physical inventory, the Company identified certain fixed assets which had been either decommissioned and had no value or were physically disposed of during the fourth quarter of fiscal year 2005. The Company recorded an impairment charge of \$375 which represented the remaining net book value of these assets as of March 31, 2005. No impairment charge occurred during fiscal years 2004 or 2006.

STELLENT, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)**

Goodwill: Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is not amortized. Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. The Company has determined that there are two reporting units. The Company performed and completed its required annual impairment testing on January 1, 2006. Upon completing a review internally, the Company determined that the carrying value of its recorded goodwill as of this date had not been impaired and no impairment charge was recorded. No circumstances occurred during the fourth quarter of fiscal year 2006 which would have created an impairment loss at March 31, 2006. The changes in the carrying amount of goodwill for the years ended March 31, 2005 and 2006 was as follows:

	March 31, 2005	2006
Beginning of the year	\$ 14,780	\$ 67,640
Acquisition of Optika	51,155	131
Acquisition of Stellent, S.A. De C.V.	1,158	100
Acquisition of Ancept	367	146
Acquisition of Stellent Information Systems Company Limited	180	
Acquisition of e-Onehundred Group		6,405
Other		(13)
End of the year	\$ 67,640	\$ 74,409

Other acquired intangible assets: Other acquired intangible assets are assets acquired from an independent party. The assets have no significant residual values. There are no other acquired intangible assets which are not subject to amortization. The other acquired intangible assets are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. The Company has determined that no material impairments existed as of March 31, 2006. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis. Other acquired intangible assets by major intangible asset class at March 31, 2006 were as follows:

	Acquired Value	Amortization Period in Years
Core technology	\$ 3,690	3
Customer base	3,039	3 to 10
	\$ 6,729	5.34 weighted average years

STELLENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)

Gross carrying amounts and accumulated amortization of the acquired other intangibles were as follows for each major intangible asset class:

	As of March 31, 2005 Gross Carrying Amount	Accumulated Amortization	Net Balances
Core technology	\$ 4,991	\$ (1,870)	\$ 3,121
Customer base	2,725	(231)	2,494
	\$ 7,716	\$ (2,101)	\$ 5,615

	As of March 31, 2006 Gross Carrying Amount	Accumulated Amortization	Net Balances
Core technology	\$ 3,690	\$ (2,153)	\$ 1,537
Customer base	3,039	(573)	2,466
	\$ 6,729	\$ (2,726)	\$ 4,003

Amortization expense for the years ended March 31, 2004, 2005 and 2006 related to the acquired other intangible assets was \$3,580, \$2,738 and \$2,222, respectively.

Estimated amortization expense for other acquired intangible assets is as follows for the years ending March 31:

2007	\$ 1,593
2008	644
2009	322
2010	278
2011	278
Thereafter	888
	\$ 4,003

Software Development Costs: Software development costs may be capitalized once the technological feasibility of the project is established. The amount of software development costs that may be capitalized is subject to limitations based on the net realizable value of the potential product. Typically the period between achieving technological feasibility of the Company's products and the general availability of the products has been short. No software costs were capitalized during fiscal years 2005 and 2006.

In addition, capitalized software has included the fair value of certain acquired capitalized software costs (see Note 2). Amortization of developed capitalized software is determined annually as the greater of the amount computed using the ratio of current gross revenues for the products to their total of current and anticipated future gross revenues or the straight-line method over the estimated economic life of the products. Capitalized software totaled \$1,219 and accumulated amortization was \$1,130 at March 31, 2005. At March 31, 2006 capitalized software and accumulated amortization was zero. Amortization expense of developed capitalized software is included in Cost of Revenues Product Licenses.

STELLENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)

Warranties: The Company generally warrants its software products for a period of 30 to 90 days from the date of delivery and estimates probable product warranty costs at the time revenue is recognized. The Company exercises judgment in determining its accrued warranty liability. Factors that may affect the warranty liability include historical and anticipated rates of warranty claims, material usage, and service delivery costs. Warranty costs incurred to date have not been material.

Indemnification Obligations: The Company generally provides to its customers intellectual property indemnification obligations in its software products or services. Typically these obligations provide that the Company will indemnify, defend and hold the customers harmless against claims by third parties that its software products or services infringe upon the copyrights, trademarks, patents or trade secret rights of such third parties. No such claim has been made by any third party with regard to the Company's software products or services.

Translation of Foreign Currencies: Foreign currency assets and liabilities of the Company's international subsidiaries are translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the year. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated as part of the foreign currency translation adjustment in shareholders' equity.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Comprehensive Income (Loss): Comprehensive income (loss) as defined by Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, includes net income (loss) and items defined as other comprehensive income (loss). SFAS No. 130 requires that items defined as other comprehensive income (loss), such as foreign currency translation adjustments and unrealized gains and losses on the Company's available for sale securities, be separately classified in the financial statements. Such items are reported in the consolidated statements of shareholders' equity as comprehensive income (loss).

Advertising: The Company expenses the cost of advertising as it is incurred. Advertising expense for the years ended March 31, 2004, 2005 and 2006 was \$4,362, \$5,095 and \$4,890, respectively.

