STELLENT INC
Form 10-Q
August 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006**

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 0-19817.

STELLENT, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MINNESOTA	**41-1652566**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
7500 FLYING CLOUD DRIVE, SUITE 500, EDEN PRAIRIE, MINNESOTA	**55344-3736**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one)

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. Common Stock, $.01 par value 29,668,480 shares as of August 4, 2006.

STELLENT, INC

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2006	March 31, 2006
ASSETS		
Current assets		
Cash and equivalents	$ 43,330	$ 34,741
Short-term marketable securities	26,400	29,900
Trade accounts receivable, net	29,878	31,320
Prepaid royalties, current portion	962	941
Prepaid expenses and other current assets	4,464	4,512
Total current assets	105,034	101,414
Long-term marketable securities	14,295	17,112
Property and equipment, net	7,526	7,822
Prepaid royalties, net of current portion	779	923
Goodwill	75,354	74,409
Other acquired intangible assets, net	3,950	4,003
Other	641	866
	$ 207,579	$ 206,549
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 2,048	$ 3,072
Deferred revenues, current portion	20,723	20,143
Commissions payable	2,738	3,839
Accrued expenses and other	6,384	7,442
Current portions of obligation under capital leases	332	473
Total current liabilities	32,225	34,969
Deferred revenue, net of current portion	991	1,079
Deferred rent, net of current portion	1,211	1,264
Obligations under capital leases, net of current portions	233	281
Total liabilities	34,660	37,593
Shareholders equity		
Common stock	296	294
Additional paid-in capital	256,764	254,381
Unearned compensation		(123)
Accumulated deficit	(84,581)	(85,793)
Accumulated other comprehensive income	440	197
Total shareholders equity	172,919	168,956
	$ 207,579	$ 206,549

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

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

	Three Months Ended June 30, 2006	2005
Revenues		
Product licenses	$ 14,353	$ 13,728
Services	7,679	5,160
Post-contract support	10,310	9,673
Total revenues	32,342	28,561
Cost of revenues		
Product licenses	828	1,160
Services	6,903	5,025
Post-contract support	1,725	1,850
Amortization of capitalized software from acquisitions	307	416
Total cost of revenues	9,763	8,451
Gross profit	22,579	20,110
Operating expenses		
Sales and marketing	12,358	11,436
General and administrative	3,196	3,170
Research and development	5,518	4,656
Amortization of acquired intangible assets and unearned compensation	93	164
Restructuring charges		17
Total operating expenses	21,165	19,443
Income from operations	1,414	667
Other:		
Interest income, net	749	415
Net income before income taxes	2,163	1,082
Provision for income taxes	63	
Net income	$ 2,100	$ 1,082
Net income per common share:		
Basic	$ 0.07	$ 0.04
Diluted	$ 0.07	$ 0.04
Weighted average shares outstanding:		
Basic	29,524	27,546
Diluted	31,154	28,487

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

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

	Three Months Ended June 30, 2006	2005
Operating activities:		
Net income	$ 2,100	$ 1,082
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	872	694
Amortization of acquired intangible assets and other	400	579
Employee stock-based compensation	1,119	
Changes in operating assets and liabilities, net of amounts acquired:		
Trade accounts receivable, net	1,794	1,971
Prepaid expenses and other current assets, prepaid royalties and other assets	486	(516)
Accounts payable	(1,024)	(1,797)
Accrued liabilities	(1,235)	(54)
Deferred revenue	644	(450)
Accrued commissions	(1,101)	69
Net cash flows provided by operating activities	4,055	1,578
Investing activities:		
Maturities of marketable securities, net	6,317	1,583
Business acquisitions, net of cash acquired	(1,026)	(5,320)
Purchases of property and equipment	(563)	(796)
Purchases of intangibles	(61)	
Net cash flows provided by (used in) investing activities	4,667	(4,533)
Financing activities:		
Proceeds from stock options	1,397	622
Payments under capital leases	(189)	(170)
Cash dividend paid	(887)	
Net cash flows provided by financing activities	321	452
Effect of exchange rate changes on cash and equivalents	(454)	(449)
Net increase (decrease) in cash	8,589	(2,952)
Cash and equivalents at beginning of the period	34,741	49,113
Cash and equivalents at end of the period	$ 43,330	$ 46,161
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 12	$
Non-cash investing and financing activities:		
Common stock issued in business acquisitions	$	$ 2,008
Dividends earned on unvested deferred share units	1	
Business acquisition hold-back	200	

