DALEEN TECHNOLOGIES INC
Form 10-Q
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[Mark One]

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

OR

[ ] 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: 0-27491

DALEEN TECHNOLOGIES, INC.

(Exact name of registrant as specified in Its charter)

DELAWARE	65-0944514
(State or other Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1750 CLINT MOORE ROAD BOCA RATON, FLORIDA	33487
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (561) 999-8000

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

As of May 7, 2001, there were 21,794,163 shares of registrant's common stock, $0.01 par value, outstanding.

DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED MARCH 31, 2001

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PART I

FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)
(unaudited)

	DECEMBER 31, 2000
ASSETS	
Current assets:	
Cash and cash equivalents	$ 22,268
Restricted cash	931
Accounts receivable, less allowance for doubtful accounts of $4,600 at December 31, 2000 and $4,211 at March 31, 2001	13,929
Costs in excess of billings	2,213
Other current assets	904
Total current assets	40,245
Notes receivable	493
Property and equipment, net	10,146
Goodwill, net of accumulated amortization of $15,026 at December 31, 2000 and $19,814 at March 31, 2001	43,012
Other intangible asset, net of accumulated amortization of $786 at December 31, 2000	1,714
Other assets	3,852
Total assets	$ 99,462
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 2,968
Accrued payroll and other accrued expenses	12,731
Billings in excess of costs	1,466
Deferred revenue	2,839
Other current liabilities	1,166
Total current liabilities	21,170
Long term portion of capitalized lease	607
Total liabilities	21,777
Minority interest	184
Stockholders' equity:	
Common stock, $.01 par value. Authorized 70,000,000 shares; issued and outstanding 21,781,727 shares at December 31, 2000 and 21,792,424 at March 31, 2001	218
Stockholders' notes receivable	(274)
Deferred stock compensation	(2,148)
Additional paid-in capital	161,460
Accumulated deficit	(81,755)
Total stockholders' equity	77,501
Total liabilities and stockholders' equity	$ 99,462

SEE ACCOMPANYING NOTES TO UNAUDITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
Revenue:		
License fees	$ 5,702	1,712
Professional services and other	3,268	3,462
Total revenue	8,970	5,174
Cost of revenue:		
License fees	158	47
Professional services and other	2,932	3,437
Total cost of revenue	3,090	3,484
Gross margin	5,880	1,690
Operating expenses:		
Sales and marketing	3,169	4,325
Research and development	4,994	5,335
General and administrative	3,995	3,296
Amortization of goodwill and other intangibles	3,673	4,937
Restructure and impairment charges	--	6,300
Total operating expenses	15,831	24,193
Operating loss	(9,951)	(22,503)
Total interest income and nonoperating income, net	798	195
Net loss applicable to common stockholders	$ (9,153)	(22,308)
Net loss per share--basic and diluted	$ (0.43)	(1.02)
Weighted average shares outstanding--basic and diluted	21,445	21,787

SEE ACCOMPANYING NOTES TO UNAUDITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	THREE MONT MARCH
	2000
Cash flows from operating activities:	
Net loss	$ (9,153)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	548
Loss on disposal of fixed assets	--
Amortization of deferred stock compensation	185
Amortization of goodwill and other intangibles	3,673
Impairment of other intangible	--
Bad debt expense	595
Interest income on stockholder loans	(4)
Changes in assets and liabilities:	
Restricted cash	(801)
Accounts receivable	(3,632)
Costs in excess of billings	(2,192)
Other current assets	212
Other assets	193
Accounts payable	(352)
Accrued payroll and other accrued expenses	(1,137)
Billings in excess of costs	1,620
Deferred revenue	887
Other current liabilities	(312)
Net cash used in operating activities	(9,670)
Cash flows used in financing activities:	
Payment of capital lease	--
Proceeds from exercise of stock options and warrants	316
Payment to former Inlogic stockholders	(4,800)
Payment of deferred offering costs	(28)
Net cash used in financing activities	(4,512)
Cash flows used in investing activities:	
Purchase of securities available for sale	(8,472)
Issuance of stockholders notes receivable	--
Repayment of stockholders notes receivable	120
Sales and maturities of securities available for sale	9,413
Capital expenditures	(2,360)
Net cash used in investing activities	(1,299)
Effect of exchange rates on cash and cash equivalents	10

Net decrease in cash and cash equivalents	(15,471)
Cash and cash equivalents at beginning of period	52,852
Cash and cash equivalents at end of period	$ 37,381
Supplemental disclosures of noncash activities:	
Deferred offering costs	$ --
Capital lease additions	$ --
Forfeitures of unvested stock options	$ --

SEE ACCOMPANYING NOTES TO UNAUDITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001
(UNAUDITED)

(1) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements for Daleen Technologies, Inc. and subsidiaries (collectively, referred to as "Daleen" or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included. The condensed consolidated balance sheet at December 31, 2000 has been derived from the Company's audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2000, included in the Company's annual report on Form 10-K as of and for the year ended December 31, 2000 filed with the Securities and Exchange Commission ("SEC") on April 5, 2001.