The Company enters into cooperative advertising programs with some of its resellers, and when the Company receives an identifiable benefit in return for consideration, and the Company can reasonably estimate the fair value of the benefit received, the cooperative advertising is accounted for as advertising expense. If the fair value cannot be estimated or an identifiable benefit is not received, the cooperative advertising is accounted for as a reduction of revenue.

Research and Development: These costs are charged to operations in the year incurred and are shown on a separate line of the Consolidated Statements of Operations. Research and development expenses, covering basis technology research and the application of technology advances to the development of new and improved products, totaled \$13,263, \$17,958 and \$20,153 for the years ended March 31, 2004, 2005 and 2006, respectively.

Net income (Loss) per Common Share: The difference in the weighted average shares outstanding for calculating basic and diluted net income (loss) per share is attributable to the dilution associated with the Company's stock-based compensation plans. The Company's basic net income (loss) per share amounts

STELLENT, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)**

have been computed by dividing net income (loss) by the weighted average number of outstanding common shares. The Company's diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of outstanding common shares and common share equivalents relating to stock options and warrants, when dilutive. For the years ended March 31, 2004 and 2005, the Company incurred net losses and therefore, basic and diluted per share amounts are the same. For the year ended March 31, 2006 the Company incurred net income and therefore the dilution associated with the Company's stock-based compensation plans was 1,349.

Income Taxes: The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realization exists. As of March 31, 2006 and 2005 a valuation allowance of \$73,147 and \$71,098, respectively were recorded. See Note 8 to the Consolidated Financial Statements.

Stock-based Compensation: The Company has stock option plans for employees and a separate stock option plan for directors, which are described more fully in Note 5. The intrinsic value method is used to value the stock options issued to employees and directors, and the Company accounts for those plans under the recognition and measurement principles of Financial Accounting Standards Board (FASB), APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and complies with the disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123*. The Company has adopted the disclosure requirements of SFAS No. 148 in these notes to the consolidated financial statements. In the years presented, no stock-based employee compensation cost is reflected in net income (loss), excluding the amortization of unearned compensation expense related to the Optika transaction recognized in fiscal year 2005, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Had the fair value method been applied, the compensation expense would have been different in the periods presented. The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had applied the fair value method for the following periods:

	Years Ended March 31,		
	2004	2005	2006
Net income (loss) as reported	\$ (10,513)	\$ (5,841)	\$ 6,342
Add: Stock-based compensation included in net income (loss) as reported		329	283
Less: Total stock-based employee compensation expense determined under fair value based method for all awards	(8,711)	(11,828)	(7,003)
Net loss pro forma	\$ (19,224)	\$ (17,340)	\$ (378)

STELLENT, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)**

	Years Ended March 31,		
	2004	2005	2006
Weighted average shares outstanding:			
Basic	22,028	26,224	28,266
Diluted	22,028	26,224	29,615
Net income (loss) per share as reported:			
Basic	\$ (0.48)	\$ (0.22)	\$ 0.22
Diluted	\$ (0.48)	\$ (0.22)	\$ 0.21
Net loss per share pro forma:			
Basic	\$ (0.87)	\$ (0.66)	\$ (0.01)
Diluted	\$ (0.87)	\$ (0.66)	\$ (0.01)

The weighted average fair value of options granted under the stock options plans during fiscal years 2004, 2005 and 2006 was \$4.41, \$5.55 and \$3.24, per share respectively. The weighted average of the employee stock purchase shares for fiscal years 2004, 2005 and 2006 was \$2.30, \$2.01 and \$2.27, respectively. The Company amortizes the fair value of compensation using the straight-line method over the vesting term. Pro forma information regarding the fair value of stock options is determined at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Employee based stock option plans:

	Years Ended March 31,		
	2004	2005	2006
Risk free interest yields	2% - 5.5%	3.3% - 3.6%	3.7% - 4.6%
Dividend yield			
Volatility factor of expected market price of Company's stock	95%	70% - 95%	46% - 58%
Weighted average expected life of options (years)	3.25	3.00 - 3.25	3.00

Employee stock purchase plan:

	Years Ended March 31,		
	2004	2005	2006
Risk free interest yields	1.0% - 1.1%	1.3% - 2.2%	3.2% - 4.0%
Dividend yield			
Volatility factor of expected market price of Company's stock	83%	45%	45% - 50%
Weighted average expected life of options (years)	0.5	0.5	0.5

In December 2004, FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, known as Statement 123(R). Statement 123(R) supersedes APB Opinion No. 25. Under APB Opinion No. 25, no compensation expense is recognized for employee stock option grants if the exercise price of the Company's stock option grants is at or above the fair market value of the underlying stock on the date of grant. SFAS No. 123(R) requires the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation vests. The original effective date for SFAS No. 123(R) for the Company was July 1, 2005. However, on April 14, 2005, the Securities and Exchange Commission (SEC) adopted a new rule that

STELLENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

amends the effective dates for SFAS No. 123(R). The SEC's new rule allows companies to implement SFAS No. 123(R) at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005. Therefore, the Company adopted SFAS No. 123(R) effective April 1, 2006. As part of this adoption, the Company began expensing options effective April 1, 2006 and has elected not to restate the prior period results. Based on the current amount of outstanding stock options that will vest on or after April 1, 2006, the Company anticipates recognizing \$4,000 to \$6,000 of compensation expense during fiscal year 2007. This amount will fluctuate depending on future stock options granted to or forfeited by employees and directors.

