

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

APPIANT TECHNOLOGIES INC
Form 10-K/A
March 06, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NUMBER 1
TO
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended SEPTEMBER 30, 2002

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 0-21999

APPIANT TECHNOLOGIES INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 84-1360852
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

6663 OWENS DRIVE
PLEASANTON, CALIFORNIA 94588
(Address of principal executive offices)
(925) 251-3200
(Registrant's telephone number)

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

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$.01 par value	OTCBB

Securities registered pursuant to Section 12(g) of the Act: None

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 Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Issuer'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.

As of February 14, 2003, there were 17,194,841 shares of Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Issuer (based on the closing price for the Common Stock on

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

the OTCBB Market on February 14, 2003 was approximately \$1.7 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in this report: Registrant's Proxy Statement for its 2002 Annual Meeting of Shareholders

This Form 10-K was the subject of a Form 12b-25, which was timely filed.

TABLE OF CONTENTS

PART I.....	3
Item 1. BUSINESS.....	3
Item 2. PROPERTIES.....	8
Item 3. LEGAL PROCEEDINGS.....	9
Item 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	10
Part II.....	10
Item 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.....	10
Item 6. SELECTED FINANCIAL DATA.....	14
Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	14
Item 7A QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.....	30
Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.....	30
PART III.....	31
Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER.....	31
Item 11. EXECUTIVE COMPENSATION.....	32
Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT....	34
Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	35
Item 14. CONTROLS AND PROCEDURES.....	35
PART IV.....	35
Item 15. EXHIBITIS, FINANCIAL STATEMENTS AND SCHEDULES, AND REPORTS ON FORM 8-K.....	35

2

PART I

ITEM 1. BUSINESS

GENERAL

NEW BUSINESS MODEL

Our new business model and main goal is to become a leading provider of internet protocol-based (IP-based) unified communications and unified information applications designed to allow users access to communications and information in a highly-personalized format as set by the individual user from private, public and enterprise sources anytime, anywhere from any type of communications device such as a cell phone, computer, personal digital assistant ("PDA"), etc., in a hosted, service model. We have created an IP-based portal that we named inUnison-TM- in which we have incorporated or will incorporate both our proprietary UC/UI applications including, but not limited to, our own speech recognition technologies, data mining, data analysis, navigation, channel

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

management, recommendation engines and client relationship management ("CRM") applications, as well as various third party applications and integrations.

Our inUnison-TM- portal is an open system incorporating or integrating third party applications and programs. Our customers offer their subscribers inUnison applications in a web-based portal that can be custom-branded for each customer. As a company that has legacy telephony experience, we understand that many service providers such as wireless service providers ("WSPs"), Internet service providers ("ISPs"), and Competitive Local Exchange Carriers ("CLECs") have made extensive capital investments over the years in legacy systems, and that it would be difficult and expensive for these customers to suddenly abandon these legacy systems. Therefore, as we built our inUnison-TM- portal, we purposely have allowed for service provider customers to maintain their legacy systems and legacy interfaces should they desire to do so. Our customers who have unique interfaces e.g., WSPs who maintain unique dialing commands for their users to send, receive or save voice mails, can continue to maintain their interfaces with our portal so that their customers need not learn a new set of commands to use our applications. We believe that our customers' use of our applications will be seamless, and that allowing our customers the ability to maintain legacy interfaces while offering their customers our inUnison-TM- applications will greatly reduce difficulties in adopting our applications.

Our hosted service-based inUnison-TM- unified communications and unified information business model was built recognizing that users of information demand the benefits of non-real time messaging services such as email, fax and voicemail, calendar, contact database, and corporate or enterprise information, with real time features such as connectivity, call delivery, and live call management. Our technology is essentially a disrupter: today the sender of a communication, e.g., a phone call, email or voicemail, is generally in control of when the communication is received by the receiver (for example, the time of day), and how the communication is received (by phone, voicemail, or email). But by using our applications, the receiver of the communication takes control of the communication process. The receiver can, for example, determine which phone calls follow the receiver and will get connected real-time, which ones get sent to voicemail, or which emails notify the receiver (either over the phone, computer or PDA), that an email message has been received. And if an email or voicemail has been received, the receiver can either listen to or read the e-mail or voicemail with our speech-to-text and text-to-speech technologies.

We are offering our inUnison-TM- UC/UI applications in a hosted, recurring service-based revenue model to targeted markets and industry segments. Our goal is to be the "service provider's service provider", offering our inUnison-TM- applications in a resale model where we will price our applications separately and/or in packages to our service provider customers for resale to their subscribers. We also enter into revenue sharing arrangements with certain customers where we will share revenues from our applications and, in some cases, minutes from outbound calls made from and in-bound calls made to the portal. In the future we also plan to license our proprietary technology or portions of it to third parties. We intend to develop continuously new applications and to integrate third party applications into our portal. Our customers will be able to offer these applications in a portal that we maintain, but which can be custom-branded.

We believe that increased competition, shorter time to market trends and the reduced importance of geographical borders make it imperative that customers achieve and maintain state-of-the-art communication and information systems that unify information from any internet-accessible source with communication devices and communication channels.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

OUR INUNISON-TM- PROPRIETARY TECHNOLOGIES

Our inUnison-TM- portal contains or will contain a number of our proprietary technologies. Our portal includes or will include a Navigation engine that is designed to allow for the continuous, simultaneous search of multiple databases, both public such as the internet, and enterprise, to search for important information to be brought into the portal that the user has determined is important and to perform data mining for computing profitability models. Our Recommendation engine is designed to make intelligent, specific, targeted recommendations to users based on information brought into the portal. For example, sales professionals who use our inUnison-TM- applications to track their customers' order histories will be prompted by the portal (for example, by phone call, email, etc.) to offer new products or services based on the customers' needs, previous purchases or new products or services that are likely to appeal to the customer. Our Notification engine in the portal can notify a user (by calling the user's cell phone or sending a voicemail or email message) that his or her scheduled flight has been delayed or cancelled and can query the user whether alternative flight arrangements should be made. Should the user desire to book an alternative flight, he or she will be able to do so directly through the portal without ever hanging up and having to dial directly. Instead, the user can place the call to the airline through the portal either by dialing or through voice commands, make alternative flight arrangements, and then return to the portal. We also will feature a web phone and a web collaboration engine.

Our proprietary speech recognition technologies are exciting, and will provide for distributed interaction with the inUnison-TM- portal that cannot be realized with existing third party voice recognition products on the market today. Our feature extraction technology is expected to reduce by 100 times or more the amount of data required to travel from a phone to a data center over that of conventional speech recognition products on the market today, thereby making our speech recognition faster. We have also developed proprietary filtering technology to eliminate noise and cross talk that often operate to limit the effectiveness of voice recognition products. Our speech recognition applications are speaker and dialect-independent.

OUR TARGETED MARKETS

We are marketing our inUnison-TM- UC/UI products initially to several target markets:

- Affinity Groups
- Multilevel Marketing Organizations
- Internet Service Providers ("ISPs")
- Application Service Providers ("ASPs")
- Enterprises with mobile or geographically dispersed workforces

We believe that there are compelling value propositions to our targeted customers to sell our inUnison-TM- applications. ISPs and ASPs, for example, are intensely competitive, and are continuously fighting to offer new applications to their customers to increase "sticky" minutes over their networks to generate additional revenues and to reduce churn. CLECs, for example, need to offer new value-added applications to drive new revenues and generate higher margins. Our applications may result in additional revenue sources for these targeted customers. Current financial spending constraints in most of these market sectors make inUnison-TM- even more attractive, as only minor cash outlays are required for these service providers to offer our advanced applications.

Affinity groups and multilevel marketing organizations can utilize the features of inUnison-TM- to provide the infrastructure they require to do business,

Enterprises with distributed, mobile employees may want to offer our inUnison-TM- applications to help increase productivity. The value proposition

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

to such large enterprises is a more efficient work force that can translate into additional revenues and reduced cost of operations.

Through our direct sales force, we have developed formal selling tools, techniques and methods to assist our customers in selling our applications to their customers. We also provide cooperative marketing and advertising support to our customers.

4

OUR STRATEGIC PARTNER RELATIONSHIPS

We have built significant, valuable, strategic relationships with a number of partners including Cisco Systems ("CISCO") and these partnering relationships are important to our success. Although, Cisco decided to exit the software business, which had substantial negative effects to the Company we remain a CISCO Powered Network member and a New World Ecosystem partner ("Ecosystem partner"). As a CISCO Ecosystem partner, we are part of a technology community where we can partner with CISCO and its Ecosystem partners; tap into CISCO's sales channel, customer base and technical experience; participate in technology sharing, joint marketing and customer support; enjoy preferential pricing on products and services; and receive other benefits. As an Ecosystem partner, CISCO has committed to introducing customers to us.

In Fiscal 2001, we also discontinued our relationship with our major data center hosting partner and now perform these duties internally within the Company. As a consequence of this change our product rollout was delayed. During fiscal 2002, this partner forgave approximately \$4.5 million of lease financing. The Company successfully implemented its own data center during fiscal 2001.

OUR COMPANY NAME CHANGED TO REFLECT NEW BUSINESS MODEL

Appiant Technologies, Inc., has been trademarked upon receiving shareholder approval at our Fiscal 2000 shareholder meeting.

We have filed and received U.S. Trademark applications for the name "inUnison" that we use for our unified communications and unified information software applications.

While we have begun to market our new, hosted unified communications and unified information applications business model, our results for fiscal year ended September 2002 reflect generally the results of the legacy business of our Infotel Subsidiary in Singapore.

LEGACY BUSINESS

We were incorporated in October 1996 to pursue a business combination opportunity with Nhancement Technologies North America ("APPIANT NA") (then named Voice Plus). APPIANT NA was then engaged in the business of integrating voice-processing systems with telecommunications equipment. Appiant Technologies Inc. acquired APPIANT NA on February 3, 1997, along with a development stage company whose operations were later merged with those of APPIANT NA. On February 4, 1997, we completed an initial public offering of shares of our Common Stock.

We acquired Infotel on June 22, 1998. Infotel is an integrator of infrastructure communications equipment products, providing radar system integration, turnkey project management services and test instrumentation, as well as a portfolio of communications equipment in Asia. Infotel is headquartered in Singapore.

On February 4, 2000, we completed our acquisition of the assets of SVG Software

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

Services, Inc., a California corporation ("SVG"), pursuant to the Plan and Agreement of Reorganization (the "Agreement"), dated February 4, 2000, between Appiant and SVG.

Both acquisitions were consummated with a view of gaining access to important technologies and engineering skills critical to developing our software applications, both of which remain within the Company.

On January 21, 2000, we acquired Trimark, Inc., headquartered in San Diego, California and doing business as Triad Marketing ("Triad"). The Triad acquisition provided us with recommendation engine software tools for inclusion with our inUnison-TM- unified communications and unified information applications. The market profile selling services were discontinued in fiscal 2001 and most of the related employees were laid-off.

On February 4, 2000, we acquired all the shares of Appiant Technologies (India) Pte. Ltd. ("APPIANT India") a company incorporated in Chennai, India that engages in the business of web design and software products development.

5

In fiscal year 2001, we sold our Appiant India subsidiary to a related party. The disposition did not have a significant impact on our financial position or results of operations.

On May 23, 2001, Appiant Technologies Inc. ("Appiant") acquired all of the outstanding stock of Quaartz, Inc. ("Quaartz"). Quaartz is a pioneering Internet affinity marketing company that provides Internet-hosted applications enabling companies and organizations to deliver event announcements, communication tools and e-commerce directly to their online communities. The acquisition was consummated with a view of gaining access to important technologies and engineering skills critical to developing our software applications.

During fiscal 2002, we sold certain assets of the legacy North America and ceased the legacy business in North America. The legacy business in North America had decline substantially and its discontinuance is not expected to materially impact the financial operations of the Company. Our remaining legacy businesses in Singapore include infrastructure communications equipment, turnkey system products and test measurement equipment.

LEGACY PRODUCTS AND SERVICES

NT-BASED COMMUNICATION SERVERS

Legacy communications have included NT-based communication server solutions from Enterprise Information Center ("EIC") that are manufactured by Interactive Intelligence, Inc. ("I3"). These EIC servers allow multiple integrated forms of communications through a single system. The forms of communications supported by the EIC system include voice, data, email, facsimile, voicemail interactive voice response. All are web capable. The Company discontinued these operations in fiscal 2001 to focus on our own new inUnison services and applications.