The results of operations for the three months ended March 31, 2001 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

(2) PRINCIPLES OF CONSOLIDATION

The accompanying financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions

have been eliminated in consolidation.

(3) BASIC AND DILUTED NET LOSS PER SHARE

Basic and diluted net loss per share was computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding for each period presented. Common stock equivalents were not considered since their effect would be antidilutive. Common stock equivalents amounted to 76,803 shares for the three months ended March 31, 2001.

(4) REVENUE RECOGNITION

The Company recognizes revenue under Statement of Position 97-2, SOFTWARE REVENUE RECOGNITION ("SOP 97-2") for all software transactions entered into that do not require significant production, modification or customization. SOP 97-2 requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on vendor specific objective evidence ("VSOE") of the relative fair values of the elements. VSOE is determined by the price charged when the element is sold separately. The revenue allocated is recognized when persuasive evidence of an arrangement exists, the software has been delivered, the fee is fixed and determinable and collectibility is probable. An arrangement fee is generally not presumed to be fixed or determinable if payment of a significant portion of the licensing fee is not due until after expiration of the license or more than 12 months after delivery.

Revenue related to arrangements containing extended payment terms where the fees are not considered fixed and determinable is deferred until payments are due. If collectibility is determined to not be probable, revenue is recognized when cash is received.

In March 1999, the Company adopted Statement of Position 98-9, MODIFICATION OF SOP 97-2, SOFTWARE REVENUE RECOGNITION, WITH RESPECT TO CERTAIN TRANSACTIONS ("SOP 98-9"). SOP 98-9 amends SOP 97-2 to require recognition of revenue using the "residual method" when (1) there is VSOE of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting, (2) VSOE of fair value does not exist for one or more of the delivered elements in the arrangement, and (3) all revenue recognition criteria in SOP 97-2 other than the requirement for VSOE of the fair value of each delivered element of the arrangement are satisfied. Under the residual method, the arrangement fee is recognized as follows: (1) the total fair value of the undelivered elements, as indicated by VSOE, is deferred and subsequently recognized in accordance with the relevant sections of SOP 97-2 and (2) the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements.

The Company recognizes revenue from fixed fee service contracts using the percentage of completion method based on the ratio of total labor hours incurred to date to total estimated labor hours. Changes in job performance, job conditions, estimated profitability and final contract settlement may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor and supplies. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Amounts billed in excess of revenue recognized to date are classified as "Billings in excess of costs," whereas revenue recognized in excess of amounts billed are classified as "Costs

in excess of billings" in the accompanying condensed consolidated balance sheets.

Revenue related to professional services under a time and materials arrangement is recognized as services are performed.

Revenue related to customer maintenance agreements is deferred and recognized ratably on a straight-line basis over the maintenance period of the agreement.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "REVENUE RECOGNITION IN FINANCIAL STATEMENTS" ("SAB No. 101"). SAB No. 101 summarizes certain of the SEC's views in applying accounting principles generally accepted in the United States to revenue recognition in financial statements. In March 2000, the SEC issued SAB No. 101A, which delayed the implementation date of SAB No. 101. In June 2000, the SEC issued SAB No. 101B, which further delayed the implementation date of SAB No. 101. The Company adopted the provisions of SAB No. 101 beginning October 1, 2000. The adoption of SAB No. 101 did not have an impact on the Company's revenue recognition policies.

(5) RESTRUCTURING ACTIVITIES

In December 2000, management performed a comprehensive business review to identify areas where the Company could reduce costs. This process culminated with the announcement on January 5, 2001 (the "January Restructuring") that the Company was taking certain specific cost reduction measures including reductions in number of employees, consolidation of certain business activities and asset writedowns. The January Restructuring resulted in the Company incurring a restructuring charge of approximately $2.9 million in the three months ended March 31, 2001.

As of March 31, 2001, an accrual of $618,000 remains on the condensed consolidated balance sheet related to the January Restructuring consisting of approximately $260,000 related to severance and $358,000 related to rent on idle facilities.

In March 2001 management initiated a second comprehensive business review to identify additional areas for cost reductions due to existing market conditions. As a result, the Company announced on April 10, 2001 ("the April Restructuring") that the Company was consolidating its North American workforce into its Boca Raton, Florida corporate offices and was closing its Toronto and Atlanta facilities. In addition, the Company consolidated its North American research and development and professional services resources, and further reduced its administrative support functions. The April Restructuring resulted in the Company incurring an impairment charge of approximately $1.7 million in the three months ended March 31, 2001 for the remaining book value of the assembled workforce that was included in the other intangibles related to the Inlogic Software, Inc. acquisition (renamed "Daleen Canada"). In addition, as of March 31, 2001, the Company wrote down approximately $1.7 million of fixed assets related to assets which will no longer be in use as a result of the closing down of its Atlanta and Toronto facilities.

The Company expects to incur additional charges to operations of at least $4 million in the second quarter 2001 associated with the April Restructuring. These charges will include expected severance to be paid, rent on idle facilities and other costs associated with the consolidation activities.