Fair Value of Financial Instruments: The Company's financial instruments including cash and cash equivalents, short-term marketable securities, long-term marketable securities, accounts receivable and accounts payable, and are carried at cost, which approximates fair value due to the short-term maturity of these instruments.

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. Actual results could differ from those estimates.

New Accounting Pronouncements: In November 2005, the FASB issued FASB Staff Position (FSP) FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The guidance in this FSP addresses the determination of when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The guidance in this FSP nullifies certain requirements of EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, and supersedes EITF Abstracts, Topic D-44, *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*. The guidance in this FSP is required to be applied to reporting periods beginning after December 15, 2005. The Company adopted this Staff Position during fiscal year 2006 and it did not have a material impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This new standard replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a restatement. The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company adopted the provisions of SFAS No. 154 and it did not have a material impact on the Company's consolidated financial statements.

STELLENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

In December 2004, FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, known as Statement 123(R). Statement 123(R) supersedes APB Opinion No. 25. Under APB Opinion No. 25, no compensation expense is recognized for employee stock option grants if the exercise price of the Company's stock option grants is at or above the fair market value of the underlying stock on the date of grant. SFAS No. 123(R) requires the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation vests. The original effective date for SFAS No. 123(R) for the Company was July 1, 2005. However, on April 14, 2005, SEC adopted a new rule that amends the effective dates for SFAS No. 123(R). The SEC's new rule allows companies to implement SFAS No. 123(R) at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005. Therefore, the Company adopted SFAS No. 123(R) effective April 1, 2006. As part of this adoption, the Company began expensing options effective April 1, 2006 and has elected not to restate the prior period results. Based on the current amount of outstanding stock options that will vest on or after April 1, 2006, the Company anticipates recognizing \$4,000 to \$6,000 of compensation expense during fiscal year 2007. This amount will fluctuate depending on future stock options granted to or forfeited by employees and directors.

2. Business Combinations

Fiscal year 2006 acquisition:

On June 20, 2005, the Company acquired certain assets of privately held e-Onehundred Group, a financial compliance solutions provider, for \$5,000 in cash and 274 shares of the Company's stock valued at \$2,008. The Company also incurred approximately \$291 in professional fees and other costs directly associated with this acquisition. Approximately \$6,405 of the purchase price was allocated to goodwill, \$520 was allocated to other acquired intangible assets (core technology and customer base, which both will be amortized over a three year period), \$551 was allocated to assets acquired and \$177 was allocated to liabilities assumed in the acquisition. The Company is also required to make earn-out payments of potentially \$2,000 based upon revenue performance over a one-year period from the date of acquisition. As of March 31, 2006 the Company has not made an earn-out payment. Future earn-out payments are estimated to be \$1,500 for the fiscal year ended March 31, 2007. Additional pro forma disclosures required under SFAS No. 141 related to this acquisition were not considered material.

Fiscal year 2005 acquisitions:

On May 13, 2004, the Company acquired the outstanding shares of Stellent, S.A. De C.V. for approximately \$750 in cash and assumed liabilities of \$274, creating a business presence in Mexico. The Company was required to make contingent consideration payments (earn out) for two years from the date of acquisition. Earn out amounts cannot exceed \$300 in the first year and \$450 in the second year after the acquisition which will be recorded as goodwill. During fiscal year 2005 and fiscal year 2006, \$134 and \$100, respectively, was accrued and recorded as goodwill related to this earn out. The Company does not anticipate any additional earn out to be paid related to this acquisition. Additional pro forma disclosures required under SFAS No. 141, related to this acquisition were not considered material.

On May 28, 2004, the Company acquired all outstanding shares of Optika Inc. for \$10,000 in cash, approximately 4,203 shares of the Company's common stock valued at \$41,416, the assumption of Optika's outstanding common stock options, and direct acquisition costs of approximately \$1,594. The Company acquired Optika in order to add to, or strengthen and expand, its Universal Content Management software

STELLENT, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)**

in the areas of document imaging, business process management and compliance capabilities. The valuation of the Company's stock was set at an average price at the time the merger agreement was signed, which was January 11, 2004. The fair value of Optika's option plan of \$7,964 was estimated as of January 11, 2004 using the Black-Scholes option-pricing model with the following assumptions: no estimated dividends, expected volatility of 95%, risk free interest rate of 2.5% and expected option terms of 3 years for all options.

The total estimated purchase price was allocated to Optika's net tangible and identifiable intangible assets based upon their estimated fair values as of the date of completion of the acquisition. The excess of the purchase price over the net tangible and identifiable intangible assets has been recorded as goodwill. A restructuring plan was adopted as a result of the acquisition. The acquisition restructuring charge relates to severance costs for terminated employees of \$596 and facility closing costs of \$263 primarily related to lease obligations and was included in the cost of the acquisition. During fiscal year 2006, the Company paid out the remaining amounts of \$210 and \$66 in severance and facility costs, respectively. Based upon the purchase price and valuation, the following represents the allocation of the aggregate purchase price to the acquired net assets of Optika:

Purchase price:	
Cash	\$ 10,000
Transaction costs	1,594
Value of common stock issued	41,416
Value of stock option grants	7,964
Total purchase consideration paid	\$ 60,974
Fair value of assets acquired and liabilities assumed:	
Cash	\$ 7,460
Accounts receivable	2,912
Fixed assets	460
Other assets	660
Accounts payable	(313)
Accrued expenses	(1,433)
Deferred revenue	(6,194)
Acquisition restructuring charge	(859)
Goodwill	51,286
Identifiable intangible assets	6,100
Unearned compensation	895
Total purchase price	\$ 60,974

The estimate of unearned compensation was based on the fair market value of the unvested options as of May 28, 2004. Compensation expense will be recognized over the remaining vesting period of the options, which ranges from one month to 48 months, as each option grant vests.

STELLENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)

The Company valued the identifiable intangible assets acquired using an appraisal. Identifiable intangible assets consist of:

	Fair Value	Useful Life	Annual Amortization
Core technology	\$ 3,400	3 years	\$ 1,133
Customer base	2,700	10 years	270
	\$ 6,100		\$ 1,403

As part of the acquisition of Optika, the Company also acquired net deferred tax assets of approximately \$13,390. These deferred tax assets relate to net operating loss (NOL) carryforwards and the tax effects of temporary differences primarily related to deferred revenue, depreciation and amortization and other accrued expenses. The \$51,286 allocated to goodwill is not deductible for tax purposes.

Realization of the NOL carryforwards and the deferred tax temporary differences, which were acquired, are contingent on future taxable earnings. The deferred tax assets were reviewed for expected utilization using a more likely than not approach by assessing the available positive and negative evidence surrounding their recoverability.

The Company has recorded a full valuation allowance against the net deferred tax assets, acquired or otherwise, due to the uncertainty of future taxable income, which is necessary to realize the benefits of the deferred tax assets. NOL carryforwards were approximately \$34,803. These NOLs begin to expire in 2010 and are subject to annual utilization limits due to prior ownership changes.

The Company will continue to assess and evaluate strategies that will enable the deferred tax asset, or portion thereof, to be utilized, and will reduce the valuation allowance appropriately at such time when it is determined that the more likely than not criteria is satisfied. Reversal of the valuation allowance will be applied first to reduce to zero any goodwill related to the acquisition, then to reduce to zero other non-current intangible assets related to the acquisition, and then to reduce income tax expense.

The following unaudited pro forma condensed consolidated results of operations have been prepared as if the acquisition of Optika had occurred as of April 1, 2003:

	Years Ended March 31,	
	2004	2005
Net revenues	\$ 96,967	\$ 109,361
Net loss	\$ (12,240)	\$ (9,404)
Net loss per share:		
Basic and diluted	\$ (0.47)	\$ (0.35)
Weighted average shares outstanding:		
Basic and diluted	26,151	26,882

The unaudited pro forma condensed consolidated results of operations are not necessarily indicative of results that would have occurred had the acquisition occurred as of April 1, 2003, nor are they necessarily indicative of the results that may occur in the future.

During fiscal year 2005, the Company acquired certain assets of Stellent Information Systems Company Limited, a Korean entity, for a total of \$205 in cash. \$180 was recorded as goodwill and \$25 was

STELLENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

allocated to other intangible assets. Additional pro forma disclosures required under SFAS No. 141, related to this acquisition were not considered material.

Fiscal year 2004 acquisition:

On August 20, 2003, the Company acquired certain assets of Ancept, Inc., a provider of software for digital asset management, for approximately \$2,000 in cash and 100 shares of the Company's stock, which were valued at approximately \$800. Approximately \$1,914 of the purchase price was allocated to goodwill, \$972 was allocated to capitalized software and \$86 was allocated to liabilities assumed in the acquisition. The Company was also required to make contingent consideration payments based upon certain license revenue sales for two years from the date of acquisition. Total contingent consideration payments were \$140, \$367 and \$146 for fiscal years 2004, 2005 and 2006, respectively. The Company does not anticipate any additional earn out to be paid related to this acquisition. Additional pro forma disclosures required under SFAS No. 141, related to this acquisition were not considered material.

3. Related Party Transactions

At March 31, 2002, the Company held investments in and notes with five non-public start-up technology companies, owning approximately 3% to 12% of these companies, and in publicly traded technology companies listed on NASDAQ, primarily Active IQ, in which the Company owned 5.4%, exclusive of warrants. Investments in these companies were made with the intention of giving the Company opportunities to have new technologies developed or give the Company leverage into certain vertical markets that the Company may not otherwise be able to obtain on its own. At March 31, 2003, the Company had remaining value in two of these non-public company investments and owned approximately 9% to 13% of them. At March 31, 2004, the Company's investments in these two non-public companies were approximately 8% and 11%. The value of these two investments at March 31, 2003 and 2004 was approximately \$1,136. A permanent decline in value for these two companies of approximately \$1,136 was recorded in fiscal 2005.

Upon the acquisition of certain assets of Active IQ (see Note 2) in March 2003, the Company recorded an impairment of approximately \$1,100 million related to the Company's investment in Active IQ. For substantially all of the year ended March 31, 2003, the Company's investment in Active IQ was less than 5%. In fiscal 2004, the Company sold this investment and recorded a gain of approximately \$388.

