STELLENT INC
Form 10-K
June 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2006

or

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

Commission file number 0-19817

Stellent, Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**41-1652566**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

7500 Flying Cloud Drive, Suite 500

Eden Prairie, MN 55344

(Address of principal executive offices and zip code)

(952) 903-2000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act: Preferred Share

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No 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 amendment to this Form 10-K. x

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 Exchange Act). Yes o No x

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of September 30, 2005 was approximately $221,109,000 based on the closing sale price for the registrant s common stock on that date as reported by The NASDAQ Stock Market. For purposes of determining such aggregate market value, all officers and directors of the registrant are considered to be affiliates of the registrant, as well as shareholders holding 10% or more of the outstanding common stock as reflected on Schedules 13D or 13G filed with the registrant. This number is provided only for the purpose of this report on Form 10-K and does not represent an admission by either the registrant or any such person as to the status of such person.

As of June 2, 2006, the registrant had approximately 29,555,000 shares of common stock issued and outstanding.

STELLENT, INC.

FORM 10-K
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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the annual meeting of Shareholders to be held on August 1, 2006 are incorporated by reference in Part III of this Annual Report on Form 10-K. (The Compensation Committee Report and the stock performance graph contained in the registrant s Proxy Statement are expressly not incorporated by reference in this Annual Report on Form 10-K). The Proxy Statement will be filed within 120 days after the end of the fiscal year ended March 31, 2006.

Item 1. ***Business***

Forward-Looking Statements

The information presented in this Annual Report on Form 10-K under the headings Item 1. Business , Item 2. Properties , Item 3. Legal Proceedings , Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation and Item 7A. Quantitative and Qualitative Disclosures About Market Risk contain forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are based on the beliefs of our company s management as well as on assumptions made by, and information currently available to, us at the time such statements were made. When used in the Annual Report on Form 10-K, the words approximate , anticipate, believe, estimate, expect, intend, and similar expressions, as they relate to us, are intended to identify such forward-looking statements. Although we believe these statements are reasonable, such statements are subject to risks and uncertainties, including those discussed under Item 1A. Risk Factors of this Annual Report on Form 10-K, that could cause actual results to differ materially from those projected. Because actual results may differ, readers are cautioned not to place undue reliance on these forward-looking statements.

OVERVIEW

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

Currently, our suite of software solutions help customers worldwide solve business problems related to efficiently creating, managing, sharing and archiving critical information.

We help our customers optimize the use of our software products by providing them with value-based consulting services related to their content management needs. We also provide our customers with a range of product support programs that allow them to select maintenance and support services that are appropriate for their business.

PRODUCTS AND SERVICES

Stellent s products and services consist of content management, filtering and conversion software products; electronic content management consulting services; and post-contract software maintenance and support.

Content Management, Filtering and Conversion Software

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

Our Universal Content Management software addresses the key elements of content management document management and imaging, Web content management, digital asset management, records and retention management, and collaboration from a unified architecture, enabling customers to fully leverage their content management investment across the organization. We believe our tightly integrated products allow companies to implement content management-based applications using fewer products and consulting services than other content management offerings, which can lead to a lower total cost of ownership.

Both technical and non-technical users find using the Stellent system easy. Users can submit, or contribute, business content such as a word processing document, spreadsheet, CAD file or image to the Stellent system, and the Stellent technology automatically converts the file to a format that can be viewed on a Web site without needing the software application that created the file. This automatic conversion capability enables even non-technical users to easily publish information to a site, such as an employee portal or partner extranet, so the information can be shared with other users.

Our Universal Content Management software is comprised primarily of Stellent Content Server a data repository that provides a core set of content services to help ensure users can access only the most current information as appropriate to their role or permissions the following five key content management application modules:

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

- *Document Management and Imaging:* Provides Web-based management, collaboration and access to business information created in common office software applications or created as paper documents which are then converted into electronic images.

- *Digital Asset Management:* Enables digital assets such as photos, graphics, audio clips and video clips to be searched, accessed, viewed, managed, distributed and re-purposed via the Web.

- *Records and Retention Management:* Provides a Web-based method for managing business records and creating rules such as expiration, archiving and deletion regarding how long content needs to be retained and what actions to take regarding the content.

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

Stellent also offers end-user and OEM customers the content filtering and conversion components of its Universal Content Management software. These technologies make information created in more than 390 common office software applications more accessible to the business users who need it. Since business information is often difficult to access without the native software application in which it was created, Stellent s technologies convert files into any one of 11 common output formats, empowering users to locate and view information without needing the software application that created the file. Other technology companies embed these technologies in their own solutions to enable them to extract text and metadata and provide a high-fidelity view of file contents.