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

STELLENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Quarterly Reports on Form 10-Q and instructions for Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting only of normal recurring adjustments (except for the adjustments used to record the acquisition of BitForm, Inc. (Bitform) disclosed in Note 3), have been recorded as necessary to present fairly the consolidated financial position, results of operations and cash flow of Stellent, Inc. (the Company) for the periods presented. These consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements included in the Company s fiscal year 2006 Annual Report on Form 10-K. The consolidated results of operations for the three month periods ended June 30, 2006 and 2005 are not necessarily indicative of the results that may be expected for any future period. References to fiscal years 2007 and 2006 represent the twelve months ended March 31, 2007 and 2006, respectively.

The condensed consolidated balance sheet at March 31, 2006 has been derived from audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Such disclosures are contained in the Company s Annual Report on Form 10-K.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Revenue Recognition

Revenue consists principally of software license, support, consulting and training fees. The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-9*, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions*, and Securities and Exchange Commission Staff Accounting Bulletin 104, *Revenue Recognition*.

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

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

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

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

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

STELLENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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With regard to software arrangements involving multiple elements, the Company allocates revenue to each element based on the relative fair value of each element. The Company s determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence (VSOE). The Company limits its assessment of VSOE for each element to the price charged when the same element is sold separately. The Company has analyzed all of the elements included in its multiple-element arrangements and has determined that it has sufficient VSOE to allocate revenue to consulting services and post-contract customer support (PCS) components of its license arrangements. The Company sells its consulting services separately, and has established VSOE on this basis. VSOE for PCS is determined based upon the customer s annual renewal rates for these elements. Accordingly, assuming all other revenue recognition criteria are met, revenue from perpetual licenses is recognized upon delivery using the residual method in accordance with SOP 98-9, and revenue from PCS is recognized ratably over their respective terms, typically one year.

The Company s direct customers typically enter into perpetual license arrangements. The Company s OEM group generally enters into term-based license arrangements with its customers, the term of which generally exceeds one year in length. The Company recognizes revenue from time-based licenses at the time the license arrangement is signed, assuming all other revenue recognition criteria are met, if the term of the time-based license arrangement is greater than twelve months. If the term of the time-based license arrangement is twelve months or less, the Company recognizes revenue ratably over the term of the license arrangement.

Services revenue consists of fees from consulting services, PCS and out-of-pocket expenses reimbursed by the Company. Consulting services include needs assessment, software integration, security analysis, application development and training. The Company bills consulting services fees either on a time and materials basis or on a fixed-price schedule. In general, the Company s consulting services are not essential to the functionality of the software. The Company s software products are fully functional upon delivery and implementation and generally do not require any significant modification or alteration for customer use. Customers purchase the Company s consulting services to facilitate the adoption of its technology and may dedicate personnel to participate in the services being performed, but they may also decide to use their own resources or appoint other professional service organizations to provide these services. Software products are billed separately from professional services. The Company recognizes revenue from consulting services as services are performed. The Company s customers typically purchase PCS annually, and the Company prices PCS based on either a percentage of the product license fee or product list price, as applicable. Customers purchasing PCS receive product upgrades, Web-based technical support and telephone hot-line support. Unspecified product upgrades are not provided without the purchase of PCS. The Company typically has not granted upgrade rights in its license agreements. Specified undelivered elements are allocated a relative fair value amount within a license agreement and the revenue allocated for these elements are deferred until delivery occurs.

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

Cost of Revenue

The Company expenses all manufacturing, packaging and distribution costs associated with product license revenue as cost of revenues. The Company expenses all technical support service costs associated with service revenue as a cost of revenues. The Company also expenses amortization of capitalized software from acquisition as cost of revenues. The Company reports out-of-pocket expenses reimbursed by customers as revenue and the corresponding expenses incurred as costs of revenue.