(6) LIQUIDITY

The Company continued to experience significant operating losses in the three months ended March 31, 2001 and has an accumulated deficit of $104.1 million at March 31, 2001. Cash and cash equivalents at March 31, 2001 were $8.3 million. Cash used in operations in the three months ended March 31, 2001 was $11.8 million. Beyond capital expenditures, the funds used since December 31, 2000 have been primarily applied to support working capital needs and payments related to the January restructuring.

In March 2001, the Company entered into definitive agreements for the sale (the "Private Placement") of $27.5 million of Series F convertible preferred stock ("Series F Preferred Stock"). The funds were placed in escrow pending stockholder approval. See note 10.

Although the Company intends to carefully manage the uses of cash, the Company will need alternative sources of capital prior to receipt of funds described in note 10. The alternative sources of capital likely will be in the form of debt securities, possibly with an equity component ("bridge financing"). The Company has not yet identified the source of the bridge financing nor can they predict whether the bridge financing can be obtained or, if obtained, the terms of such financing.

Management believes that the cash on hand, the bridge financing, the net proceeds of the Private Placement, together with the reduction of costs achieved by the January Restructuring and the April Restructuring will enable the Company to meet its financial obligations through 2001. Failure to obtain the stockholder approval of the Private Placement by July 30, 2001 and receive the proceeds of the Private Placement from escrow will have a materially adverse effect on the Company's ability to continue to operate as a going concern.

(7) GOODWILL

Goodwill represents the excess of the cost to acquire Daleen Canada over the fair value of the assets and liabilities purchased. Goodwill is being amortized on a straight-line basis over four years, the expected period to be benefited.

The Company assesses the recoverability of goodwill by determining whether the amortization of the goodwill over the remaining life can be recovered through undiscounted future operating cash flows over the remaining amortization period. The Company's carrying value of goodwill would be reduced by the estimated shortfall of cash flows, discounted at a rate commensurate with the associated risks. The assessment of the recoverability of goodwill will be impacted if the estimated future operating cash flows are not achieved.

In March 2001, the Company reduced goodwill by approximately $1.1 million due to certain gateway products acquired from Daleen Canada which the Company does not plan to promote and license in the future. In connection with this decision, the Company accelerated the amortization for a proportionate amount of goodwill related to these products.

At March 31, 2001, management believes the $38.2 million net book value of goodwill is recoverable from future cash flows over the remaining amortization period. However, the business environment in which the Company is operating is changing rapidly. In addition, the Company's liquidity situation (see note 6) and the resultant actions taken by management in 2001 to restructure the Company (see note 5) will result in management continuing to review during 2001 the recoverability of all long-lived assets, including goodwill. In light of the Company's current operating environment, future projected cash flows may be subject to significant variability. As a result, it is possible that the Company will recognize impairment charges related to goodwill in 2001.

(8) BUSINESS AND CREDIT CONCENTRATIONS

During the three months ended March 31, 2001, 28.2% of the Company's total revenue was attributed to one customer. For the three months ended March 31, 2000, 20.6% of the Company's total revenue was attributed to two customers.

(9) RELATED PARTY TRANSACTIONS

In January 2001 the Company loaned its Chairman and Chief Executive Officer and his wholly-owned limited partnership ("Makers") $1,237,823. The loan bears interest at a rate of 8.75% per annum. The principal and any unpaid accrued interest are payable in full January 31, 2006. The loan is secured by 901,941 shares of the Company's common stock, and is non-recourse to the Makers except

to the extent of the collateral. As a result of the note being non-recourse, the Company has recorded an allowance for the difference between the face value of the note plus accrued interest and the fair market value of the underlying collateral. At March 31, 2001, the allowance was approximately $275,000.

(10) SERIES F PREFERRED STOCK

On March 30, 2001, the Company entered into definitive agreements (collectively, the "Purchase Agreements") for the Private Placement of $27.5 million of Series F preferred stock and warrants to purchase preferred stock ("the Warrants"). The consummation of the Private Placement is subject to the receipt of formal approval from the Company's stockholders, including approval of an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock and to create and designate the Series F Preferred Stock. The purchasers deposited $27.5 million in escrow. These escrowed funds will be released to the Company upon receipt of stockholder approval by July 30, 2001. If the Company does not obtain stockholder approval on or before July 30, 2001, or such later date as may be agreed upon in writing by the Company and the purchasers, the Private Placement will be deemed null and void and the escrow funds will be returned to the purchasers. Pursuant to the Company's Certificate of Incorporation, the approval of the holders of 66 2/3% of the Company's outstanding common stock will be required to amend the Company's Certificate of Incorporation to increase the number of shares of authorized common stock and to create and designate the terms of the Series F Preferred Stock. Both of these amendments are required for the consummation of the Private Placement. Certain stockholders of the Company, including stockholders that have agreed to purchase Series F Preferred Stock and Warrants in the Private Placement, as well as the directors of the Company and their affiliates, have agreed to vote their shares of the Company's common stock in favor of the Private Placement. These stockholders own approximately 51.3% of the outstanding common stock of the Company. Accordingly, the Company must obtain the approval of the holders of an additional 15.4% of the outstanding common stock in order to obtain stockholder approval.