Consulting Services

Our consulting services group is focused on delivering value-based content management solutions to our customers. Our consulting services professionals employ a combination of business analysis, enterprise architecture, application analysis, installation, configuration, development and integration skills with

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experience-based project methodology and management knowledge to facilitate the rollout of content management solutions at all levels of a customer s organization. Available on a worldwide basis, we act as a business partner to our customers by providing a broad spectrum of services including:

- Technical architecture analysis and needs assessment, such as software, security and metadata analysis
- Solutions development and deployment strategies
- Software installation and configuration
- Custom application development
- Third party product integration
- Project management
- Knowledge transfer

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

Product Support

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

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

MARKETS AND CUSTOMERS

As of March 31, 2006, approximately 4,153 end-user content management, viewing and conversion customers and 549 OEM customers had selected Stellent solutions to power their content-centric business applications. No single customer accounted for ten percent or more of our total revenues in fiscal year 2006.

Customers primarily use our products as follows:

- *Enterprise Content Management:* Enterprise content management (ECM) is an infrastructure for all content-based applications such as public-facing Web sites, corporate intranets, dealer and partner extranets, human resource portals, customer service Web sites, marketing brand management, and accounts payable imaging within an enterprise, allowing organizations to strategically select, deploy and maintain an effective, efficient knowledge platform within their organizations. Often times, the ability to provide an ECM infrastructure is a requirement in line-of-business transactions as companies look ahead to other upcoming content management needs.

Multi-Site Management: Multi-site management refers to a content management infrastructure for creating and managing multiple, distributed Web properties such as public Web sites, intranets, extranets and portals. Stellent s second-generation, multi-site management solution offers a rapidly deployable product, allowing companies to easily launch and maintain multiple internal or external sites while preserving appropriate corporate branding.

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- *Governance, Risk and Compliance:* The increasingly expanded visibility of various compliance requirements most notably Sarbanes-Oxley continues to be a significant factor in technology infrastructure and application purchasing decisions. Compliance solutions powered by content management technologies both as platforms to support multiple compliance initiatives across organizations and specific solutions to individual regulatory challenges assist organizations in their compliance processes by automating the capture, management, retention and disposition of critical documentation for processes, objectives and risks, as well as the long-term management of the physical and electronic documentary evidence of regulatory compliance.

- *Enterprise Records and Retention Management:* The tremendous amount of content companies generate is stored in a variety of repositories and applications across the organization. Much of the content is redundant, outdated and counterproductive, and some of it poses a compliance and legal risk for the companies. In order to alleviate this risk and efficiently manage the volumes of content, organizations need to retain only as much content as is necessary; consistently and universally apply policies on how long content should be kept; apply legal holds promptly and universally; and enable the right people with the technology needed to properly design the policies. Stellent s enterprise records and retention management solution offers a single platform that applies records policies, retention policies, legal discovery and content holds to all relevant content across an organization regardless of where it is stored and without requiring it to be moved in a consistent, legally defensible way.

- *Content Filtering and Conversion*: Stellent s content filtering and conversion technologies support multiple operating systems and international environments. These technologies enable access to content in applications for diverse markets such as content management, search and retrieval, security and policy management, mobile and wireless, messaging, collaboration and publishing.

SALES AND MARKETING

We market and sell our products using a combination of direct and indirect distribution channels primarily in North America and Europe. Our primary distribution channel is our direct sales force, which targets mid- and large-size organizations. Our sales personnel work with target accounts to address unsolved business needs which can be satisfied by the application of a business process built around our Stellent Universal Content Management software. The analysis process will typically include a business process and technical systems evaluation performed by our pre-sales personnel, followed by demonstrations of our products capabilities and direct negotiations with our sales staff. As part of our selling model, Stellent has chosen to focus on specific vertical markets where we have developed subject matter expertise in these markets to solve common business problems. In addition, we have used internal and external telemarketing operations that are responsible for customer prospecting, lead generation and follow-up. These activities identify and develop leads for further sales efforts by our direct sales force. As of March 31, 2006, we had a worldwide total of 122 direct and indirect sales and sales support personnel and 27 marketing personnel, which includes business development and alliances.

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

We currently have operations or collaborations in Australia, Germany, Japan, Korea, the Netherlands, the United Kingdom and the United States. Our ability to achieve significant revenue growth in the future will depend in large part on how successfully we recruit, train and retain sufficient direct and indirect sales and support personnel, and how well we continue to establish and maintain relationships with our strategic partners, OEMs, key systems integrators and other channel partners.

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

CONTRACTS

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

PRODUCT TRAINING

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

RESEARCH AND DEVELOPMENT

We have made substantial investments in research and development through both internal development and technology acquisitions. Our research and development expenditures for fiscal 2004, 2005 and 2006, were approximately $13.3 million, $18.0 million and $20.2 million, respectively. Research and development expenses represented 18%, 17%, and 16%, respectively, of total revenue in those years. We expect that we will continue to commit significant resources to research and development in the future. As of March 31, 2006, we had 150 employees engaged in research and development activities.