Cash, Cash Equivalents, Marketable Securities

Cash and Cash Equivalents: The Company considers all short-term, highly liquid investments that are readily convertible into known amounts of cash and have original maturities of three months or less to be cash equivalents.

Marketable Securities: Investments in debt securities with a remaining maturity of one year or less at the date of purchase are classified as short-term marketable securities. Investments are held in debt securities of the United States government and with corporations that have the highest possible credit rating. Investments in debt securities with a remaining maturity of greater than one year are classified as long-term marketable securities. These investments are classified as held to maturity and recorded at amortized cost as the Company has the ability and positive intent to hold to maturity.

Warranties

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

STELLENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Indemnification Obligations

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

Comprehensive Income

Other comprehensive income consist of gains or losses that under the accounting principles generally accepted in the United States of America are recorded as an element of shareholders equity and are excluded from operations. The following table represents comprehensive income for the three months ended June 30, 2006 and 2005:

	Three Months Ended June 30, 2006	2005
Net income	$ 2,100	$ 1,082
Other comprehensive income:		
Foreign currency translation adjustments	243	(449)
Comprehensive income	$ 2,343	$ 633

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Goodwill and Other Acquired Intangible Asset

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets,* effective April 1, 2002 and, as a result, ceased to amortize goodwill at that time. The changes in the carrying amount of goodwill for the three months ended June 30, 2006 was as follows:

	2006
March 31,	$ 74,409
Acquisition of Bitform	946
Foreign translation adjustment	(1)
June 30,	$ 75,354

Other acquired intangible assets by major intangible asset class at June 30, 2006 were as follows:

	Acquired Value	Amortization Period in Years
Core technology	$ 3,690	3
Customer base	3,242	3 to 10
Trademarks	145	10
	$ 7,077	5.89 weighted average years

The other intangibles have no significant residual values. There are no other intangible assets which are not subject to amortization. Gross carrying amounts and accumulated amortization of the other acquired intangibles were as follows for each major intangible asset class:

	As of June 30, 2006 Gross Carrying Amount	Accumulated Amortization	Net Balances
Core technology	$ 3,690	$ (2,461)	$ 1,229
Customer base	3,242	(657)	2,585
Trademarks	145	(9)	136
	$ 7,077	$ (3,127)	$ 3,950

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STELLENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Amortization expense for other acquired intangible assets for the three months ended June 30, 2006 and 2005 was $400 and $486, respectively.

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

2007 (remaining nine months)	$ 1,242
2008	706
2009	379
2010	341
2011	341
Thereafter	941
	$ 3,950

The preceding expected amortization expense is an estimate. Actual amortization expense may differ from estimates due to additional intangible asset acquisitions, impairment of intangible assets, accelerated amortization of intangible assets and other events.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this standard.

Note 2. Basic and Diluted Net Income Per Common Share

Basic net income per share is computed using the weighted average number of shares outstanding of common stock. Diluted net income per share is computed using the weighted average number of shares of common stock and common equivalent shares outstanding during the period. Common equivalent shares consist of stock options and deferred share units, which were excluded from the computation if their effect is anti-dilutive. The calculation of diluted net income per common share excludes 1,249 and 2,532 of potentially dilutive outstanding stock options and deferred share units for the three month period ended June 30, 2006 and 2005, respectively, because their effect would be anti-dilutive. The components of basic and diluted net income per share computations were as follows:

	Three Months Ended June 30,	
	2006	**2005**
Net income as reported	$ 2,100	$ 1,082
Weighted average shares outstanding:		
Basic	29,524	27,546
Dilution associated with employee stock option and deferred share units	1,630	941
Diluted	31,154	28,487
Net income per share as reported:		
Basic	$ 0.07	$ 0.04
Diluted	$ 0.07	$ 0.04

Note 3. Mergers and Acquisitions

On June 29, 2006, the Company acquired all of the outstanding capital stock of Bitform, a privately held provider of software cleansing technologies, for $1,200 in cash. The Company also incurred approximately $26 in professional fees and other costs directly associated with this acquisition. A preliminary allocation of the purchase price was allocated to goodwill for approximately $946 and $280 was allocated to other acquired intangible assets (core technology, which will be amortized over a five year period). The Company is also required to make potential earn-out payments up to $1,300 based upon revenue performance over a one-year period from the date of the acquisition. Additional pro forma disclosures required under SFAS No. 141 related to this acquisition were not considered material.