During the years ended March 31, 2003 and March 31, 2004, the Company entered into several sales transactions with companies affiliated with members of our Board of Directors. Revenue of approximately \$393 and \$223 from these sales transactions was recorded during the years ended March 31, 2003 and March 31, 2004, respectively. At March 31, 2003 and March 31, 2004, we had an account receivable balance of \$340 and \$54 associated with these transactions, respectively. The terms and conditions, including fees, with respect to the transactions were substantially similar to those with unaffiliated third parties negotiated at arms length. The members of our Board of Directors affiliated with these companies had no direct or indirect material interest in the transactions.

In March 2004, the Company entered into a non-exclusive reseller agreement with Optika, Inc., a company with which we had announced a definitive merger agreement in January 2004 and later acquired in May 2004 (see Note 2). The agreement provided for the sale of Optika products by us. In the year ended March 31, 2004, we recognized approximately \$172 of revenue under the agreement.

STELLENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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4. Supplemental Balance Sheet Information

Property and Equipment

Property and equipment consists of the following:

	March 31, 2005	2006
Equipment and furniture	\$ 13,323	\$ 15,725
Equipment under capitalized leases	819	1,962
Leasehold improvements	1,926	3,882
	16,068	21,569
Less accumulated depreciation	(11,735)	(13,747)
	\$ 4,333	\$ 7,822

Accrued Expenses and Other

Accrued expenses and other consists of the following:

	March 31, 2005	2006
Accrued vacation	\$ 1,282	\$ 1,770
Accrued restructuring costs	1,747	621
Other accrued expenses	4,838	5,051
	\$ 7,867	\$ 7,442

5. Shareholders Equity

Preferred Stock: Stellent's Certificate of Incorporation provides for the issuance of up to 10,000 shares of undesignated preferred stock. Undesignated preferred stock may be issued in one or more series, with each series to have those rights and preferences, including, without limitation, voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by unlimited discretion of Stellent's Board of Directors. At March 31, 2005 and 2006, no preferred stock was issued or outstanding.

Common Stock: Stellent's Certificate of Incorporation provides for the issuance of up to 90,000 shares of common stock with a par value of \$0.01. The holders of Stellent common stock are entitled to one vote per share on all matters to be voted upon by its stockholders. The holders of common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. The determination to pay dividends on common stock will be at the discretion of the Board of Directors and will depend on the Company's financial condition, results of operations, cash requirements, prospects and such other factors as the Board of Directors may deem relevant.

On March 6, 2006, the Board of Directors declared the Company's initial quarterly cash dividend of \$0.03 per share. The dividend was paid on March 28, 2006 to stockholders of record at the close of business on March 16, 2006. The total amount of the dividend was \$879. On May 9, 2006, the Board of Directors

STELLENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

declared a quarterly cash dividend of \$0.03 per share to be paid on June 27, 2006 to stockholders of record on June 15, 2006.

Warrants: The Company had no stock purchase warrants outstanding as of March 31, 2006.

Stock Repurchase: In April 2000, the board of directors authorized the repurchase of up to \$10,000 of the Company's common stock at a price not exceeding \$20 per share. In September 2001, the board of directors authorized the repurchase of up to \$20,000 of the Company's common stock at a price not exceeding \$15 per share. During fiscal 2003 and 2004, the Company reacquired 757 and 63 shares of common stock at a cost of \$3,465 and \$309, respectively, which was equal to the fair value of the shares on the date acquired.

Shareholder Rights Plan: On May 29, 2002, the Board of Directors of the Company approved a shareholder rights plan which provides for fair and equal treatment of all shareholders in the event an unsolicited attempt is made to acquire the Company. Under the plan, the Company declared a dividend of one preferred share purchase right for each outstanding share of common stock of the Company, payable to shareholders of record on June 13, 2002. Each right entitles the holder to purchase from the Company one-hundredth of a Series A junior participating preferred share of the Company at an exercise price of \$75. The rights will separate from the common shares and a distribution for the rights will occur, subject to certain criteria, in the event an investor group acquires 15% or more of the Company's common stock. The rights are not exercisable until the distribution date and expire on June 13, 2012.

Stock Options: The Company maintains several stock option plans (the Plan), which provide for the grant of stock options and other stock based awards. The Plan is administered by the Board of Directors, which has the discretion to determine the number and purchase price of shares subject to stock options (which may be below the fair market value of the common stock on the date thereof), the term of each option, and the terms of exercisability. The options generally vest over periods of one to five years and have a maximum life of ten years. A maximum of 12,521 shares of common stock were issuable to employees and directors under the terms of Plan, of which a total of 3,074 were available for future grant as of March 31, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)

A summary of the Company's stock option activity, and related information through March 31, 2006 is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding as of March 31, 2003	4,685	12.13
Granted	1,838	6.47
Exercised	(274)	4.90
Forfeited	(605)	17.49
Outstanding as of March 31, 2004	5,644	10.06
Converted Optika options	1,114	6.70
Granted	1,513	7.20
Exercised	(778)	4.67
Forfeited	(807)	12.56
Outstanding as of March 31, 2005	6,686	9.19
Granted	1,322	7.84
Exercised	(1,547)	5.43
Forfeited	(688)	10.28
Outstanding as of March 31, 2006	5,773	\$ 9.76

The following table summarizes information about the stock options outstanding at March 31, 2006:

Range of Exercise Price	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$1.91 - \$5.99	961	6.9	\$ 4.51	838	\$ 4.53
\$6.00 - \$6.99	1,472	7.0	6.48	934	6.40
\$7.00 - \$7.99	1,556	8.4	7.47	590	7.51
\$8.00 - \$16.99	1,111	7.3	10.65	710	11.44
\$17.00 - \$81.82	673	4.8	28.22	673	28.22
	5,773	7.1	\$ 9.76	3,745	\$ 11.04

Employee Stock Purchase Plan: The Company has an employee stock purchase plan (the Employee Plan), which allows eligible employees to purchase stock of the Company at 85% of its fair market value through elected payroll deductions equal up to 10% of their compensation. During fiscal 2004, 2005 and 2006, 172, 156 and 146, respectively, shares of common stock had been purchased under the Employee Plan. During fiscal 2006, all available shares under the Employee Plan were issued and the Company does not currently intend to authorize any additional shares.