VOICE PROCESSING AND MULTIMEDIA MESSAGING

The legacy voice messaging, text messaging, LAN messaging and interactive voice response or self-inquiry systems have been delivered through third party manufacturers such as NEC and ADC which acquired Centigram Communications in 2000 was discontinued in fiscal 2002.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

INFOTEL

INFRASTRUCTURE COMMUNICATIONS EQUIPMENT

Infotel has offered a wide range of infrastructure communications equipment products and system integration services that have satisfied the most demanding communications projects. With over a decade of experience, Infotel has completed numerous projects, both in complex radio and networking systems. Infotel supports products manufactured by Motorola, Ericsson, Raytheon, Newbridge and Shiva Corp., Rohde & Schwarz GmbH, and Siemens. Infotel has focused principally on large projects in the government, institutional and commercial sectors, and has targeted opportunities for regionalization and Internetworking.

TURNKEY SYSTEMS PROJECTS

Our customers that have awarded turnkey projects have done so only to vendors or systems integrators that have had full capabilities in design, installation, commissioning, project management and documentation. In such projects, our emphasis and competitive edge lies in the practice of sourcing the best product that meets the customer's requirements. Emphasis is placed on design and project management in which we maintain strong technical competency. Other communications activities include the supply and installation of various voice and data communications equipment on a tender basis.

TEST MEASURING SYSTEMS

Infotel also has an established test measuring instrumentation and testing business that grew out of a communications relationship with German conglomerate Rohde & Schwarz GmbH that ultimately evolved into Infotel servicing other Rohde & Schwarz GmbH products such as test instruments. Infotel is now the regional distributor and test and repair center for Rohde & Schwarz GmbH test instruments. Infotel has since expanded its repair capability to include Alcatel mobile telephones.

6

SALES AND MARKETING

We have been marketing our products and services primarily through focused telemarketing and calls to prospective customers in specific markets, participation in trade shows, acquisition of databases and inclusion of our products and services on bidders' lists. We focus on pre-sale analysis of our customers' needs and the rate-of-return potential of specific sales opportunities to determine whether we believe they justify the investment of time and effort of our sales and marketing organization. Typically, we focus on sales opportunities where we believe the value added from our products and services provides significant benefits for the customer. We also participate in competitive bidding for government agency work. In evaluating a prospective sales situation, we also consider the lead-time to revenue, the complexities of the customer's requirements and our ability to satisfy the customer and provide it with the necessary support.

RESEARCH AND DEVELOPMENT

Our industry is characterized by rapid technological change and product innovation. Our early "beta" customers have also requested numerous changes to our original product release and management expects new customers will also request product changes and innovations. We believe that continued timely development of products for both existing and new markets is necessary to remain competitive. Therefore, we devote significant resources to programs directed at

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

developing new and enhanced products, as well as new applications for existing products.

CUSTOMERS, BACKLOG

Our five largest customers, Japan Radio Company, LTD., Defence Science & Technology Agency of Singapore, Motorola Electronics PTE. Ltd. and Siemens Medical Instruments, Pte. Ltd., accounted for approximately 24.3%, 7.9%, 6.6%, 6.4% and 5.2% respectively of total net revenues during the fiscal year ended September 30, 2002. Backlog at September 30, 2002 was \$3.3 million as compared to \$5.5 million at September 30, 2001 for Infotel. On a stand-alone basis, backlog for our new inUnison service was \$1.2 and for legacy business in Singapore the Backlog was 2.1 million at September 30, 2002.

GOVERNMENTAL REGULATION

The Telecommunications Act of 1996 eliminated government mandated barriers between local and long distance calling, cable television, broadcasting and wireless service. As a result, CLECs, traditional long distance carriers and cable television companies have entered these markets to provide both local telephone and long distance service as well as television programming. Such increased competition likely will change the infrastructure for implementing communications applications, such as voice and electronic messaging. We anticipate that this increased competition -particularly by CLECs - will drive demand for our new, hosted inUnison-TM-applications as CLECs generally understand these technologies and will be aggressive in offering their customers unique applications to reduce churn and drive revenues from minutes from their voice over internet protocol ("VOIP") networks.

EMPLOYEES

As of September 30, 2002, we employed a total of 80 employees worldwide: 28 in the United States and 52 in Singapore employed by Infotel. Our employees are not covered by a collective bargaining agreement. We believe that our relations with our employees worldwide are good.

COMPETITION

NEW BUSINESS MODEL - UNIFIED COMMUNICATIONS AND UNIFIED INFORMATION

We are executing a new business model to provide unified communications and unified information applications to our customers in a hosted, carrier-grade, recurring revenue model that we believe will be both dynamic and competitive. For a number of years, we have competed in providing non-hosted unified messaging solutions with a number of companies including legacy voicemail providers. The unified messaging market, which we see as generally consisting of bringing together non-real time voice mail, e-mail and fax communications into one "box", is, in our view, fragmented and filled with many competitors. In the unified messaging sector, we may generally compete with companies such as uReach, Call Sciences, Webbley, and Tornado Development Corporation.

7

In the unified communications sector, which we generally define to include the non-real time communications that are brought together with real time communications such as call delivery and connectivity, we anticipate competing with much larger competitors such as Lucent Technologies ("Lucent") and Nortel. We may also face competition from some of our legacy business vendors such as ADC (which in 2000 acquired Centigram Communications, one of our legacy business

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

vendors), and Interactive Intelligence. Other competition in the unified communications space may include AirTrac Chicago, Inc., CentreCom, HotVoice and uReach. To compete with these companies, we plan to work closely with our current and future strategic partners.

At the present time, we are one of the first companies in unified information which, as we define it, incorporates or will incorporate into our inUnison-TM-portal all of the unified communications solutions and unifies information from private, public and enterprise sources and, through our various proprietary engines, allows individuals to access this information anytime and anywhere in any format from any communications device. We anticipate that with our success, we may indeed begin to face additional competition in this space.

Our proprietary technologies will be key to the success of our new inUnison-TM-portal and applications. Our speech recognition technologies are speaker and dialect-independent, and are expected to augment future versions of our inUnison-TM-portal working in conjunction with existing third party voice recognition products. Our speech recognition vocabulary at present is among the largest, consisting of approximately 300,000 words. We anticipate increased competition from other speech recognition vendors such as Speechworks, IBM, Lernout & Hauspie and Nuance.

LEGACY BUSINESSES

INFOTEL

Infrastructure Communications Equipment

Through Infotel, we sell infrastructure communications equipment products and system integration services. Generally Infotel does not compete for business with small companies, competing instead with larger system integrators and distribution companies.

In the data-communications market, our key competitors have been Datacraft Asia Ltd, Teledata Ltd, National Computer Systems Pte Ltd and ST Computer Systems Ltd. These competitors distribute products manufactured by Cisco Systems, Ascend Communications, Marconi Communications and others.

In the radio communications market, which largely serves the Singapore government, there are fewer competitors, most of which have ties to the government. CET Technologies Pte Ltd and Keppel Communications Pte Ltd. are Infotel's main competitors. In some instances, Infotel works together with these competitors in fulfilling government contracts.

In the test instrumentation market, Infotel has only one major competitor, which is Agilent Technologies, a large electronic test equipment manufacturer.

ITEM 2. PROPERTIES

FACILITIES

Our corporate offices occupy approximately 15,110 square feet of office space in premises shared with North American operations. This facility is leased pursuant to a lease agreement expiring April 3, 2007. The lease provides for approximately 3% rent escalations during each year of the lease. Rental payments average U.S. \$21,100 per month over the term of the lease. We have received a decrease in our monthly rent and are currently negotiating an overall modification of our lease.

Quartz offices had occupied approximately 6,600 square feet of office space in premises in Santa Clara, California. This facility was leased pursuant to a

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

lease agreement expiring July 14, 2002, which was not renewed, and employees from that facility now work at our corporate office. Infotel has recently renewed its office lease, which will now expire September 30, 2004, the lease is for approximately 11,000 square feet. The monthly rent expense for Infotel's office space is US \$14,000. We believe that leased office space at market rates is readily available at all locations.

8

In addition, we maintain small sales offices in various states.

ITEM 3. LEGAL PROCEEDINGS

In October 2001, a software vendor filed suit against the Company for breach of contract totaling approximately \$703,000 plus interest and attorney's fees. On December 28, 2001, Appiant filed an answer denying this general demand, and is preparing a counter-suit for return of over \$600,000 paid to this vendor. In August 2002, the parties entered into a mutual settlement agreement and release of claims wherein the Company has agreed to make cash payments totaling \$200,000 between February 2003 and May 2003, and will issue warrants to purchase 50,000 shares of Appiant common stock at an exercise price of \$0.37, the Company has accrued \$200,000 as of September 30, 2002.

In January 2002, a default judgment was issued against the Company in favor of an equipment vendor in the amount of \$123,000. The Company was successful in having that default judgment set-aside on February 6, 2002. The Company subsequently entered into a mutual settlement agreement and release of claims in July 2002 wherein the Company has agreed to make payments totaling \$69,000, which is accrued at September 30, 2002.

In January 2002, a services and equipment provider filed suit in Texas for breach of contract totaling \$117,000. The Company is currently in negotiations to resolve this claim, but has fully accrued this potential liability at September 30, 2002.

In February 2002, the Company resolved an arbitration matter and litigation action involving a dispute over employment contract terms for two former Company management employees. The settlement provides for payment of \$88,000 to one claimant over six months, and payment of \$147,000 to the second claimant over a total of twelve months. The company has accrued \$235,000 for this matter. Also in February 2002, these same claimants filed suit against the Company regarding the Company's calculation of additional common stock due to the claimants under an unrelated agreement. The Company is in settlement negotiations with the claimant to resolve matters.

In May 2002, a customer requested indemnification of its internal defense costs and expenses arising from its defense of a lawsuit involving claims of infringement of certain patents which Appiant has licensed and which are included in Appiant's legacy voice mail product. In lieu of seeking reimbursement from Company of future defense fees, the customer offered to accept a subrogated assignment of the Company's indemnification rights from the patent owner. The Company agreed to tender the indemnification claim on to the patent owner and assign that claim to the customer to directly seek indemnification. The Company believes that this assignment to the customer is a final resolution of this matter.

In May 2002, a former note holder tendered notice of the Company's default on a settlement agreement and release relating to a \$2.75 million indebtedness arising out of the cancelled notes, the entire \$2.75 million is recorded on the company's books at September 30, 2002. The Company is currently in negotiations toward an agreement to cure the default and amend the payment plan called for in

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

the settlement agreement.

In June 2002, the Company's former trademark counsel tendered notice of its claim for \$51,260 in unpaid fees and indicated that it would file suit to collect these fees. The Company disputes some of these fees, but intends to work with counsel towards a mutually agreed resolution of the matter.

In June and July 2002, several holders of debentures issued in April 2002 provided formal notices of default by the company for failing to register the shares underlying the debentures or receive shareholder approval of the issuance of all underlying shares. The Company and the debenture holders are currently in discussions regarding options for curing these defaults and/or otherwise resolving the matter.

In July 2002, a former vendor tendered notice of a demand for payment of approximately \$200,000 alleging breach of contract and open book account. The Company disputes the claims as stated, and intends to work with the vendor towards a mutually agreed resolution of the matter. The Company has not accrued for this potential liability as it believes we will prevail.

In July 2002, counsel claiming to represent holders of certain Promissory Notes due in June 2003 wrote the Company claiming that material information was withheld from certain unidentified note holders by the Company when the Notes were issued in June 2001. The Company is investigating this claim and has requested information from the note holders, and intends to continue to vigorously defend the matter.

9

In July 2002, a former supplier of equipment filed suit against the Company for breach of contract and breach of guarantee totaling \$419,581 plus interest and attorney's fees. The Company has negotiated a settlement to a payment schedule totaling \$400,000.

In September 2002, a former vendor filed suit in Texas for breach of contractual obligation totaling \$107,956. The Company disputes a portion of the total but intends to negotiate with counsel to settle the claim. The amount of the claim is accrued at September 30, 2002.

While management intends to defend these matters vigorously, there can be no assurance that any of these complaints or other third party assertions will be resolved without costly litigation, or in a manner that is not adverse to our financial position, results of operations or cash flow. No estimate can be made of the possible loss or possible range of loss associated with the resolution of these matters in excess of amounts accrued.

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2002.

PART II

ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our Common Stock is traded on the OTCBB Market under the symbol "APPS". As of February 14, 2003, there were 17,194,841 shares of Common Stock outstanding held by approximately 3,600 beneficial holders of record. The following table sets forth, for the periods indicated, the high and low sales prices for the Common Stock on the OTCBB Market. These over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

represent actual transactions. The trading market in our securities may at times be relatively illiquid due to low trading volume.