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

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

PROPRIETARY RIGHTS AND LICENSING

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

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

Third parties may make claims of infringements with respect to our current or future product, but we cannot be sure that any such claims will arise. We expect that developers of content management and content component products will increasingly be subject to infringement claims as the number of products and competitors in our market grows and as the functionality of products in different segments of the software industry increasingly overlaps. Any claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management s attention and resources, cause product shipment delays or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all. A successful claim of product infringement against us and our failure or inability to license the infringed technology or develop or license technology with comparable functionality could have a material adverse effect on our business, operating results and financial condition.

ACQUISITIONS

In June 2005, we acquired certain assets of privately held e-Onehundred Group, a financial compliance solutions provider, for $5.0 million in cash, 274,000 shares of the Company s stock valued at $2.0 million and a potential $2.0 million cash earn-out over a one-year period based upon revenue performance. We acquired certain assets of the e-Onehundred Group to strengthen our domain expertise and to add to our product set which will enable us to more quickly capitalize on the growing financial compliance market by efficiently building a portfolio of applications on top of its scalable compliance platform.

SUPPLIERS

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

COMPETITION

The market for content management and content transformation software is intensely competitive, subject to rapid technological change and significantly affected by new product introductions and enhancements and other market activities of industry participants. We believe our competitive advantages include superior technology and lower overall cost of ownership. However, we expect competition to persist and intensify in the future. Our primary source of competition across the range of our product and service offerings is from content management products offered by companies such as EMC Corporation, FileNET Corporation, IBM Corporation, Interwoven, Inc., Microsoft Corporation, and Vignette Corporation. We also compete with current or potential customers who may develop solutions internally. Our governance, risk and compliance solutions primarily compete with specialty providers in the area, including OpenPages, Paisley Consulting, and Bwise. Our competitive advantage over these providers is the underlying ECM platform that we leverage as well as our financial viability. In the area of content filtering and conversion technologies, our primary competition is Verity, which was recently acquired by Autonomy.

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

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

EMPLOYEES

As of March 31, 2006, we had 560 employees. Our future success will depend in part on our ability to attract, retain, integrate and motivate highly qualified sales, technical and management personnel, for whom competition is intense. From time to time we also employ independent contractors to support our services, product development, sales and marketing departments. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage. We believe our relations with our employees are good.

GEOGRAPHIC INFORMATION

Financial information about geographic areas is incorporated by reference from Footnote 11 to our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

AVAILABLE INFORMATION

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

Item 1A. ***Risk Factors***

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

The risks and uncertainties described below are not the only risks we face. These risks include those that we consider to be significant at this time to investment decisions regarding our common stock. There may be risks that you, in particular, view differently than we do, and there are other risks and uncertainties that we do not presently know of or that we currently deem immaterial, but that may, in fact, harm our business in the future. If any of these events occur, they could have a material adverse effect on our business, results of operations and financial condition could be seriously harmed, and the trading price of our common stock could decline.

You should consider carefully the following factors, in addition to other information in this Annual Report on Form 10-K, in evaluating our company and business.

BECAUSE OUR INFRASTRUCTURE COSTS ARE GENERALLY FIXED AND THE TIMING OF OUR REVENUES FROM QUARTER TO QUARTER IS HIGHLY VARIABLE, OUR FUTURE PERFORMANCE IS DIFFICULT TO PREDICT, MAKING AN INVESTMENT IN OUR COMMON STOCK SUBJECT TO HIGH VOLATILITY.

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

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

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

WE HAVE A HISTORY OF MAKING ACQUISITIONS, INCLUDING LARGE STRATEGIC ACQUISITIONS, AND FUTURE POTENTIAL ACQUISITIONS MAY BE DIFFICULT TO COMPLETE OR TO INTEGRATE AND MAY DIVERT MANAGEMENT S ATTENTION AND CAUSE OUR OPERATING RESULTS TO SUFFER.

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

WE MAY NOT BE PROFITABLE IN THE FUTURE, WHICH WOULD CAUSE OUR FINANCIAL POSITION TO SUFFER AND MAY CAUSE THE MARKET PRICE OF OUR STOCK TO FALL.

Our revenues may not grow in future periods and we may not sustain profitability. If we do not sustain profitability, our financial position will suffer and the market price of our stock may fall. Our ability to sustain profitable operations depends upon many factors beyond our direct control. These factors include, but are not limited to:

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

THE INTENSE COMPETITION IN OUR INDUSTRY FROM RECENT AND EXPECTED INDUSTRY CONSOLIDATION MAY REDUCE OUR FUTURE SALES AND PROFITS.