Pursuant to the terms of the Purchase Agreements, the Company will issue and sell (i) an aggregate of 247,882 shares of Series F Preferred Stock and (ii) Warrants to purchase an aggregate of 99,153 shares of Series F Preferred Stock. Upon consummation of the Private Placement, the Company will also issue to the placement agent Warrants for the purchase of 9,915 shares of Series F Preferred Stock and will pay the placement agent $1.2 million. The purchase price per share of the Series F Preferred Stock is $110.94, which is equal to (i) the average closing price per share of the Company's common stock during the ten trading days ending on March 30, 2001, multiplied by (ii) 100, the number of

shares of common stock initially issuable upon conversion of a share of Series F Preferred Stock. Each share of Series F Preferred Stock will be convertible at any time at the option of the holder. Each share of Series F Preferred Stock initially will be convertible into 100 shares of common stock of the Company. The conversion price is subject to a limited one time adjustment ("the reset") in the event the average market price per share of the common stock for ten consecutive trading days beginning with the next trading day immediately following the date on which the Company issues an earning release for the quarter ended June 30, 2001 is less than the conversion price. The term "earnings release" means (i) a press release issued by us after March 30, 2001, providing any material financial metrics regarding revenue or estimated revenue or earnings or estimated earnings for the quarter ended June 30, 2001, or (ii) a press release issued by us announcing our actual total revenue for the quarter ended June 30, 2001. The conversion price will be adjusted automatically to the higher of (A) average market price or (B) 75% of the initial conversion price. On April 10, 2001 the Company issued an earnings release, which resulted in a

reset of $0.923. The conversion price will be adjusted to $0.923 unless there is a lower reset following a subsequent earnings release. In no event will the conversion price be less than $0.8321 as a result of the reset.

In the event the Company issues common stock or securities convertible into common stock at a price per share less than the conversion price of the Series F Preferred Stock, the conversion price will be reduced to be equal to the price per share of the securities sold by the Company. This adjustment provision is subject to a number of exceptions, including the issuance of stock or options to employees and the issuance of stock or options in connection with acquisitions. The conversion price will also be subject to adjustment as a result of stock splits and stock dividends on the common stock.

The Series F Preferred Stock will automatically convert into common stock at any time after March 30, 2002 if the common stock trades on The Nasdaq National Market at a price per share of at least $3.3282 for ten trading days within any twenty day trading period.

In the event the Company pays dividends on its common stock, the holders of the Series F Preferred Stock would be entitled to dividends on an as-if-converted basis.

In the event of an acquisition of the Company by another entity, the Company will be required to redeem all of the issued and outstanding shares of Series F Preferred Stock unless the holders of the Series F Preferred Stock otherwise consent.

The Company granted to the purchasers certain demand and piggyback registration rights.

(11) STOCK OPTION PLAN - PARTNERCOMMUNITY, INC.

In 2001, the Company approved the 2000 Stock Incentive Plan (the "PC Plan") for its subsidiary, PartnerCommunity, Inc. The PC Plan authorized PartnerCommunity, Inc. to issue stock incentives not to exceed 2,500,000 shares of PartnerCommunity, Inc. common stock and includes incentive stock options and non-qualified stock option transactions. Employees and key persons of PartnerCommunity, Inc. selected by the Board of Directors of PartnerCommunity, Inc are eligible for the grant of stock incentives under the PC Plan. Only employees of PartnerCommunity, Inc. shall be eligible to receive a grant of

ISO's. The concentrated life of options granted is ten (10) years from grant date for incentive stock options and non-qualified stock options granted to other than 10% stockholders and five (5) years for incentive stock options granted to 10% stockholders. In January 2001, PartnerCommunity, Inc granted options to purchase 787,000 shares of PartnerCommunity, Inc. common stock under the PC Plan to employees at $.70 per share.

(12) NEW ACCOUNTING PRONOUNCEMENTS

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 140 ("SFAS No. 140"), "ACCOUNTING FOR TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES. SFAS No. 140 provides guidance on accounting for (1) securitization transactions involving financial assets; (2) sales of financial assets (including loan participations); (3) factoring transactions; (4) wash sales; (5) servicing assets and liabilities; (6) collateralized borrowing arrangements; (7) securities lending transactions; (8) repurchase agreements; and (9) extinguishment of liabilities. The provisions of SFAS No. 140 will become effective for transactions entered into after March 31, 2001. The Company believes the adoption of SFAS No. 140 will not have a significant impact of the Company's financial position or operating results.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following should be read in conjunction with the unaudited condensed consolidated financial statements, and the related notes thereto, included elsewhere in this Quarterly Report on Form 10-Q. In addition, reference should be made to our audited consolidated financial statements and notes thereto, and related Management's Discussion and Analysis of Financial Condition and Results of Operations included with our Annual Report on Form 10-K for the year ended December 31, 2000.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections about our business and industry, our beliefs and assumptions. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. These risks and uncertainties include those described in "Risks Associated with Daleen's Business and Future Operating Results", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed with the Securities and Exchange Commission on April 5, 2001. Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. Readers are cautioned to not place undue reliance on forward-looking statements, which reflect our management's view only as of the date of this report. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results.