On June 20, 2005, the Company acquired certain assets of privately held e-Onehundred Group, a financial compliance solutions provider, for $5,000 in cash and 274 shares of the Company s stock valued at $2,008. The Company also incurred approximately $291 in professional fees and other costs directly associated with this acquisition. Approximately $6,405 of the purchase price was allocated to goodwill, $520 was allocated to other acquired intangible assets (core technology and customer base, which both will be amortized over a three year period), $551 was allocated to assets acquired and $177 was allocated to liabilities assumed in the acquisition. The Company is also required to make potential earn-out payments up to $2,000 based upon revenue performance over a one-year period from the date of the acquisition. As of June 30, 2006 the Company has not made an earn-out payment. Future earn-out payments are estimated to be $1,500, which will be paid during the second and third quarter of fiscal year 2007. Additional pro forma disclosures required under SFAS No. 141 related to this acquisition were not considered material.

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STELLENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

Note 4. Equity-based Compensation

On April 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all equity-based payment awards made to employees and directors, including employee stock options and deferred share units (DSUSs), to be based on estimated fair values. SFAS 123(R) supersedes the Company s previous accounting under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* for periods beginning April 1, 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of April 1, 2006. The Company s condensed consolidated financial statements as of and for the three months ended June 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company s condensed consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Equity-based compensation expense recognized under SFAS 123(R) for the three months ended June 30, 2006 was $1,119. Equity-based compensation expense of $94 for the three months ended June 30, 2005 was related to additional compensation expense to employee stock options during the three months ended June 30, 2005. On a SFAS No. 123, *Accounting for Stock-Based Compensation* pro forma basis, equity-based compensation expense was $2,028 for the three months ended June 30, 2005. The following table illustrates how equity-based compensation was allocated to the Consolidated Statement of Operations as well as the effect on net income and net income per share of all equity-based compensation recognized under SFAS 123(R) during the three months ended June 30, 2006:

	Three Months Ended June 30, 2006
Cost of revenue	$ 129
Sales and marketing	584
General and administrative	123
Research and development	283
Equity-based compensation before income taxes	1,119
Income tax provision	
Total equity-based compensation after income taxes	$ 1,119
Impact on basic earning per share	$ 0.04
Impact on diluted earnings per share	$ 0.04
Weighted average shares outstanding:	
Basic	29,524
Diluted	31,154

The following table illustrates the effect on net income and net income (loss) per share as if we had applied the fair value recognition provisions of SFAS 123 to equity-based compensation during the three months ended June 30, 2005:

	Three Months Ended June 30, 2005
Net income as reported	$ 1,082
Add: Stock-based compensation included in net income as reported	94
Less: Total stock-based employee compensation expense determined under fair value based method for all awards	(2,028)
Net income (loss) pro forma	$ (852)
Weighted average shares outstanding:	
Basic	27,546
Diluted	28,487
Net income per share as reported:	
Basic	$ 0.04

Diluted	$	0.04
Net income (loss) per share pro forma:		
Basic	$	(0.03)
Diluted	$	(0.03)

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STELLENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
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SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model, which requires the input of significant assumptions including an estimate of the average period of time employees will retain vested stock options before exercising them, the estimated volatility of the Company s common stock price over the expected term and the number of options that will ultimately be forfeited before completing vesting requirements. Changes in the assumptions can materially affect the estimate of fair value of equity-based compensation and, consequently, the related expense recognized. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite vesting period in the Company s Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for equity-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123. Under the intrinsic value method, equity-based compensation expense is recognized in the Company s Consolidated Statement of Operations when the exercise price of the Company s stock options granted to employees and directors exceeds the fair market value of the underlying stock at the date of grant.

Stock Options

Equity-based compensation expense recognized in the Company s Consolidated Statement of Operations for the three months ended June 30, 2006 included compensation expense for equity-based payment awards granted on or prior to March 31, 2006, but not yet vested as of that date. The compensation expense for these awards is based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, which was in effect on and prior to March 31, 2006. Compensation expense for the equity-based payment awards granted subsequent to March 31, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Because equity-based compensation expense recognized in the Consolidated Statement of Operations for the three months ended June 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company s pro forma information required under SFAS 123 for the periods prior to April 1, 2006, the Company accounted for forfeitures as they occurred.