The market for our products is highly competitive and is likely to become more competitive from recent and expected industry consolidation. We may not be able to compete successfully in our chosen marketplace, which may have a material adverse effect on our business, operating results and financial condition. Additional competition may cause pricing pressure, reduced sales and margins, or prevent our products from gaining and sustaining market acceptance. Many of our current and potential competitors have greater name recognition, access to larger customer bases, and substantially more resources than we have. Competitors with greater resources than ours may be able to respond more quickly than we can to new opportunities, changing technology, product standards or customer requirements.

WE DEPEND ON THE CONTINUED SERVICE OF OUR KEY PERSONNEL; IF WE LOSE THE SERVICES OF OUR KEY PERSONNEL OUR ABILITY TO EXECUTE OUR OPERATING PLAN, AND OUR OPERATING RESULTS, MAY SUFFER.

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

WE HAVE RELIED AND EXPECT TO CONTINUE TO RELY ON SALES OF OUR CONTENT MANAGEMENT SOFTWARE, FOR OUR REVENUES; IF OUR CONTENT MANAGEMENT SOFTWARE DOES NOT GAIN AND MAINTAIN CUSTOMER ACCEPTANCE, OUR REVENUES AND OPERATING RESULTS MAY SUFFER.

We currently derive all of our revenues from product licenses and services associated with our suite of content management and viewing, software products. The market for these products is new and rapidly evolving. We cannot be certain that a viable market for our products will continue or that it will be sustainable. If we do not increase employee productivity and revenues related to our existing products or generate revenues from new products and services, our business, operating results and financial condition may be materially adversely affected. We will continue to depend on revenues related to new and enhanced versions of our software products for the foreseeable future. Our success will largely depend on our ability to increase sales from existing products and generate sales from product enhancements and new products. We cannot be certain that we will be successful in upgrading and marketing our existing products or that we will be successful in developing and marketing new products and services. The market for our products is highly competitive and is subject to rapid technological change. Technological advances could make our products less attractive to customers and adversely affect our business. In addition, complex software product development involves certain inherent risks, including risks that errors may be found in a product enhancement or new product after its release, even after extensive testing, and the risk that discovered errors may not be corrected in a timely manner.

IF WE CANNOT COST-EFFECTIVELY PROTECT OUR INTELLECTUAL PROPERTY, WHICH CONSISTS PRIMARILY OF OUR PROPRIETARY SOFTWARE PRODUCTS, OUR BUSINESS, OPERATING RESULTS AND FINANCIAL CONDITION MAY SUFFER.

If we are unable to protect our intellectual property, or incur significant expense in doing so, our business, operating results and financial condition may be materially adversely affected. Any steps we take to protect our intellectual property may be inadequate, time consuming and expensive. Without significant patent or copyright protection, we may be vulnerable to competitors who develop functionally equivalent products. We may also be subject to claims that our current products infringe on the intellectual property rights of others. Any such claim may have a material adverse effect on our business, operating results and financial condition.

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

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

OUR PRODUCTS MAY NOT BE COMPATIBLE WITH COMMERCIAL WEB BROWSERS AND OPERATING SYSTEMS, WHICH MAY LIMIT OUR ABILITY TO GENERATE REVENUES FROM OUR PRODUCTS.

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

WE COULD BE SUBJECT TO PRODUCT LIABILITY CLAIMS IF OUR SOFTWARE PRODUCTS DAMAGE CUSTOMER S DATA, FAIL TO MAINTAIN ACCESS SECURITY OR OTHERWISE FAIL TO PERFORM TO SPECIFICATIONS, WHICH COULD HARM OUR OPERATING RESULTS AND FINANCIAL POSITION AND REDUCE THE VALUE OF AN INVESTMENT IN OUR COMMON STOCK.

If software errors or design defects in our products cause damage to customers data and our agreements do not protect us from related product liability claims, our business, operating results and financial condition may be materially adversely affected. In addition, we could be subject to product liability claims if our security features fail to prevent unauthorized third parties from entering our customers intranet, extranet or Internet Websites. Our software products are complex and sophisticated and may contain design defects or software errors that are difficult to detect and correct. Errors, bugs or viruses spread by third parties may result in the loss of market acceptance or the loss of customer data. Our agreements with customers that attempt to limit our exposure to product liability claims may not be enforceable in certain jurisdictions where we operate.

FUTURE REGULATION OF THE INTERNET COULD BE ADOPTED THAT WOULD RESTRICT OUR BUSINESS, WHICH MAY LIMIT OUR ABILITY TO GENERATE REVENUES FROM OUR PRODUCTS.

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

WE HAVE BEEN NAMED A DEFENDANT IN SECURITIES CLASS-ACTION LAWSUITS AND WE MAY IN THE FUTURE BE NAMED IN ADDITIONAL LITIGATION, WHICH MAY RESULT IN SUBSTANTIAL COSTS AND DIVERT MANAGEMENT S ATTENTION AND RESOURCES.