6. Employee Benefit Plans

The Company maintains pre-tax salary reduction and profit sharing plans under the provisions of Section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees who have reached the age of 21. Each employee may elect to contribute to the Plan through payroll deductions.

STELLENT, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)**

of his or her salary, subject to certain limitations. Total Company contributions to the plans for the years ended March 31, 2004, 2005 and 2006 were \$405, \$551 and \$667, respectively.

7. Basic and Diluted Net Income (Loss) Per Common Share

Basic net income (loss) per share is computed using the weighted average number of shares outstanding of common stock. Diluted net income (loss) per share is computed using the weighted average number of shares of common stock and common equivalent shares outstanding during the period. Common equivalent shares consist of stock options and are excluded from the computation if their effect is anti-dilutive. Options to purchase 5,868 and 6,686 shares of common stock were outstanding at March 31, 2004 and 2005, but were excluded from the computation of common share equivalents because they were anti-dilutive. The components of net income (loss) per basic and diluted shares are as follows:

	Years Ended March 31,		
	2004	2005	2006
Net income (loss) as reported	\$ (10,513)	\$ (5,841)	6,342
Weighted average shares outstanding:			
Basic	22,028	26,224	28,266
Dilution associated with employee stock option			1,349
Diluted	22,028	26,224	29,615
Net income (loss) per share as reported:			
Basic	\$ (0.48)	\$ (0.22)	\$ 0.22
Diluted	\$ (0.48)	\$ (0.22)	\$ 0.21

8. Income Taxes

The provision for income taxes consists of the following:

	Years Ended March 31,		
	2004	2005	2006
Current:			
U.S. and state	\$	\$	\$ 37
Foreign			
Total current tax expense (benefit)			37
Deferred:			
U.S. and state	\$	\$	\$ 136
Foreign			
Total deferred tax expense (benefit)			136
Total income tax expense (benefit)	\$	\$	\$ 173

STELLENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Deferred tax assets/(liabilities) are comprised of the following:

	Years Ended March 31,	
	2005	2006
Deferred tax liabilities:		
Depreciation	\$ (225)	\$ (469)
Other	41	73
Deferred tax assets:		
Deferred revenue	871	167
Accounts receivable and other reserves	640	1,098
Net operating loss carryforwards	54,773	58,339
Amortization of intangibles	8,071	4,771
Foreign tax credits	309	409
Permanent investment write-down	2,006	1,348
Capital loss carryforwards		2,017
Research and development credit carryforwards	4,612	5,258
	71,098	73,011
Valuation allowance	(71,098)	(73,147)
Net deferred tax asset/(liability)	\$	\$ (136)

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 Company had net operating loss (NOL) carryforwards of approximately \$126,291 in the United States (U.S.) and foreign NOL carryforwards of approximately \$35,971 at March 31, 2006. The utilization of a portion of the Company's U.S. NOLs and carryforwards is subject to annual limitations under Internal Revenue Code Section 382. Subsequent equity changes could further limit the utilization of these NOLs and credit carryforwards. If not used, the NOLs begin to expire in 2010 in the following amounts each year:

For the year ending March 31,	
2007	\$
2008	
2009	
2010	740
2011	88
Thereafter	161,434
	\$ 162,262

Realization of the NOL carryforwards and other deferred tax temporary differences is contingent on future taxable earnings. The deferred tax asset was reviewed for expected utilization using a more likely than not approach by assessing the available positive and negative evidence surrounding its recoverability. Accordingly, a full valuation allowance has been recorded against the Company's deferred tax asset, as it was determined based upon past losses that it was more likely than not that the Company's deferred tax assets would be realized. In future years, if the deferred tax assets are determined by management to be

STELLENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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more likely than not to be realized, the recognized tax benefits relating to the reversal of the valuation allowance as of March 31, 2006 will be recorded as follows:

Income tax benefit from continuing operations	\$ 44,150
Goodwill and intangibles	12,272
Additional paid-in capital	16,725
Total	\$ 73,147

The Company will continue to assess and evaluate strategies that will enable the deferred tax asset, or portion thereof, to be utilized, and will reduce the valuation allowance appropriately at such time when it is determined that the more likely than not criteria is satisfied.