You should be aware that some of these statements are subject to known and unknown risks, uncertainties and other factors, including those discussed in the section of this report entitled "Risks Associated with Daleen's Business and Future Operating Results," that could cause the actual results to differ materially from those suggested by the forward-looking statements.

OVERVIEW

We are a provider of Internet software solutions that manage the revenue chain for next-generation service providers, enterprise business and technology solutions providers. Our RevChain(TM) product family enables service providers to automate and manage their entire revenue chain including services, customers, orders and fulfillment and billing and settlement across the span of the enterprise. Our RevChain solutions extend from the back office to interfacing with customers, whether through the Internet or with customer service representatives, and manage mutual service offerings across partner relationships. These modular solutions integrate with third-party solutions and deliver proven scalability, making the software highly adaptable and ready for the future. As a result, service providers, enterprise business and technology solutions providers are able to accelerate time-to-revenue, rapidly adapt to new opportunities, and leverage the power of the Internet, thereby providing a competitive advantage in their business. In addition to our products, we offer professional consulting services, training, maintenance, support and third-party software fulfillment related to the products we develop.

In recent years we have invested heavily in research and development, sales and marketing, and general operating expenses in order to increase our market position, develop our products and build our infrastructure. As a result of

reduction in market growth in the second half of 2000 combined with reduced information technology spending, we implemented a series of extensive restructuring actions in 2001 which we expect will result in a reduction of future operating costs in areas such as compensation and benefits, facilities, capitalized expenditures, travel costs and other operating costs. On January 5, 2001 ("January Restructuring"), we executed specific cost reduction measures including reduction in the number of employees, consolidation of certain business activities and asset writedowns. On April 10, 2001 ("April Restructuring"), we implemented additional cost reduction and restructuring measures including the consolidation of our North American workforce into our Boca Raton, Florida corporate office and the closing of both our Atlanta and Toronto facilities. In addition, we consolidated our North American research and development and professional services resources and further reduced our administrative support functions.

Historically, we have operated our business with primarily a direct sales model. Our products and services were sold through our direct sales force. Our strategic alliance partners, including operation support system providers, other software application companies, consulting firms and system integration firms provided some level of sales and marketing support to deliver a complete solution and successful implementation to our customers. Changes in both customer requirements and the overall market environment required that we make adjustments in our direct sales model to meet our goals of creating a profitable, sustainable business model. As a result, we will be increasing our focus on implementing a broader "go-to-market" model and distribution strategy including building strong relationships with strategic alliance partners, software application providers and hardware manufacturers. Our new distribution strategy will include maintaining a reduced direct sales force to address

customer-purchasing preferences. The launch of our RevChain product family in the first quarter provided the foundation for the evolution of our business model and distribution strategy. Our new RevChain product line, associated positioning, packaging and underlying pure Internet architecture provide the added-value and competitive differentiation we believe are critical to attract and maintain relationships with partners critical to our overall success. We are currently working with several of these partners under various agreements to generate new business opportunities through joint sales and marketing efforts. Our success will depend to a large extent on the willingness and ability of our alliance partners to devote sufficient resources and efforts to marketing our products versus the products of others. There are no guarantees that this strategy will be successful.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

TOTAL REVENUE. Total revenue, which includes license revenue and professional services and other revenue, decreased $3.8 million, or 42.3%, to $5.2 million in the three months ended March 31, 2001 from $9.0 million for the same period in 2000. The primary reason for lower revenue during the recent quarter related to a decrease in license revenue due to fewer license contracts being signed in the first quarter 2001 than the first quarter 2000. This decrease was slightly offset by an increase in services revenue due to ongoing product implementations and increased revenue primarily due to maintenance and support agreements.

LICENSE FEES. Our license fees are derived from licensing our software products. License fees decreased $4.0 million, or 70.0%, in the three months ended March 31, 2001 to $1.7 million compared to $5.7 million for the same period in 2000. This decrease was due to fewer license contracts being signed in the first quarter 2001 compared to the same period in 2000. The primary reasons for this reduction include an overall reduction in technology spending, market conditions in our industry, lengthening of the sales cycle and postponement of customer licensing decisions. License fees constituted 33.0% of total revenue in the three months ended March 31, 2001, compared to 63.6% in the same period in 2000.

PROFESSIONAL SERVICES AND OTHER. Our professional services and other consists of revenue from professional consulting services, training, maintenance and support, and third party software fulfillment, all related to the software products we develop and license. Consulting services are offered on a price established "bundled" basis and on a time and materials basis. Third party software fulfillment is offered on a "cost plus" basis. Professional services and other revenue increased $194,000, or 6.0%, in the three months ended March 31, 2001 to $3.5 million, compared to $3.3 million in the same period in 2000. The increase was due to ongoing product implementations and increased revenue related to maintenance and support contracts. Professional services and other revenue constituted 66.9% of total revenue in the three months ended March 31, 2001, compared to 36.4% for the same period in 2000. The increase as a

percentage of total revenue is due to a reduction in license revenue in the quarter.