A summary of the Company s stock option activity, for the three months ended June 30, 2006:

	Shares		Weighted-Average Exercise Price
Outstanding as of March 31, 2006	5,773		$ 9.76
Granted	197		10.70
Exercised	(179	)	7.79
Forfeited	(141	)	8.03
Outstanding as of June 30, 2006	5,650		$ 9.89

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STELLENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

The aggregate intrinsic value of options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) exercised during the three months ended June 30, 2006 and 2005, was $675 and $591, respectively. Cash received from the exercise of stock options for the three months ended June 30, 2006 and 2005, was $1,397 and $622, respectively. The Company did not recognize a tax benefit from awards exercised for the three months ended June 30, 2006 and 2005.

As of June 30, 2006, there was $6,855 million of unrecognized compensation expense related to stock options that is expected to be recognized over a weighted-average period of 1.94 years. Price ranges and weighted average information for options outstanding and exercisable as of June 30, 2006 were as follows:

		Options Outstanding		Options Exercisable	
Range of Exercise Price	**Number Outstanding**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number Exercisable**	**Weighted-Average Exercise Price**
$1.91 - $5.99	947	4.82	$ 4.51	869	$ 4.52
$6.00 - $6.99	1,428	5.63	6.48	925	6.40
$7.00 - $7.99	1,364	7.44	7.43	578	7.46
$8.00 - $9.99	611	6.72	8.67	287	8.53
$10.00 - $16.00	627	5.02	12.66	417	13.44
$17.00 - $81.82	673	2.89	28.22	673	28.22
	5,650	5.65	$ 9.89	3,749	$ 10.99

For purposes of calculating the fair value of options under SFAS 123(R), the weighted average fair value of options granted during the three months ended June 30, 2006 was $3.98 per option. For purposes of calculating the fair value of options under FAS 123, the weighted average fair value of options granted during the three months ended June 30, 2005 was $3.15 per option. The weighted average fair values for the Plans and the non-plan options were based on the fair values on the dates of grant. The fair values for the Plans and the non-plan employee options were calculated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	For the Three Months Ended June 30, 2006	2005
Risk free interest yields	5.0 %	3.7 %
Dividend yield	1.0 %	
Volatility factor of expected market price of Company s stock	45 %	58 %
Weighted average expected life of options (years)	3.3	3.0

The risk-free interest rate assumption is based upon the interpolation of various U.S. Treasury STRIPS rates for a like term instrument at the date of option grant. The dividend yield is based on the Company s estimated annually divided by the stock price on the dividend date. The volatility assumption is based on the historical daily price data of the Company s stock over a period equal to the expected life of the options. Management evaluated whether there were factors during that period which were unusual and which would distort the volatility figure if used to estimate future volatility and concluded that there were no such factors. The expected life of employee stock options represents the weighted-average period that the stock options are expected to remain outstanding. It is based upon an analysis of the historical behavior of options holders during the period from April 1995 to March 31, 2006. Management believes historical data is representative of future exercise behavior. As equity-based compensation expense recognized in the consolidated statement of operations pursuant to SFAS 123(R) is based on awards ultimately expected to vest, expense for grants beginning upon adoption of SFAS 123(R) on April 1, 2006 will be reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ significantly from those estimates. In the Company s pro forma information required under SFAS 123 for the periods prior to January 1, 2006, the Company accounted for forfeitures as they occurred.