Shareholder class-action suits have been filed naming Stellent and certain of our current and former officers and directors as co-defendants. We have reached a final settlement during fiscal year 2006 and we do not anticipate any further litigation costs associated with lawsuit. Also, certain current and former officers and directors were named in a derivative lawsuit that followed the completion of a special litigation committee process in which the plaintiff, on behalf of the Corporation, alleged that the board breached its fiduciary duties by allowing certain circumstances to exist that gave rise to the Federal case described above. A special litigation committee has recommended that the Company not pursue an action against the Board and/or the Company s officers. The Company moved to dismiss the action. While the motion to dismiss was pending the Company's insurance carriers, because of the ongoing expense of litigation and the role the plaintiff's counsel played in the special litigation committee process, agreed to settle the pending derivative lawsuit for a payment of $250,000. The settlement is subject to preliminary and final court approval. The settlement will be paid entirely from proceeds of an insurance policy.

Securities class-action litigation has often been brought against companies following periods of volatility in the price of their securities. This risk is greater for technology companies, which have experienced greater-than-average stock price volatility in recent years and, as a result, have been subject to, on average, a greater number of securities class-action claims than companies in other industries. We may in the future again be the target of this kind of litigation, and such litigation could also result in substantial costs and divert management s attention and resources.

THE MARKET PRICE OF OUR COMMON STOCK COULD FLUCTUATE SIGNIFICANTLY DUE TO VARIATIONS IN OUR OPERATING RESULTS, CHANGES IN THE SOFTWARE INDUSTRY AND OTHER FACTORS.

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

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

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

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

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

Our shareholder rights plan and certain provisions of Minnesota law may have the effect of discouraging attempts to acquire Stellent without the approval of our board of directors. Consequently, our shareholders may lose opportunities to sell their stock for a price in excess of the prevailing market price.

WHEN WE BEGIN ACCOUNTING FOR STOCK-BASED COMPENSATION USING THE FAIR VALUE METHOD, IT WILL SIGNIFICANTLY INCREASE OUR COMPENSATION EXPENSE.

In December 2004, Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment,* known as Statement 123(R). Statement 123(R) supersedes APB Opinion No. 25. Under APB Opinion No. 25, no compensation expense is recognized for employee stock option grants if the exercise price of the Company s stock option grants is at or above the fair market value of the underlying stock on the date of grant. SFAS No. 123(R) requires the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation vests, which will increase our compensation expense significantly. We adopted SFAS No. 123(R) effective April 1, 2006. As part of this adoption, we began expensing options effective April 1, 2006. Based on the current amount of outstanding stock options that will vest on or after April 1, 2006, we anticipate recognizing $4.0 million to $6.0 million of compensation expense during fiscal year 2007. This amount will fluctuate depending on future stock options granted to or forfeited by employees and directors.

NEW LEGISLATION IS LIKELY TO IMPACT OUR FUTURE CONSOLIDATED FINANCIAL POSITION AND RESULTS OF OPERATIONS.

Recently, there have been significant regulatory changes, including the Sarbanes-Oxley Act of 2002, that will continue to have an impact on our future consolidated financial position and results of operations. The Sarbanes-Oxley Act of 2002 and other rule changes and proposed legislative initiatives which following several highly publicized corporate accounting and corporate governance failures, have increased general and administrative costs. Additional regulatory changes may increase our costs further. Further, the impact of these changes may increase costs incurred by our customers and prospects, which could result in delays or cancellations in spending on enterprise content management software and services like those that we provide. Such delays and cancellations could have a material adverse impact on our consolidated statement of operations and financial condition.

Item 1B. ***Unresolved Staff Comments***

Not applicable.

Item 2. ***Properties***

In May of 2005, we entered into a six-year lease of approximately 42,000 square feet of a facility located in Eden Prairie, Minnesota. We moved our corporate headquarters to this facility in the quarter ended September 30, 2005. In connection with our acquisition of Optika in May 2004, we assumed a lease with approximately 39,000 square feet of office space in Colorado Springs, Colorado which expires in March 2007.

In addition, domestically we lease approximately 1,000 square feet of office space in Massachusetts until September 2006; approximately 28,000 square feet of space in downtown Chicago, Illinois with a lease term expiring September 2006; approximately 5,000 square feet of space in New York, New York with a lease term expiring in September 2007; approximately 12,000 square feet in Redmond, Washington with a lease term expiring in December 2007; and approximately 7,000 square feet in Farmington, Connecticut with a lease term expiring in December 2009; during fiscal year 2006, we terminated office lease space of 6,000 and 1,600 square feet in Massachusetts and Grand Forks, North Dakota, respectively. Internationally we lease approximately 9,000 square feet in London, United Kingdom with a lease term expiring in April 2016, approximately 4,000 square feet in Tokyo with a lease term expiring in December 2007; and approximately 6,000 square feet in the Netherlands with a lease term expiring in June 2006. Management believes that our facilities are suitable and adequate for current office requirements.