TOTAL COST OF REVENUE. Total cost of revenue increased $394,000, or 12.8%, to $3.5 million in the three months ended March 31, 2001 from $3.1 million in the same period in 2000. Total cost of revenue includes both cost of license

fees and cost of professional services and other. These components include the cost of direct labor, benefits, overhead and materials associated with the fulfillment and delivery of license products, and related corporate overhead costs to provide professional services to our customers. These costs increased as we hired additional personnel in 2000 to support new and existing implementations that we performed for our software products. Overall, total cost of revenue as a percentage of total revenue increased to 67.3% in the three months ended March 31, 2001, compared to 34.4% in the same period in 2000. This increase resulted from the increase in total cost of revenue and the decrease in total revenue.

COST OF LICENSE FEES Cost of license fees includes direct cost of labor, benefits and packaging material for fulfillment and shipment of our software products. Cost of license fees decreased to $47,000, or 70.2%, in the three months ended March 31, 2001, from $158,000 in the same period in 2000 due to fewer license contracts being signed in the three months ended March 31, 2001.

COST OF PROFESSIONAL SERVICES AND OTHER. Cost of professional services and other includes direct cost of labor, benefits, third party software and related corporate overhead costs to provide professional services and training to our customers. Cost of professional services and other increased $505,000, or 17.2%, to $3.4 million in the three months ended March 31, 2001, from $2.9 million in the same period in 2000. These costs increased as we hired additional personnel in 2000 to support new and existing implementations and to be able to deploy more resources in order to respond to specific customer requests and issues. Cost of professional services and other increased to 99.3% of professional services and other revenue in 2001, compared to 89.8% in 2000 due to the additional personnel hired who were not fully utilized. We expect professional services and other costs and this percentage to be reduced in future quarters due to the January Restructuring and April Restructuring.

SALES AND MARKETING. Sales and marketing expenses consist primarily of salaries, commissions and bonuses earned by sales, marketing and partner management personnel, travel and entertainment, trade show and marketing program costs, promotional and related corporate overhead costs. These expenses increased $1.2 million or 36.5%, to $4.3 million in the three months ended March 31, 2001, from $3.2 million for the same period in 2000. The overall increase was due to the increase in the number of personnel in the sales, marketing and partner management organizations from 2000 to 2001. In addition, the increase was due to the costs associated with launching our RevChain product family in three months ended March 31, 2001. As a percentage of revenue, these expenses increased from 35.3% in 2000 to 83.6% in 2001. We expect sales and marketing costs and this percentage to be reduced in the future due to the January Restructuring and April Restructuring.

RESEARCH AND DEVELOPMENT. Research and development expenses consist primarily of salaries and benefits for software developers, product testing and benchmarking, management and quality assurance personnel, subcontractor costs and related corporate overhead costs. Our research and development expenses increased $341,000, or 6.8%, to $5.3 million in the three months ended March 31, 2001, from $5.0 million for the same period in 2000. The overall increase was primarily the result of development efforts associated with additional products and upgrades and functional enhancements to our products. In addition, the use of subcontractors increased in order to accelerate development of new releases of our product and provide additional functionality. As a percentage of revenue, these expenses increased from 55.7% in 2000 to 103.1% in 2001. This was a direct result of the increased expenses and lower revenue recognized in the three months ended March 31, 2001 compared to the same period in 2000. We expect research and development costs and this percentage to be reduced in the future due to the January Restructuring and April Restructuring.

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GENERAL AND ADMINISTRATIVE. General and administrative expenses consist primarily of salaries, benefits and related costs for our executive, finance and accounting, human resources and information systems personnel, facility costs and related corporate overhead. It also consists of non-cash stock compensation expense and related corporate overhead costs. Our general and administrative expenses decreased $698,000, or 17.4%, to $3.3 million in the three months ended March 31, 2001, from $4.0 million in the same period in 2000. This decrease was primarily the result of a decrease in administrative personnel and administrative costs as a result of our January Restructuring. In addition, recruiting costs decreased substantially for the three months ended March 31, 2001 compared to the same period in 2000. As a percentage of revenue, general and administrative expenses increased to 63.7% in the three months ended March 31, 2001 from 42.5% in the same period in 2000. This was a direct result of the lower revenue recognized in the three months ended March 31, 2001 compared to the same period in 2000. We expect general and administrative costs to be reduced in the future due to the January Restructuring and April Restructuring.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLES. Goodwill and other intangibles are being amortized over a four-year period. Amortization expense increased $1.3 million, or 34.4% to $4.9 million in the three months ended March 31, 2001 from $3.7 million for the same period in 2000. This was primarily due to the accelerated amortization we recorded in the three months ended March 31, 2001 related to certain gateway products acquired from Inlogic Software, Inc. on December 16, 1999 (renamed "Daleen Canada) which we do not plan to promote and license in the future.

