ART TECHNOLOGY GROUP INC
Form 10-K/A
July 13, 2004

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 on Form 10-K/A

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the Fiscal Year Ended December 31, 2003
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission file number 000-26679

Art Technology Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**04-3141918**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
25 First Street Cambridge, Massachusetts	**02141**
(Address of principal executive offices)	*(Zip Code)*

(617) 386-1000

(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:	**Common Stock, $0.01 par value with Associated Preferred Stock Purchase Rights (Title of Class)**

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 þ No o

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 attachment to this Form 10-K. o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $112,548,000 based on the closing price of the registrant s common stock on the Nasdaq National Market on June 30, 2003.

The number of shares of the registrant s common stock outstanding as of March 11, 2004, was 73,145,185.

ART TECHNOLOGY GROUP, INC.

INDEX TO FORM 10-K

ATG, Art Technology Group and Dynamo are our registered trademarks, and ATG Scenario Personalization and ATG Data Anywhere Architecture are our service marks. This report also includes trademarks, service marks and trade names of other companies.

This Amendment No. 1 on Form 10-K/A amends Items 1, 7, 8 and 15 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, and is being filed principally to expand the description of our sales coverage model, to clarify the description of our working capital facility, to present purchases and maturities of marketable securities separately on our Consolidated Statements of Cash Flows and to provide additional information regarding our restructuring activities. Except as set forth above, no other items in the Annual Report on Form 10-K for the fiscal year ended December 31, 2003 are amended or restated by this Amendment No. 1.

Our expanded description of our sales coverage model is set forth under the headings Item 1. Business Sales Coverage Model and Item 1. Business Risk Factors If systems integrators or value added resellers reduce their support and implementation of our products, our revenues may fail to meet expectations and our operating results would suffer. The changes relating to our working capital facility are set forth under the headings Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Item 8. Art Technology Group, Inc. Notes to Consolidated Financial Statements Note 3. The separate presentation of purchases and maturities of marketable securities is set forth under the headings Item 8. Consolidated Statements of Cash Flows and Item 8. Art Technology Group, Inc. Notes to Consolidated Financial Statements Note 1(u). The additional information regarding our restructuring activities is set forth under the headings Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Restructuring (Benefit) Charges and Item 8. Art Technology Group, Inc. Notes to Consolidated Financial Statements Note 12.

Table of Contents

PART I

Item 1. ***Business***

Overview

We deliver software solutions to help consumer-facing organizations create an interactive experience for their customers and partners via the Internet and other channels. Our software helps our clients market, sell and provide self-service opportunities to their customers and partners, which can enhance our clients revenues, reduce their costs and improve their customers satisfaction. We also offer related services, including support, education and professional services.

Businesses and governments can use our solutions to provide a more productive and satisfying experience to users of their online services. By capturing and maintaining information about those online users personal preferences and online history, our software enables our clients to provide customers or customer segments with solutions specifically tailored to the customers needs. We seek to differentiate ourselves by designing applications that make it simpler to develop and maintain user profile information across multiple complex data sources, easier to model and influence desired user behavior, and faster to develop and maintain dynamic web content with a smaller investment than otherwise required. We provide tools to enable our clients to analyze the behavior of their customers and to improve the effectiveness of our clients merchandising. We also address our clients desire to provide a unified experience for their customers regardless of the channel through which they interact: online, in-store, or via a kiosk, mobile device or call center.

Our principal target markets are Global 2000 companies, government organizations, and other businesses that have large numbers of online users and utilize the Internet as a primary business channel. In the past, we have focused on providing our software and services to businesses in financial services, retail, media and entertainment, telecommunications, consumer products and services industries. We have delivered online solutions to companies such as Aetna Services, Alcatel, American Airlines, Barclays Global Investors, Best Buy, BMG Direct, Deutsche Post, Eastman Kodak, Ford Motor Credit, France Telecom, HSBC, J. Crew, Philips, Sun Microsystems, Walgreens and Wells Fargo.

We historically have provided Internet commerce and software solutions, including an application server and application products. We believe that the development of infrastructure products, including our application server, has become increasingly standards driven and that in the future there will be limited opportunities to differentiate ourselves based on our application server. As a result, while we intend to meet the standards requirements for our application server, we are focusing principally on developing application products, including several new application products that were introduced in 2004. We offer application products in the following three functional areas:

Our marketing applications are designed to help businesses attract new customers, promote new offerings to existing customers, and improve the cost-effectiveness of existing marketing expenditures. Our clients use our tools to integrate their online marketing activities with related sales and self-service initiatives. Our tools are designed to allow businesses to increase marketing effectiveness by visually defining desired customer experience activities and events that will drive desirable customer behavior.

Our online sales applications are used by our clients to facilitate transactions with consumers and channel partners. These commerce offerings are designed for the development of large consumer-facing e-commerce sites and channel partner extranets. We believe that, by using our online sales and marketing solutions together, our clients can create sophisticated promotions and offers that can drive incremental sales.

Our self-service applications are designed to decrease call-center service costs, to improve the speed with which customer needs are met, and to increase customer loyalty and satisfaction. We believe our self-service solutions become more useful through the use of our advanced personalization capabilities, which are designed to increase the likelihood that customer inquiries will be managed online avoiding the need for costly call center inquiry.

Table of Contents

Our Strategy

Our objective is to be the industry leader in providing a comprehensive consumer-facing software platform for companies striving to give their customers a superior online experience. We intend to achieve this objective by implementing the following key components of our strategy:

Facilitate integrated life cycle experience for consumers. We believe that consumers want to cross seamlessly between the information-gathering, purchase and service phases of their online activity. During a single session, a consumer may research one purchase, modify another purchase and ask post-transaction questions about a third. We believe consumers will demand a consistent online experience from each of the businesses with which the consumers are interfacing through the Internet. Rather than focusing solely on marketing or sales or service, we design our core software functionality to allow our clients to provide their customers with an integrated online marketing, sales and service experience.

Develop new applications that operate on leading infrastructure products. We believe the development of infrastructure products has become standards driven, but that there is an opportunity for continued innovation relating to application products. We intend to differentiate ourselves through our application and administration products, including two new products that were introduced in the first quarter of 2004. We design our existing products and our products in development to operate on leading application server platforms from BEA and IBM, in addition to our proprietary server software. As a result, our application software can provide value to new and existing clients, regardless of the infrastructure products they select.

Leverage existing sales channels. We sell our products directly to end-users and through value-added resellers. In addition, approximately one-half of our product revenue is co-sold with a variety of business entities, including systems integrators, solution providers, technology partners and value-added resellers. We currently have a broad range of business alliances throughout the world, including large system integrators like Accenture, Cap Gemini Ernst & Young, EDS, HP Consulting and SAIC, as well as regional integrators such as Analysts International, E-Tree, McFadyen Consulting, Rikei, SBI and Thales-IS. Our goal is to maintain close relationships directly with our clients and to motivate systems integrators to implement our applications in their projects and solution sets.

Leverage and expand service capabilities. We have extensive experience in Web application development and integration services. Through our Professional and Educational Services organizations, we provide services to train our systems integrators, value added resellers and complementary software vendors in the use of our products and offer consulting services to assist with customer implementations. We seek to motivate our business allies and sales forces to provide joint implementation services to our end user customers. We intend to continue to seek additional opportunities to increase revenues from product sales by expanding our base of partners trained in the implementation and application of our products.

Products

We provide a comprehensive software solution set designed to allow application developers to develop customized websites more effectively and efficiently. Our software is also designed to provide content administrators and marketing executives with greater flexibility in maintaining their website content and in optimizing their consumers experience in order to improve revenue and cost performance.

Our products include both application and infrastructure components. We refer to our application components collectively as the ATG Customer Experience Platform. This product set includes:

ATG Adaptive Scenario Engine. This product, formerly known as ATG Relationship Management Platform, provides a rich set of features to support online marketing, sales and service solutions. ATG Adaptive Scenario Engine collects and maintains customer profile information enabling consumer-facing applications to be personalized to the needs of a customer or customer segment. It also enables development of scenarios that model and respond to consumer behavior, guiding consumers through the data and processes appropriate to their situation. ATG Adaptive Scenario Engine incorporates a

Table of Contents

data repository integration capability. Some of clients build custom applications directly on ATG Adaptive Scenario Engine, and all of our application products utilize the capabilities of ATG Adaptive Scenario Engine.

ATG Commerce. This application provides a robust set of application components that allow our clients to create a customized experience for consumers, businesses and channel partners purchasing goods or services online, and facilitates administration by the online vendor. ATG Commerce s functionality includes catalogs, product management, shopping carts, checkout, pricing management, merchandising, promotions, inventory management and complex business-to-business order management.

ATG Campaign Optimizer. This application, introduced in 2004, enables marketing professionals to define comparative tests of different offers, promotions and product representations, sometimes called A/B tests, to put those tests into production, specifying the segments of site visitors to be tested, and finally to receive reports on the test results. Other methods for testing campaigns often involve programming by expert developers, and sometimes even involve network infrastructure modifications. ATG Campaign Optimizer is designed to allow non-technical marketing professionals to create and execute comparative tests that can be used to increase the effectiveness of online marketing activities.

ATG Adaptive Customer Assistance. Introduced in 2004, this application combines a natural language search with the customer profile repositories in the ATG Adaptive Scenario Engine to provide a personalized tool for answering consumers questions during the buying process and for self-service. ATG Adaptive Customer Assistance provides consumers with personal transactional information by, for example, facilitating automated replies to questions such as How much is my account balance? ATG Adaptive Customer Assistance also enables a consumer to take direct action through relevant links built into the results. The product includes capabilities for creating and maintaining the answer repository, and for consumer feedback.

ATG Content Administration. This application, formerly known as ATG Publishing, enables marketing professionals and others to create, manage, preview, and deploy content while ensuring proper quality control. Leveraging ATG Adaptive Scenario Engine, ATG Content Administration provides the means to create product catalogs, post updates and design targeted e-mail marketing campaigns.

Our applications are fully compatible with the BEA WebLogic Application Server and the IBM WebSphere Application Server, as well as our ATG Dynamo Application Server.

Our product license revenues were $27.1 million, or 37% of total revenues, in 2003; $48.8 million, or 48% of total revenues, in 2002; and $76.6 million, or 55% of total revenues, in 2001.

Services

Our services organization provides a variety of consulting, design, application development, integration, training and support services in conjunction with our products. These services are provided through our Professional Services, Education, and Customer Support Service offerings.

Professional Services. The primary goal of our Professional Services organization is to increase customer satisfaction with our application solutions. Our Professional Services include four primary service offerings:

Lifecycle Project Delivery. Our lifecycle project development capability builds upon our deep knowledge of best practices and the ATG Adaptive Delivery Framework methodology. Because we are responsible for the project from beginning to end, we can provide clients with a high-quality, structured experience from planning to post-deployment support.

Packaged Offerings. Our Upgrade and Migration packaged offerings are designed to provide clients with targeted services that can accelerate adoption of new ATG versions of existing products. We offer packaged offerings built to ease the implementation of new products such as Adaptive Customer

Assistance. Our bundled implementation packages, which include best practices and methodologies, reduce the implementation risk and time of products such as Content Administration and Commerce.

Structured Enabling Services. Working with a client or a designated team, we offer Structured Enabling Services to facilitate project success. Engaging our Professional Services team gives clients access to best practices that we have developed over hundreds of engagements. Structured Enabling Services also leverage the ATG Adaptive Delivery Framework methodology, while enabling the client s development team to complete a significant portion of the work.

Custom Solutions. We offer customized professional services solutions tailored to meet the specific needs of our clients across an entire project. Consulting services can include a combination of system architecture design, project management, web design, technical training and business consulting services.

Education. We provide a broad selection of educational programs designed to train customers and partners on our applications. This curriculum addresses the educational needs of developers, technical managers, business managers, and system administrators. ATG Education also offers an online learning program that complements our instructor-led training. Developers can become certified on our base product or our commerce product by taking a certification exam in a proctored environment. We also measure partner quality using a partner accreditation program that ensures ATG partners have the skills necessary to effectively assist our clients with implementations. We provide a full range of instructor-led solutions to assist clients with these key initiatives.

Customer Support Services. We offer five levels of customer support ranging from our evaluation support program, which is available for 30 days, to our Premium Support Program, which includes access to technical support engineers 24 hours a day, seven days per week, for customers deploying mission critical applications. For an annual maintenance fee, customers are entitled to receive software updates, maintenance releases, online documentation and eServices including bug reports and unlimited technical support.

Our services revenues were $45.3 million, or 63% of total revenues, in 2003, $52.7 million, or 52% of total revenues, in 2002 and $63.7 million, or 45% of total revenues, in 2001.

Table of Contents

Markets

Our principal target markets are Global 2000 companies, government organizations, and other businesses that have large number of online users and utilize the Internet as a primary business channel. Our clients represent a broad spectrum of enterprises within diverse industry sectors. The following is a partial list:

Consumer Retail

Best Buy Companies, Inc
Cabela s
Eastman Kodak
J. Crew
Martha Stewart Living Omnimedia
Neiman Marcus
Restoration Hardware
Target Corporation
The Finish Line
Walgreens

Financial Services

A.G. Edwards
John Hancock Funds
KeyBank
Citibank
Deutsche Bank
Ford Motor Credit
Charles Schwab & Co., Inc.
HSBC
Barclays Global Investors
MFS Investment Management
Dreyfus Services Corporation
Merrill Lynch
Pioneer Investments

International

Benetton
Kingfisher
Direkt Anlage Bank
Pirelli
BBC Technology Service
Philips
Heidelberger Druckmaschinen
Lavazza
Hoffman la Roche
Premier Farnell
Royal Mail
Vodafone
France Telecom
Telefonica
Deutsche Post
LVMH
Manufacturing
Alcatel
Abbott Laboratories
Eastman Kodak
General Motors

Newell Rubbermaid
Procter & Gamble

Communications & Technology

Adobe
Alcatel
BellSouth
EMC
Handspring
Hewlett Packard
Intuit
Sun Microsystems

Travel Media and Entertainment

American Airlines
BMG Direct
Hilton Hotels
Hyatt
Intercontinental Hotels
Meredith Corporation
Nintendo
Reader s Digest
Sega.com
The MTVi Group

Research and Development

Our research and development group is responsible for core technology, product architecture, product development, quality assurance, documentation and third-party software integration. This group also assists

Table of Contents

with pre-sale, customer support activities and quality assurance tasks supporting the Professional Services group. Our research and development expenses were $17.9 million in 2003, $22.0 million in 2002 and $30.5 million in 2001.