Item 3. ***Legal Proceedings***

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

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 in Federal District Court for the District of Minnesota of several related lawsuits (the first of which was commenced on July 31, 2003). The plaintiff alleged that the defendants made false and misleading statements relating to the Company and its future financial prospects in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In fiscal year 2005 a settlement was reached, subject to final documentation and preliminary and final court approval. The Company received the final court approval in the third quarter of fiscal year 2006. No further expenses are anticipated with this lawsuit.

Certain current and former officers and directors were also named in a derivative lawsuit that followed the completion of a special litigation committee process in which the plaintiff, on behalf of the

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matter was submitted to a vote of our security holders during the fourth quarter of fiscal year 2006.

Item 4A. ***Executive Officers of the Registrant***

(a) Executive Officers of the Registrant

The Executive Officers of our company are:

Name	Age	Position
Robert F. Olson	50	President and Chief Executive Officer and Chairman of the Board
Daniel P. Ryan	47	Chief Operating Officer
Darin P. McAreavey	37	Executive Vice President, Chief Financial Officer, Secretary and Treasurer

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

Daniel P. Ryan has served as our Chief Operating Officer since March 2006, and has served as our Executive Vice President of Marketing and Business Development since April 2003, and as our Senior Vice President of Marketing and Business Development from April 2002 through March 2003. He has also served as our Senior Vice President of Corporate and Business Development from November 2001 to April 2002. From April 1999 to November of 2001, he served as Vice President of Marketing and Business Development. From September 1997 to April 1999, he served as Vice President of Marketing for Foglight Software, Inc., a developer of enterprise performance management solutions. Prior to that time, Mr. Ryan served as Director of Marketing for Compact Devices, Inc.

Darin P. McAreavey has served as our Executive Vice President, Chief Financial Officer, Secretary and Treasurer since June 2006, and served as our Corporate Controller from September 2004 to June 2006. From September 1995 to August 2004, Mr. McAreavey held senior accounting and financial management positions with Computer Network Technology Corporation, a provider of storage area networking products, software, services and solutions in the wide area network extension and networking market, including Director of Finance. Prior to that time, Mr. McAreavey was employed by KPMG LLP.

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

PART II

Item 5. *Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities*

Our common stock, par value $0.01 per share, is traded on The NASDAQ National Market under the symbol STEL. At June 2, 2006, our common stock was held by approximately 420 record holders. This does not include shareholders whose stock was held in the name of a bank, broker or other nominee. On June 2, 2006, the closing sale price of a share of our common stock was $11.47.

The high and low sale prices per share of our common stock for the four quarters during the fiscal years ended March 31, 2005 and 2006 were as follows:

	High	Low
Fiscal year ended March 31, 2005:		
First Quarter	$ 8.95	$ 6.60
Second Quarter	8.66	6.05
Third Quarter	9.25	6.40
Fourth Quarter	9.21	8.01
Fiscal year ended March 31, 2006:		
First Quarter	$ 8.76	$ 6.75
Second Quarter	8.84	7.12
Third Quarter	10.91	8.42
Fourth Quarter	12.25	9.29

Dividend Policy

Our Board of Directors declared and paid a quarterly cash dividend of $0.03 per share of common stock in the fourth quarter of fiscal year 2006. The total amount of the dividend was $0.9 million. In addition, the Board of Directors declared a dividend of $0.03 per share of common stock on May 9, 2006 to be paid on June 27, 2006 to stockholders of record on June 15, 2006. The determination to pay future dividends on common stock will be at the discretion of the Board of Directors and will depend on the Company s financial condition, results of operations, cash requirements, prospects and such other factors as the Board of Dirctors may deem relevent. See Management s Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Statements of Shareholders Equity and Note 5 of the Notes to Consolidated Financial Statements.

Issuer Purchases of Equity Securities

We did not make any purchases of our equity securities during the fourth quarter of fiscal year 2006.

Item 6. *Selected Financial Data*

The Selected Consolidated Financial Data (in thousands except per share data) presented below as of and for each of the fiscal years in the five year period ended March 31, 2006 have been derived from our Consolidated Financial Statements. The Selected Consolidated Financial Data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the related Notes.