NONOPERATING INCOME. Nonoperating income is comprised primarily of interest income, net of interest expense. Nonoperating income decreased $604,000, or 75.6%, to $195,000 in the three months ended March 31, 2001 from $798,000 for the same period in 2000. This was primarily attributable to the decrease in investment earnings due to the decrease in our cash balance in 2001 compared to 2000.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001, our total cash and cash equivalents totaled $8.3 million. Beyond our capital expenditures, the funds used since December 31, 2000 have been primarily applied to support our working capital needs and payments related to the January Restructuring.

Net cash used in operating activities was $11.8 million for the three months ended March 31, 2001, compared to $9.7 million for the three months ended March 31, 2000. The principal use of cash for both periods was to fund our losses from operations.

Net cash used in financing activities was $132,000 for the three months ended March 31, 2001, compared to $4.5 million for the three months ended March 31, 2000. In 2001, the principal use of cash was for the payment of expenses related to the Series F Preferred Stock Offering. In 2000, we paid dividends to the former stockholders of Daleen Canada, which were declared prior to our acquisition of this company.

Net cash used in investing activities was $2.1 million for the three months ended March 31, 2001 compared to $1.3 million for the three months ended March 31, 2000. The cash was principally used for capital expenditures in the ordinary course of business in the three months ended March 31, 2000. The Company reduced its capital expenditures in the three months ended March 31, 2001. The use of cash in 2001 was primarily related to the note receivable issued to our Chairman

and Chief Executive Officer for approximately $1.2 million.

We continued to experience significant operating losses in the three months ended March 31, 2001. The business environment in which we are operating is

changing rapidly and there is continued weakness in the market conditions. In addition, we will recognize additional restructuring charges in the second quarter 2001 including certain charges related to employee severance, lease termination costs, and other miscellaneous operating costs associated with the restructuring actions. The January Restructuring and April Restructuring are expected to result in reduced operating expense levels and reduced cash requirements on a quarterly basis going forward.

In March 2001, we entered into definitive agreements (the "Purchase Agreements") for the sale ("Private Placement") of $27.5 million of Series F convertible preferred stock ("Series F Preferred Stock") and warrants to purchase preferred stock ("the Warrants"). The $27.5 million purchase price has been placed in escrow pending receipt of stockholders approval. The consummation of the Private Placement is subject to receipt of stockholder approval (the "Requisite Stockholder Approval"). The stockholders will vote on such matters at the annual meeting of stockholders currently scheduled for June 7, 2001. Pursuant to our Certificate of Incorporation, the approval of the holders of 66 2/3 % of our outstanding common stock will be required to amend our Certificate of Incorporation to increase the number of shares of authorized common stock and to create and designate the terms of the Series F Preferred Stock. Both of these amendments are required for the consummation of the Private Placement. Certain of our stockholders who own approximately 51.3% of our outstanding common stock, have agreed to vote in favor of the Private Placement and related matter. In the event more than 66 2/3% of our stockholders do not approve the Private Placement by July 30, 2001, or such later date as agreed in writing by us and the purchasers, the funds held in escrow will be returned to the purchasers. In such case, our cash on hand will not be sufficient to allow us to sustain our operations and meet our financial obligations in 2001. We believe that receipt of Requisite Stockholder Approval is reasonably likely but no assurances can be given.

In addition to executing its current business plan, we may consider additional options, which include, but are not limited to, forming strategic partnerships or alliances and/or considering other strategic alternatives. There can be no assurance that we will be able to realize our strategic alternatives on favorable terms or at all.

Although we intend to carefully manage our uses of cash, we will need alternative sources of capital prior to our receipt of the funds from the Private Placement. The alternative sources of capital likely will be in the form of debt securities, possibly with an equity component ("bridge financing"). We have not yet identified the source of the bridge financing nor can we predict whether bridge financing can be obtained or, if obtained, the terms of such financing.

We believe that the cash on hand, the bridge financing, the net proceeds of the Private Placement, together with the reduction of costs achieved by the January Restructuring and the April Restructuring will be sufficient to meet our anticipated cash needs in 2001. Failure to obtain the Requisite Stockholder Approval of the Private Placement will have a materially adverse effect on our ability to meet our financial obligations. We may require additional funds to

support our working capital requirements, support our international and business development expansion efforts or for other purposes. Additionally, we may seek to raise additional funds through public or private equity financing or from other sources. There can be no assurance that additional financing will be available at all or that, if available, the financing will be obtainable on terms favorable to us or that any additional financing would not be dilutive.

NEW ACCOUNTING PRONOUNCEMENTS

In September 2000, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 140 ("SFAS No. 140"), "ACCOUNTING FOR TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES (A REPLACEMENT OF SFAS NO. 125)". SFAS No. 140 provides guidance on accounting for (1) securitization transactions involving financial assets; (2) sales of financial assets (including loan participations); (3) factoring transactions; (4) wash sales; (5) servicing assets and liabilities; (6)

collateralized borrowing arrangements; (7) securities lending transactions; (8) repurchase agreements; and (9) extinguishment of liabilities. The provisions of SFAS No. 140 will become effective for transactions entered into after March 31, 2001. The adoption of SFAS No. 140 will not have a significant impact on our consolidated financial statements.

