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APPIANT TECHNOLOGIES INC  
Form 10-K  
January 14, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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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, 2001

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

| TITLE OF EACH CLASS<br>-----  | NAME OF EACH EXCHANGE ON WHICH REGISTERED<br>----- |
|-------------------------------|--|
| Common Stock, \$.01 par value | NASDAQ SmallCap Market                             |

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 January 11, 2002, there were 15,983,200 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 the NASDAQ National Market on January 11, 2002) was approximately \$30.6 million.

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## 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.

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## PART I

### ITEM 1. BUSINESS

#### GENERAL

#### NEW BUSINESS MODEL

Our new business model and main goal is to become the 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 management, recommendation engines and client relationship management ("CRM") applications, as well as various third party applications and integrations.

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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 extensive 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.

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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.

### OUR INUNISON-TM- PROPRIETARY TECHNOLOGIES

Our inUnison-TM- portal contains or will contain a number of our proprietary

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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 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.

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### OUR TARGETED MARKETS

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

- Wireless Service Providers (WSPs)
- Competitive Local Exchange Carriers ("CLECs")
- Internet Service Providers ("ISPs")
- Application Service Providers ("ASPs")
- Large Enterprises

We believe that there are compelling value propositions to our targeted customers to sell our inUnison-TM- applications. WSPs, 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.

Large enterprises with distributed, mobile employees may want to offer our inUnison-TM- applications to help increase productivity. The value proposition to such large enterprises is a more efficient work force that can translate into additional revenues and reduced cost of operations.

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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.

### 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.

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. Subsequent to our fiscal year end, this partner forgave approximately \$4.5 million of debt. The Company successfully implemented its own data center during fiscal 2001.

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### OUR COMPANY NAME CHANGED TO REFLECT NEW BUSINESS MODEL

Appiant Technologies, Inc., has been trademarked upon receiving shareholder approval at our last 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 been and to market our new, hosted unified communications and unified information applications business model, our results for fiscal year ended September 2001 reflect generally the results of our legacy business in North America, as well as that of Infotel in Singapore.

Our call center infrastructure business was sold during fiscal 2001 because CISCO made the decision to delay development of its IP based call center systems. Management believes the impact on its financial condition will not be significant.

### 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

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communications equipment in Asia. Infotel is headquartered in Singapore.

On February 4, 2000, we completed our acquisition of the assets of SVG Software Services, Inc., a California corporation ("SVG"), pursuant to the Plan and Agreement of Reorganization (the "Agreement"), dated February 4, 2000, between Appiant and SVG.

On February 4, 2000, we acquired all the shares of Nhancement Technologies (India) Pte. Ltd. ("NHAN India") a company incorporated in Chennai, India that engages in the business of web design and software products development. NHAN India conducts substantial software development activities for the inUnison-TM-portal. NHAN India was also focusing on call center solutions and outsourcing for enterprises seeking to establish call centers in India. NHAN India and its call center business was sold in fiscal 2001, a number of the members of the engineering team remained with Appiant.

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.

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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.

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.

Our remaining legacy systems integration businesses include voice processing, multimedia messaging, and infrastructure communications equipment products.

### 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.

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### VOICE PROCESSING AND MULTIMEDIA MESSAGING

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). APPIANT NA has historically been a systems integrator and national distributor of voice processing equipment from several manufacturers whose equipment enables users to access and interact with a broad range of information in a variety of formats (including voice, text, data and facsimile) from a variety of terminals (including touch-tone telephones and personal computers). We have offered a broad range of products that support a number of enterprise applications such as telephone answering, automated attendant, voice messaging, paging, facsimile messaging, interactive voice response, LAN integration and networking, and technical support.

INFOTEL

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### 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.

### SALES AND MARKETING

We have had a marketing and distribution infrastructure for our own software products and services and for third party voice processing and multimedia messaging products. We have marketing personnel, technical assistance centers (including customer service representatives, system engineers and senior level field technicians) and a network of service/support dealers to provide our customers with personalized attention, flexibility, responsiveness and accountability within the United States and Singapore.

We have been marketing our products and services primarily through focused

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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.

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### 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.

### LEGACY CUSTOMERS, BACKLOG

We have serviced approximately 1000 clients. Revenues from our five largest customers, Firstring, Inc., EPCOS Pte. Ltd., Voicestream Wireless, Philips Electronics (S) Pte. Ltd. and Mediacorp T & T, Pte. Ltd., accounted for approximately 9.4%, 9.3%, 7.0%, 5.5% and 5.2% respectively of total net revenues during the fiscal year ended September 30, 2001. Backlog at September 30, 2001 was \$5.5 million as compared to \$9.5 million at September 30, 2000. On a stand-alone basis, backlog for APPIANT NA is \$1.0 million for legacy systems and \$2.2 million for our new inUnison service and \$2.3 million for Infotel at September 30, 2001.

### 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, 2001, we employed a total of 140 employees worldwide: 83 in the United States, 51 in Singapore and employed by Infotel, and 6 in Chennai, India. Our employees are not covered by a collective bargaining agreement. We believe that our relations with our employees worldwide are good.