Since we began focusing on selling software products in 1996, the majority of our research and development activities have been directed towards creating new versions of our products, which extend and enhance competitive product features. In 2003, we began to focus our efforts on developing new and innovative applications, as well as integrating our products with external enterprise data sources. In line with these efforts, we have developed several new applications and aligned our research and development resources accordingly.

Sales Coverage Model

Our principal target markets are leading organizations with large constituencies who use the Internet as a primary business channel. We target these potential customers through our direct sales force and through channel partners, including systems integrators and other technology partners. We currently have approximately 100 business alliances throughout the world.

We employ two groups of sales professionals. Our direct sales force is compensated based on product and services sales made directly to end-users and through business partners. These employees generally attend centralized internal or external training every quarter.

The second group of sales professionals is dedicated to recruiting, training, developing business plans, and joint selling and marketing with business alliances such as systems integrators and value added resellers. The objective of the second group is to motivate systems integrators to adopt our suite of products for commerce and self-service projects for their customers. We derive two classes of revenue from the efforts of the second group of sales professionals: co-sale revenues, which are generated through our relationships with systems integrators and consulting firms that serve the market for information system products and services, and resale revenues, which are generated when we license our products directly to our business partners who then resell our software to end-user customers.

We provide our channel partners with sales and technical training in order to encourage them to create demand for our products and to extend our presence globally and regionally. Our sales training includes an introduction to our company and an overview of our products functionality, competitive advantages, packaging and pricing. We provide this training to business development personnel, project managers, alliance managers and sales representatives employed by our channel partners. We typically provide an initial sales training program at a channel partner s premises within 60 days of the execution of an agreement establishing the relationship. We provide supplemental sales training to our channel partners on a quarterly basis and upon new product launches.

We provide technical training to developers, architects and project managers at our learning centers or on-site at channel partners premises. This training typically extends for a minimum of two-weeks. During 2003, the Company trained over 1,000 third-party developers. In addition, we encourage our channel partners to enroll in our accreditation and certification programs:

Our ATG ***Certified Professional Program*** consists of two exams. The first tests the developers expertise on our Adaptive Scenario Engine, including Dynamo Application Framework and ATG Scenario Personalization. The second exam assesses a developer s proficiency with ATG Commerce, including consumer and business-to-business tools and concepts. Certification can provide a developer with a competitive advantage, since it offers evidence of the developer s capabilities using our software.

ATG Accredited Partner Program is intended to identify our most qualified partners. In order to become an accredited partner, a channel partner must complete sales training, obtain certifications and complete implementations of our software. This program helps our clients identify channel partners that are highly qualified to perform successful implementations of our software. As of December 31, 2003, we had five accredited partners and several more in the process of becoming accredited.

Table of Contents

Set forth below is a partial list of organizations with which we have selling and marketing relationships:

North America

Accenture
Allstream
Analysts International
Bell Canada
Blast Radius
Cap Gemini Ernst & Young
Critical Mass
EDS
GTSI (federal government)
IBM
Immix Technology (federal government)
McFayden Consulting
Meritage
Professional Access
RTGX (federal government)
SAIC (federal government)
SBI & Company
Unisys (federal government)
WhittmanHart

International

Europe, Middle East and Africa

Accenture
Avinci AG
Cap Gemini Ernst & Young
CSC Computer Sciences Limited
Conexus
Degetel
Develon
Dimension Data
EDS
E-Tree ETC
GFI Informatica
Inferentia Dnm
Kora
Materna
Progiweb
SDG Consulting
Sequenza SPA
Thales IS
Unilog
Valoris

Asia and Pacific Rim

HP Japan
Rikei Corporation (Japan)
XM Sydney

We design our existing products and our products in development to operate on leading application server platforms from BEA and IBM, in addition to our proprietary server software. In certain instances we may work with companies that sell products that compete with our proprietary server software, including BEA and IBM, to sell our software as part of a larger solution being implemented by a customer utilizing our competitors server software. The products that we attempt to sell that utilize our competitors server software include our commerce software, which allows companies to transact business over the internet, our relationship management software, which allows companies to enable online marketing, sales and service solutions, and our self service software, which allows customers to develop, deploy and manage business relationships.

As of December 31, 2003, in addition to offices throughout the United States, we had offices located in the United Kingdom, France, Germany and Italy and sales personnel located in Spain. Our revenues from sources outside the United States were $25.3 million, or 35% of total revenue, in 2003, $30.1 million, or 30% of total revenue, in 2002 and $47.6 million, or 34% of total revenue, in 2001. During the past year, we have established relationships with new international partners and have added key international accounts.

Competition

The market for online sales, marketing and self-service software is intensely competitive, subject to rapid technological change, and significantly affected by new product introductions and other market activities. We expect competition to persist and intensify in the future. We currently have five primary sources of competition:

platform vendors such as BEA Systems and IBM, who are also our partners;

Microsoft, with whom we compete in commerce applications and, less directly, in the platform arena;

- commerce-oriented vendors, such as Blue Martini and BroadVision, which compete on various levels including portals and e-commerce;

- marketing and customer-service vendors such as Chordiant, E.piphany and Kana, which may or may not have a vertical industry focus; and

- in-house development efforts by potential customers or partners.

We compete against these alternative solutions by focusing on an integrated customer experience for online sales, marketing and self-service applications for consumer-facing businesses. We believe our solutions provide our clients with a rapid time to return on investment, attractive long-term total cost of ownership, a way to present a single view of themselves to their customers, the ability to improve the productivity and effectiveness of customer interactions, and the flexibility to adapt to rapidly changing and often unpredictable market needs.

We seek to provide our clients with a rapid time to return on investment through strong out-of-the-box functionality for online sales, marketing and self-service built on a flexible, component architecture that is practical and cost-effective to customize. These capabilities can enable our clients to get to market quickly in a manner that exploits their competitive advantages which helps drive their return on investment.

Our products allow companies to present a single view of themselves to their customers through our repository integration. This integration technology allows companies to easily access and utilize data in the enterprise regardless of the data storage format or location. The data can be leveraged in their native form without having to move, duplicate or convert them. By enabling these capabilities in a cost-effective manner, we believe our products can help companies protect their brand and keep their customers from becoming confused or frustrated all of which positively impact customer satisfaction and loyalty.

Our adaptive scenario capability is designed to help companies make each interaction with their customers more productive and effective. These personalization capabilities help ensure that consumers are presented with the most relevant information. By avoiding information overload, consumers are more likely to have their needs met through the low cost online channel increasing the speed at which customer needs are met and decreasing the likelihood the consumer will use a more expensive channel such as a call center. Adaptive scenario capabilities can also make interactions with consumers more effective for our clients. It allows a business user to visually design a sequence of behaviors that our customer would like to encourage a consumer to undertake which can lead to a specific goal such as a site registration or transaction. Our capabilities automatically monitor and encourage consumers to follow these pre-defined behavior patterns enabling our customer to maximize the effectiveness of each interaction with the consumer.

Finally, we believe the combination of our out-of-the-box functionality, our component architecture and our repository integration helps companies that use our products to adapt quickly and economically to rapidly changing and unanticipated market needs.

We support the adoption of open application server infrastructure by our old and new customers and plan to work closely with other platform vendors to increase the value customers receive from our products regardless of the platform they select. We intend to focus our future development and marketing efforts on applications rather than on our platform, and as a result we expect our business and operating results will be less affected by competition with platform vendors such as BEA Systems and IBM.

Proprietary Rights and Licensing

Our success and ability to compete depends on our ability to develop and protect the proprietary aspects of our technology and to operate without infringing on the proprietary rights of others. We rely on a combination of trademark, trade secret and copyright law and contractual restrictions to protect our proprietary technology. These legal protections afford only limited protection for our technology. We seek to protect our source code for our software, documentation and other written materials under trade secret and copyright laws. We license our software pursuant to signed license, click through or shrink wrap agreements, which impose restrictions on the licensee s ability to use the software, such as prohibiting reverse

Table of Contents

engineering and limiting the use of copies. We also seek to avoid disclosure of our intellectual property by requiring employees and consultants with access to our proprietary information to execute confidentiality agreements and by restricting access to our source code. Due to rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product developments and enhancements to existing products are more important than legal protections to establish and maintain a technology leadership position.

Employees

As of December 31, 2003, we had a total of 361 employees. Of our employees, 118 were in research and development, 92 in sales and marketing, 98 in services and 53 in general and administrative. Our future success will depend in part on our ability to attract, retain and motivate highly qualified technical and management personnel, for whom competition is intense. From time to time, we also employ independent contractors to support our professional services, product development, sales, marketing and business development organizations. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage. We believe our relations with our employees are good.

Internet Address and SEC Reports

We maintain a website with the address www.atg.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We also include on our website our corporate governance guidelines and the charters for each of the major committees of our board of directors. In addition, we intend to disclose on our website any amendments to, or waivers from, our code of business conduct and ethics that are required to be publicly disclosed pursuant to rules of the SEC and Nasdaq.

Table of Contents

RISK FACTORS THAT MAY AFFECT RESULTS

This annual report contains forward-looking statements, including statements about our growth and future operating results. For this purpose, any statement that is not a statement of historical fact should be considered a forward-looking statement. We often use the words believes, anticipates, plans, expects, intends and similar expressions to help identify forward-looking statements.

There are a number of important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this annual report.

Risks Related To Our Business

We may not be able to sustain or increase our revenue or attain profitability on a quarterly or annual basis, which could lead to a material decrease in the price of our common stock.

We incurred a loss in the first and third quarters of 2003 and in each quarter of fiscal 2002. As of December 31, 2003, we had an accumulated deficit of $195.7 million. Our revenues decreased 29% to $72.5 million for 2003 compared with $101.5 million for 2002. We believe the recent economic downturn within the software industry could continue to have an adverse effect on demand for our products and services, and therefore adversely affect our revenues as well. Because we operate in a rapidly evolving industry, we have difficulty predicting our future operating results and we cannot be certain that our revenues will grow or our expenses will decrease at rates that will allow us to achieve profitability on a quarterly or annual basis. Additionally, in recent years the slowdown in the software industry and the decrease in spending by companies in our target markets have reduced the rate of growth of the Internet as a channel for consumer branded retail and financial services companies. If current economic conditions continue for an extended period of time or worsen, we may experience additional adverse effects on our revenue, net income and cash flows, which could result in a decline in the price of our common stock.

We expect our revenues and operating results to continue to fluctuate for the foreseeable future, and the price of our common stock is likely to fall if quarterly results are lower than the expectations of securities analysts.

Our revenues and operating results have varied from quarter to quarter in the past, and are likely to vary significantly from quarter to quarter in the foreseeable future. If our quarterly results fall below our expectations and those of securities analysts, the price of our common stock is likely to fall. A number of factors are likely to cause variations in our operating results, including:

- fluctuating economic conditions, particularly as they affect our customers willingness to implement new e-commerce solutions;
- the timing of sales of our products and services;
- the timing of customer orders and product implementations;
- delays in introducing new products and services;
- increased expenses, whether related to sales and marketing, product development or administration;
- the mix of revenues derived from products and services;
- timing of hiring and utilization of services personnel;
- cost overruns related to fixed-price services projects;
- the mix of domestic and international sales; and
- costs related to possible acquisitions of technologies or businesses.

Table of Contents

Accordingly, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. The results of one quarter or a series of quarters should not be relied upon as an indication of our future performance.

Turnover in our management, sales and engineering personnel may impair our ability to develop and implement a business strategy, which could have a material adverse effect on our operating results and common stock price.

Members of our senior management team, including our two founders, our former Chief Executive Officer and President, and several senior managers, have left us during the past three years for a variety of reasons, and we cannot assure you that there will not be additional departures. As a result of this management turnover, our current management team has had limited experience working together and may be unsuccessful in developing or executing a business strategy for us. These changes in management, and any future similar changes, may be disruptive to our operations. In addition, equity incentives such as stock options constitute an important part of our total compensation program for management, and the volatility or lack of positive performance of our stock price may from time to time adversely affect our ability to retain our management team.

We rely heavily on our direct sales force. We have recently restructured and reduced the size of our sales force. Changes in the structure of the sales force have generally resulted in temporary lack of focus and reduced productivity.

In addition, we recently restructured our research and development group, which could result in interruptions in product development and reduced productivity.

Our lengthy sales cycle makes it difficult to predict our quarterly results and causes variability in our operating results.

Our long sales cycle, which can range from several weeks to several months or more, makes it difficult to predict the quarter in which sales may occur. We have a long sales cycle because we generally need to educate potential customers regarding the use and benefits of our products and services. Our sales cycle varies depending on the size and type of customer contemplating a purchase and whether we have conducted business with a potential customer in the past. In addition, we believe the recent economic downturn in the United States has contributed to an increased in the average length of our sales cycle as customers deferred implementing new e-commerce solutions.

We may incur significant sales and marketing expenses in anticipation of licensing our products, and if we do not achieve the level of revenues we expected, our operating results will suffer and our stock price may decline. These potential customers frequently need to obtain approvals from multiple decision makers prior to making purchase decisions. Delays in sales could cause significant variability in our revenues and operating results for any particular period.

Competition could materially and adversely affect our ability to obtain revenues from license fees from new or existing customers and professional services revenues from existing customers. While the list price for our software generally has been maintained over the past three years, competitive pressures could require us to reduce the price of our software products. In either case, our business, operating results and financial condition would be materially and adversely affected.

We face intense competition in the market for Internet online marketing, sales and service applications, and we expect competition to intensify in the future. This competition could cause our revenues to fall short of expectations, which could adversely affect our future operating results and our ability to grow our business.

The market for online marketing, sales and services applications is intensely competitive, and we expect competition to intensify in the future. This level of competition could reduce our revenues and result in increased losses or reduced profits. Our primary competition currently comes from in-house development

Table of Contents

efforts by potential customers or partners, as well as from other vendors of Web-based application software. We currently compete with Internet application software vendors such as BroadVision and commerce, marketing and self-service vendors such as Chordiant, E.piphany and Kana. We also compete with platform application server products and vendors such as BEA Systems IBM, and Microsoft, among others. In addition, we compete indirectly with portal software vendors such as Vignette (through its acquisition of Epicentric), SAP Portals, a subsidiary of SAP, and Plumtree and customer relationship management vendors such as Siebel and PeopleSoft.