	COMMON STOCK	
	HIGH	LOW
	----	---
2000		
January.....	\$ 9.563	\$ 4.563
February.....	14.875	8.313
March.....	19.500	11.625
April.....	20.750	11.500
May.....	24.750	15.938
June.....	18.250	10.000
July.....	13.875	6.938
August.....	15.500	8.313
September.....	17.438	13.313
October.....	25.250	15.000
November.....	24.875	12.8125
December.....	15.1875	4.000
2001		
January.....	\$ 6.750	\$ 4.880
February.....	6.250	4.813
March.....	5.500	3.109
April.....	3.550	2.400
May.....	2.850	1.570
June.....	4.900	1.540
July.....	2.830	1.800
August.....	2.190	1.800
September.....	2.180	1.380
October.....	2.190	1.520
November.....	1.660	1.290
December.....	3.050	1.140
2002		
January.....	\$ 3.280	1.660
February.....	1.900	1.400
March.....	1.540	1.170
April.....	1.420	1.180
May.....	1.287	0.800

10

June.....	0.820	0.280
July.....	0.290	0.171
August.....	0.610	0.210
September.....	0.700	0.380
October.....	0.550	0.240
November.....	0.390	0.170
December.....	0.300	0.190

On February 14, 2003, the last reported sales price for the Common Stock as reported on the OTCBB Market was \$0.10.

DIVIDEND POLICY

We have never paid cash dividends on our Common Stock. Our board of directors does not anticipate paying cash dividends in the foreseeable future as it intends to retain future earnings to finance the expansion of our business and for general corporate purposes. The payment of future cash dividends will depend on such factors as our earnings levels, anticipated capital requirements,

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

operating and financial condition, consent from any lender, if applicable, and other factors deemed relevant by our board of directors.

UNREGISTERED SALES OF SECURITIES

Effective April 19, 2002, Appiant commenced a secured financing of up to \$4,025,000 with certain accredited investors ("Investors") pursuant to a Debenture and Warrant Purchase Agreement (the "Agreement"), dated April 19, 2002. As of May 28, 2002, \$3,525,000 of Convertible Debentures including \$105,750 of Debentures issued as a finder's fee had closed. Under the terms of the Agreement, Appiant agreed to issue to the Investors Convertible Debentures bearing an interest rate of 8%. The Convertible Debentures may be converted into unregistered, restricted shares of Appiant Common Stock for a purchase price per share equal to the lower of (a) \$1.21, which was the deemed closing price and was determined based on the closing bid prices of the Common Stock for the five trading days immediately prior to the closing date of the initial sale of the Debentures, or (b) the average of the two lowest closing bid prices of Appiant shares for the 20-day period immediately preceding any conversion. The Convertible Debenture can be converted, at the option of the holder, at any time until one year after the Closing Date. In the event the Convertible Debentures are not converted, Appiant has the option to repay the indebtedness. Appiant also has the right to redeem the Convertible Debentures prior to maturity for an amount per share equal to 110% to 125% of the principal amount of the Convertible Debentures being redeemed, as determined by the date of redemption.

In addition, Appiant issued to Investors warrants to purchase up to an aggregate of 1,456,612 shares of unregistered, restricted Appiant Common Stock on the total financing of \$3,525,000. Appiant has also agreed to issue warrants for 100,000 shares of unregistered, restricted Appiant Common Stock as part of the finders fee for this financing. The warrants have a term of five years and are exercisable at a warrant price equal to 110% of the closing price or \$1.33 per share. The estimated value of the warrants of \$1,846,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate of 4.52%, a dividend yield of 0% and volatility of 145%. The allocation of the Convertible Notes proceeds to the fair value of the warrants of \$2,052,000 was recorded as a discount on the Convertible Notes and as additional paid-in capital. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$2,052,000 additional paid-in capital, and a discount on the notes payable, which is accreted over the note maturity period to interest expense. As a result, these discounts are accreted over the note maturity period and \$1,193,000 was recorded as non-cash interest expense for the year ended September 30, 2002.

Terms of the financing also provide that the Investors may nominate up to two additional members to the Appiant Board of Directors, and provide the Investors certain rights and options regarding possible future equity based financings by Appiant. Appiant paid a cash finder's fee of 7% and Convertible Debentures of 3% and warrants to purchase 100,000 shares of Common Stock, and other related expenses. No underwriters were involved in this private placement.

The sale of the debentures and the warrants to the investors was exempt from the registration provisions of the Securities Act, under Sections 4(2) and 4(6) of the Securities Act, and the rules and regulations there under, because of the nature of the offerees and Investors and the manner in which the offering was conducted. The investors have acknowledged that the securities cannot be resold unless registered or exempt from registration under the securities laws. Appiant has agreed to register for resale on Form S-3 up to 12,000,000 shares of the Common Stock (the "Registrable Shares") issued to the Shareholders as soon as

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

practicable following the Effective Date. Moreover, Appiant has agreed to seek shareholder approval of the issuance of the Registrable Shares in excess of 19.99% of issued and outstanding Appiant Common Stock.

In addition, the Company entered into several Convertible Promissory Notes Payable (the "Convertible Notes") in the aggregate principal amount of \$125,000 with a related party. The Notes accrue interest at 10% per annum, which is payable in common stock at the time of conversion and are collateralized by the Company's legacy business accounts receivables, and the assets of the Infotel subsidiary, and matured on various dates from April 30, 2002 through June 22, 2002. The conversion price is equal to the lower of 90% of the closing price of the Company's common stock on the trading day immediately preceding the maturity date, or 90% of any subsequent interim financing that occurs between the issuance date of the notes and the maturity date. Upon conversion, the Convertible Notes have no specific registration rights. As of September 30, 2002, the aggregate amount of \$90,000 of these Convertible Notes had been redeemed.

In connection with these Convertible Notes, the Company issued warrants to purchase 123,174 shares of the Company's common stock at an exercise price of ranging from \$0.90 per share to \$1.26 per share. The estimated value of the warrants of \$112,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate ranging from 4.34% to 4.81%, a dividend yield of 0% and volatility ranging from 144% to 145%. The allocation of the Convertible Notes proceeds to the fair value of the warrants of \$59,000 was recorded as a discount on the Convertible Notes and as warrant liability. Upon exercise of the warrants, the holder has no specific registration rights. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$66,000 additional paid-in capital, and a discount on the notes payable, which is accreted over the note maturity period to interest expense. As a result, these discounts are accreted over the note maturity period.

During the three months ended March 31, 2002, the Company entered into several Convertible Promissory Notes Payable (the "Convertible Notes") with certain investors in the aggregate principal amount of \$2,025,000, of which \$1,550,000 was with members of the board of directors or shareholders. The Notes accrue interest at 10% per annum, which is payable in common stock at the time of conversion and are collateralized by the Company's legacy business accounts receivables, and the assets of the Infotel subsidiary, and mature on various dates from April 30, 2002 through October 15, 2002. The conversion price is equal to the lower of 90% of the closing price of the Company's common stock on the trading day immediately preceding the maturity date, or 90% of any subsequent interim financing that occurs between the issuance date of the notes and the maturity date. Upon conversion, the Convertible Notes have no specific registration rights.

In connection with these Convertible Notes, the Company issued warrants to purchase 1,379,000 shares of the Company's common stock at an exercise price of ranging from \$1.32 per share to \$1.80 per share. The estimated value of the warrants of \$1,878,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate ranging from 4.19% to 4.78%, a dividend yield of 0% and volatility of ranging from 146% to 148%, depending on the respective issuance dates of the warrants. The allocation of the Convertible Notes proceeds to the fair value of the warrants was recorded as a discount on the Convertible Notes and as warrant liability. Upon exercise of the warrants, the holder has no specific registration rights. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$977,000 additional paid-in capital, and a discount on the notes payable. These discounts are accreted over the note maturity period.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

Between October 31, 2001 and December 20, 2001, the Company entered into several Convertible Promissory Notes Payable (the "Convertible Notes") with certain investors in the aggregate principal amount of \$1,590,000, of which \$400,000 was with members of the board of directors or shareholders. The Notes accrue interest at 8% per annum, which is payable in common stock at the time of conversion and are collateralized by the Company's legacy business accounts

12

receivables, and the assets of the Infotel subsidiary, and mature on various dates from December 27, 2001 to November 16, 2003. The conversion price is equal to the lower of 90% of the closing price of the Company's common stock on the trading day immediately preceding the maturity date, or 90% of any subsequent interim financing that occurs between the issuance date of the notes and the maturity date. Upon conversion, the Convertible Notes have no specific registration rights.

In connection with these Convertible Notes, the Company issued warrants to purchase 1,096,000 shares of the Company's common stock at an exercise price of ranging from \$1.20 per share to \$1.77 per share. The estimated value of the warrants of \$1,461,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate ranging from 3.59% to 4.40%, a dividend yield of 0% and volatility of ranging from 141% to 148%, depending on the respective issuance dates of the warrants. The allocation of the Convertible Notes proceeds to the fair value of the warrants was recorded as a discount on the Convertible Notes and as warrant liability. Upon exercise of the warrants, the holder has no specific registration rights. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$726,000 additional paid-in capital, and a discount on the notes payable. These discounts are accreted over the note maturity period.

Under the June 8, 2001 Convertible Notes Payable purchase agreement, the common stock issuable pursuant to the conversion of the notes and exercise of the related warrants were to be registered within 30 days after the next round of financing. Due to the registration requirement, the warrants were classified as liabilities and re-measured at each reporting date. On December 1, 2001, certain of the warrant agreements were amended to remove the requirement to register the common stock under these warrants.

Under the April 19, 2002, Debenture and Warrant Purchase Agreement, the conversion price is not fixed. Due to this uncertainty in price, EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" applies. In accordance with the provisions of EITF 00-19, the Company estimated the fair value of all outstanding warrants as of June 30, 2002, using the Black-Scholes option-pricing model with the following assumptions: Volatility of 133%; dividend yield of 0%; risk-free interest rate of 4.080%; and expected lives of 5 years. The value of all warrants as of June 30, 2002, was estimated at \$1,496,000, which was recorded as a reclassification from additional paid-in capital to notes payable. For future quarters, the value of these warrants will be re-calculated based on their market value at quarter end.

In connection with Convertible Notes issued on the September 26 and 28, 2002, the Company issued warrants to purchase 572,727 shares of the Company's common stock at an exercise price of ranging from \$0.45 per share to \$0.50 per share. The estimated value of the warrants of \$143,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate of 2.82%, a dividend yield of 0% and

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

volatility of 144%. The allocation of the Convertible Notes proceeds to the fair value of the warrants of \$143,000 was recorded as a discount on the Convertible Notes and as additional paid in capital. Upon exercise of the warrants, the holder has no specific registration rights. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$157,000 additional paid-in capital, and a discount on the notes payable. These discounts are accreted over the note maturity period and \$9,873 was recorded as non-cash interest expense for the three months ended September 30, 2002.

13

ITEM 6. SELECTED FINANCIAL DATA

	YEARS ENDED SEPTEMBER 30, 2002, 2001, 2000, 1999 and 1998				
	2002	2001	2000	1999	1998
	(IN THOUSANDS)				
Total net revenues	\$ 11,812	\$ 21,748	\$ 25,529	\$23,340	\$ 9,442
Loss from continuing operations . . .	(11,202)	(21,009)	(10,174)	(512)	(1,430)
Net loss from continuing operations.	(15,771)	(26,497)	(12,844)	(717)	(1,523)
Loss from discontinued operations . .	-	-	-	-	(581)
Loss on disposal of discontinued operations	-	-	-	-	(369)
Net loss per share -- basic and diluted continuing operations . . .	\$ (0.97)	\$ (2.32)	\$ (1.25)	\$ (0.23)	\$ (0.41)
Net loss per share -- basic and diluted discontinuing operations. .	\$ -	\$ -	\$ -	\$ -	\$ (0.20)
Shares used in net loss per share -- basic and diluted	16,296	14,687	10,303	6,249	4,802
Total assets	\$ 30,233	\$ 40,880	\$ 38,785	\$16,021	\$12,871
Long-term obligations	\$ 419	\$ 511	\$ 4,717	\$ 62	\$ 68

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements contained in this Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, hopes, intentions or strategies regarding the future.

Forward-looking statements include statements regarding: future product or product development; future research and development spending and our product development strategies; the levels of international sales; future expansion or utilization of manufacturing capacity; future expenditures; and statements regarding current or future acquisitions, and are generally identifiable by the use of the words "may", "should", "expect", "anticipate", "estimates", "believe", "intend", or "project" or the negative thereof or other variations thereon or comparable terminology.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements or industry results, performance or achievements) expressed or implied by these forward-looking statements to be substantially different from those predicted.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

The factors that could affect our actual results include, but are not limited to, the following:

- general economic and business conditions, both nationally and in the regions in which we operate;
- adoption of our new recurring revenue service model;
- competition;
- changes in business strategy or development plans;
- delays in the development or testing of our products;
- technological, manufacturing, quality control or other problems that could delay the sale of our products; our inability to obtain appropriate licenses from third parties, protect our trade secrets, operate without infringing upon the proprietary rights of others, or prevent others from infringing on our proprietary rights;
- our inability to retain key employees;
- our inability to obtain sufficient financing to continue to expand operations; and
- changes in demand for products by our customers.