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### 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 Mobility, Linx Communications, Call Sciences, Webbley, One Red Cube, and Tornado Development Corporation.

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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 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

##### NORTH AMERICA

##### Enterprise Software Services

Some of our legacy software products and services have faced competition that will increase and we believe that computer software vendors, such as Novell, Inc., IBM, and Microsoft Corporation, will continue to develop enhanced messaging and networking software with voice and data information processing applications that compete with our legacy software products and services. A substantial majority of competitors in the voice-processing field have better name recognition in this market, a larger installed base of customers and greater financial, marketing and technical resources.

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We expect that competitors will continue to offer new or enhanced products that compete with our legacy products. In addition, we believe that computer software vendors such as Novell, Inc., IBM, and Microsoft Corporation will continue to develop enhanced messaging and networking software with voice and data information processing applications.

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### Voice Processing Products and Services

The voice processing and customer premises equipment markets are highly competitive, and we believe that competition within these industries will continue to intensify with the introduction of new or enhanced products and as new competitors continue to enter these markets. A substantial majority of competitors in the legacy voice-processing field have better name recognition in these markets, a larger installed base of customers and greater financial, marketing and technical resources.

We have competed with a number of larger integrated companies that provide competitive voice processing products and services as subsets of larger product offerings, including the former regional Bell companies and major PBX equipment manufacturers such as Fujitsu Limited and Lucent. Additionally, in the customer premises equipment markets, we have competed with two types of equipment companies: (i) interconnects (PBX providers) including Lucent, Northern Telecom Limited, Fujitsu Limited and NEC Corporation, and (ii) independent voice processing manufacturers such as Octel Communications Corporation, Digital Sound Corporation, Active Voice Corporation, Applied Voice Technology, Inc., Glenayre Technologies, Inc. and Comverse Technology, Inc. PBX providers sell voice-processing equipment as an integrated solution with their own PBXs and may have a competitive advantage with respect to those who purchase a voice processing system at the same time they purchase a new PBX. Also, Glenayre Technologies, Inc. and Comverse Technology, Inc., among others, compete with us in the service provider market.

We expect that our inUnison product offering, as well as our principal existing competitors and new competitors will offer new or enhanced products. We believe that computer software vendors such as Novell, Inc., IBM, and Microsoft Corporation, will continue to develop enhanced messaging and networking software with voice and data information processing applications.

We believe that our attention to customer service, as well as to the customer's technical requirements, has resulted in our success in competing and winning sales bids. We provide detailed information and support to our customers beginning at the point of sale and continuing through the implementation period, as well as ongoing service. Depending on the terms of the maintenance contract purchased, we provide assistance for our customers up to 24 hours per day, 365 days a year. We provide training for our employees in products, installation, system design and support to assist customers in selecting the right equipment and to provide the quality of service that customers demand and deserve. We believe that we have a loyal customer base founded on their satisfaction with our service capabilities and active account management.

### Services Providers

Competitors providing products to various services providers, such as cellular communications operators, long-distance resellers and local telephone companies, include several voice processing manufacturers such as Lucent, ADC, Comverse Technology, Inc., Digital Sound Corp. and Glenayre Technologies, Inc.

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### 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 APPIANT NA. 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 are currently negotiating to acquire additional office space adjacent to or near our existing Pleasanton, California headquarters office, while the commercial real estate market in and around Pleasanton, California and the east San Francisco Bay Area is competitive, and we expect to be able to secure additional real estate to meet our needs.

Quartz offices occupy approximately 6,600 square feet of office space in premises in Santa Clara, California. This facility is leased pursuant to a lease agreement expiring July 14, 2002. Rental payments are \$21,300 per month over the remaining term of the lease. We lease office space at several other locations in the United States under leases, which expire in various years. Aggregate space leased at these facilities totals approximately 5,000 square feet, and total monthly office rental expense for these facilities is approximately \$7,000. Infotel has recently signed a new office lease, which expires December 2002, for approximately 9,700 square feet to meet its expansion plans, and moved into these offices in December 2000. The monthly rent expense for Infotel's office space is US \$12,000. We believe that leased office space at market rates is readily available at all such other locations.

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

### ITEM 3. LEGAL PROCEEDINGS

In January 2002, a judgment was issued against the Company in favor of an equipment vendor in the amount of \$122,772.83. Company is in discussions to establish a mutually agreed upon payment plan and expects to settle this issue.

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In October 2001, a software vendor filed suit against the Company for breach of contract totaling approximately \$702,737 plus interest and reasonable attorney's fees. On December 28, 2001, Appiant filed an answer denying this general demand and will vigorously pursue this matter.

A major customer tendered billings for reimbursable costs and expenses arising from their defense of certain patent infringement claims asserted against them. They are seeking reimbursement from Company of approximately \$52,762. As the Company is only a distributor of these systems, any liability suffered by us is reimbursable by the supplier of these systems.

In January 2002, we received a demand for payment, in the amount of \$1,248,090.50, from Glenn Saito's counsel. If payment is not received on/before January 11, 2002, they will file a lawsuit for breach of contract. The Company is currently in negotiations to extend the date of this note.