Many of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do and may be able to respond more quickly to new or changing opportunities, technologies and customer requirements. Also, many current and potential competitors have greater name recognition and more extensive customer bases that they can use to gain market share. These competitors may be able to undertake more extensive promotional activities, adopt more aggressive pricing policies and offer more attractive terms to purchasers than we can. Moreover, our current and potential competitors, such as Microsoft, may bundle their products in a manner that may discourage users from purchasing our products. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products and expand their markets. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

Competition could materially and adversely affect our ability to obtain revenues from license fees from new or existing customers and professional services revenue from existing customers. Further, competitive pressures could require us to reduce the price of our software products. In either case, our business, operating results and financial condition would be materially and adversely affected.

If we fail to maintain our existing customer base, our ability to generate revenues will be harmed.

Historically, we have derived a significant portion of our revenues from existing customers that purchase our support and maintenance services and enhanced versions of our products. Retention of our existing customer base requires that we provide high levels of customer service and product support to help our customers maximize the benefits that they derive from our products. To compete, we must introduce enhancements and new versions of our products that provide additional functionality. Further, we must manage the transition from our older products so as to minimize the disruption to our customers caused by such migration and integration with the customers information technology platform. If we are unable to continue to obtain significant revenues from our existing customer base, our ability to grow our business would be harmed and our competitors could achieve greater market share.

Our software offerings under our recent agreement with IBM may not achieve market acceptance, which may harm our business and operating results.

On June 27, 2003, we entered into an original equipment manufacturer, or OEM, agreement with IBM under which we agreed to offer IBM s WebSphere Internet infrastructure software as part of our packaged software offerings. Market acceptance of our new relationship with IBM is important to our future success and is subject to a number of significant risks, many of which are outside our control. These risks include:

Our packaged software offerings must meet the requirements of our current and prospective clients. We are working with IBM to further integrate our applications to optimize their performance while running on IBM WebSphere, but we cannot assure you that our integration efforts will satisfy the needs of current and prospective customers.

IBM may determine not to devote significant resources to the arrangements contemplated by our OEM agreement or may disagree with us as to how to proceed with the integration of our products. The amount and timing of resources dedicated by IBM under the OEM agreement are not under our direct control.

Table of Contents

Our arrangement with IBM may cause confusion among current and prospective customers as to our product focus and direction.

If our new relationship with IBM does not achieve market acceptance, our business and operating results may be harmed.

If systems integrators or value added resellers reduce their support and implementation of our products, our revenues may fail to meet expectations and our operating results would suffer.

Since our potential customers often rely on third-party systems integrators to develop, deploy and manage Web sites for conducting commerce on the Internet, we cultivate relationships with systems integrators to encourage them to support our products. We do not, however, have written agreements with our systems integrators, and they are not required to implement solutions that include our products or to maintain minimum sales levels of our products. Our revenues would be reduced if we fail to train a sufficient number of systems integrators adequately or if systems integrators devote their efforts to integrating or co-selling products of other companies. Any such reduction in revenue would not be accompanied by a significant offset in our expenses. As a result, our operating results would suffer and the price of our common stock probably would fall.

In 2003, approximately 50% of our product license revenues related to our relationships with systems integrators and value added resellers. Since a substantial portion of our product license revenues are related to our relationships with systems integrators and our potential customers often rely on third-parties to develop, deploy and manage Web sites for conducting commerce on the Internet, we cultivate relationships with systems integrators and value added resellers to encourage them to create demand for and support our products.

Our systems integrators and value added resellers are not required to implement solutions that include our products or to maintain minimum sales levels of our products. If we fail to train our systems integrators or value added resellers, including a sufficient number of accredited partners and certified professionals, we believe that the product license revenues resulting from our relationships with these channel partners will decrease. In addition, if systems integrators or value added resellers devote their efforts to integrating or reselling competitors products our product revenues would decline. Any such reduction in revenue would not be accompanied by a significant offset in our expenses. As a result, our operating results would suffer and the price of our common stock probably would fall.

Competition with our resellers could limit our sales opportunities and jeopardize these relationships.

We sell products through resellers and original equipment manufacturers. In some instances, we target our direct selling efforts toward markets that are also served by some of these resellers. This competition may limit our ability to sell our products and services directly in these markets and may jeopardize, or result in the termination of, these relationships.

We could incur substantial costs protecting our intellectual property from infringement or defending against a claim of infringement.

Our professional services often involve the development of custom software applications for specific customers. In some cases, customers retain ownership or impose restrictions on our ability to use the technologies developed from these projects. Issues relating to the ownership of software can be complicated, and disputes could arise that affect our ability to resell or reuse applications we develop for customers.

We seek to protect the source code for our proprietary software both as a trade secret and as a copyrighted work. However, because we make the source code available to some customers, third parties may be more likely to misappropriate it. Our policy is to enter into confidentiality agreements with our employees, consultants, vendors and customers and to control access to our software, documentation and other proprietary information. Despite these precautions, it may be possible for someone to copy our software or other proprietary information without authorization or to develop similar software independently.

Table of Contents

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We could incur substantial costs in prosecuting or defending any intellectual property litigation. If we sue to enforce our rights or are sued by a third party that claims that our technology infringes its rights, the litigation could be expensive and could divert our management resources. In February 2000, we settled a lawsuit filed by BroadVision, which alleged that we were infringing on a patent for a method of conducting e-commerce. As part of the settlement, we paid BroadVision a total of $15.0 million in license fees over a three-year period ending in 2002.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult and while we are unable to determine the extent to which piracy of our software exists, software piracy can be expected to be a persistent problem. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. However, the laws of many countries do not protect proprietary rights to as great an extent as the laws of the United States. Any such resulting litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results and financial condition. There can be no assurance that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology. Any failure by us to meaningfully protect our intellectual property could have a material adverse effect on our business, operating results and financial condition.

In addition, we have agreed to indemnify customers against claims that our products infringe the intellectual property rights of third parties. The results of any intellectual property litigation to which we might become a party may force us to do one or more of the following:

- cease selling or using products or services that incorporate the challenged intellectual property;
- obtain a license, which may not be available on reasonable terms, to sell or use the relevant technology; or
- redesign those products or services to avoid infringement.

If we fail to adapt to rapid changes in the market for Internet online marketing, sales, and service applications, our existing products could become obsolete.

The market for our products is marked by rapid technological change, frequent new product introductions and Internet-related technology enhancements, uncertain product life cycles, changes in customer demands, coalescence of product differentiators, product commoditization and evolving industry standards. We may not be able to develop and market or acquire new products or product enhancements that comply with present or emerging Internet technology standards and to differentiate our products based on functionality and performance. In addition, we may not be able to establish strategic alliances with operating system and infrastructure vendors that will permit migration opportunities for our current user base. New products based on new technologies or new industry standards could render our existing products obsolete and unmarketable. For example, functionality that once differentiated our products over time has been incorporated into products offered by the major operating system and infrastructure providers.

To succeed, we will need to enhance our current products, develop new products on a timely basis to keep pace with developments related to Internet technology and to satisfy the increasingly sophisticated requirements of customers and leverage strategic alliances with third parties in the e-commerce field who have complementary or competing products. E-commerce technology is complex and new products and product enhancements can require long development and testing periods. Any delays in developing and releasing new or enhanced products could cause us to lose revenue opportunities and customers.

Table of Contents

If we fail to address the challenges associated with international operations, revenues from our products and services may decline or the costs of providing our products or services may increase.

As of December 31, 2003 we had offices in the United Kingdom, France, Germany and Italy, and additionally had sales personnel in Spain. We derived 35% of our total revenues in 2003 from customers outside the United States. In December 2002, we initiated a restructuring plan, which included the closing of our offices in Australia, Canada, and the Netherlands at varying times during the first quarter of 2003. Our operations outside North America are subject to additional risks, including:

- changes in regulatory requirements, exchange rates, tariffs and other barriers;
- longer payment cycles and problems in collecting accounts receivable in Western Europe and the Far East;
- difficulties in managing systems integrators and technology partners;
- difficulties in staffing and managing foreign subsidiary operations;
- differing technology standards;
- difficulties and delays in translating products and product documentation into foreign languages to the extent that our products are sold in countries that do not have English as their primary language;
- reduced protection for intellectual property rights in some of the countries in which we operate or plan to operate;
- potentially adverse tax consequences; and
- political and economic instability.

The impact of future exchange rate fluctuations on our operating results cannot be accurately predicted. We may increase the extent to which we denominate arrangements with international customers in the currencies of the countries in which the software or services are provided. From time to time we may engage in hedges of a significant portion of contracts denominated in foreign currencies. Any hedging policies implemented by us may not be successful, and the cost of these hedging techniques may have a significant negative impact on our operating results. Our software products may contain errors or defects that could result in lost revenues, delayed or limited market acceptance or product liability claims with substantial litigation costs.

Complex software products such as ours often contain errors or defects, particularly when first introduced or when new versions or enhancements are released. We began shipping the latest version of the ATG 6.2 suite of products in the fourth quarter of 2003. Despite internal testing and testing by customers, our current and future products may contain serious defects. Serious defects or errors could result in lost revenues or a delay in market acceptance.

Since our customers use our products for critical business applications such as e-commerce, errors, defects or other performance problems could result in damage to our customers. They could seek significant compensation from us for the losses they suffer. Although our license agreements typically contain provisions designed to limit our exposure to product liability claims, existing or future laws or unfavorable judicial decisions could negate these limitations. Even if not successful, a product liability claim brought against us would likely be time-consuming and costly.

If we acquire other companies or businesses, we will be subject to risks that could hurt our business.

In the future, we may pursue acquisitions to obtain complementary businesses, products, services or technologies. An acquisition may not produce the revenues, earnings or business synergies that we anticipated, and an acquired business, product, service or technology might not perform as we expected. If we pursue an acquisition, our management could spend a significant amount of time and effort in identifying and completing the acquisition. If we complete an acquisition, we may encounter significant difficulties and incur substantial expenses in integrating the operations and personnel of the acquired company into our operations while

16

Table of Contents

preserving the goodwill of the acquired company. In particular, we may lose the services of key employees of the acquired company and we may make changes in management that impair the acquired company s relationships with employees and customers.

Any of these outcomes could prevent us from realizing the anticipated benefits of our acquisitions. To pay for an acquisition, we might use stock or cash. Alternatively, we might borrow money from a bank or other lender. If we use our stock, our stockholders would experience dilution of their ownership interests. If we use cash or debt financing, our financial liquidity would be reduced. We may be required to capitalize a significant amount of intangibles, including goodwill, which may lead to significant amortization charges. In addition, we may incur significant, one-time write-offs and amortization charges. These amortization charges and write-offs could decrease our future earnings or increase our future losses.

Our announced restructurings may not result in the reduced cost structure we anticipate and may have other adverse impacts on productivity.

During the second and third quarters of 2003, we had corporate restructurings involving workforce reductions and closures of excess facilities. In addition, there were changes in assumptions and estimates connected to prior restructuring charges and the leases that were settled during the period. These actions resulted in recording a net restructuring benefit of $5.4 million. In January 2003, we publicly announced a corporate restructuring involving a workforce reduction and the closing and consolidation of office facilities in selected locations. These actions resulted in recording a restructuring charge of $19.1 million in the fourth quarter of 2002. In addition, we recorded a restructuring charge of $75.6 million in 2001. These restructuring activities require that we close facilities, maintain sales efforts and provide continuing customer support and service in regions where the sales and support staff has been reduced or eliminated, reallocate workload among continuing employees, and seek to reduce liability for idle lease space. The outcomes of such restructuring activities are difficult to predict. While we believe our restructuring and consolidation activities will reduce our cost structure, we may not achieve the cost reductions that we are expecting. In addition, our restructuring activities may result in lower revenues as a result of the decreased staff in our sales and marketing and professional services groups or other adverse impacts on productivity that we did not anticipate.

We may need additional financing in the future, and any additional financing may result in restrictions on our operations or substantial dilution to our stockholders.

We may need to raise additional funds in the future, for example, to develop new technologies, support an expansion, respond to competitive pressures, acquire complementary businesses or respond to unanticipated situations. We may try to raise additional funds through public or private financings, strategic relationships or other arrangements. Our ability to obtain debt or equity funding will depend on a number of factors, including market conditions, our operating performance and investor interest. Additional funding may not be available to us on acceptable terms or at all. If adequate funds are not available, we may be required to revise our business plan to reduce expenditures, including curtailing our growth strategies, foregoing acquisitions or reducing our product development efforts. If we succeed in raising additional funds through the issuance of equity or convertible securities, the issuance could result in substantial dilution to existing stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these new securities would have rights, preferences and privileges senior to those of the holders of our common stock. The terms of these securities, as well as any borrowings under our credit agreement, could impose restrictions on our operations.

We use the Java programming language to develop our products, and our business could be harmed if Java loses market acceptance or if we are not able to continue using Java or Java-related technologies.

We write our software in the Java computer programming language developed by Sun Microsystems and we incorporate J2EE, Java Runtime Environment, Java Naming and Directory Interface, Java Servlet Development Kit, Java Foundation Classes, JavaMail and JavaBeans Activation Framework into our products under licenses granted to us by Sun. Our ATG 6.2 Relationship Management Platform has been designed to support Sun s J2EE standards. If Sun were to decline to continue to allow us to use these technologies for any reason, we would be required to (a) license the equivalent technology from another source, (b) rewrite the

Table of Contents

technology ourselves or (c) rewrite portions of our software to accommodate the change or no longer use the technology.

While a number of companies have introduced Web applications based on Java, Java could fall out of favor, and support by Sun Microsystems or other companies could decline. Moreover, our new ATG 6.2 Relationship Management Platform is designed to support Sun s Java 2 Platform, Enterprise Edition, or J2EE, standards for developing modular Java programs that can be accessed over a network. We have licensed the J2EE brand and certification tests from Sun. There can be no assurance that these standards will be widely adopted, that we can continue to support J2EE standards established by Sun from time to time or that the J2EE brand will continue to be made available to us on commercially reasonable terms. If Java or J2EE support decreased or we could not continue to use Java or related Java technologies or to support J2EE, we might have to rewrite the source code for our entire product line to enable our products to run on other computer platforms. Also, changes to Java or J2EE standards or the loss of our license to the J2EE brand could require us to change our products and adversely affect the perception of our products by our customers. If we were unable to develop or implement appropriate modifications to our products on a timely basis, we could lose revenue opportunities and our business could be harmed.