The Company's effective tax rate varied from the U.S. federal statutory tax rate as follows:

	Years Ended March 31,		
	2004	2005	2006
Federal statutory rate	(34.0)%	(34.0)%	34.0 %
Research and development credits	(0.1)	1.9	(4.4)
State taxes	(0.3)	0.4	
Permanent Differences	(1.8)	4.0	1.0
Change in valuation allowance	37.6	27.8	(28.6)
Other	(1.4)	(0.1)	0.7
Effective tax rate	%	%	2.7 %

9. Commitments and Contingencies

Operating and Capital Leases: The Company has entered into certain non-cancelable operating and capital lease agreements related to office and warehouse space, equipment and vehicles. Total rent expense under operating leases net of sublease income, was \$5,265, \$4,548 and \$3,718 for the years ended March 31, 2004, 2005 and 2006, respectively. Total payments including interest made under capital leases for fiscal years 2006 and 2005 was \$589 and \$673, respectively. The Company did not have any capital leases for the year ended March 31, 2004. At March 31, 2005 and 2006, leased capital assets included in equipment and furniture were as follows:

Property and equipment:	March 31,	
	2005	2006
Equipment and furniture	\$ 819	\$ 1,962
Less accumulated depreciation	(653)	(1,216)
	\$ 166	\$ 746

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)

Minimum remaining rental commitments under operating leases net of sublease and capital leases arrangements are as follows as of March 31, 2006:

	Operating	Capital
For the year ending March 31,		
2007	\$ 3,017	\$ 505
2008	1,292	208
2009	1,156	87
2010	1,113	
2011	1,038	
Thereafter	2,518	
Total	\$ 10,134	\$ 800
Less: Amounts representing interest		(46)
Present value of future minimum lease payments		\$ 754
Less: Current portions of obligations under capital lease		(473)
Obligations under capital leases, net of current portions		\$ 281

Software Royalties: The Company has entered into several software royalty agreements whereby it is required to pay a royalty amount based upon predetermined payment schedules. At March 31, 2005 and 2006, the Company recorded advanced royalties as prepaid expense of \$2,009 and \$1,864, respectively. Royalties are recognized as expense based on sales. During the years ended March 31, 2004, 2005 and 2006 royalty expense totaled \$3,103, \$3,042 and \$2,114, respectively.

Legal Proceedings: The Company was a defendant, along with certain current and former officers and directors of the Company, in a putative class action lawsuit entitled *In re Stellent Securities Litigation*. The lawsuit was a consolidation of several related lawsuits (the first of which was commenced on July 31, 2003). The plaintiff alleged that the defendants made false and misleading statements relating to the Company and its future financial prospects in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In fiscal year 2005 a settlement was reached, subject to final documentation and preliminary and final court approval. The Company received the final court approval in the third quarter of fiscal year 2006. No further expenses are anticipated with this lawsuit.

Certain current and former officers and directors were also named in a derivative lawsuit that followed the completion of a special litigation committee process in which the plaintiff, on behalf of the Corporation, alleged that the board breached its fiduciary duties by allowing certain circumstances to exist that gave rise to the Federal case described above. A special litigation committee has recommended that the Company not pursue an action against the Board and/or the Company's officers. The Company moved to dismiss the action. While the motion to dismiss was pending the Company's insurance carriers, because of the ongoing expense of litigation and the role the plaintiff's counsel played in the special litigation committee process, agreed to settle the pending derivative lawsuit for a payment of \$250,000. The settlement is subject to preliminary and final court approval. The settlement will be paid entirely from proceeds of an insurance policy.

Additionally, the Company is subject to various claims and litigation in the ordinary course of its business, 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 its consolidated financial position, results of operations or cash flows.

STELLENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

10. Restructuring Charges

The Company initiated four restructuring plans during fiscal year 2003 in an effort to better align its expenses and revenues in light of the continued economic slowdown. The Company adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, effective January 1, 2003 and has accounted for restructuring charges initiated after December 31, 2002 under its provisions.

As part of the Company's fourth restructuring plan, which occurred during March 2003, the Company recorded approximately \$452 during the first quarter of fiscal 2004, of which \$396 related to employee termination costs for five employees who were identified to be terminated as part of the plan, but had not been communicated their termination until after March 31, 2003. This plan also included the closing of an office facility as part of its acquisition of Active IQ (see Note 2). The Company closed the facility during the first quarter of fiscal 2004 and approximately \$56 was recorded for facility closing costs and future lease payments. During the first quarter of fiscal 2004, the Company recorded an additional \$360 of facility closing costs related to a change in the estimated costs of closing a research and development facility in Massachusetts, related to the restructuring plan initiated during the second quarter of fiscal 2003, which was closed in the quarter ended September 30, 2002. During the first quarter of fiscal 2006 a benefit of \$57 was recorded as a change in the estimated costs related to the Massachusetts research and development facility closed in the quarter ended September 30, 2002. A total of \$16 remained to be paid in connection with these charges at March 31, 2006.

In connection with the integration of Optika and in connection with our plans to continue to reduce costs and improve operating efficiencies, the Company adopted two restructuring plans during fiscal 2005. The initial restructuring took place during the first quarter which included the termination of 30 employees and the closure of the Company's New York facility. Restructuring charges included in the Company's net loss during the first quarter of fiscal year 2005 related to this plan were approximately \$2,461, which included \$1,866 for employee terminated benefits and \$595 for excess facilities. A change of estimate related to this restructuring plan resulted in \$32 additional expense being recognized in the fourth quarter of fiscal year 2005. At March 31, 2006, approximately \$247 remained to be paid in connection with these charges. The final fiscal year 2005 restructuring plan was completed during our fourth quarter, which included the termination of 25 employees and the closure of the Company's Mexican facility. The expense recognized and included in the Company's net loss during the fourth quarter of fiscal year 2005 related to these restructuring plans totaled \$1,104, with approximately \$990 related to employee terminated benefits and approximately \$114 related to excess facilities. A change of estimate related to this restructuring plan resulted in \$74 additional expense being recognized in the first quarter of fiscal year 2006. At March 31, 2006 approximately \$56 employee termination benefits remained to be paid in connection with this charge.