The Company is not subject to any other material litigation nor, to its knowledge, is other litigation threatened against it.

The costs and other effects (whether civil or criminal), settlements, judgments and investigations, claims and changes in those matters, and developments or assertions by or against us relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on our business, financial condition, operating results and cash flows.

#### 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, 2001.

### PART II

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

Our Common Stock is traded on the NASDAQ SmallCap Market under the symbol "APPS". As of January 11, 2001, there were 15,983,200 shares of Common Stock outstanding held by approximately 4,000 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 NASDAQ SmallCap Market. These over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions. The trading market in our securities may at times be relatively illiquid due to low trading volume.

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|                | COMMON STOCK |          |
|----------------|--------------|----------|
|                | HIGH         | LOW      |
|                | ----         | ---      |
| 1999           |              |          |
| September..... | 1.922        | 1.297    |
| October.....   | 1.563        | 1.063    |
| November.....  | 1.781        | 1.188    |
| December.....  | 6.438        | 1.344    |
| 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   |

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|                |          |          |
|----------------|----------|----------|
| 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    |

On January 11, 2002, the last reported sales price for the Common Stock as reported on the NASDAQ Small Cap Market was \$2.48.

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

### UNREGISTERED SALES OF SECURITIES

In October 2000, we issued a warrant to purchase up to 75,000 shares of common stock to Joseph Stevens to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until October 31, 2001. The exercise price per share of this warrant is \$13.50.

In November 2000, we issued a warrant to purchase up to 30,000 shares of common stock to Jack J. Zahran to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until November 28, 2005. The exercise price per share of this warrant is \$8.3438.

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In January 2001, we issued a warrant dated as of July 2000 to purchase up to 300,000 shares of common stock to Baldwin Partners, LP to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable may be exercised until December 31, 2002. The exercise price per share of this warrant is \$6.00.

In March 2001, we issued a convertible debenture of \$2.5 million and various warrants to purchase up to 1,481,481 shares of common stock to L. Thomas Baldwin III to raise operating capital for us in a transaction exempt from registration under Section 4(2). The shares to be issued upon the conversion of the note and the exercise of the warrants equal more than 20% of the Company's outstanding

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shares and require a vote of the shareholders. Once approved by the shareholders, the warrants are immediately exercisable and may be exercised until March 2008. The conversion price of the note is \$1.50 per share and is due if not converted on May 31, 2002. The exercise price per share of these warrants is \$2.70.

In May 2001, we issued a warrant to purchase up to 50,000 of common stock to Jim Gillespie to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until May 31, 2006. The exercise price per share of this warrant is \$1.80.

In May 2001, we issued a warrant to purchase up to 30,000 shares of common stock to Lucien Thomas Baldwin III to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until May 31, 2006. The exercise price per share of this warrant is \$1.57.

In May 2001, we issued a warrant to purchase up to 50,000 shares of common stock to Cynthia Manos to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until May 31, 2006. The exercise price per share of this warrant is \$1.57.

In May 2001, we issued a warrant to purchase up to 20,000 shares of common stock to Douglas Zorn to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until May 31, 2006. The exercise price per share of this warrant is \$1.57.

In May 2001, we issued a warrant to purchase up to 20,000 shares of common stock to Jim Gillespie to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until May 31, 2006. The exercise price per share of this warrant is \$1.57.

In June 2001, we issued a warrant to purchase up to 175,000 shares of common stock to ITB Asset Management, Inc. ("ITB") in lieu of cash payment in consideration for certain services rendered to Appiant in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to Trust F.B.D. Amos N. Prescott Jr. U/A/D 1/30/76, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

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In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to Martin t. Knobloch, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 18,939 shares of common stock to Traci Marie Passiglia, as set forth in a Promissory Note and secured by

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the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to Jocelyn Twist, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to James L. Prescott, Jr., as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 18,939 shares of common stock to Karen McDonnell, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 284,091 shares of common stock to Cynthia Manos, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to R. Donald Prescott, Jr., as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to Amos N. Prescott, Jr. Revocable Trust DTD 5/2/95, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

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In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to James & Carol Furlong, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to Albert Belsky, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is

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\$2.64.

In June 2001, we issued a warrant to purchase up to 18,939 shares of common stock to Patrick Matre, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 56,818 shares of common stock to Lucien Thomas Baldwin III, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 113,636 shares of common stock to Athena P. Smith, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to Kurt W. Kaufman, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In June 2001, we issued a warrant to purchase up to 37,879 shares of common stock to Thomas E. & Kristin Goodalis, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of this warrant is \$2.64.

In October 2001, we issued a warrant to purchase up to 59,524 shares of common stock to Lucien Thomas Baldwin III, as set forth in a Promissory Note and secured by the Company's Voice Plus Accounts Receivables, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until October 31, 2006. The exercise price per share of this warrant is \$1.68.

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In October 2001, we issued a warrant to purchase up to 59,524 of common stock to Douglas Zorn, as set forth in a Promissory Note and secured by the Company's Voice Plus Accounts Receivables, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until October 31, 2006. The exercise price per share of this warrant is \$1.68.