Risks Related To the Internet Industry

Our performance will depend on the growth of e-commerce and self-service.

Our success will depend heavily on the continued use of the Internet for e-commerce. The recent United States economic downturn reduced demand for our products as customers and potential customers delayed or cancelled the implementation of online marketing, sales and service applications. If the market for our products and services fails to mature, we will be unable to execute our business plan. Adoption of electronic commerce and online marketing, sales and service applications, particularly by those companies that have historically relied upon traditional means of commerce, will require a broad acceptance of different methods of conducting business. Our future revenues and profits will substantially depend on the Internet being accepted and widely used for commerce and communication. If Internet commerce does not continue to grow or grows more slowly than expected, our future revenues and profits may not meet our expectations or those of analysts. Similarly, purchasers with established patterns of commerce may be reluctant to alter those patterns or may otherwise resist providing the personal data necessary to support our consumer profiling capability.

Regulations could be enacted that either directly restrict our business or indirectly impact our business by limiting the growth of e-commerce.

As e-commerce evolves, federal, state and foreign agencies could adopt regulations covering issues such as user privacy, content and taxation of products and services. If enacted, government regulations could limit the market for our products and services or could impose burdensome requirements that render our business unprofitable. Although many regulations might not apply to our business directly, we expect that laws regulating the solicitation, collection or processing of personal and consumer information could indirectly affect our business. The Telecommunications Act of 1996 prohibits certain types of information and content from being transmitted over the Internet. The prohibition s scope and the liability associated with a violation are currently unsettled. In addition, although substantial portions of the Communications Decency Act were held to be unconstitutional, we cannot be certain that similar legislation will not be enacted and upheld in the future. It is possible that legislation could expose companies involved in e-commerce to liability, which could limit the growth of e-commerce generally. Legislation like the Telecommunications Act and the Communications Decency Act could dampen the growth in Web usage and decrease its acceptance as a medium of communications and commerce.

The Internet is generating privacy concerns that could result in legislation or market perceptions that could harm our business or result in reduced sales of our products, or both.

Businesses use our ATG Adaptive Scenario Engine product to develop and maintain profiles to tailor the content to be provided to Web site visitors. When a visitor first arrives at a Web site, our software creates a profile for that visitor. If the visitor registers or logs in, the visitor s identity is added to the profile, preserving any profile information that was gathered up to that point. ATG Adaptive Scenario Engine product tracks both explicit user profile data supplied by the user as well as implicit profile attributes derived from the user s behavior on the Web site. Privacy concerns may cause visitors to resist providing the personal data or to avoid Web sites that track the Web behavioral information necessary to support our profiling capability. More importantly, even the perception of security and privacy concerns, whether or not valid, may indirectly inhibit market acceptance of our products. In addition, legislative or regulatory requirements may heighten these concerns if businesses must notify Web site users that the data captured after visiting Web sites may be used to direct product promotion and advertising to that user. Other countries and political entities, such as the European Economic Community, have adopted such legislation or regulatory requirements. The United States may adopt similar legislation or regulatory requirements. If privacy legislation is enacted or consumer privacy concerns are not adequately addressed, our business, financial condition and operating results could be harmed.

Our products use cookies to track demographic information and user preferences. A cookie is information keyed to a specific user that is stored on a computer s hard drive, typically without the user s knowledge. Cookies are generally removable by the user, although removal could affect the content available on a particular site. Germany has imposed laws limiting the use of cookies, and a number of Internet commentators and governmental bodies in the United States and other countries have urged passage of laws limiting or abolishing the use of cookies. If such laws are passed or if users begin to delete or refuse cookies as a common practice, demand for our personalization products could be reduced.

Risks Related To The Securities Markets And Our Stock

Our stock price may continue to be volatile.

The market price of our common stock has fluctuated in the past and is likely to continue to be highly volatile. For example, the market price of our common stock has ranged from $.58 per share to $126.88 per share since our initial public offering in July 1999. Fluctuations in market price and volume are particularly common among securities of Internet and software companies. The market price of our common stock may fluctuate significantly in response to the following factors, some of which are beyond our control:

variations in our quarterly operating results;

changes in market valuations of Internet and software companies;

our announcements of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

our failure to complete significant sales;

additions or departures of our key personnel;

future sales of our common stock; or

changes in financial estimates by securities analysts.

We may incur significant costs from class action litigation.

We currently are the subject of securities class action litigation. If a court awards damages to the plaintiffs, the total amount could exceed the limit of our existing insurance. This litigation also may divert management s attention and resources. For a further description of the pending litigation, see Part II, Item 1. Legal Proceedings. We may be the target of similar litigation in the future if the market for our stock becomes volatile. While we believe that we have an appropriate amount of insurance for class action lawsuits, we cannot be certain that the insurance coverage will be available or, if available, sufficient to cover our liability with respect to a specific future action that may be brought.

Table of Contents

Anti-takeover provisions in our charter documents and Delaware law could prevent or delay a change in control of our company.

Certain provisions of our charter and by-laws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable, which could reduce the market price of our common stock. These provisions include:

authorizing the issuance of blank check preferred stock;

providing for a classified board of directors with staggered, three-year terms;

providing that directors may only be removed for cause by a two-thirds vote of stockholders;

limiting the persons who may call special meetings of stockholders prohibiting stockholder action by written consent;

establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and

authorizing anti-takeover provisions.

In addition, we adopted a shareholder rights plan in 2001 and Delaware law may further discourage, delay or prevent someone from acquiring or merging with us.

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Overview

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes contained in Item 8 of this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under Item 1. Business Risk Factors that May Affect Results and elsewhere in this report.

We were founded in December 1991. From 1991 through 1995, we devoted our efforts principally to building, marketing and selling our professional services capabilities and to research and development activities related to our software products. Beginning in 1996, we began to focus on selling our software products. To date, we have enhanced and released several versions of our products. We market and sell our products worldwide through our direct sales force, systems integrators, technology alliances and original equipment manufacturers.

We derive our revenues from the sale of software product licenses and related services. Product license revenues are derived from the sale of software licenses of our products. Our software licenses are priced based on either the size of the customer implementation or site license terms. Services revenues are derived from fees for professional services, training and software maintenance and support. Professional services include implementation, custom application development and project and technical consulting. We bill professional service fees primarily on a time and materials basis or in some cases, on a fixed-price schedule defined specifically in our contracts. Software maintenance and support arrangements are priced based on the level of services provided. Generally, customers are entitled to receive software updates, maintenance releases as well as on-line and telephone technical support for an annual maintenance fee. Training is billed as services are provided.

As of December 31, 2003 we had offices in the United Kingdom, France, Germany, Italy, and the United States and sales personnel located in Spain. Revenues from customers outside the United States accounted for 35% of our total revenues in 2003, 30% in 2002 and 34% in 2001.

Critical Accounting Policies and Estimates

This management s discussion and analysis of financial condition and results of operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, the allowance for doubtful accounts, research and development costs, restructuring expenses, the impairment of long-lived assets and income taxes. Management bases its estimates and judgments on historical experience, known trends or events and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment.

Revenue Recognition

Not only is revenue recognition a key component of our results of operations, the timing of our revenue recognition also determines the timing of certain expenses, such as commissions. In measuring revenues, we follow the specific guidelines of SOP 97-2, *Software Revenue Recognition* and SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions*. SOP 97-2 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence that an arrangement exists via a signed license agreement; (2) physical or electronic delivery has occurred including the availability of license keys or services rendered; (3) the fee is fixed or determinable representing amounts that are due unconditionally with no future obligations under customary payment terms; and (4) collectibility is probable. In addition, revenue results are difficult to predict and any shortfall or delay in recognizing revenue could cause our operational results to vary significantly from quarter to quarter and could result in future operating losses.

In accordance with SOP 97-2 and SOP 98-9, revenues from software product license agreements are recognized upon execution of a license agreement and delivery of the software, provided that the fee is fixed or determinable and deemed collectible by management. If conditions for acceptance are required subsequent to delivery, revenues are recognized upon customer acceptance if such acceptance is not deemed to be perfunctory. In multiple element arrangements, we use the residual value method in accordance with SOP 97-2 and SOP 98-9. Revenue earned on software arrangements involving multiple elements which qualify for separate element accounting treatment is allocated to each undelivered element using the relative fair values of those elements based on vendor specific objective evidence with the remaining value assigned to the delivered element, the software license. Typically our software licenses do not include significant post-delivery obligations to be fulfilled by us and payments are due within a three-month period from the date of delivery. Consequently, license fee revenue is generally recognized when the product is shipped. Revenues from software maintenance agreements are recognized ratably over the term of the maintenance period, which is typically one year. We enter into reseller arrangements that typically provide for sublicense fees payable to us based upon a percentage of our list price. Revenues are recognized under reseller agreements as earned for guaranteed minimum royalties, or based upon actual sales by the resellers. We do not grant our resellers the right of return or price protection.

Revenues from professional service arrangements are recognized as the services are performed, provided that amounts due from customers are fixed or determinable and deemed collectible by management. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as deferred revenue. Unbilled services represent service revenues that have been earned by us in advance of billings. Deferred revenue primarily consists of advance payments related to support and maintenance and service agreements.

We principally recognize professional services revenues on a time-and-material basis. From time to time we enter into fixed-price service arrangements. In those circumstances in which services are essential to the functionality of the software, we apply the percentage-of-completion method, and in those situations when only professional services are provided, we apply the proportional performance method. Both of these methods require that we track the effort expended and the effort expected to complete a project. The most significant assumption by management in accounting for this type of arrangement is the estimated time to complete the project. Significant deviations in actual results from management s estimates with respect to one or more projects could significantly impact the timing of revenue recognition and could result in significant losses on these projects. To date, our actual results in completing projects have not deviated significantly from management s estimates of the time to complete those projects.

Accounts Receivable and Bad Debt

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We continuously monitor collections and payments from our customers and determine the allowance for doubtful accounts based upon historical experience and specific customer collection issues. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required.

Research and Development Costs

We account for research and development costs in accordance with Statement of Financial Accounting Standards No. 2, *Accounting for Research and Development Costs* (FAS 2), and FAS 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* (FAS 86), which specifies that costs incurred internally to develop computer software products should be charged to expense as incurred until technological feasibility is reached for the product. Once technological feasibility is reached, all software costs should be capitalized until the product is made available for general release to customers. Judgment is required in determining when technological feasibility is established. We believe that the time period from reaching technological feasibility until the time of general product release is very short. Costs incurred after technological feasibility is reached are not material, and accordingly, all such costs are charged to research and development expense as incurred.

Restructuring Expenses

During 2003, 2002 and 2001, we recorded net restructuring (benefits)/ charges of $(10.5) million, $19.0 million and $75.6 million, respectively, pertaining to the closure and consolidation of excess facilities, impairment of assets as discussed below, employee severance benefits and settlement of certain contractual obligations. These charges and benefits were recorded in accordance with FAS 146, *Accounting for Costs Associated with Exit or Disposal Activities,* FAS 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* and Staff Accounting Bulletin, and SAB, 100, *Restructuring and Impairment Charges*. The 2002 and 2001 charges were recorded in accordance with Emerging Issues Task Force, or EITF, Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), FAS 88, and SAB 100. In determining the charges to record, we made certain estimates and judgments surrounding the amounts ultimately to be paid for the actions we have taken. At December 31, 2003, there are various accruals recorded for the costs to exit certain facilities and lease obligations, which may be adjusted periodically for either resolution of certain contractual commitments or changes in estimates of sublease income or the period of time the facilities will be vacant and subleased. Although we do not anticipate additional significant changes to our restructuring accruals, the actual costs may differ from those recorded in the event that the subleasing assumptions require adjustment due to changes in economic conditions surrounding the real estate market or we terminate our lease obligations prior to the scheduled termination dates. Such changes had a material impact to our operating results in 2003 and could have a material impact on our operating results in the future.

In order to estimate the costs related to our restructuring efforts, management made its best estimates of the most likely expected outcomes of the significant actions to accomplish the restructuring. These estimates principally related to charges for excess facilities and included estimates of future sublease income, future net operating expenses of the facilities, brokerage commissions and other expenses. The most significant of these estimates related to the timing and extent of future sublease income that would reduce our lease obligations. Included in our accrued restructuring balance at December 31, 2003 was estimated sublease income of $.8 million, net of adjustments. We based our estimates of sublease income on, among other things, (a) opinions of independent real estate experts, (b) current market conditions and rental rates, (c) an assessment of the time period over which reasonable estimates could be made, (d) the status of negotiations with potential subtenants and (e) the locations of the facilities. These estimates, together with other estimates made by us in connection with the restructuring actions, may vary significantly from the actual results, depending in part on factors beyond our control. For example, the actual results will depend on our success in negotiating with lessors, the time periods required for us to locate and contract suitable subleases and the market rental rates at the time of such subleases. Adjustments to the facilities reserve may be required if actual lease settlement costs or sublease income differ from the amounts previously estimated. We review the status of our restructuring activities on a quarterly basis and, if appropriate, record changes to our restructuring obligations in our financial statements for such quarter based on management s then-current estimates.

Impairment or Disposal of Long Lived Assets

We review our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to future undiscounted cash flows the assets are expected to generate. If such assets are considered impaired, the impairment to be recognized is equal to the amount by which the carrying value of

Table of Contents

the assets exceed their fair market value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique. In assessing recoverability, we must make assumptions regarding estimated future cash flows and discount factors. If these estimates or related assumptions change in the future, we may be required to record impairment charges.

As a result of our restructuring activities in 2003, 2002 and 2001, we evaluated the realizability of our long-lived assets including fixed assets and leasehold improvements related to our restructured facility leases and intangible assets consisting primarily of unamortized goodwill. In 2003 and 2002, we determined that $78,000 and $1.7 million, respectively, of furniture and fixtures, computer equipment and software were impaired as a result of our decision to abandon the assets because of the termination of employees and related closures of offices in our 2003, 2002 and 2001 restructuring plans. These assets are no longer being used or will not be used in the future upon completion of the restructuring activities. In addition, in 2003 and 2002 we deemed $232,000 and $909,000, respectively, of leasehold improvements to be impaired due to exiting certain office locations, and the estimated sublease income was not sufficient to recover the assets carrying value. In 2001, we determined that $7.7 million of leasehold improvements and $2.2 million of furniture, fixtures and equipment were impaired as a result of these restructured operating leases. In addition we determined that approximately $169,000 and $1.4 million in 2003 and 2001, respectively, of purchased software was impaired due to our revised product development strategy. Lastly we wrote-off the remaining unamortized goodwill of $4.0 million due to the closure and abandonment of two professional service acquisitions completed in fiscal year 2000.