	Year Ended March 31,				
	2002	**2003**	**2004**	**2005**	**2006**
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues:					
Product licenses	$ 66,908	$ 40,364	$ 41,571	$ 54,376	$ 56,950
Services	9,648	9,726	14,349	19,772	26,836
Post-contract support	11,784	15,344	19,854	32,663	39,599
Total revenues	88,340	65,434	75,774	106,811	123,385
Cost of revenues:					
Product licenses	5,005	6,480	4,936	5,017	3,886
Services	10,021	8,416	13,272	19,550	25,046
Post-contract support	3,371	3,730	3,885	5,350	7,269
Amortization of capitalized software from acquisitions	966	1,892	1,574	2,390	1,879
Total cost of revenues	19,363	20,518	23,667	32,307	38,080
Gross profit	68,977	44,916	52,107	74,504	85,305
Operating expenses:					
Sales and marketing	46,672	38,343	39,122	42,365	46,787
General and administrative	11,884	11,301	8,856	14,097	12,282
Research and development	17,601	15,766	13,263	17,958	20,153
Acquisition related sales, marketing and other costs				886	
Acquisition and related costs	237	1,127			
Amortization of acquired intangible assets and other	12,914	6,635	2,006	677	626
Impairment charge on fixed assets				375	
Restructuring charges		4,368	743	3,673	1,123
Total operating expenses	89,308	77,540	63,990	80,031	80,971
Income (loss) from operations	(20,331)	(32,624)	(11,883)	(5,527)	4,334
Other income (expense):					
Interest income (expense) net	3,755	1,957	982	822	2,181
Investment (impairment) gain on sale	(5,722)	(1,733)	388	(1,136)	
Total other income (expense)	(1,967)	224	1,370	(314)	2,181
Net income (loss) before income taxes	(22,298)	(32,400)	(10,513)	(5,841)	6,515
Provision for income taxes					173
Net income (loss)	$ (22,298)	$ (32,400)	$ (10,513)	$ (5,841)	$ 6,342
Net income (loss) per common share:					
Basic	$ (1.00)	$ (1.45)	$ (0.48)	$ (0.22)	$ 0.22
Diluted	$ (1.00)	$ (1.45)	$ (0.48)	$ (0.22)	$ 0.21
Cash dividends declared per common share	$	$	$	$	$ 0.03
Weighted average common shares outstanding:					
Basic	22,286	22,345	22,028	26,244	28,266
Diluted	22,286	22,345	22,028	26,244	29,615

	As of March 31,				
	2002	**2003**	**2004**	**2005**	**2006**
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 96,158	$ 81,169	$ 73,512	$ 72,750	$ 81,753
Working capital	102,850	69,823	72,520	67,371	66,445
Total assets	165,926	129,709	124,688	187,652	206,549

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

Overview

General

In 1997, we launched one of the first software product suites on the market specifically developed and created for managing business information using the Web. From the beginning, Stellent focused on developing software that could be quickly implemented, easily used and easily scaled from line-of-business to enterprise-wide applications. This focus remains true today. While early on we developed document management and Web content management applications, in recent years we also expanded our product set to address market needs for an enterprise infrastructure for content-centric applications; Web-based management of business records; and a content management-based infrastructure to meet compliance mandates particularly those regarding financial compliance, such as Sarbanes-Oxley.

The business information we manage for our customers is in an electronic form and is generally considered unstructured data, or data that is not easily managed by relational databases. In fact, the vast majority of information in any business is considered to be unstructured information, and typically resides in areas such as personal computers, conventional file servers and paper documents.

In fiscal year 2006, our software application modules included Web content management, document management and imaging, digital asset management, records and retention management, collaboration management, and content conversion and viewing. Currently, customers use our software to organize and maintain the electronic business information created by internal and external sources using a broad range of common software applications, such as Microsoft Office, AutoDesk AutoCAD and Sun StarOffice. This electronic business information includes items such as Web pages, digital assets, scanned images, Microsoft Word documents, business records, contracts, spreadsheets and forms.

Our software also assists in the conversion of paper documents to electronic format. Using Stellent technology, customers can then publish that information to public Web sites and/or secure Web sites available only to select audiences. Additionally, software vendors and manufacturers of electronic devices, such as cell phones and PDAs, embed our Stellent Outside In software within their own technology to enable users to access and view electronic information from those applications or devices. We market our products primarily to customers in the retail/consumer goods, financial services, healthcare (including insurance), government, and manufacturing industries located in the United States, Canada, Europe and Asia.

Our approach has been to develop our products internally and acquire select third-party technologies that enhance our products capabilities. This approach has resulted in an integrated software solution used by companies for line-of-business applications or enterprise-wide deployment.

In June 2005, we acquired certain assets of privately held e-Onehundred Group, a financial compliance solutions provider, for $5.0 million in cash, 274,000 shares of the Company s stock valued at $2.0 million and a potential $2.0 million cash earn-out over a one-year period based upon revenue performance. We acquired certain assets of e-Onehundred Group to strengthen our domain expertise and add to our product set which will enable us to more quickly capitalize on the growing financial compliance market by efficiently building a portfolio of applications on top of certain assets of e-Onehundred Group s scalable compliance platform.