In October 2001, we issued a warrant to purchase up to 59,524 shares of common stock to Jim Gillespie, as set forth in a Promissory Note and secured by the Company's Voice Plus Accounts Receivables, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until October 31, 2006. The exercise price per share of this warrant is \$1.68.

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In November 2001, we issued a warrant to purchase up to 150,000 shares of common stock to Lucien Thomas Baldwin III, as set forth in a Promissory Note and secured by the VoiceTel and Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until November 28, 2006. The exercise price per share of this warrant is \$1.35.

In November 2001, we issued a warrant to purchase up to 77,519 shares of common stock to Robert J. Schmier, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until November 28, 2006. The exercise price per share of this warrant is \$1.29.

In November 2001, we issued a warrant to purchase up to 143,885 shares of common stock to Robert Gilman, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until November 29, 2006. The exercise price per share of this warrant is \$1.39.

In December 2001, we issued a warrant to purchase up to 38,462 shares of common stock to Dr. Gabor Rubanyi, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until November 29, 2006. The exercise price per share of this warrant is \$1.30.

In December 2001, we issued a warrant to purchase up to 19,084 shares of common stock to Dr. Robert L. Glass, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until December 7, 2006. The exercise price per share of this warrant is \$1.31.

In December 2001, we issued a warrant to purchase up to 33,333 shares of common stock to Jeremy Judge, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until December 12, 2006. The exercise price per share of this warrant is \$1.20.

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In December 2001, we issued a warrant to purchase up to 83,333 shares of common stock to Wayne Saker, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until December 12, 2006. The exercise price per share of this warrant is \$1.20.

In December 2001, we issued a warrant to purchase up to 42,373 shares of common stock to Dr. Harry Mittelman, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until December 20, 2006. The exercise price per share of this warrant is \$1.77.

In December 2001, we issued a warrant to purchase up to 56,497 of common stock to Robert Gilman, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from

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registration under Section 4(2). The warrant is immediately exercisable and may be exercised until December 20, 2006. The exercise price per share of this warrant is \$1.77.

In December 2001, we issued a warrant to purchase up to 56,497 shares of common stock to Wayne Saker, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until December 20, 2006. The exercise price per share of this warrant is \$1.77.

In December 2001, we issued a warrant to purchase up to 112,994 warrants to purchase shares of common stock to Robert Gilman, as set forth in a Promissory Note and secured by the Infotel assets, to raise operating capital for us in a transaction exempt from registration under Section 4(2). The warrant is immediately exercisable and may be exercised until December 20, 2006. The exercise price per share of this warrant is \$1.77.

### ITEM 6. SELECTED FINANCIAL DATA

|  | YEARS ENDED SEPTEMBER 30, 2001, 2000, 1999<br>AND 1997 AND THE NINE MONTHS ENDED SEPTEMBER<br>30, 1998 |           |           |           |           |
|--|--|-----------|-----------|-----------|-----------|
|  | 2001   | 2000      | 1999      | 1998      | 1997      |
|  | (IN THOUSANDS)   |           |           |           |           |
| Total net revenues.....  | \$21,748   | \$25,529  | \$23,340  | \$ 9,442  | \$ 8,738  |
| Loss from continuing operations.....                                     | (21,009)   | (10,174)  | (512)     | (1,430)   | (4,653)   |
| Net loss from continuing operations.....                                 | (29,929)   | (12,844)  | (717)     | (1,523)   | (4,594)   |
| Loss from discontinued operations.....                                   | -  | -         | -         | (581)     | 3         |
| Loss on disposal of discontinued operations                              | -  | -         | -         | (369)     | -         |
| Net loss per share -- basic and<br>diluted continuing operations.....    | \$(2.56)   | \$ (1.25) | \$ (0.23) | \$ (0.41) | \$ (1.18) |
| Net loss per share -- basic and<br>diluted discontinuing operations..... | \$ -   | \$ -      | \$ -      | \$ (0.20) | \$ -      |
| Shares used in net loss per<br>share -- basic and diluted.....           | 14,687   | 10,303    | 6,249     | 4,802     | 3,883     |
| Total assets.....  | \$40,366   | \$ 38,785 | \$16,021  | \$12,871  | \$ 6,310  |
| Long-term obligations.....   | \$ 511   | \$ 4,717  | \$ 62     | \$ 68     | \$ 158    |

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### 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

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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. 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".

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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.

### 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

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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.

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Our consolidated financial statements include our results as well as the results of our significant operating subsidiaries: NHancement Technologies North America, Inc. ("APPIANT NA"), Infotel Technologies (Pte) Ltd ("Infotel"), and Nhancement Acquisition Corp. (formerly, Trimark Incorporated, "Trimark"). The legacy business of 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 February 5, 2001, Appliant acquired certain assets of Quaartz, Inc., the results of the operations of Quaartz from February 1, 2001 to September 30, 2001 are included in our consolidated financial statements.

For our legacy operations, the Company derives its revenue primarily from its APPIANT NA and Infotel. Generally, revenue derived from APPIANT NA relates to the distribution and integration of voice processing and multimedia messaging equipment manufactured by others and maintenance services. 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.