Accounting for Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109 *Accounting for Income Taxes* (FAS 109) which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. FAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. We evaluate quarterly the realizability of our deferred tax assets and adjust the amount of such allowance, if necessary. At December 31, 2003 and 2002, we have provided a full valuation allowance against our net deferred tax assets due to the uncertainty of their realizability.

In addition, we have provided for potential amounts due in various foreign tax jurisdictions. Judgment is required in determining our worldwide income tax expense provision. In the ordinary course of global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of cost reimbursement arrangements among related entities. Although we believe our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our income tax provision and operating results in the period in which such determination is made. In the fourth quarter of 2003 we reversed previously accrued taxes of $332,000 for foreign locations due to a change in our estimates of potential amounts due in those locations.

Table of Contents

Results of Operations

The following table sets forth statement of operations data as percentages of total revenues for the periods indicated:

	Year Ended December 31,		
	2003	2002	2001
Revenues:			
Product license	37%	48%	55%
Services	63	52	45
Total revenues	100	100	100
Cost of revenues:			
Product license	3	4	4
Services	27	33	34
Total cost of revenues	30	37	38
Gross margin	70	63	62
Operating expenses:			
Research and development	25	22	22
Sales and marketing	43	42	67
General and administrative	13	11	17
Restructuring (benefit) charges	(14)	19	54
Total operating expenses	66	94	159
Income (loss) from operations	3	(31)	(98)
Interest and other income, net	2	2	4
Income (loss) before (benefit) provision for income taxes	5	(29)	(94)
(Benefit) provision for income taxes			17
Net income (loss)	6%	(29)%	(111)%

The following table sets forth, for the periods indicated, the cost of product license revenues as a percentage of product license revenues and the cost of services revenues as a percentage of services revenues:

	Year Ended December 31,		
	2003	2002	2001
Cost of product license revenues	8%	9%	8%
Gross margin on product license revenues	92	91	92
Cost of services revenues	44	64	75
Gross margin on services revenues	56	36	25

Years ended December 31, 2003, 2002 and 2001

Revenues

Total revenues decreased 29% to $72.5 million in 2003 from $101.5 million in 2002. The decrease was primarily attributable to a shift in our business focus during 2003 from infrastructure products to application products, particularly in the e-commerce and self service area. As a result, we experienced a decrease in product license revenues and services revenues relating to our infrastructure products business. Further, in 2003 we began developing several new application products that did not generate any revenues in 2003. Our focus going forward is principally on e-commerce and self service applications that are expected to generate revenues beginning in 2004. Revenues generated from international customers decreased to $25.3 million, or

Table of Contents

35% of total revenues, in 2003, from $30.1 million, or 30% of total revenues, in 2002. We expect total revenues to increase in 2004 as we launch new products and we expect international revenues as a percentage of total revenues to remain at approximately 30-35%.

Total revenues decreased 28% to $101.5 million in 2002 from $140.3 million in 2001. The decrease was primarily attributable to the slowing economy, uncertainty of the recovery of the global economy, reduced information technology spending among our customer base and the lengthening of the sales cycle. Revenues generated from international customers decreased to $30.1 million, or 30% of total revenues, in 2002 from $47.6 million, or 34% of total revenues, in 2001.

No individual customer accounted for more than 10% of total revenues in 2003, 2002 or 2001.

Product License Revenues

Product license revenues decreased 44% to $27.2 million in 2003 from $48.8 million in 2002. The decrease was primarily attributable to a shift in our business focus during 2003 from infrastructure products, to application products particularly in the e-commerce and self service area. As a result, we experienced a decrease in our infrastructure products business. Further, in 2003 we began developing several new application products that did not generate any revenues in 2003. Our focus going forward is principally on e-commerce and self service applications that are expected to generate revenues beginning in 2004. The decline in product license revenues in 2003 as compared to 2002 is attributable to reduced sales volume in terms of both the number and size of transactions with customers. Product license revenues generated from international customers decreased to $11.6 million in 2003 from $15.4 million in 2002. We expect product license revenues to increase slightly in 2004 and to remain about the same as a percentage of total revenues.

Product license revenues decreased 36% to $48.8 million in 2002 from $76.6 million in 2001. The decrease was primarily attributable to the slowing economy, reduced information technology spending among our customer base and the lengthening of the sales cycle. Product license revenues generated from international customers decreased to $15.4 million in 2002 from $26.4 million in 2001.

Product license revenues as a percentage of total revenues for 2003, 2002 and 2001 were 37%, 48% and 55%, respectively. We expect this percentage to increase to between 40% and 50% in 2004.

Our resellers generally receive a discount from our list prices. The extent of any discount is based on negotiated contractual agreements between us and the reseller. We do not grant our resellers the right of return, price protection or favorable terms. We rely upon resellers to market and sell our products to governmental entities and to customers in geographic regions where it is not cost effective for us to reach end users directly. We have approximately 50 active resellers. No single reseller generates a significant amount of our total revenues.

The table below sets forth product revenues recognized from reseller arrangements for the years ended 2003, 2002 and 2001:

	2003	2002	2001
Reseller revenues	$6,537	$9,154	$7,261
% of product revenues	24%	19%	9%

Services Revenues

Services revenues decreased 14% to $45.3 million in 2003 from $52.7 million in 2002. The decrease was attributable to decreased services volume associated with decreased software license revenues as well as a reduction in our services capacity as we reduced headcount in professional services. We expect services revenues to be flat to slightly higher in 2004 and to remain about the same as a percentage of total revenues.

Support and maintenance revenues were 69% of total services revenues in 2003 as compared to 61% in 2002. Support revenues, in absolute dollars, were slightly lower during 2003 due primarily to declining product revenues, partially offset by successful maintenance renewal and reinstatement efforts during 2003. We expect

26

Table of Contents

support and maintenance revenues to remain flat in 2004. This is due to increases from new maintenance revenues associated with expected increased 2004 product revenues offset by a portion of existing customers terminating their support coverage.

Services revenues decreased 17% to $52.7 million in 2002 from $63.7 million in 2001. The decrease was primarily attributable to the slowing economy, reduced information technology spending, declining product revenues and a reduction in our services capacity as we increased our use of system integrators on service engagements. Additionally, as a result of lower product sales, support and maintenance revenues have decreased.

Support and maintenance revenues were 61% of total service revenues in 2002 as compared to 51% in 2001. However, the increase in absolute dollars from 2001 to 2002 was only $700,000. Support revenues were higher during 2002 due to additional support required by customers migrating to newer versions of ATG products.

Services revenues as a percentage of total revenues for 2003, 2002 and 2001 were 63%, 52% and 45%, respectively.

Cost of Product License Revenues

Cost of product license revenues includes salary and related benefits costs of fulfillment and engineering staff dedicated to maintenance of products that are in general release, the amortization of licenses purchased in support of and used in the Company s products and royalties paid to vendors whose technology is incorporated into our products.

Cost of product license revenues decreased 50% to $2.1 million in 2003 from $4.3 million in 2002. This decrease was primarily related to lower product revenues and a decline in amortization of $2.3 million related to the BroadVision settlement due to the expiration of amortization as of December 31, 2002. In February 2000, we settled a lawsuit filed by BroadVision in December 1998, which alleged that we were infringing on a patent for a method of conducting electronic commerce. In connection with the settlement agreement, we agreed to pay BroadVision a total of $15.0 million for a perpetual license. Of this amount, we recognized $8.0 million in 1999 in cost of product license revenues as a settlement for historical use of the technology, and we recorded the remaining $7.0 million as a perpetual license to use the patented technology in our products in the future. We amortized this asset over an estimated remaining useful life of three years. As a result, cost of product license revenues includes amortization expense of approximately $2.3 million in each of 2002 and 2001. The estimated useful life of the perpetual license ended on December 31, 2002, and we therefore did not record any cost of product license revenues related to the BroadVision settlement in 2003. The decline in cost of product license revenues was partially offset by an increase in royalty fees of approximately $143,000 payable to original equipment manufacturers and $169,000 to reduce the carrying value of third-party software embedded into one of our products based on expected net future cash flows to be generated from this software. We expect cost of product license revenues to remain flat or decrease slightly in 2004 as compared with 2003.

In 2003, we recorded a charge in cost of product license of $169,000 to reduce the carrying value of third-party software embedded into one of our products, which is a minor component of our suite of products, to its net realizable value of $210,000 based on management s best estimate of future net cash flows to be generated from the sale of the software to customers. We have discontinued marketing of this software and have ceased future development work specifically related to this third-party software. However, we have not changed our overall product strategy for the purpose for which the software was acquired. We are in discussions with other vendors, but do not expect this change to impact our future product offering.

Cost of product license revenues decreased 28% to $4.3 million in 2002 from $6.0 million in 2001. This decrease is primarily related to an impairment charge of approximately $1.4 million recorded in 2001 related to purchased software to write the asset down to its net realizable value of zero. The write-down was due to a change in our product development strategy. The software had no alternative future use. The remainder of the decrease in cost of product license revenues was primarily attributable to lower product revenues. For 2002, approximately half of our cost of product license revenues related to the BroadVision settlement that was fully paid as of December 31, 2002.

For 2003, 2002 and 2001, cost of product license revenues as a percentage of total revenues was 3%, 4% and 4%, respectively. We anticipate the cost of product license revenues, as a percentage of total revenues, to be between 2% and 4% in 2004.

Gross Margin on Product License Revenues

For 2003, 2002 and 2001, gross margin on product license revenues were 92%, or $25.0 million, 91%, or $44.5 million, and 92%, or $70.7 million. The increase in gross margin percentage from 2002 to 2003 was attributed to the expiration of amortization related to the Broadvision perpetual license, which was fully amortized by the end of 2002. The decrease in gross margin from 2001 to 2002 was related primarily to the impairment charge to write-down purchased software of approximately $1.4 million and lower product revenues.

Cost of Services Revenues

Cost of services revenues includes salary and other related costs for our professional services and technical support staff, as well as third-party contractor expenses. Cost of services revenues will vary significantly from year to year depending on the level of professional services staffing, the effective utilization rates of our professional services staff, the mix of services performed, including product license technical support services, the extent to which these services are performed by us or by third-party contractors and the level of third-party contractor fees.

Cost of services revenues decreased 41% to $19.8 million in 2003 from $33.7 million in 2002. The decrease was primarily attributable to a reduction in our professional services workforce as a result of lower product license and services revenues. Approximately 60% of the decrease was attributable to decreased compensation costs due to a reduction in our work force. The remaining 40% of the decrease was due to a decrease in operating expenses as a result of our restructuring efforts and cost-containment initiatives.

Cost of services revenues decreased 29% to $33.7 million in 2002 from $47.8 million in 2001. The decrease was primarily attributable to a reduction in our professional services workforce. Approximately 45% of the decrease was attributable to decreased compensation costs due to a reduction in our workforce. The remaining 55% of the decrease was due to a decrease in operating expenses as a result of our restructuring efforts and cost containment initiatives.

For 2003, 2002 and 2001, cost of services revenues as a percentage of total revenues were 27%, 33% and 34%, respectively. We anticipate the cost of services revenues, as a percentage of total revenues, to be in the 24% to 27% range in 2004.

Gross Margin on Services Revenues

For 2003, 2002 and 2001, gross margin on services revenues were 56%, or $25.5 million, 36%, or $19.0 million and 25%, or $15.9 million. The increase in gross margin is attributed primarily to the increase in support and maintenance revenue as a percentage of total services revenue, increased utilization rates and a decrease in our professional services workforce and operating expenses.

Research and Development Expenses

Research and development expenses consist primarily of salary and related costs to support product development. To date, all software development costs have been expensed as research and development in the period incurred.

Research and development expenses decreased 19% to $17.9 million in 2003 from $22.0 million in 2002. The decrease was primarily attributable to reductions in our workforce. Approximately 55% of the decrease is related to workforce-related expenditures. Approximately 10% of the decrease was due to a reduction in the

Table of Contents

use of third-party contractors. The remaining 35% of the decrease was due to a decrease in operating expenses as a result of our restructuring efforts and cost-containment initiatives.

Research and development expenses decreased 28% to $22.0 million in 2002 from $30.5 million in 2001. The decrease was primarily attributable to reductions in our workforce. Approximately 51% of the decrease is related to decreased salaries and related benefits. Approximately 12% of the decrease was due to a reduction in the use of third party contractors. The remaining 37% of the decrease was due to a decrease in operating expenses as a result of our restructuring efforts and cost-containment initiatives.

For 2003, 2002 and 2001, research and development expenses as a percentage of total revenues were 25%, 22% and 22%, respectively. Due to cost-reduction initiatives we anticipate that research and development expenses will trend lower as a percentage of total revenues and in absolute dollars in 2004.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, commissions and other related costs for sales and marketing personnel, travel, public relations and marketing materials and events.

Sales and marketing expenses decreased 28% to $31.2 million in 2003 from $43.1 million in 2002. The decrease is primarily attributable to cost saving initiatives that resulted from a reduction of our sales and marketing group. Approximately 63% of the decrease was related to a decrease in compensation and benefits costs, and 9% of the decrease was related to a reduction in our marketing and promotional expenses. The remaining 28% was due to a decrease in operating expenses as a result of our restructuring efforts and cost-containment initiatives.

Sales and marketing expenses decreased 54% to $43.1 million in 2002 from $93.4 million in 2001. The decrease is primarily attributable to cost-saving initiatives that resulted from a reduction of our sales and marketing group. Approximately 37% of the decrease was related to a decrease in compensation and benefit costs, and 27% of the decrease was related to a reduction in our marketing and promotional expenses. The remaining 36% was due to a decrease in operating expenses as a result of our restructuring efforts and cost-containment initiatives.