During the second quarter of fiscal year 2006, the Company adopted a restructuring plan to reorganize its international sales operations and consolidate certain general and administrative activities. The initial charge of \$508 was recognized during the second quarter of fiscal year 2006, which included the costs for pay and benefits related to the involuntary termination of 8 employees of approximately \$321 with the remaining \$187 related to the closure of the Company's Brazilian facility. In the third quarter and fourth quarter of fiscal year 2006 a change of estimate was recorded which resulted in \$67 and \$28, respectively, of additional expense related to this restructuring plan. The second restructuring plan resulted in a charge of \$513 which was recorded during the fourth quarter of fiscal year 2006. The expense recognized included costs for pay and benefits related to the involuntary termination of 20 employees of

STELLENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

approximately \$470 and the remaining \$43 related to other exit costs necessary to the eliminate our digital asset management group as the technology has been fully integrated into our other software products. At March 31, 2006 approximately \$245 remained to be paid in connection with this charge.

As of March 31, 2006 the total \$621 was included in accrued expenses and other balance within the Company's Consolidated Balance Sheets, of which employee termination benefit costs of \$418 and other exit costs totaling \$203 will be paid out through September 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Selected information regarding the restructuring charges and related accrued liabilities by restructuring plan is as follows:

Restructuring Charges													Total
Second Quarter Other Exit Costs	03 First Quarter Employee Termination Benefits	04 Other Exit Costs	First Quarter Employee Termination Benefits	05 Other Exit Costs	Fourth Quarter Employee Termination Benefits	05 Other Exit Costs	Second Quarter Employee Termination Benefits	06 Other Exit Costs	Fourth Quarter Employee Termination Benefits	06 Other Exit Costs			
Balance at April 1, 2003		\$ 304	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 304	
Expense			396	56								452	
Payments	(65)		(245)									(310)	
Change in estimate		360										360	
Balance at June 30, 2003		599	151	56								806	
Payments	(43)		(38)	(56)								(137)	
Balance at September 30, 2003		556	113									669	
Payments	(43)		(38)									(81)	
Balance at December 31, 2003		513	75									588	
Payments	(49)											(49)	
Change in estimate			(69)									(69)	
Balance at March 31, 2004		464	6									470	
Expense					1,866	595						2,461	
Payments	(48)				(306)							(354)	
Balance at June 30, 2004		416	6		1,560	595						2,577	
Payments	(33)				(794)	(81)						(908)	
Balance at September 30, 2004		383	6		766	514						1,669	
Payments	(51)				(391)	(81)						(523)	
Balance at December 31, 2004		332	6		375	433						1,146	
Expense							990	114				1,104	
Payments	(51)		(6)		(36)	(87)	(348)	(7)				(535)	
Change in estimate					32							32	
Balance at March 31, 2005		281			371	346	642	107				1,747	
Payments	(87)				(91)	(87)	(265)	(142)				(672)	
Change in estimate	(57)						27	47				17	
Balance at June 30, 2005		137			280	259	404	12				1,092	
Expense									321	187		508	
Payments	(79)					(91)	(216)	(12)	(160)	(43)		(601)	
Change in estimate						140						140	
Balance at September 30, 2005		58			280	308	188		161	144		1,139	
Payments	(42)				(9)	(91)	(63)		(113)	(81)		(399)	
Change in estimate									67			67	
Balance at December 31, 2005		16			271	217	125		115	63		807	
Expense											470	43	513
Payments						(91)	(69)		(115)	(34)	(257)	(11)	(577)
Change in estimate					(150)				28				(122)
Balance at March 31, 2006		\$ 16	\$	\$	\$ 121	\$ 126	\$ 56	\$	\$ 28	\$ 29	\$ 213	\$ 32	\$ 621

STELLENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)

11. Segments of Business and Geographic Area Information

The Company operates in two operating segments which meet the aggregation criteria for a single reporting segment. A summary of the Company's operations by geographic area follows:

	Year Ended March 31,					
	2004	%	2005	%	2006	%
Revenues:						
United States	\$ 54,538	72.0	\$ 77,874	72.9	\$ 90,835	73.6
Europe	14,649	19.3	16,261	15.2	20,609	16.7
Asia Pacific	489	0.7	6,157	5.8	6,313	5.2
Canada	4,329	5.7	3,702	3.5	4,340	3.5
Other	1,769	2.3	2,817	2.6	1,288	1.0
Total revenues	\$ 75,774	100.0	\$ 106,811	100.0	\$ 123,385	100.0
Identifiable assets:						
United States	\$ 3,541		\$ 3,313		\$ 7,027	
Europe	894		696		519	
Asia Pacific	36		318		276	
Other			6			
Total	\$ 4,471		\$ 4,333		\$ 7,822	

Sales are attributed to countries or region based on the location of the customer.