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Revenue from maintenance services related to ongoing customer support is recognized ratably over the period of the maintenance contact. 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, 2001 reflect generally the results of our legacy business in North America, as well as that of Infotel. Our revenues for fiscal year 2001 were derived solely from our legacy businesses. Revenues related to our offering of the inUnison-TM- UC/UI applications in a hosted, recurring ASP revenue model are expected to begin in the first fiscal quarter of 2002. Management believes that future revenues from legacy voicemail systems will steadily decline due 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 and India (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.

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In fiscal year 2001, 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 \$5.1 million convertible debenture offering and \$0.5 million in non-convertible debentures with warrants.

We continued to invest heavily in research and development, and acquired various technologies. We acquired certain assets of Quaartz, Inc. With the Quaartz acquisition, we acquired 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, 2001, 2000 and 1999.

The following table shows audited results of operations, as a percentage of net sales, for the fiscal years ended September 30, 2001, 2000 and 1999:

|       | Years Ended September 30, |       |       |
|-------|---------------------------|-------|-------|
| ----- | 2001                      | 2000  | 1999  |
| ----- | -----                     | ----- | ----- |

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|   |          |         |        |
|---|----------|---------|--------|
| Net Sales   | 100.0%   | 100.0%  | 100.0% |
| Cost of Sales   | 80.7%    | 72.4%   | 67.7%  |
| Gross Profit  | 19.3%    | 27.6%   | 32.3%  |
| Restructuring, selling, general and administrative expenses | 90.0%    | 64.8%   | 32.6%  |
| Impairment loss   | 17.0%    | --%     | --%    |
| Amortization of goodwill                                    | 9.0%     | 2.6%    | 1.9%   |
| Loss from operations  | (96.7)%  | (39.9)% | (2.2)% |
| Other expenses  | 39.6%    | 9.4%    | (0.7)% |
| Income Loss before taxes                                    | (136.3)% | (49.3)% | (2.9)% |
| Income tax  | 1.3%     | 1.0%    | 0.2%   |
| Net loss  | (137.6)% | (50.3)% | (3.1)% |
| -----   | -----    | -----   | -----  |

### Net Revenues

For the fiscal year ended September 30, 2001, our net revenues were \$21.7 million as compared to \$25.5 million for the same period ending September 30, 2000 and \$23.3 million for the same period in 1999, representing a decrease of \$3.8 million or 14.9% compared to fiscal 2000 and \$1.6 million or a 6.9% decrease for the same period in 1999. Our net revenues for fiscal year 2001 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 occurring mainly because customers have delayed additional purchases of legacy systems in anticipation of the new inUnison product and a decision by management to de-emphasis several legacy products such as call centers and proprietary voice messaging products.

On a full year basis, APPIANT NA's net revenues were \$8.7 million for the fiscal year ended September 30, 2001 as compared to \$13.2 million for the period ending September 30, 2000 and \$13.7 million for the same period in 1999. The 2001 year-to-date decrease in APPIANT NA net revenues came from reduced enterprise information center products which were discontinued, as well as lower legacy system sales within our existing customer base.

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Net revenues for our Infotel subsidiary were \$13.1 million for the fiscal year ended September 30, 2001 as compared to \$11.6 million for our fiscal year ended September 30, 2000 and \$9.7 million for the same period in 1999. The increase in such net revenues in fiscal year 2001 occurred within the test instruments segment due to high demand from key customers partially offset by a shortfall in radio system sales.

Our legacy business backlog decreased to \$5.5 million at September 30, 2001 as compared to \$9.5 million as of September 30, 2000 and \$7.5 million or 36.4% for the same period in 1999. APPIANT NA's order backlog increased to \$1.0 million from \$2.9 million at September 30, 2000 and from \$2.4 million at September 30, 1999. Infotel's backlog decreased at September 30, 2001 to \$2.3 million from \$6.6 million at September 30, 2000 and from \$2.1 million at September 30, 1999. Initial orders for our new inUnison product total approximately \$2.2 million as of September 30, 2001.

### Gross Margin

Our gross margin for fiscal year 2001 was \$4.2 million or 19.3% of net revenues, as compared to \$7.1 million or 27.6% for fiscal year 2000 and \$7.5 million or

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32.3% for the same period in 1999. The decrease principally relates to substantial reductions in our legacy business revenues, coupled with the fixed nature of operating costs in our APPIANT NA operation associated with the preparation to deliver inUnison services to begin in the first quarter of fiscal 2002. APPIANT NA's gross margin on a stand-alone basis for the fiscal year 2001 was \$1.0 million or 8.0%, as compared to \$3.0 million or 23.0% for the fiscal year ended September 30, 2000 and \$5.1 million or 37.3% for the same period in 1999. The decrease in gross margin in APPIANT NA was due to reduced revenue levels and the cost of operations that are part of cost of preparing for the delivery of inUnison services. Infotel's gross margin percentage on a stand-alone basis declined from 27.4% for the fiscal year ended September 30, 2000 to 24.8% for the fiscal year ended September 30, 2001. This decrease in Infotel's gross margin percentage is due to general slow down in the Singapore economy especially in the second half of the fiscal year.