For 2003, 2002 and 2001, sales and marketing expenses as a percentage of total revenues were 43%, 42% and 67%, respectively. We expect that sales and marketing expenses in 2004 will be in the range of 37% to 40% as a percentage of total revenues. However sales and marketing expenses can fluctuate as a percentage of total revenues depending on economic conditions, program spending, the rate at which new sales personnel become productive and the level of revenue.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and other related costs for operations and finance employees and legal and accounting fees.

General and administrative expenses decreased 14% to $9.5 million in 2003 from $11.1 million in 2002. Approximately 84% of the decrease was related to a decrease in headcount and related expenses, with the remainder related to a decrease in professional services partially offset by an increase in recruiting, hiring and training. We expect general and administrative expenses to decline as a percent of revenues in 2004.

General and administrative expenses decreased 54% to $11.1 million in 2002 from $24.1 million in 2001. Approximately 38% of the decrease was related to decreases in compensation and benefit costs, and 12% of the decrease was related to a reduction in our professional fees. Approximately 26% of the decrease was attributed to a decrease in recruiting, hiring, travel, training and direct office expenses while approximately 24% of the decrease was related to a decrease in our provision for doubtful accounts due to favorable collections experience resulting in changes in our estimates of required reserves.

For 2003, 2002 and 2001, general and administrative expenses as a percentage of total revenues were 13%, 11% and 17%, respectively. Due to cost-reduction initiatives we anticipate that general and administrative expenses will trend lower as a percentage of total revenues and in absolute dollars in 2004.

29

Restructuring (Benefit) Charges

As of December 31, 2003, we had an accrued restructuring liability of $18.0 million, of which $10.4 million related to 2001 restructuring charges, $5.9 million related to 2002 restructuring charges, and $1.7 million related to 2003 restructuring charges. The long-term portion of the accrued restructuring liability was $8.6 million.

We believe our restructuring efforts have resulted in a cost structure that aligns us with current market opportunities and reflects changes in our product and geographic focus. We expect to fund the payments for our restructuring accruals by use of our current cash and marketable securities and from resources generated from our future operations. We do not believe that the restructuring actions have impaired our ability to produce competitive products in a timely fashion. All of our restructuring actions were completed by December 31, 2003. We expect the 2003 activities to result in aggregate annual reductions in cost of revenues, sales and marketing, research and development and general and administrative expenses of $4.0 to $5.0 million.

During the years ended 2003, 2002 and 2001, we recorded net restructuring charges/(benefits) of $(10.5) million, $19.0 million and $75.6 million, respectively, as a result of the global slowdown in information technology spending. The significant drop in demand in 2001 for technology oriented products, particularly internet related technologies, caused us to significantly scale back our prior growth plans, resulting in a significant reduction in our workforce and consolidation of our facilities in 2001. Throughout 2002, the continued softness of demand for technology products, as well as near term revenue projections, caused us to further evaluate our marketing, sales and service resource capabilities as well as our overall general and administrative cost structure, which resulted in additional restructuring actions being taken in 2002. These actions resulted in a further reduction in headcount and consolidation of additional facilities. In 2003, as we continued to refine our business strategy and to consider future revenue opportunities, we took further restructuring actions to reduce costs, including product development costs, in order to help move us towards profitability. The charges referred to above primarily pertain to the closure and consolidation of excess facilities, impairment of assets, employee severance benefits and settling of certain contractual obligations. The 2003 charges were recorded in accordance with FAS 146, Accounting for Costs Associated with Exit or Disposal Activities, FAS 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (FAS 88) and Staff Accounting Bulletin (SAB) 100, Restructuring and Impairment Charges. The 2002 and 2001 charges were recorded in accordance with Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring), FAS 88 and SAB 100.

2001 Actions

Actions taken by us in 2001 included the consolidation and closure of excess facilities, a worldwide workforce reduction, the write-off of certain unrealizable assets and the settlement of certain obligations that had no future benefit. In the second quarter of 2001 we recorded a restructuring charge of $44.2 million, and in the fourth quarter of 2001 we recorded a restructuring charge of $31.4 million. In connection with these actions, we also recorded an impairment charge in cost of product licenses for purchased software of $1.4 million. Total restructuring charges for 2001 totaled $75.6 million.

Table of Contents

A summary of the charges and subsequent adjustments of the restructuring accruals is as follows (in thousands):

	2001 Charges	2001 Adjustments in Estimates Resulting in Additional Charges	2001 Adjustments in Estimates Resulting in Credits	Write-offs and Payments	Accrued Restructuring Balance as of December 31, 2001
Facilities-related costs and impairments	$59,418	$9,700	$(8,200)	$16,208	$44,710
Employee severance, benefits and related costs	7,938			6,748	1,190
Asset impairments	4,205			4,205	
Exchangeable share settlement	1,263			1,263	
Marketing costs	851			851	
Legal and accounting	405			232	173
Total	$74,080	$9,700	$(8,200)	$29,507	$46,073

	Accrued Restructuring Balance as of December 31, 2001	2002 Adjustments in Estimates Resulting in Additional Charges	2002 Adjustments in Estimates Resulting in Credits	Write-offs and Payments	Accrued Restructuring Balance as of December 31, 2002
Facilities-related costs and impairments	$44,710	$2,207	$ (853)	$ 9,016	$37,048
Employee severance, benefits and related costs	1,190			920	270
Marketing costs			(536)		(536)
Legal and accounting	173			173	
Total	$46,073	$2,207	$(1,389)	$10,109	$36,782

	Accrued Restructuring Balance as of December 31, 2002	2003 Adjustments in Estimates Resulting in Additional Charges	2003 Adjustments in Estimates Resulting in Credits	Write-offs and Payments	Accrued Restructuring Balance as of December 31, 2003
Facilities-related costs and impairments	$37,048	$2,769	$(11,466)	$18,143	$10,208
Employee severance, benefits and related costs	270	229		270	229
Marketing Costs	(536)			(536)	
Total	$36,782	$2,998	$(11,466)	$17,877	$10,437

Facilities-Related Costs and Impairments

During 2001, we recorded facility-related charges of $59.4 million of which $38.1 million was recorded in the second quarter and $21.3 million was recorded in the fourth quarter. The facilities-related charges comprise excess rental space for offices worldwide, net of estimates for vacancy periods and sublease income based on then-current real estate market data, and related write-offs of abandoned leasehold improvements and fixed assets of $7.7 million and $2.2 million, respectively, which were directly related to the excess office facilities. The estimated sublease income was $25.9 million based on rental rates ranging from $18 to $40 per

Table of Contents

square foot with estimated vacancy periods prior to the expected sublease income ranging from 10 to 15 months. During the fourth quarter of 2001, we recorded an adjustment to increase the facility-related costs for a change in estimate of the lease obligations for two leases by $9.7 million as a result of a market analysis indicating lower sublease rates and longer vacancy periods due to the continued weakening of the real estate market. The sublease income was adjusted by decreasing anticipated sublease rates from the range of $18 to $40 to the range of $18 to $35 per square foot and extending the initial vacancy periods by approximately 9 months. In addition, we reduced our lease accruals by $8.2 million for a lease settlement in consideration of a buy-out totaling $9.3 million, which is being paid ratably over 4.5 years.

During 2002, we recorded an adjustment to increase the facilities-related portion of the 2001 charge by an additional $2.2 million for changes to sublease and vacancy assumptions due to the continued weakening in the real estate market. The sublease income was adjusted by decreasing two anticipated sublease rates to $18 from $25 per square foot and extending the initial vacancy periods by 7 months. These changes resulted in an estimated reduction of sublease income of $2.2 million. In addition, during 2002, we executed sublease agreements for two locations and recorded a reduction to our lease accruals of $853,000 due to favorable sublease terms compared to our original estimates.

During 2003, we settled $51.1 million of future lease obligations and related operating expenses for five leases for aggregate payments of $17.1 million, resulting in an aggregate reduction to our lease accruals relating to our 2001 restructuring activities of $11.5 million, net of sublease and vacancy assumptions. We also recorded an additional charge of $2.8 million for facilities-related costs, comprising $2.3 million for updated management assumptions of probable settlement outcomes based on the then-current negotiations and $450,000 for updated sublease assumptions based on current real estate market conditions extending the vacancy period to 33 months from 12 months.

The leaseholds improvements, which will continue to be in use, related to the facilities we vacated and are subleasing or attempting to sublease, were written down to their estimated fair value of zero because the estimated cash flows to be generated by sublease income at those locations is not and will not be sufficient to recover the carrying value of the assets. Furniture and fixtures were written down to their fair value based on the expected discounted cash flows they will generate over their remaining economic life. Because these assets ceased being used as of the end of the period in which the write-downs were recorded, the fair value of these assets was estimated to be zero. The assets were abandoned and disposed of at the time of the charge.

Employee Severance, Benefits and Related Costs and Exchangeable Shares

As part of the 2001 restructuring actions, we recorded charges of $7.9 million for the employee severance cost component. We terminated the employment of 530 employees, or 46% of our workforce, none of whom remained employed as of June 30, 2002. Approximately 249 of these employees were from sales and marketing, 117 from services, 101 from general and administrative and 63 from research and development. In addition, we settled 11,762 exchangeable shares with a certain employee, who was terminated in connection with the restructuring action and recorded $1.3 million as a charge to restructuring for this settlement. During 2003, we recorded additional charges of $229,000 for severance related to a specific employee terminated as part of the 2001 restructuring action.

Asset Impairments

The asset impairment charges included the write-off of approximately $4.0 million of the remaining unamortized goodwill related to the two professional service organizations acquisitions completed in 2000. We closed these operations and terminated the employees as part of the 2001 restructuring action, and as a result, the unamortized goodwill was impaired and had no future value. In addition, we recorded an impairment charge of approximately $1.4 million in cost of product license revenues in the accompanying Consolidated Statements of Operations related to purchased software to record the software at its net realizable value of zero due to ATG abandoning a certain product development strategy. The purchased software had no future utility to us.

Table of Contents

Marketing Costs and Legal and Accounting

We recorded charges of $851,000 to write-off certain prepaid costs for future marketing services to their fair value of zero due to changes in our product development strategy. As a result, the prepaid marketing cost had no future utility to us. During 2002, we unexpectedly were able to recoup $536,000 and record a credit for the amount received. During 2001, we also recorded $405,000 for legal and accounting services incurred in connection with the 2001 restructuring action.

The 2001 actions were substantially completed by February 28, 2002.

2002 Actions

Actions taken by us in 2002 included the consolidation and closure of excess facilities, a worldwide workforce reduction and the write-off of certain idle assets. In the fourth quarter of 2002, we recorded a restructuring charge $18.2 million.

A summary of the charges and subsequent adjustments of the restructuring accruals related to the 2002 restructuring actions is as follows (in thousands):

	2002 Charges	Write-offs and Payments	Accrued Restructuring Balance as of December 31, 2002
Facilities-related costs and impairments	$14,634	$2,613	$12,021
Employee severance, benefits and related costs	3,553		3,553
Total	$18,187	$2,613	$15,574

	Accrued Restructuring Balance as of December 31, 2002	2003 Adjustments in Estimates Resulting in Additional Charges	2003 Adjustments in Estimates Resulting in Credits	Write-offs and Payments	Accrued Restructuring Balance as of December 31, 2003
Facilities-related costs and impairments	$12,021	$4,094	$(7,235)	$2,993	$5,887
Employee severance, benefits and related costs	3,553	327	(86)	3,794	$
Total	$15,574	$4,421	$(7,321)	$6,787	$5,887

Facilities-Related Costs and Impairments

During 2002, we recorded facilities-related charges of $14.6 million. These charges included $12.0 million for operating lease obligations, net of assumptions for vacancy periods and sublease income based on then-current real estate market data, for office space that was either idle or vacated during the first quarter of 2003. This action was completed by January 31, 2003. This charge also included the write-off of leasehold improvements and furniture and fixtures associated with these facilities of $948,000 and $507,000, respectively, and computer equipment and software of $1,158,000. The lease charge was for office space we vacated and intend to sublease. The estimated sublease income was $4.8 million and was based on rental rates ranging from $23 to $35 per square foot with estimated vacancy periods prior to the expected sublease income ranging from 12 to 21 months.

During 2003, we recorded an adjustment of $1.9 million primarily to increase our lease obligation accrual at two locations for changes in the assumptions of the vacancy period and sublease income. The sublease income was adjusted by decreasing anticipated sublease rates to $18 from $23 per square foot for one facility and from $35 to $30 per square foot at the other location. We also extended the initial vacancy periods from 12 to 21 months to 24 to 42 months.. These changes resulted in an estimated reduction of sublease income of $1.8 million. In addition, principally due to a favorable lease settlement relating to our 2002 restructuring activities, we reduced our lease obligations by $7.2 million. The settlement resulted in us terminating $10.9 million of future lease obligations and related operating expenses for an aggregate payment of $3.3 million, which was paid in January, 2004. As a result of this transaction, we recorded prepaid rent of $2.2 million increasing the accrual adjustments to $4.1 million.

As a result of this action and the actions taken in 2001, we wrote-off certain computer equipment and software, aggregating $1,158,000, and furniture and fixtures, aggregating $507,000, which were no longer being used due to the reduction in personnel and office locations. These assets were abandoned and written down to their fair value based on the expected discounted cash flows they would generate over their remaining economic life. Due to the short remaining economic life and current market conditions for such assets, the fair value of these assets was estimated to be zero. These assets ceased being used either as of December 31, 2002 or in the first quarter of 2003 and were disposed of in the quarter ended March 31, 2003. In addition, we wrote-off leasehold improvements, which will continue to be in use, related to the facilities we are attempting to sublease to their estimated fair value of zero because the estimated cash flows to be generated by sublease income at those locations will not be sufficient to recover the carrying value of the assets.

Employee Severance, Benefits and Related Costs

As part of the 2002 restructuring action, we recorded a charge of $3.6 million for severance and benefit costs related to cost reduction actions taken across the worldwide employee base. The severance and benefit costs were for 125 employees, or 23% of our workforce, none of whom remained employed at June 30, 2003. Of the 125 employees, 53 of the employees were from sales and marketing, 45 from services, 19 from general and administrative and 8 from research and development. We accrued employee benefits pursuant to ongoing benefits plans and statutory minimum requirements in foreign locations. We began the termination process on January 6, 2003 and all employees had been terminated by June 30, 2003. During the second quarter of 2003, we recorded an adjustment to increase the severance accrual by $327,000 based on final severance settlements with certain employees at our foreign locations. During the fourth quarter of 2003, we reduced certain severance accruals by $86,000, primarily at our foreign locations, primarily as a result of amounts being settled below the recorded amounts due to the impact of movements in foreign currency.