Certain of these factors are discussed in more detail elsewhere in this report, including under the caption "Risk Factors; Factors That May Affect Operating Results".

We do not undertake any obligation to publicly update or revise any forward-looking statements contained in this Report or incorporated by reference, whether as a result of new information, future events or otherwise. Because of these risks and uncertainties, the forward-looking events and circumstances discussed in this Report might not transpire.

14

CRITICAL ACCOUNTING POLICY AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily allowance for doubtful accounts receivables, accruals for other costs, and the classification of net operating loss and tax credit carry forwards

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

between current and long-term assets. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to them consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2002.

OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements included herein. In addition, you are urged to read this report in conjunction with the risk factors described herein. The discussion of financial condition includes changes taking place or believed to be taking place in connection with: our execution of our new, unified communications and unified information hosted business model; the software, voice processing, data processing and communications industry in general and how we expect these changes to influence future results of operations; and liquidity and capital resources, including discussions of capital financing activities and uncertainties that could affect future results.

We are a software applications and services company that is transitioning our business model to specialize in unified communications and unified information (UC/UI) solutions. We are transitioning our business model to provide our hosted, IP-based unified communications and unified information portal and applications branded under the name "inUnison-TM-" in an ASP recurring revenue model.

Our inUnison-TM- portal and applications incorporate or will incorporate both our proprietary UC/UI applications including, but not limited to, our own speech recognition technologies, data mining, data analysis, navigation, web collaboration, recommendation engines, web phone, and client relationship management ("CRM") applications, as well as various third party applications. Our inUnison-TM- portal serves as a single means of accessing information from multiple sources.

Our inUnison-TM- portal is an open system incorporating or integrating third party applications and programs. Our customers offer their subscribers inUnison applications in a web-based portal that can be custom-branded for each customer.

We are offering our inUnison-TM- UC/UI applications in a hosted, recurring service-based revenue model to targeted markets and industry segments. Our goal is to be the "service provider's service provider", offering our inUnison-TM- applications in a resale model where we will price our applications separately and/or in packages to our service provider customers for resale to their subscribers. We also enter into revenue sharing arrangements with certain customers where we will share revenues from our applications and, in some cases, minutes from outbound calls made from and in-bound calls made to the portal. In the future we also plan to license our proprietary technology or portions of it to third parties. We intend to develop continuously new applications and to integrate third party applications into our portal. Our customers will be able to offer these applications in a portal that we maintain, but which can be custom-branded.

Our consolidated financial statements include our results as well as the results of our significant operating subsidiary: Infotel Technologies (Pte) Ltd ("Infotel). The legacy business of Appiant NA and Trimark were discontinued and Enhancement India call center business was sold, these businesses are not expected to have a materially adverse effect on the Company's financial condition. On May 23, 2001, Appiant acquired certain assets of Quaartz, Inc., the results of the operations of Quaartz from May 23, 2001 to September 30, 2001 and for all of fiscal 2002 are included in our consolidated financial statements.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

For our legacy operations, the Company derives its revenue primarily from Infotel. The revenue derived from Infotel primarily relates to the distribution and integration of telecommunications and other electronic products and providing services primarily for radar system integration, turnkey project management and test instrumentation. Equipment sales and related integration services revenue is recognized upon acceptance and delivery if a signed contract exists, the fee is fixed or determinable, collection of the resulting receivable is reasonably assured, and product returns are reasonably estimable. Provisions for estimated warranty costs and returns are made when the related revenue is recognized. Revenue from maintenance services related to ongoing customer support is recognized ratably over the period of the maintenance contract. Maintenance service fees are generally received in advance and are non-refundable. Service revenue is recognized as the related services are performed. Revenues from projects undertaken for customers under fixed price contracts are recognized under the percentage-of-completion method of accounting for which the estimated revenue is based on the ratio of cost incurred to costs incurred plus estimated costs to complete. When the Company's current estimates of total contract revenue and cost indicate a loss, the Company records a provision for estimated loss on the contract.

While we have been and are in the process of launching our new, hosted unified communications and unified information applications business model, our results for fiscal year ended September 30, 2002 reflect generally the results of our legacy business in Singapore from our Infotel subsidiary. Our revenues for

15

fiscal year 2002 were derived substantially from our legacy businesses. Revenues related to our offering of the inUnison-TM- UC/UI applications in a hosted, recurring ASP revenue model were less than \$1 million in fiscal 2002. Revenues from legacy systems have steadily decline in North America and the Company discontinued its legacy business in fiscal 2002, due to declining market demand for legacy voicemail systems and to the introduction of inUnison-TM-. Due to economic conditions and as a result of discontinued operations, we have decreased significantly our headcount in the United States (sales, sales engineering, operations, and engineering).

Currently our new business model for providing unified communications and unified information in a hosted, recurring revenue service model makes us one of the first companies in this new market. We anticipate competition in this relatively new market space to increase significantly. We will continue to invest heavily in software development and in the operations personnel necessary to deploy and operate our applications to provide our customers with carrier grade or "99.95%" reliability.

In fiscal year 2002, we entered into a number of financing transactions designed to provide us with funding for our new, hosted unified communications and unified information business model. We successfully closed on a \$7.1 million convertible debentures with warrants.

We continued to invest heavily in research and development, and acquired various technologies. We acquired certain assets of Quaartz, Inc. including the intellectual property related to the calendar applications that we have incorporated into our inUnison-TM- portal.

RESULTS OF OPERATIONS

Management's discussions address audited financial data for the years ended September 30, 2002, 2001 and 2000. The following table shows audited results of

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

operations, as a percentage of net sales, for the fiscal years ended September 30, 2002, 2001 and 2000:

APPIANT TECHNOLOGIES INC. AND SUBSIDIARIES

	Years Ended September 30,		
	2002	2001	2000
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	113.1%	80.7%	72.4%
Gross Profit (loss)	(13.1)%	19.3%	27.6%
Restructuring, selling, general and administrative expenses	67.7%	89.0%	64.8%
Impairment charges	(24.0)%	17.0%	--%
Amortization of goodwill	31.6%	10.0%	2.2%
Loss from operations	(94.8)%	(96.7)%	(39.9)%
Other expenses	34.3%	24.6%	9.4%
Income (Loss) before taxes	(129.1)%	(120.5)%	(49.3)%
Income tax	0.8%	1.3%	1.0%
Net loss	(129.9)%	(121.8)%	(50.3)%

Net Revenues

For the fiscal year ended September 30, 2002, our net revenues were \$11.8 million as compared to \$21.7 million for the same period ending September 30, 2001 and \$25.5 million for the same period in 2000, representing a decrease of \$9.9 million or 45.6% compared to fiscal 2001 and \$3.8 million or a 14.9% decrease for the same period in 2000. Our net revenues for fiscal year 2002 were adversely affected by the transition to our new business model of providing unified communications and unified information applications in our inUnison-TM-portal in a hosted service, recurring revenue model. The decline also represents a decline in our legacy revenues in North America and a decision by management to de-emphasize several legacy products such as call centers and proprietary voice messaging products.

On a full year basis, APPIANT NA's net revenues were \$2.2 million for the fiscal year ended September 30, 2002 as compared to \$8.7 million for the period ending September 30, 2001 and \$14.0 million for the same period in 2000. The 2002

16

year-to-date decrease in APPIANT NA net revenues came from reduced legacy products, which were discontinued and slower than expected revenues from our inUnison-TM- product offering.

Net revenues for our Infotel subsidiary were \$9.6 million for the fiscal year ended September 30, 2002 as compared to \$13.1 million for our fiscal year ended September 30, 2001 and \$11.6 million for the same period in 2000. The decrease in such net revenues in fiscal year 2002 occurred within the all product segments due to an overall weak Singapore economy.

Our legacy business backlog decreased to \$2.1 million at September 30, 2002 as compared to \$5.5 million as of September 30, 2001 and \$9.5 million for the same period in 2000. APPIANT NA's order backlog decreased to zero from \$1.0 million at September 30, 2001 and from \$2.9 million at September 30, 2000. Infotel's backlog decreased at September 30, 2002 to \$2.1 million from \$2.3 million at September 30, 2001 and from \$6.6 million at September 30, 2000. Orders for our

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

inUnison product total approximately \$1.2 million as of September 30, 2002.

Gross Margin

Our gross margin for fiscal year 2002 was \$(1.5) million or (13.1)% of net revenues, as compared to \$4.2 million or 19.3% for fiscal year 2001 and \$7.1 million or 27.6% for the same period in 2000. The decrease principally relates to reductions in our legacy business revenues both in the US and Singapore, coupled with the fixed nature of operating costs in our APPIANT NA operation associated with the delivery of inUnison services. APPIANT NA's gross margin on a stand-alone basis for the fiscal year 2002 was \$(4.4) million or (201.3)%, as compared to \$1.0 million or 8.0% for the fiscal year ended September 30, 2001 and \$3.0 million or 23.0% for the same period in 2000. The decrease in gross margin in APPIANT NA was due to reduced revenue levels and the continuing unabsorbed cost of operations that are part of cost of delivery of inUnison services. Infotel's gross margin percentage on a stand-alone basis increases from 29.2% for the fiscal year ended September 30, 2002 to 27.4% for the fiscal year ended September 30, 2001. This increase in Infotel's gross margin percentage is due to a decrease in spending and cost controls implemented during fiscal 2002 in anticipation of a downward trend in the Singapore economy.

Research and Development

Our industry is characterized by rapid technological change and product innovation. Our early "beta" customers have also requested numerous changes to our original product release and management expects new customers will also request product changes and innovations. We believe that continued timely development of products for both existing and new markets is necessary to remain competitive. Therefore, we devote significant resources to programs directed at developing new and enhanced products, as well as new applications for existing products. Our research and development expenditures were \$1.8 million in fiscal year 2002 excluding \$1.6 million of internal engineering costs that were capitalized during fiscal 2002, reflecting our continued investment in research and development. We have adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed and Obtained for Internal Use," ("SOP 98-1") and capitalize our research and development costs related to software development, and we will begin amortizing these costs when the capitalized software is substantially complete and ready for its intended use.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses ("SG&A") excluding research and development, but including goodwill amortization of \$4.4 million, restructuring charge, impairment loss, and non-cash charges related to options and warrants, as a percentage of net revenues, increased to 66.1% for the fiscal year ended September 30, 2002, as compared to 102.2% for fiscal year 2001 and 67.5% for fiscal year 2000. The non-cash expenses included in fiscal 2002 were \$0.1 million associated with cashless exercise options included in warrants issued to officers and board of director members, which are accounted for using variable accounting. This means that the difference between the exercise price of the warrant and the current market value of our common stock is charged to expense as the warrant vests until such warrants are exercised, canceled or expire. The non-cash expenses included in fiscal 2001 were \$3.7 million of impairment costs, amortization charges of \$1.9 million associated with acquisitions and a benefit of \$1.7 million of non-cash compensation associated with cashless exercise options included in warrants issued to officers and board of director members. Non-cash compensation associated with such cashless exercise options of \$4.4 million was recorded in fiscal 2000. The Company recorded amortization charges of \$0.7 million during 2000.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

17

SG&A expenses for Appiant NA and Infotel on a stand-alone basis was as follows:

	YEARS ENDED SEPTEMBER 30		
	2002	2001	2000
	(In thousands)		
Appiant North American Operations:			
Non-cash Compensation	\$ 113	\$ (1,700)	\$ 4,400
Other	3,758	15,945	9,465
	3,871	14,245	13,865
Infotel	2,387	2,139	2,500
Total SG&A Expense	\$6,258	\$16,384	\$16,365

SG&A, excluding non-cash charges totaled \$6.3 million for fiscal 2002, \$18.4 million for 2001 and \$12.2 million for 2000. The decrease in fiscal 2002 is primarily due to substantial reductions in headcounts and spending implemented by management during the year. The increase in fiscal 2001 as a percentage of revenue is primarily due to the reduction in revenues for fiscal 2001 and increased costs as we accelerated our transition to our new business model.

SG&A, excluding non-cash charges for Appiant's North American operations on a stand-alone basis decreased to \$3.7 million or 173.6% for fiscal year 2002 due to a substantial reduction in headcount and spending implemented by management during the year. SG&A, excluding non-cash charges increased to \$16.0 million or 186.4% of Appiant NA revenues in fiscal year 2001 from \$9.7 million or 69.1% in fiscal year 2000 mainly because of the significant decrease in North American revenues during fiscal year 2001 and expenditures in Sales and Marketing related to the service offering. On a stand-alone basis, Infotel's SG&A increased to \$2.4 million during fiscal 2002 representing an increase of \$0.2 million over the same period a year earlier. Infotel's SG&A decreased to \$2.1 million in fiscal 2001 compared to \$2.5 million in fiscal 2000. On a stand-alone basis, Infotel's SG&A increased as a percentage of revenues to 24.7% for fiscal year 2002 from 16.3% for fiscal year 2001 and 21.6% in fiscal year 2000. Infotel's SG&A expenses increased as a percentage of revenues mainly because of the decrease in Infotel's revenues and slightly higher expenditures during fiscal year 2002.