### 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 capitalized research and development expenditures increased by \$7.6 million in fiscal year 2001, reflecting our continued investment in research and development. We did not have significant research and development expenditures in 1998. 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.

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### Selling, General and Administrative Expenses

Our selling, general and administrative expenses ("SG&A"), including goodwill amortization, restructuring charge, impairment loss, and non-cash charges related to options and warrants, as a percentage of net sales increased to 102.5% of net revenues for the fiscal year ended September 30, 2001, as compared to 67.5% for fiscal year 2000 and 34.5% for fiscal year 1999. This increase is due to the addition of the reduction in revenues in APPIANT NA as we accelerated our transition to our new business model, one-time non-cash expenses including, \$3.7 million of impairment costs, and additional amortization charges of \$1.3 million associated with acquisitions. SG&A for APPIANT NA on a stand-alone basis increased to \$14.0 million or 160.9% for fiscal year 2001 from \$6.0 million or 23.7% in fiscal year 2000 and \$5.5 million or 23.7% in fiscal year 1999. Appiant NA's SG&A expenses increased as a percentage of revenues mainly because of the significant decrease in Appiant NA's revenues during fiscal year 2001 and expenditures in Sales and Marketing related to the new product. On a stand-alone basis, Infotel's SG&A as a percentage of revenues decreased to 19.4% for fiscal year 2001 from 25.7% for fiscal year 2000 and 16.5% in fiscal year 1999. Infotel's SG&A expenses decreased as a percentage of revenues mainly because of the increase in Infotel's revenues during fiscal year 2001 and cost controls implemented, which resulted in a decrease in headcount within the Singapore operation.

In fiscal year 2001, we incurred non-cash compensation benefit of \$1.7 million related to net exercise warrants issued to members of our Board of Directors and

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various other parties.

### Interest and Other Income, Net

Our net interest expense increased to \$8.6 million or 39.4% in fiscal year 2001 from \$2.3 million or 9.0% in fiscal year 2000 and from \$0.4 million during fiscal 1999. The increase in net interest expense in fiscal year 2001 results primarily from non-cash charges related to a beneficial conversion feature associated with debentures that we issued in fiscal years 2000 and 2001.

### Income taxes

We currently have approximately \$41.6 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, 2001, 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 \$280,000 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.

During our fiscal year ended September 30, 2001 net cash used in operating activities was \$11.5 million. Although we incurred a loss of \$30.0 million for the fiscal year, \$12.2 million of this loss was attributed to various non-cash charges. Further, our loss was offset by substantial decreases in accounts receivables and inventory and substantial increases in accounts payable and other current liabilities. Net cash provided by investing and financing activities totaled \$9.3 million consisting of proceeds from issuance of convertible debentures, common stock, notes and warrants exercised which were offset by the repayments of our line of credit, payments on capital lease obligations and purchases of software, property and equipment.

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During our fiscal year ended September 30, 2000 net cash used in operating activities was \$3.5 million. Although we incurred a loss of \$12.8 million for the fiscal year, \$7.1 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 \$6.9 million consisting of proceeds from issuance of convertible debentures, which were offset by the down payment of \$2.0 million towards the purchase of the Cisco software, the repayments of our line of credit, repurchase of our common stock from former owners of Infotel, and purchases of software, property and equipment.

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

On June 8, 2001, the Company raised working capital of approximately \$2.6 million in a Series B Preferred Stock financing and issued ten warrants to purchase up to an aggregate of 1,065,152 shares of common stock to ten investors, including the placement agent, in transactions exempt from registration under Section 4(2). The warrants are immediately exercisable and may be exercised until June 8, 2006. The exercise price per share of these warrants is \$2.64.

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On December 7, 2001, we have a memorandum of understanding with a large supplier, who agreed to accept as the forgiveness of approximately \$4.5 million in debt, the payments previously made from Appiant to them as payment in full and final settlement of any obligations from Appiant.

On March 21, 2001, the Company raised \$2.5 million in convertible debentures and warrants with L. Thomas Baldwin III. Additionally on various dates the Company raised an additional \$500,000 of non-convertible debentures with warrants from management and other related parties.

On August 15, 2001, Appiant Technologies, Inc. ("Appiant") executed a Settlement Agreement and Release, ("Settlement Agreement") effective as of July 27, 2001, with Cisco Systems, Inc. ("Cisco") and Cisco Systems Capital ("Cisco Capital"). The Settlement Agreement provides that Cisco Capital will convert Appiant's down payment of Three Million Dollars (\$3,000,000) into a software license fee for "Paid Up" uOne licenses. In addition, Cisco Capital forgave approximately Seven Million Dollars (\$7,000,000) for the remaining sums owed for the Lease Licenses. Under the terms of the Settlement Agreement, Appiant may use the Paid Up licenses and Cisco will maintain its support for nine months (the "Transition Period") while Appiant evaluates its options of transitioning to the vendor that purchased the UCSBU or pursuing other opportunities. Cisco also loaned Appiant Three Million Dollars (\$3,000,000) (the "Cisco Loan") for use during the Transition Period. On or before the end of the Transition Period, Appiant may elect to continue using the Paid Up licenses and repay the Cisco Loan, or return the Paid Up licenses, in which case, the Cisco Loan will be deemed to have been paid in full and completely discharged.