2003 Actions

As a result of several reorganization decisions, we undertook plans to restructure operations in the second and third quarters of 2003. Actions taken by us included the closure of excess facilities, a worldwide workforce reduction and the write-off of certain idle assets.

A summary of the charges and related activity of the restructuring accruals is as follows (in thousands):

	Three Months Ended June 30, 2003	Three Months Ended September 30, 2003	2003 Adjustments in Estimates Resulting in Additional Charges	2003 Adjustments in Estimates Resulting in Credits	Write-offs and Payments	Balance at December 31, 2003
Facilities-related costs and impairments	$1,071	$393	425		$ 275	$1,614
Employee severance, benefits and related costs	927	309	69	(84)	1,160	61
Total	$1,998	$702	$494	$(84)	$1,435	$1,675

Second Quarter 2003 Action

During the second quarter of 2003, we recorded a restructuring charge of $2.0 million. We also recorded an impairment charge in cost of product license revenues of $169,000 related to certain purchased software.

Table of Contents

Facilities-Related Costs and Impairments

During the second quarter of 2003, we recorded facilities-related charges of $1.1 million comprising $866,000 for an operating lease related to idle office space, $144,000 of leasehold improvements and fixed assets written down to their fair value and $61,000 for various office equipment leases. The lease charge was for office space we vacated and intend to sublease. The amount of the operating lease charge was based on assumptions from current real estate market data for sublease income rates and vacancy rates at the location. The estimated sublease income was $500,000 and based on a rental rate of $35 per square foot with an estimated vacancy period prior to the expected sublease income of 24 months. In the fourth quarter, as a result of updated market conditions, the estimated sublet rental rate was lowered to $30 per square foot from $35 per square foot and the vacancy period was extended to 36 months from 24 months resulting in an additional charge of $227,000. In accordance with FAS 146, we recorded the present value of the net lease obligation.

As a result of a reduction of employees and closure of an office location, we wrote-down computer and office equipment to their fair value based on the expected discounted cash flows they would generate over their remaining economic life. Due to the short remaining economic life and current market conditions for such assets, the fair value of these assets was estimated to be zero. These assets ceased being used by June 30, 2003 and were disposed of by September 30, 2003. In addition, we wrote off leasehold improvements, which continue to be in use, related to the facility we are attempting to sublease, to their fair value of zero because the estimated cash flows to be generated from that location will not be sufficient to recover the carrying value of the assets.

Employee Severance, Benefits and Related Costs

As part of the second quarter 2003 restructuring action, we recorded a charge of $927,000 for severance and benefit costs related to cost reduction actions taken across the worldwide employee base. The severance and benefit costs were for 32 employees, or 7.4% of our workforce, consisting of 11 employees from sales and marketing, 3 from services, 3 from general and administrative and 15 from research and development. We accrued employee benefits pursuant to our ongoing benefit plans for domestic locations and under statutory minimum requirements in foreign locations. All employees were notified of their termination as of June 30, 2003. The termination process was completed during the fourth quarter of 2003. During the third quarter of 2003, we accrued an additional $69,000 for employees at our foreign locations based on management s best estimate of the final payments for severance. During the fourth quarter of 2003, we reduced certain severance accruals by $84,000 at our international locations as a result of final settlements.

Third quarter 2003 Action

During the third quarter of 2003, we recorded a restructuring charge of approximately $771,000.

Facilities-Related Costs and Impairments

We recorded facilities-related charges of $393,000 comprising $227,000 for an operating lease related to idle office space and $166,000 of leasehold improvements and fixed assets written down to their fair value. The lease charge was for office space we vacated and intend to sublease. The amount of the operating lease charge was based on assumptions from current real estate market data for sublease income rates and vacancy rates at the location. The estimated sublease income was $216,000 and based on a rental rate of $19 per square foot with an estimated vacancy period prior to the expected sublease income of 12 months. During the fourth quarter, as a result of updated market conditions, we determined that it is unlikely we will sublet this space before the lease expires resulting in an additional charge of $198,000. In accordance with FAS 146, we have recorded the present value of the net lease obligation.

As a result of a reduction of employees and the closure of one office location, we wrote off computer and office equipment to their fair value based on the expected discounted cash flows they would generate over their remaining economic life. Due to the short remaining economic life and current market conditions for such assets, the fair value of these assets was estimated to be zero. These assets ceased being used prior to September 30, 2003. In addition, we wrote-down leasehold improvements to their fair value of zero because

Table of Contents

the estimated cash flows to be generated from that location will not be sufficient to recover the carrying value of the assets.

Employee Severance, Benefits and Related Costs

We recorded a charge of $309,000 for severance and benefit costs related to cost reduction actions taken across the worldwide employee base. The severance and benefit costs were for 16 employees, or 4.3% of our workforce, consisting of 7 employees from sales and marketing, 4 from services and 5 from research and development. We accrued employee benefits pursuant to our ongoing benefit plans. All employees were notified of their termination as of September 30, 2003, and the termination process was completed during the fourth quarter.

Lease Obligations Accrued as part of the 2001, 2002 and 2003 restructuring activities:

		2004	2005	2006	2007	2008	2009
			(In millions)				
Cambridge, MA	*	$ 2,069	$2,069	$ 1,035			
Cambridge, MA	*	4,215					
Cambridge, MA		137	137	91			
Waltham, MA		1,466	1,466	1,466	$ 1,466	$ 1,466	$ 366
Chicago, IL		524	524	393			
San Francisco, CA		111	111	111	111		
Mountain View, CA	*	869					
Reading, UK		579	579	579	579	579	181
Facility obligations, gross		9,970	4,886	3,675	2,156	2,045	547
Contracted and assumed sublet income		(1,221)	(435)	(1,104)	(1,263)	(1,218)	(304)
Net cash obligations		$ 8,749	$4,451	$ 2,571	$ 893	$ 827	$ 243
Assumed sub-lease income		$ 0.0	$ 0.0	$ 0.2	$ 0.3	$ 0.2	$ 0.1

* Represents a location for which we have executed a lease settlement agreement.

Rental rates vary from $15.00 per square foot to $30.00 per square foot depending upon local market rates. Remaining vacancy periods as of December 31, 2003 vary from 18 months to 33 months depending upon rentable square feet in the local market and recent vacancy histories.

Rental assumptions or sublease start dates may vary considerably from the above assumptions, which could cause us to take an additional charge. If the estimated sublease dates were to be extended by six months, based on our current estimates, we would potentially have to recognize an additional $138,000 in our statement of operations for restructuring and other related charges. In addition, we have a history of settling lease obligations favorably as compared with the amounts we have accrued, which could result in a benefit.

Interest and Other Income, Net

Interest and other income, net decreased 34% to $1.5 million in 2003 from $2.3 million in 2002. The decrease was primarily due to a decrease in our average cash and marketable securities balances in 2003 as compared to 2002, coupled with lower earned interest rates. Included in interest and other income, net in 2003 were gains of $785,000 from foreign currency exchange transactions and the re-measurement of foreign currency denominated assets and liabilities into the functional currency of various subsidiaries. Foreign currency related gains in 2003 decreased $165,000 from $950,000 in 2002.

Interest and other income, net decreased 54% to $2.3 million in 2002 from $5.0 million in 2001. The decrease was primarily due to a decrease in our average cash and marketable securities balances in 2002 as compared to 2001, coupled with lower earned interest rates. Offsetting the decrease in interest income in 2002 were gains of $950,000 from foreign currency exchange transactions and the re-measurement of foreign currency denominated assets and liabilities into the functional currency of various subsidiaries. Foreign currency related gains in 2002 increased $892,000 from $58,000 in 2001.

Provision for Income Taxes

As a result of net operating losses incurred in 2003, 2002 and 2001, and after evaluating our anticipated performance over our normal planning horizon, we have provided a full valuation allowance for our net operating loss carryforwards and other net deferred tax assets. Due to the uncertainty surrounding the utilization of our net deferred tax assets, net operating losses and research credits carryforwards, we have recorded a 100% valuation allowance. The provision in 2001 includes a $54.9 million charge recorded in the fourth quarter to reverse income tax benefits recognized in the first three quarters of 2001 and to establish a valuation allowance against our net deferred tax assets due to a change in our assessment of the realizability of these assets. In the fourth quarter of 2003 we reversed previously accrued taxes of $332,000 for foreign locations due to a change in our estimates of potential amounts due in those locations. In addition, we accrued $77,000 for estimated current period foreign taxes.

Liquidity and Capital Resources

Our capital requirements relate primarily to facilities, employee infrastructure and working capital requirements. Historically, we have funded our cash requirements primarily through the public and private sales of equity securities, commercial credit facilities and capital leases. For the past three years, we also funded our cash requirements in part from operations. At February 29, 2004, we had $16.5 million in cash and cash equivalents and $15.1 million in marketable securities.

Cash used in operating activities was $25.8 million in 2003. This consisted primarily of net income of $4.2 million, depreciation and amortization of $3.9 million, non-cash restructuring charges of $1.1 million, and a decrease in accounts receivable of $9.9 million, offset by a decrease in accrued restructuring of $34.4 million, accrued expenses of $5.9 million, accounts payable of $1.4 million and an increase in deferred rent of $3.8 million related to lease settlements.

Cash used in operating activities was $13.2 million in 2002. This consisted of operating losses of $29.5 million, a decrease in accounts receivable of $5.3 million, an increase in accrued restructuring of $6.8 million and depreciation and amortization of $7.1 million. Other changes in working capital items consisted primarily of $8.5 million in cash used for accrued expenses and a decrease in deferred revenues.

Our investing activities for 2003 consisted primarily of capital expenditures of $1.0 million and net proceeds from maturities of marketable securities of $13.1 million. Our investing activities for 2002 consisted primarily of capital expenditures of $945,000, net purchases of marketable securities of $8.7 million offset by a reduction in restricted cash of $16.8 million, and a reduction in other assets of $3.1 million. Assets acquired in both 2003 and 2002 consisted principally of leasehold improvements, computer hardware and software. We expect that capital expenditures will total approximately $2.0 million over the next twelve months.

Net cash provided by financing activities was $1.8 million in 2003, consisting of proceeds from stock option exercises and our employee stock purchase plan. Net cash provided by financing activities was $933,000 in 2002, principally representing proceeds from stock option exercises and the employee stock purchase plan, offset in part by payments on long-term obligations to BroadVision. Additionally, $1.1 million was received in the Tudor settlement, related to preferred stock litigation that was settled in May 2002.

Table of Contents

Accounts Receivable and Days Sales Outstanding

Our accounts receivable balance and days sales outstanding, or DSO, as of December 31, 2003, 2002 and 2001 were as follows:

	2003	2002	2001
	(In thousands (except DSO data))		
DSO	77	91	79
Revenue	$72,492	$101,493	$140,338
Accounts Receivable	$15,364	$ 25,221	$ 30,532

We note that our DSO has generally improved or trended lower over the last 3 years due to improved internal processes and economic changes in our customer base, both as discussed below. The increase for December, 2002 was due to a large payment that was due in the fourth quarter of 2002 not being received until January 2003.

Beginning in January 2002, we reorganized our collections process globally with centralized management in the United States. Three employees were added to the collections function principally to focus on collections. In addition, bi-weekly global collections and credit evaluation meetings were implemented by management. Finally, our customer base has grown stronger in overall quality because much of our customer base prior to 2002 included smaller, early-stage companies, while in 2002 and 2003 our overall customer base includes a greater percentage of larger, well-established companies.

Effective June 13, 2002, we entered into a $15.0 million revolving line of credit with Silicon Valley Bank, or the Bank, which provided for borrowings of up to the lesser of $15.0 million or 80% of eligible accounts receivable. The line of credit bore interest at the Bank s prime rate. Effective December 24, 2002 the revolving line of credit increased to $20.0 million. The line of credit is secured by all of our tangible and intangible intellectual and personal property and is subject to financial covenants including liquidity coverage and profitability.

Effective November 25, 2003, we modified our existing working capital facility with the Bank. The line of credit is secured by all of our tangible and intangible intellectual and personal property and is subject to financial covenants including liquidity coverage and profitability. The liquidity covenant mandates we maintain $25.0 million in cash, which includes cash equivalents and marketable securities, at the end of each month throughout the duration of the facility. The profitability covenant allows for net losses not to exceed; $3.5 million for the fourth quarter of 2003, $3.0 million for the first quarter of 2004, $2.0 million for the second and third quarters of 2004, and $1.0 million for the fourth quarter of 2004. We are required to maintain $25.0 million in unrestricted cash, which includes cash equivalents and marketable securities, at the Bank. In the event our cash balances at the Bank fall below $25.0 million, we will be required to pay fees and expenses to compensate the Bank for lost income. At December 31, 2003, we were in compliance with all related financial covenants. In the event that we do not comply with any of the financial covenants within the line of credit or we default on any of its provisions, the Bank s significant remedies include (1) declaring all obligations immediately due and payable; (2) ceasing to advance money or extend credit for our benefit; (3) applying to the obligations any balances and deposits held by us or any amount held by the Bank owing to or for the credit of our account; and, (4) putting a hold on any deposit account held as collateral. If the agreement expires or is not extended, the Bank will require outstanding Letters of Credit, or LC s, at that time to be cash secured on terms acceptable to the Bank. The revolving line of credit expires on November 25, 2004.

While there were no outstanding borrowings under the facility at December 31, 2003, we have LC s totaling $12.0 million, which are supported by this facility. The LC s have been issued in favor of various landlords to secure obligations under our facility leases pursuant to lease expiring from August, 2004 through August, 2009. The line of credit bears interest at the Bank s prime rate, which was 4.00% at December 31, 2003. As of December 31, 2003, approximately $8.0 million was available under the facility.

We lease our facilities and a small amount of equipment under operating leases that expire between 2004 and 2009. The aggregate minimum annual payments under these leases is $23.5 million, which includes

Table of Contents

approximately $7.3 million payable in 2004. Of the $23.5 million, $15.2 million is for leases that are included in restructuring. In accrued restructuring at December 31, 2003, the $15.2 million, which excludes settlements due in less than one year, was reduced to $12.7 million after taking into consideration estimated operating costs, estimated sublease income, contracted sublease income, and vacancy periods. Of the $23.5 million in lease payments, $22.9 million is for facility leases and $0.6 million is for equipment leases. For additional information relating to our commercial and contractual commitments, see Notes 7 and 11 to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K.