Unusual or Infrequent Events or Transactions that Materially Affected Income

From Continuing Operations

Impairment of Equipment and Capitalized Software and Release of Lease Liability:

The Company had capitalized \$1.2 million of purchased software related to software obtained for billing and provisioning. In June 2001, the Company concluded that the software would not be placed in service and recorded an impairment charge of \$1.2 million in fiscal year 2001. In fiscal year 2002, the Company and its billing and provisioning vendor negotiated a settlement whereby the related account payable was written-off.

In connection with the above transaction, the Company entered into lease financing arrangements with a hardware vendor, under which approximately \$2.1 million related to hardware and related product costs and \$2.5 million related to consulting services acquired for its first data center in Atlanta, Georgia.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

On June 29, 2001, the Company returned \$1.6 million of computer and related equipment at the Atlanta data center to the vendor. The vendor reduced the lease payments due by \$1.6 million and as a result the Company reduced equipment and the related capital lease obligations by an equal amount. The Company relocated its data center to Sunnyvale, California in June 2001 and relocated the hardware of \$500,000 to this location in September 2001. The remaining \$2.5 million of consulting services were charged to operating expenses, which related to the installation of the hardware in the Atlanta data center, as such costs had no future value following the relocation. During fiscal year 2002, the Company and its hardware vendor agreed that the balances due under the leases, were forgiven and the Company wrote-off the lease obligations.

Non-Cash Compensation Charges included in SG&A: Included in selling, general

and administrative expenses ("SG&A") are non-cash compensation charges associated with cashless exercise options included in warrants issued to officers and board of director members, which are accounted for using variable accounting. Thus the difference between the exercise price of the warrant and the current market value of our common stock is charged to expense as the warrant vests until such warrants are exercised, canceled or expire. Non-cash compensation charges recorded amounted to a \$0.1 million charge in fiscal 2002, a benefit of \$1.7 million during 2001 and an expense of \$4.4 million in fiscal 2000.

18

Goodwill arising on the acquisition of the Infotel subsidiary was \$2.4 million. The amortization periods for the Company's acquisitions are as follows:

	AMORTIZATION ----- PERIOD -----
Infotel	10 years
SVG Software Services	5 years
Triad	5 years
Quartz	3 years

We determined the useful life of the goodwill at the date of acquisition as the period over which the acquired business was expected to contribute directly or indirectly to our future cash flows. The estimate of the useful life was based on an analysis of all pertinent factors, in particular, our expected use of the acquired business and our best estimate of the effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry and known technological advances).

Interest and Other Income, Net

Our net interest expense decreased to \$6.4 million or 54.5% in fiscal year 2002 from \$5.4 million or 24.6% in fiscal year 2002 and from \$2.4 million during fiscal 2000. The decrease in net interest expense in fiscal year 2002 results primarily from non-cash charges related to a beneficial conversion feature associated with debentures that we issued in fiscal years 2000, 2001 and 2002.

Non-cash Charges Included in Interest Expense: Included in interest expense are

certain non-cash charges relating to warrants issued and associated beneficial conversion features in connection with various notes payable. Interest expense for the years ended September 30, 2002, 2001 and 2000 is summarized as follows:

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

	YEARS ENDED SEPTEMBER 30,		
	2002	2001	2000
	(In thousands)		
Non-cash charges relating to warrants issued	\$ 822	\$ 4,007	\$ -
Revaluation of Warrant Liability	(5,624)	(3,864)	-
Non-cash charges relating to amortization of non-cash beneficial conversion features arising on issuance of various convertible notes payable	6,914	3,572	1,595
Accrued interest on notes payable and convertible notes payable	1,174	641	188
Interest on capital leases, lines of credit and other loans	156	317	524
Total interest expense	\$ 3,442	\$ 4,673	\$ 2,307

19

Income taxes

We currently have approximately \$56 million in US federal net operating loss carry-forwards. The use of approximately 8 million of these net-operating losses are subject to an annual limitation of \$250,000. At September 30, 2002, we provided a 100% valuation allowance against our deferred tax asset. We believe that since sufficient uncertainty exists regarding the realization of the deferred tax asset, a full valuation allowance is required. Income tax of \$91,000 relates to accrued income tax liabilities for Infotel, our subsidiary in Singapore.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have financed our capital requirements through a combination of sales of equity securities, convertible and other debt offerings, bank borrowings, asset-based secured financings, structured financing and cash generated from operations.

Future payments due under debt and lease obligations as of September 30, 2002:

Fiscal Year	Convertible Promissory Notes Payable	Promissory Notes Payable	Non-Cancelable Operating Leases	Capital Lease Obligation
2003	\$ 11,803,000	\$ 6,050,000	347,000	\$ 587,000
2004	--	--	300,000	344,000
2005	--	--	288,000	205,000
2006	--	--	275,000	
2007	--	--	272,000	
Thereafter	--	--	68,000	

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

\$	11,803,000	\$	6,050,000	\$	1,550,000	\$	1,136,000
=====		=====		=====		=====	

During our fiscal year ended September 30, 2002 net cash used in operating activities was \$8.1 million. Although we incurred a loss of \$15.3 million for the fiscal year, \$9.4 million of this loss was attributed to various non-cash charges. Further, our cash loss was increased by substantial increases in accounts receivables and deferred revenue and substantial decreases in accounts payable and other current liabilities. Net cash provided by investing and financing activities totaled \$5.0 million consisting of proceeds from issuance of convertible debentures and warrants which were offset by payments on capital lease obligations and purchases of software, property and equipment.

During our fiscal year ended September 30, 2001 net cash used in operating activities was \$7.8 million. Although we incurred a loss of \$24.6 million for the fiscal year, \$12.2 million of this loss was attributed to various non-cash charges. Further, our loss was offset by a substantial decrease in accounts receivables. Net cash provided by investing and financing activities totaled \$5.0 million consisting of proceeds from issuance of convertible debentures, the issuance of Common and Preferred Stock, the exercise of options and warrants, the proceeds of a note from a vendor which were offset by purchase of software and property and equipment.

Our principal sources of liquidity at September 30, 2001 were as follows:

Effective April 19, 2002, Appiant commenced a secured financing of up to \$4,025,000 with certain accredited investors ("Investors") pursuant to a Debenture and Warrant Purchase Agreement (the "Agreement"), dated April 19, 2002. As of May 28, 2002, \$3,525,000 of Convertible Debentures including \$105,750 of Debentures issued as a finder's fee had closed. Under the terms of the Agreement, Appiant agreed to issue to the Investors Convertible Debentures bearing an interest rate of 8%. The Convertible Debentures may be converted into unregistered, restricted shares of Appiant Common Stock for a purchase price per share equal to the lower of (a) \$1.21, which was the deemed closing price and was determined based on the closing bid prices of the Common Stock for the five trading days immediately prior to the closing date of the initial sale of the Debentures, or (b) the average of the two lowest closing bid prices of Appiant shares for the 20-day period immediately preceding any conversion. The Convertible Debenture can be converted, at the option of the holder, at any time until one year after the Closing Date. In the event the Convertible Debentures are not converted, Appiant has the option to repay the indebtedness. Appiant also has the right to redeem the Convertible Debentures prior to maturity for an amount per share equal to 110% to 125% of the principal amount of the Convertible Debentures being redeemed, as determined by the date of redemption.

In addition, Appiant issued to Investors warrants to purchase up to an aggregate of 1,456,612 shares of unregistered, restricted Appiant Common Stock on the total financing of \$3,525,000. Appiant has also agreed to issue warrants for 100,000 shares of unregistered, restricted Appiant Common Stock as part of the finders fee for this financing. The warrants have a term of five years and are exercisable at a warrant price equal to 110% of the closing price or \$1.33 per share. The estimated value of the warrants of \$1,635,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate of 3.375%, a dividend yield of 0% and volatility of 133%. The allocation of the Convertible Notes proceeds to the fair value of the warrants of \$1,109,000 was recorded as a discount on the Convertible Notes and as additional paid-in capital. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$1,982,000 additional paid-in capital, and a discount on the notes payable, which is accreted over the note maturity period to interest expense. As a result, these discounts are accreted

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

over the note maturity period and \$727,000 was recorded as non-cash interest expense for the three months ended June 30, 2002.

20

Terms of the financing also provide that the Investors may nominate up to two additional members to the Appiant Board of Directors, and provide the Investors certain rights and options regarding possible future equity based financings by Appiant. Appiant paid a cash finder's fee of 7% and Convertible Debentures of 3% and warrants to purchase 100,000 shares of Common Stock, and other related expenses. No underwriters were involved in this private placement.

The sale of the debentures and the warrants to the investors was exempt from the registration provisions of the Securities Act, under Sections 4(2) and 4(6) of the Securities Act, and the rules and regulations there under, because of the nature of the offerees and Investors and the manner in which the offering was conducted. The investors have acknowledged that the securities cannot be resold unless registered or exempt from registration under the securities laws. Appiant has agreed to register for resale on Form S-3 up to 12,000,000 shares of the Common Stock (the "Registrable Shares") issued to the Shareholders as soon as practicable following the Effective Date. Moreover, Appiant has agreed to seek shareholder approval of the issuance of the Registrable Shares in excess of 19.99% of issued and outstanding Appiant Common Stock.

In addition, the Company entered into several Convertible Promissory Notes Payable (the "Convertible Notes") in the aggregate principal amount of \$125,000 with a related party. The Notes accrue interest at 10% per annum, which is payable in common stock at the time of conversion and are collateralized by the Company's legacy business accounts receivables, and the assets of the Infotel subsidiary, and matured on various dates from April 30, 2002 through June 22, 2002. The conversion price is equal to the lower of 90% of the closing price of the Company's common stock on the trading day immediately preceding the maturity date, or 90% of any subsequent interim financing that occurs between the issuance date of the notes and the maturity date. Upon conversion, the Convertible Notes have no specific registration rights. As of June 30, 2002, the aggregate amount of \$90,000 of these Convertible Notes had been redeemed.

In connection with these Convertible Notes, the Company issued warrants to purchase 123,174 shares of the Company's common stock at an exercise price of ranging from \$0.90 per share to \$1.26 per share. The estimated value of the warrants of \$40,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate of 3.375%, a dividend yield of 0% and volatility of 133%. The allocation of the Convertible Notes proceeds to the fair value of the warrants of \$ 39,000 was recorded as a discount on the Convertible Notes and as additional paid-in capital. Upon exercise of the warrants, the holder has no specific registration rights. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$70,000 additional paid-in capital, and a discount on the notes payable, which is accreted over the note maturity period to interest expense. As a result, these discounts are accreted over the note maturity period and \$26,000 was recorded as non-cash interest expense for the three months ended June 30, 2002.

During the three months ended March 31, 2002, the Company entered into several Convertible Promissory Notes Payable (the "Convertible Notes") with certain investors in the aggregate principal amount of \$2,025,000, of which \$1,550,000 was with members of the board of directors or shareholders. The Notes accrue interest at 10% per annum, which is payable in common stock at the time of conversion and are collateralized by the Company's legacy business accounts receivables, and the assets of the Infotel subsidiary, and mature on various dates from April 30, 2002 through October 15, 2002. The conversion price is

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

equal to the lower of 90% of the closing price of the Company's common stock on the trading day immediately preceding the maturity date, or 90% of any subsequent interim financing that occurs between the issuance date of the notes and the maturity date. Upon conversion, the Convertible Notes have no specific registration rights.

In connection with these Convertible Notes, the Company issued warrants to purchase 1,379,000 shares of the Company's common stock at an exercise price of ranging from \$1.32 per share to \$1.80 per share. The estimated value of the warrants of \$1,878,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate ranging from 4.19% to 4.78%, a dividend yield of 0% and volatility of ranging from 146% to 148%, depending on the respective issuance dates of the warrants. The allocation of the Convertible Notes proceeds to the fair value of the warrants was recorded as a discount on the Convertible Notes and as warrant liability. Upon exercise of the warrants, the holder has no specific registration rights. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$977,000 additional paid-in capital, and a discount on the notes payable. These discounts are accreted over the note maturity period.