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(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

Deferred Share Units

The Company grants nonvested shares of common stock (deferred share units or DSUs) to certain directors and employees under the Company s 2005 Equity Incentive Plan. The accounting for DSUs is based on the vesting schedule for the shares. If the vesting schedule is based only on the passage of time and continued employment (time-based), the award is expensed from the grant date to the expected vesting date based on the number of shares expected to vest and the stock price on the date of grant. The Company recognizes expense on a straight-line basis for the time-based awards. If the vesting is based on performance criteria (performance-based) that could cause the awards to vest over varying periods of time, or to not vest at all, the award is expensed from the grant date to the expected vesting date at the stock price at the date of grant using a graded vesting approach for those awards that the Company determines are probable of vesting. During the three months ended June 30, 2006, the Company granted both time-based and performance-based deferred share units that vest over periods ranging from three to five years. The fair value of the DSUs was determined by using the closing market price for the Company s stock on the date of grant for each DSU. Under the agreements covering DSUs, the number of shares of common stock to be issued for unvested DSUs is increased for dividends paid by the Company while the unvested DSU is outstanding. The unvested DSUs covered by a particular award are multiplied by the per share value of the dividend. The product of that calculation is divided by the closing market price for the Company s stock on the date the dividend is paid. The number of shares of common stock covered by the award is increased by the resulting amount. During the first quarter of fiscal 2007, the number of unvested DSUs outstanding was increased slightly due to the$.03 per share dividend paid by the Company. Equity-based compensation expense related to DSU was $24 for the three months ending June 30, 2006 and $0 for the three months ending June 30, 2005.

A summary of the Company s DSUs activity, for the three months ended June 30, 2006:

	Units	Weighted-Average Exercise Price
Outstanding as of March 31, 2006		$
Granted	63	11.91
Exercised		
Forfeited	(12)	11.95
Outstanding as of June 30, 2006	51	$ 11.90

As of June 30, 2006, there was $600 of unrecognized compensation expense related to DSUs that is expected to be recognized over a weighted-average period of 3.2 years.

Note 5. Contingencies

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

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

Additionally, the Company is subject to various claims and litigation in the ordinary course of its business, including employment matters and intellectual property claims. Management does not believe the outcome of any current legal matters will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

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Note 6. Restructuring Charges

The Company initiated four restructuring plans during fiscal year 2003 in an effort to better align its expenses and revenues in light of economic conditions at the time. The Company adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, effective January 1, 2003 and has accounted for restructuring charges initiated after December 31, 2002 under its provisions. At June 30, 2006, approximately $12 remained to be paid in connection with the restructuring plans initiated during fiscal year 2003. In connection with the integration of Optika and with the Company s plans to continue to reduce costs and improve operating efficiencies, the Company adopted two restructuring plans during fiscal 2005. At June 30, 2006, approximately $162 remained to be paid in connection with these initiatives.

During the second quarter of fiscal year 2006, the Company adopted a restructuring plan to reorganize its international sales operations and consolidate certain general and administrative activities. The initial charge of $508 was recognized during the second quarter of fiscal year 2006, which included the costs for pay and benefits related to the involuntary termination of 8 employees of approximately $321 with the remaining $187 related to the closure of the Company s Brazilian facility. In the third quarter and fourth quarter of fiscal year 2006 a change of estimate was recorded which resulted in $67 and $28, respectively, of additional expense related to this restructuring plan. The second restructuring plan resulted in a charge of $513 which was recorded during the fourth quarter of fiscal year 2006. The expense recognized included costs for pay and benefits of approximately $470 that were related to the involuntary termination of 20 employees and the remaining $43 related to other exit costs necessary to the elimination of our digital asset management group as the technology has been fully integrated into our other software products. At June 30, 2006 approximately $106 remained to be paid in connection with this charge.

Employee termination benefit costs of $225 will be paid out through September 2006 and the other exit costs totaling $55 will be paid out through January 2007.

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

	Second Quarter 03	First Quarter 05		Fourth Quarter 05		Second Quarter 06		Fourth Quarter 06		
	Other Exit Costs	Employee Termination Benefits	Other Exit Costs	Employee Termination Benefits	Other Exit Costs	Employee Termination Benefits	Other Exit Costs	Employee Termination Benefits	Other Exit Costs	Total
Balance at April 1, 2003	$ 304	$	$	$	$	$	$	$	$	$ 304
Expense Payments	(65)									(65)
Change in estimate	360									360
Balance at June 30, 2003	599									599
Payments	(43)									(43)
Balance at September 30, 2003	556									556
Payments	(43)									(43)
Balance at December 31, 2003	513									513
Payments	(49)									(49)
Change in estimate										
Balance at March 31, 2004	464									