Contractual Obligations

At December 31, 2003, our contractual cash obligations, which consist solely of operating leases, were as follows (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Lease Commitments	$23,523	$7,337	$11,580	$4,145	$461

In addition to these lease commitments, at December 31, 2003, we had commitments to pay $4.5 million related to negotiated real estate lease settlements, primarily for the Cambridge, Massachusetts location. Of that total, $4.2 million has been paid in 2004 and a final payment of $300,000 is scheduled to be made on April 1, 2004. We believe that there will not be any material real estate lease settlements beyond those completed to date. As such, we believe that our balance of $42.4 million in cash and cash equivalents and marketable securities at December 31, 2003, along with other working capital and cash generated by our operations will allow us to meet our liquidity needs over the next twelve months. However, our actual cash requirements will depend on many factors, including particularly, overall economic conditions both domestically and abroad. We may seek additional external funds through public or private securities offerings, strategic alliances or other financing sources. There can be no assurance that if we seek external funding, it will be available on favorable terms, if at all.

Recent Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), which requires certain guarantees to be recorded at fair value as opposed to the current practice of recording a liability only when a loss is probable and reasonably estimable FIN 45 also requires a guarantor to make significant new guaranty disclosures, even when the likelihood of making any payments under the guarantee is remote. FIN 45 s initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for interim or annual periods ending after December 15, 2002. The Company is not aware of any guarantees that require disclosure as of December 31, 2003 or 2002.

In November 2002, the FASB Emerging Issue Task Force, or EITF, reached a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF 00-21 provides guidance for determining whether an arrangement involving multiple elements contains more than one unit of accounting. EITF 00-21 does not, however, apply to elements that are subject to other accounting literature that provides guidance on whether and/or how to separate multiple-deliverable arrangements and how to allocate value among those separate units of accounting, including software licensing arrangements and related services agreements subject to SOP 97-2. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of Issue 00-21 did not have a material effect on the Company s consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 *Consolidation of Variable Interest Entities*, or FIN 46, which is an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. FIN 46 addresses consolidation by business enterprises of variable interest entities and requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks are not to be consolidated unless a single party holds an interest or combination of interests that effectively

Table of Contents

recombines risks that were previously dispersed. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period ending after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003, if certain criteria are met. FIN 46 applies to public enterprises as of the beginning of the applicable interim or annual period. The adoption of FIN 46 as it relates to variable interest entities created before February 1, 2003 is not expected to have a material effect on our financial condition or results of operations.

In April 2003, the FASB released FAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which clarifies the accounting for derivatives, amending the previously issued FAS 133, Accounting for Derivative Instruments and Hedging Activities. FAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative, amends the definition of an underlying contract, and clarifies when a derivative contains a financing component in order to increase the comparability of accounting practices under FAS 133. FAS 149 is effective for contracts entered into or modified after September 30, 2003. The adoption of FAS 149 did not have a material impact on our financial position or results of operations.

In May 2003 the FASB issued FAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (FAS 150). FAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. FAS 150 applies specifically to a number of financial instruments that companies have historically presented within their financial statements either as equity or between the liabilities section and the equity section, rather than as liabilities. FAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of FAS 150 did not have a material impact on our financial position or results of operations.

In August 2003, the EITF reached a consensus on Issue 03-05, *Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software.* EITF 03-05 addresses the applicability of SOP 97-2 to non-software deliverables in an arrangement containing more-than-incidental software. In an arrangement that includes software that is more than incidental to the products or services as a whole, software and software-related elements are included within the scope of SOP 97-2. Software-related elements include software products and services, as well as any non-software deliverables for which a software deliverable is essential to its functionality. The adoption of EITF 03-05 did not have a material impact on our consolidated financial results.

Table of Contents

Item 8. ***Consolidated Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Art Technology Group, Inc.

We have audited the accompanying consolidated balance sheets of Art Technology Group, Inc. as of December 31, 2003 and 2002 and the related consolidated statements of operations, stockholders equity and comprehensive income (loss) and cash flows for each of the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Art Technology Group, Inc. for the year ended December 31, 2001 were audited by other auditors who have ceased operations and whose report dated January 22, 2002 expressed an unqualified opinion on those statements before the reclassification adjustments and disclosures described in Note 1.

We conducted our audits 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 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 consolidated financial position of Art Technology Group, Inc. as of December 31, 2003 and 2002 and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1(s), effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

As discussed above, the consolidated financial statements of Art Technology Group, Inc. as of December 31, 2001 and for the year then ended were audited by other auditors who have ceased operations. As described in Note 1(u), these consolidated financial statements have been revised to reflect restricted cash and gross cash flows from maturities and purchases of marketable securities classified as held-to-maturity in the statement of cash flows for the year ended December 31, 2001, and the statement of operations for the year ended December 31, 2001 has been revised to (a) conform to the 2003 and 2002 presentation of reclassifying reimbursed expenses in revenue and cost of services revenues in accordance with Emerging Issues Task Force 01-14, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*, (b) include stock-based compensation expense, previously reported as a separate line item in the statement of operations, in cost of services revenues, research and development expenses, sales and marketing expenses and general and administrative expenses, and (c) reclassify an impairment charge for purchased software, previously recorded in restructuring (benefit) charges, in cost of product license revenues. We audited the reclassifications that were applied to revise the statement of cash flows and the statement of operations for the year ended December 31, 2001. Our procedures included (a) agreeing the adjusted amounts for restricted cash, gross maturities and purchases of marketable securities classified as held-to-maturity, revenue, cost of services revenues, research and development expenses, sales and marketing expenses, general and administrative expenses, restructuring (benefit) charges and cost of product license revenues to the Company s underlying records obtained from management, and (b) testing the mathematical accuracy in computing the restated consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied in all material respects. Further, as described in Note 1(s), these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Company as

Table of Contents

of January 1, 2002. Our audit procedures with respect to the disclosures in Note 1(s) with respect to 2001 included (a) agreeing the previously reported net loss in 2001 to the previously issued financial statements and the adjustments to reported net loss in 2001 representing amortization expense (including any tax effects) recognized in that period related to goodwill to the Company s underlying records obtained from management, and (b) testing the mathematical accuracy of the reconciliation of adjusted net loss in 2001 to reported net loss in 2001, and the related loss-per-share amounts. In our opinion, the disclosures for 2001 in Note 1(s) are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such adjustments as described in Note 1 and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

/S/ ERNST & YOUNG LLP

Boston, Massachusetts
January 26, 2004

Table of Contents

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

THE FOLLOWING REPORT OF ARTHUR ANDERSEN LLP (ANDERSEN) IS A COPY OF THE REPORT PREVIOUSLY ISSUED BY ANDERSEN ON JANUARY 22, 2002. THE REPORT OF ANDERSEN IS INCLUDED IN THIS ANNUAL REPORT ON FORM 10-K PURSUANT TO RULE 2-02(E) OF REGULATION S-X. THE COMPANY HAS NOT BEEN ABLE TO OBTAIN A REISSUED REPORT FROM ANDERSEN. ANDERSEN HAS NOT CONSENTED TO THE INCLUSION OF ITS REPORT IN THIS ANNUAL REPORT ON FORM 10-K. BECAUSE ANDERSEN HAS NOT CONSENTED TO THE INCLUSION OF ITS REPORT IN THIS ANNUAL REPORT, IT MAY BE DIFFICULT TO SEEK REMEDIES AGAINST ANDERSEN AND THE ABILITY TO SEEK REMEDIES AGAINST ANDERSEN MAY BE IMPAIRED.

To the Stockholders and Board of Directors of

Art Technology Group, Inc.:

We have audited the accompanying consolidated balance sheets of Art Technology Group, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholders equity (deficit) and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company 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 generally accepted in the 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 Art Technology Group, Inc. and subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/S/ ARTHUR ANDERSEN LLP

Boston, Massachusetts
January 22, 2002

Table of Contents

ART TECHNOLOGY GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per-share information)

	December 31, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 32,703	$ 45,829
Marketable securities	9,650	22,729
Accounts receivable, net of reserves of $799 ($1,941 in 2002)	15,364	25,221
Prepaid expenses and other current assets	1,180	2,489
Total current assets	58,897	96,268
Property and equipment, net	3,751	6,998
Other assets	4,712	1,569
	$ 67,360	$ 104,835
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,146	$ 2,563
Accrued expenses	12,363	18,219
Deferred revenue	14,915	15,674
Accrued restructuring, short-term	9,427	19,819
Total current liabilities	37,851	56,275
Accrued restructuring, less current portion	8,572	32,537
Commitments and contingencies (Notes 3 and 7) Stockholders Equity:		
Preferred stock, $0.01 par value Authorized 10,000,000 shares Issued and outstanding no shares		
Common stock, $0.01 par value Authorized 200,000,000 shares Issued and outstanding 72,936,165 shares and 70,941,478 shares at December 31, 2003 and 2002, respectively	729	709
Additional paid-in capital	218,927	217,288
Deferred compensation	(11)	(394)
Accumulated deficit	(195,691)	(199,869)
Accumulated other comprehensive loss	(3,017)	(1,711)
Total Stockholders Equity	20,937	16,023
	$ 67,360	$ 104,835

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

Table of Contents

ART TECHNOLOGY GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per-share information)

	Year Ended December 31,		
	2003	**2002**	**2001**
Revenues:			
Product license	$ 27,159	$ 48,796	$ 76,631
Services	45,333	52,697	63,707
Total revenues	72,492	101,493	140,338
Cost of Revenues:			
Product license	2,118	4,278	5,981
Services	19,808	33,745	47,827
Total cost of revenues	21,926	38,023	53,808
Gross profit	50,566	63,470	86,530
Operating Expenses:			
Research and development	17,928	22,046	30,518
Sales and marketing	31,174	43,122	93,437
General and administrative	9,538	11,087	24,116
Restructuring (benefit) charges	(10,476)	19,005	75,580
Total operating expenses	48,164	95,260	223,651
Income (loss) from operations	2,402	(31,790)	(137,121)
Interest and other income, net	1,521	2,300	4,967
Income (loss) before (benefit) provision for income taxes	3,923	(29,490)	(132,154)
(Benefit) provision for income taxes	(255)		23,851
Net income (loss)	$ 4,178	$ (29,490)	$ (156,005)
Basic net income (loss) per share	$ 0.06	$ (0.42)	$ (2.27)
Diluted net income (loss) per share	$ 0.06	$ (0.42)	$ (2.27)
Basic weighted average common shares outstanding	71,798	69,921	68,603
Diluted weighted average common shares outstanding	73,768	69,921	68,603

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Table of Contents

ART TECHNOLOGY GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME (LOSS)
(In thousands, except share and per-share information)

	Common Stock					Accumulated		
	Number of Shares	Par Value	Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Other Comprehensive Loss	Total Stockholders Equity	Comprehensive Income (Loss)
Balance, December 31, 2000	67,894,357	$679	$209,338	$(3,670)	$ (14,374)		$ 191,973	
Exercise of stock options	937,220	9	1,162				1,171	
Issuance of common stock in connection with employee stock purchase plan	131,708	1	1,534				1,535	
Shares and options issued in connection with the acquisition of Toronto Technology Group, Inc	18,745		2,132				2,132	
Settlement of exchangeable shares			1,263				1,263	
Amortization of deferred compensation				1,280			1,280	
Reversal of deferred compensation			(832)	832				
Comprehensive Loss:								
Net loss					(156,005)		(156,005)	$(156,005)
Foreign currency translation adjustments						$ (440)	(440)	(440)
Comprehensive loss								$(156,445)
Balance, December 31, 2001	68,982,030	689	214,597	(1,558)	(170,379)	(440)	42,909	
Exercise of stock options	343,006	3	109				112	
Issuance of common stock in connection with employee stock purchase plan	1,616,442	17	1,754				1,771	
Tudor Settlement (Note 12)			1,050				1,050	
Amortization of deferred compensation				942			942	
Reversal of deferred compensation			(222)	222				
Comprehensive Loss:								
Net loss					(29,490)		(29,490)	$ (29,490)
Foreign currency translation adjustments						(1,271)	(1,271)	(1,271)
Comprehensive loss								$ (30,761)
Balance, December 31, 2002	70,941,478	709	217,288	(394)	(199,869)	(1,711)	16,023	
Exercise of stock options	786,020	8	744				752	

Issuance of common stock in connection with employee stock purchase plan	1,208,667	12	1,083				1,095	
Amortization of deferred compensation				136			136	
Reversal of deferred compensation			(188)	247		(70)	(11)	
Comprehensive Loss:								
Net income (loss)					4,178		4,178	$ 4,178
Foreign currency translation adjustments						(1,236)	(1,236)	(1,236)
Comprehensive loss								$ (2,942)
Balance, December 31, 2003	72,936,165	$ 729	$ 218,927	$ (11)	$ (195,691)	$ (3,017)	$ 20,937	

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Table of Contents

ART TECHNOLOGY GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended December 31,		
	2003	**2002**	**2001**
Cash Flows from Operating Activities:			
Net income (loss)	$ 4,178	$ (29,490)	$ (156,005)
Adjustments to reconcile net income (loss) to net used in operating activities			
Stock-based compensation	136	942	1,280
Depreciation and amortization	3,897	7,147	9,414
Non-cash restructuring charge	1,144	2,613	16,733
Loss on disposal of fixed assets, net	121	198	801
Changes in operating assets and liabilities			
Accounts receivable, net	9,857	5,311	21,907
Unbilled services		269	998
Prepaid expenses and other current assets	1,140	3,057	(1,318)
Deferred tax assets			23,851
Deferred rent	(3,772)		
Accounts payable	(1,417)	(1,597)	(7,417)
Accrued expenses	(5,856)	(6,499)	(2,358)
Deferred revenue	(759)	(1,954)	(5,136)
Accrued restructuring	(34,446)	6,779	42,689
Net cash used in operating activities	(25,777)	(13,224)	(54,561)
Cash Flows from Investing Activities:			
Purchases of marketable securities	(12,138)	(41,360)	(35,055)
Maturities of marketable securities	25,217	32,688	111,950
Restricted cash			