21

Between October 31, 2001 and December 20, 2001, the Company entered into several Convertible Promissory Notes Payable (the "Convertible Notes") with certain investors in the aggregate principal amount of \$1,390,000, of which \$400,000 was with members of the board of directors or shareholders. The Notes accrue interest at 8% per annum, which is payable in common stock at the time of conversion and are collateralized by the Company's legacy business accounts receivables, and the assets of the Infotel subsidiary, and mature on various dates from December 27, 2001 to November 16, 2003. The conversion price is equal to the lower of 90% of the closing price of the Company's common stock on the trading day immediately preceding the maturity date, or 90% of any subsequent interim financing that occurs between the issuance date of the notes and the maturity date. Upon conversion, the Convertible Notes have no specific registration rights.

In connection with these Convertible Notes, the Company issued warrants to purchase 1,096,000 shares of the Company's common stock at an exercise price of ranging from \$1.20 per share to \$1.77 per share. The estimated value of the warrants of \$1,461,000 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate ranging from 3.59% to 4.40%, a dividend yield of 0% and volatility of ranging from 141% to 148%, depending on the respective issuance dates of the warrants. The allocation of the Convertible Notes proceeds to the fair value of the warrants was recorded as a discount on the Convertible Notes and as warrant liability. Upon exercise of the warrants, the holder has no specific registration rights. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$726,000 additional paid-in capital, and a discount on the notes payable. These discounts are accreted over the note maturity period.

Under the June 8, 2001 Convertible Notes Payable purchase agreement, the common stock issuable pursuant to the conversion of the notes and exercise of the related warrants were to be registered within 30 days after the next round of financing. Due to the registration requirement, the warrants were classified as liabilities and re-measured at each reporting date. On December 1, 2001, certain of the warrant agreements were amended to remove the requirement to register the common stock under these warrants. Accordingly, the liability related to these warrants on December 1, 2001 of \$670,000 was reclassified to stockholders' equity, additional paid-in capital.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

Under the April 19, 2002, Debenture and Warrant Purchase Agreement, the conversion price is not fixed. Due to this uncertainty in price, EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" applies. In accordance with the provisions of EITF 00-19, the Company estimated the fair value of all outstanding warrants as of June 30, 2002, using the Black-Scholes option-pricing model with the following assumptions: Volatility of 133%; dividend yield of 0%; risk-free interest rate of 4.080%; and expected lives of 5 years. The value of all warrants as of June 30, 2002, was estimated at \$1,496,000, which was recorded as a reclassification from additional paid-in capital to notes payable. For future quarters, the value of these warrants will be re-calculated based on their market value at quarter end.

In connection with Convertible Notes issued on the September 26 and 28, 2002, the Company issued warrants to purchase 271,700 shares of the Company's common stock at an exercise price of ranging from \$0.45 per share to \$0.50 per share. The estimated value of the warrants of \$271,700 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 5 years, a risk free interest rate of 2.82%, a dividend yield of 0% and volatility of 144%. The allocation of the Convertible Notes proceeds to the fair value of the warrants of \$142,600 was recorded as a discount on the Convertible Notes and as additional paid in capital. Upon exercise of the warrants, the holder has no specific registration rights. In addition, as a result of the beneficial conversion feature described above for the Convertible Notes, the Company recorded \$157,400 additional paid-in capital, and a discount on the notes payable. These discounts are accreted over the note maturity period and \$9,873 was recorded as non-cash interest expense for the three months ended September 30, 2002.

Our plans to reverse the recent trend of losses are to increase revenues and gross margins while controlling cost, primarily based on expected revenues for our inUnison(TM) portal services applications. Our continued existence is dependent on our ability to obtain adequate funding and eventually establish profitable operations. We intend to obtain additional equity and/or debt financing in order to further finance the development and market introduction of our inUnison(TM) portal services and to meet working capital requirements. There remains significant uncertainty, however, about our ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

22

TURNOVER AMONG KEY EMPLOYEES AND LIMITED MANAGEMENT RESOURCES

The Company has for several years experienced a high turnover in both our management team, especially within the finance function, and Board of Directors resulting in lost of continuity and knowledge. This turn over has adversely effected the progress of the Company's implementation of the business plan and has resulted in a single manager simultaneously holding multiple key positions; Chief Executive Officer, President, Chairman of the Board and Chief Financial Officer. The result is the Company relies on a single employee to perform numerous tasks with little or no checks and balances and the segregation of duties required by proper internal control policies is not possible. As the person performing these various duties is the Company's highest ranking officer, we believe that the financial data contained herein is fairly presented and proper and full disclosure has been made to our outside auditors.

The company does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud as a control system, no

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. However, our design of a control system reflects the fact that there are severe resource constraints, and the benefits of controls must be considered relative to their costs and the Company's ability to pay such costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions such as employee turnover and lack of human resources, which can directly effect the degree of compliance with the policies or procedures implemented. Because of the inherent limitations in a cost-effective control system and the Company's limited resources, misstatements due to error or fraud may occur and not be detected.

RISK FACTORS; FACTORS THAT MAY AFFECT OPERATING RESULTS

The following risk factors may cause actual results to differ materially from those in any forward-looking statements contained in the MD&A or elsewhere in this report or made in the future by us or our representatives. Such forward-looking statements involve known risks, unknown risks and uncertainties and other factors which may cause the actual results, performance or achievements expressed or implied by such forward-looking statements to differ significantly from such forward-looking statements.

WE CURRENTLY HAVE A GOING CONCERN OPINION FROM OUR OUTSIDE AUDITORS

The Company received a going concern opinion on its financial statements for both fiscal 2001 and 2002. A going concern opinion means that the Company does not have sufficient cash and liquid assets to cover its operating capital requirements for the preceding twelve-month period and if sufficient cash cannot be obtained the Company would have to substantially alter its operations or may not be forced to discontinue operations. The fact that the Company was able to continue operating for more than twelve-months since receiving a going concern opinion on its fiscal 2001 financial statements is not an indication that it will be able to do so in the future. To the contrary the Company's cash position has worsen since fiscal 2001 and its ability to continue its current operations is less likely.

WE HAVE CURRENTLY RECORDED A NET LOSS, WE HAVE A HISTORY OF NET LOSSES AND WE CANNOT BE CERTAIN OF FUTURE PROFITABILITY.

We recorded a net loss of \$15.8 million on net revenues of \$11.8 million our fiscal year ended September 30, 2002 and a net loss of \$26.5 million on net revenues of \$21.7 million during fiscal 2001. We also sustained significant losses for the fiscal years ended September 30, 1999 and 2000.

We anticipate continuing to incur significant sales and marketing, product development and general and administrative expenses and, as a result, we will need to generate significantly higher revenue to sustain profitability as we build our organization for our new inUnison-TM- business model. In addition, we anticipate significant amortization of capitalized software and other assets that we have purchased or developed for our new inUnison-TM- business model in our fiscal year 2003. We cannot be certain that we will continue to realize sufficient revenue to return to or sustain profitability.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

Our financial condition and results of operations may be adversely affected if we fail to produce positive operating results. This could also:

- adversely affect the value of our common stock;
- adversely affect our ability to obtain debt or equity financing on acceptable terms to finance our operations; and
- impair our ability to continue in business.

OUR EQUITY AND DEBT FUNDING SOURCES MAY BE INADEQUATE TO FINANCE FUTURE ACQUISITIONS.

The acquisition of complementary businesses, technologies and products has been and may continue to be key to our business strategy. Our ability to engage in acquisition activities depends on us obtaining debt or equity financing, neither of which may be available or, if available, may not be on terms acceptable to us. Our inability to obtain this financing may prevent us from executing successfully our acquisition strategy.

Further, both debt and equity financing involve risks. Debt financing may require us to pay significant amounts of interest and principal payments, reducing our cash resources we need to expand or transform our existing businesses. Equity financing may be dilutive to our stockholders' interest in our assets and earnings.

A NUMBER OF FACTORS COULD CAUSE OUR FINANCIAL RESULTS TO BE WORSE THAN EXPECTED, RESULTING IN A FURTHER DECLINE IN OUR STOCK PRICE.

We have significantly decreased our operating expenses to including our sales and marketing activities, our customer support capabilities, development of new distribution channels, research and development, and our operational infrastructure. We base our operating expenses on anticipated revenue trends and

23

a high percentage of our expenses are fixed in the short term. As a result, any delay in generating or recognizing revenue could cause our quarterly operating results to be below the expectations of public market analysts or investors, if any, which could cause the price of our common stock to fall further.

We may experience a delay in generating or recognizing revenue because of a number of reasons. We are dependent on our business partners and vendors to supply us with hardware, software, consulting services, hosting, and other support to launch and operate our new business.

Our quarterly revenue and operating results have varied significantly in the past and may vary significantly in the future due to a number of factors, including:

- Fluctuations in demand for our products and services;
- Unexpected product returns or the cancellation or rescheduling of significant orders;
- Our ability to develop, introduce, ship and support new products and product enhancements, and to project manage orders and installations;
- Announcement and new product introductions by our competitors;
- Our ability to develop and support customer relationships with service

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

providers and other potential large customers;

- Our ability to achieve required cost reductions;
- Our ability to obtain sufficient supplies of sole or limited sourced third party products;
- Unfavorable changes in the prices of the products and components we purchase;
- Our ability to attain and maintain production volumes and quality levels for our products;
- Our ability to retain key employees;
- The mix of products and services sold;
- Costs relating to possible acquisitions and integration of technologies or businesses; and
- The effect of amortization of goodwill and purchased intangibles resulting from existing or future acquisitions.

Due to the foregoing factors, we believe that period-to-period comparisons of our operating results should not be relied upon as an indicator of our future performance.

OUR NEW PRODUCTS AND STRATEGIC PARTNERING RELATIONSHIPS MAY NOT BE SUCCESSFUL.

We have launched our inUnison-TM- UC/UI product applications that are designed to provide our customers with hosted unifying communications and unifying information solutions. While we believe that our inUnison-TM- applications will provide our customers with scaled, carrier grade IP-based solutions, we cannot assure you that our customers will accept or adopt them on a large scale, in fact early indications are that adoption of unified communication services in general and inUnison-TM- in particular has been slower than expected. Our integration efforts with other third party software has and could continue to result in product delays and cost overruns. We cannot assure you that other software vendors whose software products we license or incorporate into our inUnison-TM- portal will continue to support their products. If these vendors discontinue their support, our business would be adversely affected.

Further, we expect to continue incur substantial expenditures for equipment, systems, research and development, consultants and personnel to implement this new business model. As a result, our operating results and cash flows may be adversely affected. Significant working capital will be needed by the Company to meet its business plan. Although we believe that this new product offering will ultimately result in profitable operations, there can be no assurance that the implementation of our new business model will be successful or that we can attract the funds necessary to reach cash flow breakeven.

24

RAPID GROWTH WILL STRAIN OUR OPERATIONS AND REQUIRE US TO INCUR COSTS TO UPGRADE OUR INFRASTRUCTURE.

Concerning the development and launch of our new hosted inUnison-TM- business model, if we were to experience periods of rapid growth, it would significant strain on our resources. Unless we manage such growth effectively, we may make mistakes in operating our business such as inaccurate sales forecasting, incorrect production planning, managing headcount, or inaccurate financial

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

reporting, either or all of which may result in unanticipated fluctuations in our operating results and adverse cash flow and financing requirements. Rapid growth and expansion would strain our management, operational and financial resources. Our management team has had limited experience managing such rapidly growing companies on a public or private basis. To accommodate such growth, we will be required among other things to:

- Improve existing and implement new operations, information and financial systems, procedures and controls;
- Recruit, train, manage, and retain additional qualified personnel including sales, marketing, research and development personnel;
- Manage multiple relationships with our customers, our customers' customers, our strategic partners, suppliers and other third parties; and
- Acquire additional office space and remote offices in numerous locations within and without the United States that will require space planning and infrastructure to support these additional locations.

We may not be able to install adequate control systems in an efficient and timely manner, and our current or planned financial, operational and personnel systems, procedures and controls may not be adequate to support our future operations. We would need to install various new management information system tools, processes and procedures, continue to modify and improve our existing information technology infrastructure, and invest in training our people to meet the increasing needs associated with our growth. The difficulties associated with installing and implementing these new systems, procedures and controls may place a significant burden on our management and our internal resources. In addition, as we grow internationally, we will have to expand our worldwide operations and enhance our communications infrastructure. Any delay in the implementation of such new or enhanced systems, procedures or controls, or any disruption in the transition to such new or enhanced systems, procedures or controls, could adversely affect our ability to accurately forecast sales demand, manage our hosted applications, and record and report financial and management information on a timely and accurate basis.

THE UC/UI MARKET IS YOUNG AND UNTESTED. WE HAVE JUST COMMENCED PROVIDING UC/UI SERVICES IN A HOSTED SERVICE MODEL TO OUR CUSTOMERS UNDER OUR NEW BUSINESS MODEL.