Market Trends

Overall the market trend for enterprise content management showed continued signs of improvement during fiscal year 2006. Our license revenue increased modestly by $2.6 million or 5% from fiscal year 2005 to fiscal year 2006. This compares to an increase of $12.8 million or 31% from fiscal year 2004 to fiscal year

2005, which was primarily due to our acquisition of Optika in May of 2004. We continue to experience a significant increase in our services, which grew 36% from fiscal year 2005 to fiscal year 2006, due in roughly equal parts to our acquisition of certain assets of the e-Onehundred Group in June of 2005 and to an increase in the number of consulting engagements. Also contributing to the overall increase in revenue from fiscal 2005 to 2006 was a 21% increase in our post-contract support. Our post-contract support renewal rate continues to be very high, a trend that we see continuing. During fiscal year 2006, we derived approximately 74% of our revenue from the United States market and approximately 26% from various international markets, primarily Europe. We have also been expanding into the Asian markets, particularly Japan, Korea and most recently Singapore. The percentage of revenue derived from Asia remains small compared to the United States and Europe.

We have continued to experience a shift in our revenue mix from product licenses to post-contract support and consulting services over the past several years as a result of our continued growth of our installed base. Our license revenue, as a percent of total revenue, has decreased from 55% to 51% to 46% in fiscal years 2004, 2005 and 2006, respectively, while our post-contact support revenue has increased from 26% to 30% to 32% in fiscal years 2004, 2005 and 2006, respectively. Our consulting services and training revenue, as a percent of total revenue, was 19%, 19% and 22% in fiscal years 2004, 2005 and 2006, respectively. We expect our installed software base to continue to grow, and with it our post-contract support revenue. With a larger portion of our revenues coming from both services and post-contract support, our overall gross margins may decrease. However, we anticipate our product license revenues for fiscal year 2007 to be approximately 47% to 49% of our total revenue. On a longer term basis, we are anticipating our product license revenue to increase to approximately 48-50% of our total revenue.

We believe Stellent today can compete effectively in a rapidly evolving marketplace. We believe the content management market is healthier than many other segments of the information technology sector and that it will perform better than the average information technology sector in customer spending during fiscal year 2007. We believe that:

- the trend toward companies seeking solutions for managing multiple internal and external Web sites will continue,

- content within the enterprise will continue to grow at a high rate,

- vendor consolidation, and demand for integrated solutions, will continue to be a driving force in technology buying decisions; and

- compliance mandates and records management initiatives are increasingly driving technology purchasing decisions, and influencing which vendors are selected to power information-related initiatives.

While we believe the general and long-term market trends identified above will create continued demand for our products, the market for content management software and our products at any particular time is highly dependent on information technology spending. Although we experienced an overall increase in our revenue for fiscal year 2006, the United States and international economic conditions continue to be a challenging environment to do business within, specifically for large capital expenditures. In addition, we believe continuing difficult economic and market conditions are putting pressure on the ability of certain content management software companies to survive as independent entities.

Restructurings

In connection with the Company s plans to continue to reduce costs and improve operating efficiencies, the Company adopted two restructuring plans during fiscal 2006. The initial restructuring plan of fiscal year 2006 took place during the second quarter which included a plan to reorganize the Company s international sales operations and consolidate certain general and administrative activities.

This restructuring included the termination of eight employees and the closure of the Company s Brazilian facility. During the fourth quarter of fiscal year 2006, the Company adopted a restructuring plan to eliminate our digital asset management group as the technology has been fully integrated into our content server product. The expenses recognized during each of the second and fourth quarter of fiscal year 2006 related to these restructuring plans was $0.5 million. During the second quarter of fiscal year 2006, the Company incurred an additional restructuring charge of $0.1 million as a result of a change in estimate related to a fiscal year 2005 restructuring plan. During the fourth quarter of fiscal year 2006, the Company received a benefit of $0.1 million as a result of a change in estimate related to a fiscal year 2005 restructuring plan. We expect the restructuring actions taken during fiscal year 2006 will result in a reduction to our annual operating expenses of approximately $2.5 million. Additional information on our restructuring plans is contained in Footnote 10 to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

During fiscal year 2006, we continued to market and license our product and services primarily through a direct sales force and augmented our sales efforts through other relationships, such as with other software vendors, system integrators, resellers and others. Our total revenues generated from operations outside of the United States decreased slightly in fiscal year 2006 to 26% from approximately 27% in fiscal year 2005. No customer accounted for more than 10% of total revenues in fiscal years 2006 and 2005.

Revenues

	Years Ended March 31,			**Percentage Change**	
	2006	**2005**	**2004**	**2005 to 2006**	**2004 to 2005**
	(In thousands, except for percentages)				
Product licenses	$ 56,950	$ 54,376	$ 41,571	5 %	31 %
Services	26,836	19,772	14,349	36 %	38 %
Post-contract support	39,599	32,663	19,854	21 %	65 %
Total	$ 123,385	$ 106,811			