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Despite our substantial negative working capital at September 30, 2001, we believe that our anticipated cash flows from both operations and available to us through secured financing are sufficient coupled with substantial debt forgiveness from vendors and the expected conversion of a significant portion of current debt will allow us to meet our operating and capital requirements for at least the next 12 months. Our capital requirements in the next 12 months will mainly result from hardware and software purchases and professional services pertaining to our hosted services. We anticipate financing these capital requirements through structured financing from our vendors and partners, equity and debt offerings, and cash generated from operations. We could be required, or could elect, to raise additional funds during that period, and we may need to raise additional capital in the future. Additional capital may not be available at all, or may only be available on terms unfavorable to us. Any additional issuance of equity or equity-related securities will be dilutive to our stockholders.

### 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 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 \$29.9 million on net revenues of \$21.7 million for our fiscal year ended September 30, 2001. We also sustained significant losses for

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the fiscal years ended September 30, 1999 and 2000. Although we anticipate a net operating profit for our fiscal year ended September 30, 2002, operating losses in the first quarters could occur.

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 beginning amortizing capitalized software and other assets that we have purchased or developed for our new inUnison-TM- business model in our fiscal year 2002. We cannot be certain that we will continue to realize sufficient revenue to return to or sustain profitability.

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 future value of our common stock;
- adversely affect our ability to obtain debt or equity financing on acceptable terms to finance our operations; and
- prevent us from engaging in acquisition activity.

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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 DECLINE IN OUR STOCK PRICE.

We plan to increase significantly our operating expenses to expand our sales and marketing activities, broaden our customer support capabilities, develop new distribution channels, fund increased levels of research and development, and build our operational infrastructure. We base our operating expenses on anticipated revenue trends and 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 may experience delays in completing our production environment for our new hosted inUnison-TM- unified communications and unified information business. 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.

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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 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;

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- 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. 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

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new business model. As a result, our operating results and cash flows may be adversely affected. Although we anticipate a net operating profit for our fiscal year ended September 30, 2002, 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.

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

With the development and launch of our new hosted inUnison-TM- business model, we expect to experience periods of rapid growth can place, significant strain on our resources. Unless we manage this growth effectively, we may make mistakes in operating our business such as inaccurate sales forecasting, incorrect production planning, managing headcount, or inaccurate financial reporting, either or all of which may result in unanticipated fluctuations in our operating results and adverse cash flow and financing requirements. We expect our anticipated growth and expansion to 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 this anticipated growth, we will be required among other things to:

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- 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 will 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 NOT 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

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of leading industry analysts of the market potential for unified communications and unified information applications, we have not 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.

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WE PRESENTLY RELY UPON LEGACY VOICEMAIL SYSTEMS AND ENTERPRISE INFORMATION REVENUES.

For our fiscal year ended September 30, 2001, legacy voicemail systems revenues (which includes customer premises equipment revenues) accounted for approximately 14.6% of Company's total revenues and 36.6% of our North American revenues. Revenue from the sales of enterprise information and call center products accounted for approximately 63.3% of our North America revenue for the fiscal year ended September 30, 2001. The 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 steadily decline due to the introduction of inUnison-TM-. The Company discontinued its enterprise information and call center products during fiscal year 2001. Our ability to transition our product sales to our UC/UI hosted, recurring revenue model will be critical to our future growth.

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 several thousand 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 wireless service providers (WSPs), internet service providers (ISPs), application service providers (ASPs) and competitive local exchange carriers (CLECs). 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

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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.

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### WE RELY UPON OUR DISTRIBUTOR AND SUPPLIER RELATIONSHIPS.

Our current North American legacy operations depend upon the integration of hardware, software, and communications and data processing equipment manufactured by others into systems designed to meet the needs of our customers. Although we have agreements with a number of equipment manufacturers, a major portion of our revenues has been generated from the sale of products manufactured by three companies. We rely significantly on products manufactured and services provided by ADC Telecommunications, Inc. (formerly Centigram Communications Corporation), Baypoint Innovations, a division of Mitel, Inc., and Interactive Intelligence, Inc. 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.

Some of our current suppliers may currently or, at some point, compete with us as we roll out our inUnison-TM- UC/UI applications. Any potential competition from our suppliers could have a material negative impact on our business and financial performance.

### WE ARE DEPENDENT UPON SIGNIFICANT CUSTOMERS.

We have serviced approximately 1,000 customers worldwide. However, the revenues from our five largest customers accounted for approximately 9.4%, 9.3%, 7.0%, 5.5% and 5.2% of total revenues during our fiscal year ended September 30, 2001. 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 60.4% of our total revenues for the fiscal year ended September 30, 2001. 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.

### 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 voice processing and enterprise information software 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

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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.

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With the launch of our inUnison-TM- UC/UI hosted applications, we anticipate a decline in our legacy business revenues and 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, 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.