The UC/UI market is in its infancy, and indeed we are one of the first companies in unified information. Despite very positive and upbeat forecasts by a number of leading industry analysts of the market potential for unified communications and unified information applications, we have yet commenced providing our applications to our customers in a hosted service model. There is no assurance that our UC/UI applications will be adopted or, if adopted, that they will be successful in the marketplace. There is no assurance that our business model of offering our applications in a hosted, recurring revenue model will be successful. We are implementing a new business plan, and to the extent that we fail to execute it successfully, compete with new entrants to this market space, or otherwise are unable to build the complex network infrastructure necessary to provide such services to our customers, our results and cash flows will be negatively impacted and we could face serious needs for additional financing which may not be available.

WE PRESENTLY RELY UPON LEGACY SYSTEMS REVENUES.

For our fiscal year ended September 30, 2002, legacy systems revenues (which includes customer premises equipment revenues) accounted for approximately 16.1% of Company's total revenues and 81.7% of our North American revenues. The

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

projected decline in our legacy business will have an adverse effect on our revenues and financial performance. Management believes that future revenues from legacy voicemail systems will decline in the short term due to current economic conditions. The Company discontinued its legacy business in North America during fiscal year 2002. Our ability to transition our product sales to our UC/UI hosted, recurring revenue model will be critical to our future growth.

25

THE SALES CYCLE FOR OUR NEW HOSTED APPLICATIONS MAY BE LONG, AND WE MAY INCUR SUBSTANTIAL NON-RECOVERABLE EXPENSES OR DEVOTE SIGNIFICANT RESOURCES TO SALES THAT DO NOT OCCUR OR OCCUR WHEN ANTICIPATED.

Although, we have over 12,000 subscribers on our hosted inUnison service, the timing of significant recurring revenues from our hosted inUnison-TM- unified communications and unified information applications is difficult to predict because the unified communications and unified information market is relatively new. Our success will depend in large measure on market demand and acceptance of these applications and technologies, our ability to create a brand for our applications and technologies, our ability to target and sell customers and to drive demand for our applications to their customers, our ability to develop pricing models and to set pricing for our applications, and our ability to build market share. We plan initially to provide our hosted applications to service providers such as internet service providers (ISPs), application service providers (ASPs), affinity groups, multilevel marketing organization and certain corporations. We will need to create sales tools, service provider subscriber use models, methodologies and programs to work with our service provider customers to help devise cooperative advertising and sales campaigns to market and sell our inUnison-TM- applications to their customer. The sales process and sale cycle may vary substantially from customer to customer, and our ability to forecast accurately the sale opportunity for any customer, or to drive adoption of our inUnison-TM- applications in our customers' subscribers may be limited. There is no assurance that we will be successful in selling our applications or achieving targeted subscriber adoption, and our operating and cash flow requirements will be negatively impacted should we fail to achieve our targets within the time frames that we forecast.

Our customers may require various testing and test markets of our hosted applications before they decide to contract with us to provide our hosted inUnison-TM- applications to their subscribers. We may incur substantial sales and marketing and operational expenses and expend significant management effort to carry out these tests. Consequently, if sales forecasted from a specific customer for a particular quarter are not realized within the time frames that we have forecasted, we may be unable to compensate for the shortfall, which could harm our operating and cash flow results.

WE RELY UPON OUR DISTRIBUTOR AND SUPPLIER RELATIONSHIPS.

Our current Singapore legacy operations rely significantly on products manufactured and services provided key third parties. Any disruption in our relationships with these suppliers would have a significant adverse effect on our business for an indeterminate period of time until new supplier relationships could be established.

Any potential competition from our suppliers could have a material negative impact on our business and financial performance.

WE ARE DEPENDENT UPON SIGNIFICANT CUSTOMERS.

Revenues from our five largest customers accounted for approximately 24.3%,

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

7.9%, 6.6%, 6.4% and 5.2% of total revenues during our fiscal year ended September 30, 2002. No other customer accounted for over 5% of total revenues during this period. This concentration of revenue has resulted in additional risk to our operations, and any disruption of orders from our largest customers would adversely affect on our results of operations and financial condition.

Our Singapore subsidiary, Infotel Technologies (Pte) Ltd., offers a wide range of infrastructure communications equipment products. It has an established business providing test measuring instrumentation and testing environments, and is the regional distributor and test and repair center for Rohde & Schwarz test instruments. Infotel is also a networking service provider, and manages data networks for various customers. Infotel's financial performance depends in part on a steady stream of revenues relating to the services performed for Rohde & Schwarz test instruments. Infotel's revenues constituted approximately 81.7% of our total revenues for the fiscal year ended September 30, 2002. Any material change in our relationship with our manufacturers, including but not limited to Rohde & Schwarz, would materially adversely affect our results of operations and financial condition.

26

OUR MARKET IS HIGHLY COMPETITIVE, AND IF WE DO NOT COMPETE EFFECTIVELY, WE MAY SUFFER PRICE REDUCTIONS, REDUCED GROSS MARGINS AND LOSS OF MARKET SHARE.

The markets for our legacy businesses are highly competitive, and competition in this industry is expected to further intensify with the introduction of new product enhancements and new competitors. With such competition may come more aggressive pricing and reduced margins. We currently compete with a number of larger integrated companies that provide competitive voice-processing products and services as subsets of larger product offerings. Our existing and potential competitors include many large domestic and international companies that have better name and product recognition in the market for our products and services and related software, a larger installed base of customers, and substantially greater financial, marketing and technical resources than ourselves.

With the launch of our inUnison-TM- UC/UI hosted applications, we have discontinued our legacy business revenues and its related gross margins as we focus on our UC/UI business. Any delays in the anticipated launch of our inUnison-TM- business plan, coupled with a decline in our legacy business, would have a significant adverse impact on our financial performance and financing requirements.

Infotel competes against several large companies in Singapore that are better capitalized. Although Infotel has in the past managed to compete successfully against these larger companies on the basis of its engineering, systems and product management expertise, no assurances can be given that this expertise will allow Infotel to compete effectively with these larger companies in the future. Further, various large manufacturers headquartered outside of Singapore have established their own branch offices in Singapore and also compete with Infotel.

WE RELY HEAVILY ON OUR STRATEGIC PARTNERS IN OUR NEW BUSINESS MODEL, AND WITHOUT SUPPORT FROM OUR PARTNERS OUR BUSINESS COULD SUFFER.

We have built significant, valuable strategic partnering relationships with a number of partners including Cisco Systems, and these partnering relationships are important to our success. In the case of CISCO, they have committed to introducing customers to us. Hewlett-Packard also was an important strategic partner that was to assist us in designing, implementing and operating our backend solution to provide our UC/UI applications in a hosted, carrier grade environment. Hewlett-Packard was to provide consulting services in the design,

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

build out and operation of our backend architecture. We were to host our applications in their data centers and to provide various levels of customer support. The deterioration of our relationships with Hewlett-Packard during fiscal 2001 had a material adverse affect on our UC/UI business and financial performance. While we believe that our partnering relationships with CISCO and other third parties are strong, we cannot assure you that these relationships will continue or that they will have a positive impact on our success.

OUR REVENUES WILL LIKELY DECLINE IF WE DO NOT DEVELOP AND INTEGRATE THE COMPANIES WE ACQUIRE.

We have in the past pursued, and may continue to pursue, acquisition opportunities. Acquisitions involve a number of special risks, including, but not limited to:

- adverse short-term effects on our operating results;
- the disruption of our ongoing business;
- the risk of reduced management attention to existing operations;
- our dependence on the retention, hiring and training of key personnel and the potential risk of loss of such personnel;
- our potential inability to integrate successfully the personnel, operations, technology and products of acquired companies;
- unanticipated problems or unknown legal liabilities; and
- adverse tax or financial consequences.

Two of our prior acquisitions, namely the acquisition of Voice Plus (now known as Appiant Technologies North America, Inc.) and Advantis Network & Systems Sdn Bhd, a Malaysian company, in the past yielded operating results that were significantly lower than expected. In fact, the poor performance of Advantis led to its divestiture less than one year after we acquired the company.

27

The legacy business of Triad Marketing was discontinued as we have focused the people and technologies of the Triad business on our new inUnison-TM- UC/UI business.

Accordingly, no assurances can be given that the future performance of our subsidiaries will be commensurate with the consideration paid to acquire these companies. If we fail to establish the needed controls to manage growth effectively, our operating results, cash flows and overall financial condition will be adversely affected.

OUR INTERNATIONAL OPERATIONS INVOLVE RISKS THAT MAY ADVERSELY AFFECT OUR OPERATING RESULTS.

Infotel, our Singapore subsidiary, accounted for approximately 81.7% of our revenues for the fiscal year ended September 30, 2002, and approximately 60.4% of our revenues for the fiscal year ended September 30, 2001. There are risks associated with our international operations, including, but not limited to:

- our dependence on members of management of Infotel and the risk of loss of customers in the event of the departure of key personnel;
- unexpected changes in or impositions of legislative or regulatory

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

requirements;

- potentially adverse taxes and tax consequences;
- the burdens of complying with a variety of foreign laws;
- political, social and economic instability;
- changes in diplomatic and trade relationships; and
- foreign exchange and translation risks.

Any one or more of these factors could negatively affect the performance of Infotel and result in a material adverse change in our business, results of operations and financial condition.

We anticipate that the market for our inUnison-TM- UC/UI business is global. We anticipate that we will be expanding our business operations for our UC/UI applications outside the United States, and project that we will launch our UC/UI business in Asia from our existing Singapore operations. However, we do not yet have established operations for our UC/UI applications outside of the United States, and our business could suffer material adverse results if we cannot build an international organization to launch our UC/UI applications outside of the United States in time to meet market demand or alternative solutions or standards.

OUR STOCK PRICE COULD EXPERIENCE FURTHER PRICE AND VOLUME FLUCTUATIONS.

The markets for securities such as our common stock historically have experienced extreme price and volume fluctuations. Factors that may adversely affect the market price of our common stock include, but are not limited to, the following:

- new product developments and our ability to innovate, develop and deliver on schedule our inUnison-TM- UC/UI applications;
- technological and other changes in the voice-messaging, unified communications, and unified information;
- fluctuations in the financial markets;
- general economic conditions;
- competition; and
- quarterly variations in our results of operations.

OUR MANAGEMENT TEAM IS CRUCIAL TO OUR SUCCESS.

Our business depends heavily upon the services of its executives and certain key personnel, including Douglas S. Zorn, our President and Chief Executive Officer. Management changes often have a disruptive impact on businesses and can lead to the loss of key employees because of the uncertainty inherent in change. Within the last several years, we had significant changes in our key personnel. We

cannot be certain that we will be successful in attracting and retaining key personnel worldwide - particularly in the Silicon Valley, greater San Francisco Bay where we operate - as the employment markets there are intensely competitive. The loss of the services of any one or more of such key personnel,

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

if not replaced, or the inability to attract such key personnel, could harm our business. While hiring efforts are underway to fill the vacancies created by the departure of other key employees, there is no assurance that these posts will be filled in the near future. The loss of these or other key employees could have a material adverse impact on our operations. Furthermore, the recent changes in management may not be adequate to sustain our profitability or to meet our future growth targets.

FAILURE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS WILL HARM OUR ABILITY TO COMPETE.

We have a number patents and copyrights, and while we are in the process of filing for trademark and patent protection on selected product names, technologies and processes which we have developed, we currently rely and have relied on general common law and confidentiality and non-disclosure agreements with our key employees to protect our trade secrets. We also have received trademark protection for the names Appiant Technologies and inUnison. Our success depends on our ability to protect our intellectual property rights. Our efforts to protect our intellectual property may not be sufficient against unauthorized third-party copying or use or the application of reverse engineering, and existing laws afford only limited protection. In addition, existing laws may change in a manner that adversely affects our proprietary rights. Furthermore, policing the unauthorized use of our product is difficult, and expensive litigation may be necessary in the future to enforce our intellectual property rights.

OUR PRODUCTS COULD INFRINGE THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS, RESULTING IN COSTLY LITIGATION AND THE LOSS OF SIGNIFICANT RIGHTS.

We may be subject to legal proceedings and claims for alleged infringement of proprietary rights of others, particularly as the number of products and competitors in our industry grow and functionalities of products overlap. This risk may be higher in a new market in which a large number of patent applications have been filed but are not yet publicly disclosed. We have limited ability to determine which patents our products may infringe and to take measures to avoid infringement. Any litigation could result in substantial costs and diversion of management's attention and resources. Further, parties making infringement claims against us may be able to obtain injunctive or other equitable relief, which could prevent us from selling our products or require us to enter into royalty or license agreements which are not advantageous to us.

IF WE FAIL TO ADEQUATELY RESPOND TO RAPID TECHNOLOGICAL CHANGES, OUR EXISTING PRODUCTS WILL BECOME OBSOLETE OR UNMARKETABLE.

Advances in technology could render our products and applications obsolete and unmarketable. We believe that to succeed we must enhance our existing software products and underlying technologies, develop new products and technologies on a timely basis, and satisfy the increasingly sophisticated requirements of our customers. We may not respond successfully to technological change, evolving industry standards or customer requirements. If we are unable to respond adequately to these changes, our revenues could decline. In connection with the introduction of new products and enhancements, we have in the past experienced development delays and unfavorable development cost variances that are not unusual in the software industry. To date, these delays have not had a material impact on our revenues. If new releases or products are delayed or do not achieve broad market acceptance, we could experience a delay or loss of revenues and customer dissatisfaction.

IF OUR SOFTWARE CONTAINS DEFECTS, WE COULD LOSE CUSTOMERS AND REVENUES.

Software applications that are as complex as ours often contain unknown and undetected errors or performance problems. Many defects are frequently found

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

during the period immediately following the introduction of new software or enhancements to existing software. Furthermore, software which we may license from third parties for inclusion in our inUnison-TM- portal may also have undetected errors or may require significant integration, testing or re-engineering work to operate properly and as represented to our customers.

29

Although we attempt to resolve all errors that we believe would be considered serious by our customers, both our software and any third party software that we license may not be error-free. Undetected errors or performance problems may be discovered in the future, and errors that were considered minor by us may be considered serious by our customers. This could result in lost revenues or delays in customer acceptance, and would be detrimental to our reputation, which could harm our business.

FLUCTUATIONS IN OPERATING RESULTS COULD CONTINUE IN THE FUTURE.

Our operating results may vary from period to period as a result of the length of our sales cycle, purchasing patterns of potential customers, the timing of the introduction of new products, software applications and product enhancements by us and our competitors, technological factors, variations in sales by distribution channels, timing of stocking orders by resellers, competitive pricing, and generally nonrecurring system sales. For our legacy business, sales order cycles range generally from one to twelve months, depending on the customer, the type of solution being sold, and whether we will perform installation, integration and customization services. The period from the execution of a purchase order until delivery of system components to us, assembly, configuration, testing and shipment, may range from approximately one to several months. These factors may cause significant fluctuations in operating results in the future. The sales order cycle for our inUnison-TM- UC/UI applications in a hosted services model can only be projected at this time as we have little experience with customers for our inUnison-TM- services. To the extent that we do not sign up customers to our inUnison-TM- UC/UI applications according to our plan, our financial performance and results from operations will suffer.

WE NEED SIGNIFICANT CAPITAL TO OPERATE OUR BUSINESS AND MAY REQUIRE ADDITIONAL FINANCING. IF WE CANNOT OBTAIN SUCH ADDITIONAL FINANCING, WE MAY NOT BE ABLE TO CONTINUE OUR OPERATIONS.

We need significant capital to design, develop and commercialize our products. Currently available funds may be insufficient to fund operations. We may be required to seek additional financing sooner than currently anticipated or may be required to curtail our activities. Based on our past financial performance, coupled with our return to incurring operating losses with our transition to our new business model, our ability to obtain conventional credit has been substantially limited. Our ability to raise capital may also be limited or, if available, be very costly and possibly dilutive to our shareholders.

CERTAIN PROVISIONS OF OUR CHARTER AND DELAWARE LAW MAY HAVE ANTI-TAKEOVER EFFECTS.

The terms of our Certificate of Incorporation, as amended, and our ability to issue up to 2,000,000 shares of "blank check" preferred stock may have the effect of discouraging proposals by third parties to acquire a controlling interest in us, which could deprive stockholders and of the opportunity to consider an offer to acquire their shares at a premium. In addition, under certain conditions, Section 203 of the Delaware General Corporate Law would impose a three-year moratorium on certain business combinations between us and an "interested stockholder" (in general, a stockholder owning 15% or more of our

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

outstanding voting stock). The existence of such provisions may have a depressive effect on the market price of our common stock in certain situations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We develop products in the United States and market our products in both the US and Asian markets. As a result, our financial results could be affected by changes in foreign currency exchange rates or weak economic conditions in foreign markets. Substantially all of our Appiant NA revenues are currently denominated in U.S. dollars. Our Infotel subsidiary also purchases a significant amount of goods from overseas suppliers. These purchase commitments are often denominated in foreign currencies. We often use forward exchange contracts to hedge these unrecognized firm purchase commitments although this also exposes us to risk as a result of fluctuations in foreign currency exchange rates. We do not have any such exposure at September 30, 2002 but may continue to use these instruments in the future. Our interest expense is sensitive to changes in the general level of interest rates because some of our borrowings are subject to interest rates that vary with the prime rate. Due to the nature of our investments, we believe that there is not a material risk exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is included in Item 13 of this Form 10-K.

30

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

Directors and Executive Officers:

Name	Title	Age
Douglas S. Zorn	Chairman of the Board, Chief Executive Officer and President and Acting Chief Financial Officer	53
L. Thomas Baldwin III	Director	47
Allen F. Jacobson	Director	76
Robert J. Schmier	Director	54
N. Bruce Walko	Director	62
Robert Landis	Director	36
Fred E. Tannous	Director	42
Tom Ku	Chief Technology & Marketing Officer	42
Joachim Zippel	Sr. Vice President, Engineering and Operations	48
Sandra W. Smith	General Counsel and Corporate Secretary	39
Siravara Vijayendra	Former Vice President Engineering and Operations	45
Christopher J. Borders	Former Corporate Counsel and Corporate Secretary	39
Jennifer L. Pratt	Vice President of Human Resources	42

DOUGLAS S. ZORN. Mr. Zorn has been our Chairman of the Board, Chief Executive Officer and President since May 2000. Mr. Zorn served as Executive Vice President, Chief Financial Officer, Secretary and a Director of the Company since our incorporation in October 1996 until May 2000. Mr. Zorn served as Executive Vice President, Secretary and Treasurer, and Chief Financial and

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

Operating Officer of BioFactors, Inc. from December 1993 until February 1997 and as a Director from June 1994 until February 1997.

L. THOMAS BALDWIN III. Mr. Baldwin has been a Director of the Company from December 2000 to February 2003. Mr. Baldwin is a prominent bond trader and investor. For more than the past five years, he has been Chairman of Baldwin Group Ltd., a parent company of various investment and financial services businesses. He has been a member of the Chicago Board of Trade, serving on its Executive Committee; as Chairman of the Advisory Subcommittee of the CPO/CTA Committee; and as Chairman of the Regulatory Compliance Subcommittee for Reg. 320.15 and 320.16 of the Exchange Relations Group. Mr. Baldwin also served as Vice Chairman of the T-Bond Pit Committee.

ALLEN F. JACOBSON. Mr. Jacobson has been a Director of our Company since August 2000. Mr. Jacobson is a former Chairman and Chief Executive Officer of 3M Corporation, where he had a distinguished career that spanned over 40 years. Mr. Jacobson has also served on the board of directors of Mobil Corporation, Silicon Graphics, Sara Lee Corporation, Potlatch Corporation, Alliant Techsystems, Inc., and US West. Mr. Jacobson resigned in June 2002.

ROBERT J. SCHMIER. Mr. Schmier has been a Director of our Company since January 1999. Mr. Schmier has been the President of Schmier & Feurring Properties, Inc. since 1981, and the President of Schmier & Feurring Realty, Inc. since 1985. These companies are involved in real estate development, leasing and property management of shopping centers and office buildings in Palm Beach County, Florida. Mr. Schmier resigned in July 2002.

N. BRUCE WALKO. Mr. Walko has been a Director of our Company since January 1999. Mr. Walko has been the President of Cyberfast Systems, Inc., a company involved in international voice over internet protocol, since November 1999. Previously, Mr. Walko served as Southeast Regional General Manager for NextWave Telecom Inc. from 1994 until 1997. Mr. Walko was instrumental in the development of new technology telecommunication for NextWave and also for McCaw Cellular Inc. (now AT&T Wireless).

ROBERT LANDIS. Mr. Landis was a Director of the Company from August 2002 to January 2003. He serves as Chairman and Chief Financial Officer of Comprehensive Care Corporation, a publicly traded, managed behavioral healthcare company. Mr. Landis earned a Bachelor of Science degree in Accounting from the University of Southern California and a Masters of Business Administration from the California State University at Northridge. Mr. Landis resigned in January 2003.

31

FRED E. TANNOUS. Mr. Tannous was a Director of the Company from August 2002 to February 2003. He is Co-Chairman and Chief Executive Officer of Health Sciences Group, a publicly traded healthcare company committed to vertically integrating a collaborative network of profitable nutraceutical and pharmaceutical companies. Mr. Tannous received an MBA in Finance and Accounting from the University of Chicago Graduate School of Business, and holds a Masters and Bachelors degree in Electrical Engineering from the University of Southern California.

TOM KU was employed as an officer of the Company from May 2001 through December 2001. As the Chief Technology Officer and Chief Marketing Officer of Appiant Technologies, Inc. Tom founded Quaartz, Inc., a web based application company, in 1999 where he served as the Chief Executive Officer. He also led the professional services division of BEA Systems, Inc., the world leader in e-commerce transaction server software.

Edgar Filing: APPIANT TECHNOLOGIES INC - Form 10-K/A

JOACHIM ZIPPEL was employed as the Senior Vice President of Engineering and Operations of Appiant Technologies, Inc. from May 2001 to January 2002. Prior to joining Appiant, Joachim was the Executive Vice President of Operations and Services and co-founder of Quartz, Inc., a web based application company. Joachim brings to the Company a wealth of experience in software development and data center operations from his 12-year tenure at Sun Microsystems Communications, Corp.

SANDRA SMITH was employed as the General Counsel and Corporate Secretary of Appiant Technologies, Inc. from February 2001 to February 2002. Sandra was most recently with Simpson Grierson Law. Prior to Simpson Grierson, Sandra was Managing Director of a Legal Consulting firm based in Singapore, advising on IT transactions throughout Asia. Sandra was also in-house counsel at EDS and AT&T for several years, as communications and regulatory counsel.

SIRAVARA VIJAYENDRA. Mr. Vijayendra was Vice President of Engineering and Operations from January 2002 through December 2002. Siravara has over 15 years of experience in voice and unified messaging, voice and data encryption, and text-to-speech and speech recognition technologies. Prior to joining Appiant, Siravara was the Vice President of Engineering at Baypoint Innovations, a division of Mitel, Inc., Director of Engineering at Sensory Circuits, Inc., and Senior Manager at Centigram Communications. Additionally, Siravara has spent several years conducting research on seismic, radar and acoustic signal processing at Cylink and Omnitel Corp. Siravara holds Bachelor's of Science in Electrical Engineering from Bangalore University, India and a Masters in Electrical Engineering from Kansas State University.

CHRISTOPHER J. BORDERS. Mr. Borders was General Counsel and Corporate Secretary of Appiant Technologies, Inc. from January 2002 through October 2002. He has over 13 years experience serving software, Internet and other technology companies, both as in-house counsel and in private practice. Chris was most recently General Counsel for MobShop, Inc., and was previously a business and litigation partner for Rivkin Radler LLP. Borders is an active member of the American Corporate Counsel Association and its Intellectual Property Committee, and a member of the Business Law Section of the California State Bar. He earned his juris doctor degree from the University of California, Davis, School of Law, and graduated from the University of California, Berkeley with a bachelor's degree in political science.

JENNIFER L. PRATT. Ms. Pratt is the Vice President of Human Resources of Appiant Technologies, Inc. She has worldwide responsibility for all HR activities including compensation, benefits, stock administration, recruitment, and immigration and is a liaison with legal on all employment law issues. Jennifer has over 16 years human resource experience and brings strategic expertise in all aspects of human resource management, including partnering with the executive team on the design and implementation of strategic change. Prior to Appiant, Jennifer has held senior management positions with a variety of companies including technology, manufacturing and healthcare industries. Jennifer holds a B.S in Business Administration from Morningside College, Sioux City, Iowa.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth certain information concerning compensation paid during the last three (3) fiscal years to (i) our Chief Executive Officer, (ii) our other most highly compensated executive officers at September 30, 2001, whose aggregate cash compensation exceeded \$100,000 during the fiscal year ended September 30, 2002 and (iii) two (2) executive individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer of the company at the end of the last completed fiscal year (collectively, the "Named Executive Officers").

Name and principal position	Year	Annual Compensation			Long Term compensation Awards	
		Salary	Bonus	Other Annual Compensation	Restricted stock awards	Securities Under-lying options
Douglas S. Zorn,	2002	\$115,385	\$ --	\$ 13,637 (1)		--
Chairman of the	2001	\$172,500	\$ --	\$ 2,797 (1)		50,000 (3)
Board, Chief	2000	\$172,500	\$180,000	\$ 13,163 (2)		200,000 (4)
Executive Officer and President Officer						
Siravara Vijayendra	2002	\$124,377	\$ --	\$ 4,231 (1)		150,000 (5)