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

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 60.4% of our revenues for the fiscal year ended September 30, 2001, and approximately 45.2% of our revenues for the fiscal year ended September 30, 2000. 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 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 in the second quarter of our fiscal year 2002. 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 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 and San Diego areas 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, 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 recently applied for 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.

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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 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. 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.

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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

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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 are presently negotiating our first contracts with prospective customers. 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 could 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 outstanding voting stock). The existence of such provisions may have a depressive effect on the market price of our common stock in certain situations.

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### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We develop products in both the United States and Asia and market our products in both of these 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, 2001 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.

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## 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 | 52  |
| L. Thomas Baldwin III | Director   | 46  |
| Allen F. Jacobsen     | Director   | 75  |
| Robert J. Schmier     | Director   | 53  |
| N. Bruce Walko        | Director   | 61  |
| Ram V. Mani           | Chief Technology Officer and Director                        | 53  |
| Ken G. Murray         | Chief Operations Officer                                     | 45  |
| John R. Zavoli        | Chief Financial Officer                                      | 42  |
| Richard G. Glover     | Chief Marketing Officer                                      | 50  |
| Tom Ku                | Chief Technology & Marketing Officer                         | 41  |
| Joachim Zippel        | Sr. Vice President, Engineering & Operations                 | 46  |
| Jim Gillespie         | Exec. Vice President, Sales                                  | 49  |
| Sandra W. Smith       | General Counsel and Corporate Secretary                      | 38  |

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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 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 since December 2000. 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.

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

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Beach County, Florida.

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).

RAM V. MANI. Mr. Mani served as our Chief Technology Officer and President of the NHancement Technologies Software Group during the period June 1999 through August 2001. Mr. Mani was a Director of our Company during the period February 2000 through April 2001. Prior to joining our Company, Mr. Mani had been an independent software consultant for more than ten years for such companies as Voicemail International Inc., Atari Corp., Verbatim Corp., National Semiconductors Inc. and other high technology companies. From 1983 to 1999, Mr. Mani was the founder, President and Chief Executive Officer of Eastern Systems Technology, Inc., a developer of communications software, all of whose assets were acquired by our Company in August 1999.

KEN MURRAY was employed with the Company from May 2000 through April 2001. Mr. Murray was hired as the Executive Vice President of Sales and was promoted to Chief Operating Officer for the Company. Prior to joining our Company Mr. Murray held a variety of management and senior management positions with more than 20 years of experience with Hewlett Packard.

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JOHN ZAVOLI was employed with the Company from May 2000 through February 2001 as our Chief Financial Officer. Prior to joining our Company, Mr. Zavoli was a Partner with Pricewaterhouse Coopers and held Senior Management roles with Madge Networks and Digital Equipment Corporation.

RICHARD GLOVER was employed with the Company from December 1999 through March 2001 as our Chief Marketing Officer. Prior to joining the Company, Mr. Glover served as Chief Executive Officer and President of Triad Marketing from 1991 until it was acquired by our Company in December 1999.

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.

JOACHIM ZIPPEL joined the Company in May 2001 as the Sr. Vice President of Engineering and Operations of Appiant Technologies, Inc. Prior to joining Appiant, Joachim was the Executive Vice President of Operations and Services and co-founder of Quaartz, 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.

JAMES GILLESPIE was employed as Senior Vice President of Sales for the Company from April 2001 through July 2001. As the founder and President of Voice Plus, Inc., an industry leader in voice processing, Gillespie grew the business to a multi-million dollar company and planted the original seed that developed into Appiant Technologies today through a series of acquisitions and mergers. Mr. Gillespie also served as the Director of National Sales for Centigram Communications, Corp.

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SANDRA SMITH joined the Company in February 2001 as the General Counsel and Corporate Secretary of Appiant Technologies, Inc. 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.

### 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, 2001 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").

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| 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,<br>Chairman of the<br>Board, Chief<br>Executive Officer<br>and President | 2001      | \$285,750           | --        | \$ 2,797 (1)              |                               | 50,000 (3)                     |
|   | 2000      | \$172,500           | \$180,000 | \$ 13,163 (2)             |                               | 200,000 (4)                    |
|   | 1999      | \$178,327           | \$193,883 | \$ 12,600 (2)             |                               | 325,500 (5)                    |
| Ram V. Mani, Chief<br>Technology Officer,<br>Director                                     | 2001      | \$164,477           | \$ 75,000 | \$ 2,658 (1)              |                               | 10,000 (3)                     |
|   | 2000      | \$146,634           | --        | \$ 9,311 (7)              |                               |                                |
|   | 1999 (6)  | \$ 62,500           | --        |                           |                               |                                |
| Ken G. Murray,<br>Chief Operations<br>Officer   | 2001 (8)  | \$76,598.           |           | \$ 79,281 (9)             |                               | 300,000 (10)                   |
| John R. Zavoli,<br>Chief Financial<br>Officer   | 2001 (11) | \$70,170.           | \$ 30,288 | \$ 88,599 (12)            |                               | 175,000 (10)                   |