RISKS ASSOCIATED WITH DALEEN'S BUSINESS AND FUTURE OPERATING RESULTS

Our future operating results may vary substantially from period to period. The price of our common stock will fluctuate in the future, and an investment in our common stock is subject to a variety of risks, including but not limited to the specific risks identified below. Inevitably, some investors in our securities will experience gains while others will experience losses depending on the prices at which they purchase and sell securities. Prospective and existing investors are strongly urged to carefully consider the various cautionary statements and risks in this report.

ADDITIONAL CAPITAL FROM PRIVATE PLACEMENT REQUIRED TO FUND OPERATIONS FOR THE REMAINDER OF 2001.

Current cash and cash equivalents will be insufficient to fund operations for the remainder of 2001. Our cash and cash equivalents at March 31, 2001 were $8.3 million. Cash used in operations for the three months ended March 31, 2001 was $12.0 million. During this period, we incurred significant costs related to development of our products, entrance into international markets, marketing programs and severance payments related to the January Restructuring. The January Restructuring included a reduction in the number of employees, reduction of office space, consolidation of certain business activities and asset writedowns. We also implemented additional cost reduction measures related to the April Restructuring including a further reduction in workforce, consolidation of our facilities and closure of our Atlanta and Toronto offices. In addition, we consolidated our North American research and development and professional services resources and further reduced our administrative support functions.

We believe the current cash and cash equivalents will be insufficient to fund our operations for the remainder of 2001. As a result, the independent auditor's report covering our December 31, 2000 consolidated financial statements and financial statement schedule was modified to reflect such concerns. See Management's Discussion and Analysis of Financial Condition and Results of Operations for further information.

In order to address our liquidity issue and to strengthen our balance sheet, on March 30, 2001, we entered into Purchase Agreements for the Private Placement of $27.5 million of Series F Preferred Stock. The proceeds from the Private Placement were placed in escrow pending receipt of stockholder approval of the Private Placement. Pursuant to our Certificate of Incorporation, the approval of the holders of 66 2/3% of our outstanding common stock will be required to amend our Certificate of Incorporation to increase the number of shares of authorized common stock and to create and designate the terms of the Series F Preferred Stock. Both of these amendments are required for the consummation of the Private Placement. In the event the holders of at least 66 2/3% of our common stock do not approve the Private Placement by July 30, 2001, or such later date as the purchasers and we may subsequently agree in writing, the funds held in escrow will be returned to the purchasers. The stockholders will vote on such matters at the annual stockholders' meeting, currently scheduled for June 7, 2001. Certain of our stockholders, including stockholders that have agreed to purchase Series F Preferred Stock and Warrants in the Private Placement as well as our directors and their affiliates, have agreed to vote their shares of our common stock in favor of the Private Placement. These stockholders own approximately 51.3% of our outstanding common stock. Accordingly, we must obtain Requisite Stockholder Approval. We believe that receipt of Requisite Stockholder Approval is reasonably likely but no assurances can be given.

Although we intend to carefully manage our uses of cash, we will need a bridge financing to provide alternative sources of capital prior to our receipt of the funds from the Private Placement. The bridge financing likely will be in the form of debt securities, possibly with an equity component. We have not yet identified the source of this additional financing nor can we predict whether additional financing can be obtained or, if obtained, the terms of such financing.

Unless we obtain adequate additional funding we will be required to further reduce or modify our capital expenditures and to reduce our operations. These changes resulting from lack of capital would adversely affect our business, results of operations and financial condition and will significantly impact our status as a going concern.

We also announced the January Restructuring and April Restructuring in an attempt to reduce certain operating costs.

The proceeds from the Private Placement and the cost reductions contemplated by the January Restructuring and April Restructuring are necessary for us to sustain operations and meet our financial obligations for the remainder of 2001.

If the Private Placement is not completed, we will be required to immediately seek alternative sources of financing. We cannot assure you on what terms alternative financing might be available or that we will be able to secure alternative sources of financing at all.

WE HAVE NOT ACHIEVED PROFITABILITY AND MAY CONTINUE TO INCUR NET LOSSES FOR AT LEAST THE NEXT SEVERAL QUARTERS.

We incurred net losses of approximately $22.3 million for the three months ended March 31, 2001. As of March 31, 2001, we had an accumulated deficit of approximately $104.1 million. We have not realized any profit to date and do not expect to achieve profitability until the second half of 2001, which may not occur. To achieve this objective, we need to generate significant additional

revenue from licensing of our products and related services and support revenues. We expect to reduce our fixed operating expenses through the implementation of our January Restructuring and April Restructuring, which included workforce reductions, consolidation of facilities and departments, asset writedowns, and other miscellaneous cost reductions. We consolidated our North American workforce into our Boca Raton, Florida facility and we closed our Toronto and Atlanta offices. We also consolidated our North American research and development and professional services resources. There is no assurance we will achieve these objectives and thus achieve profitability. In addition, even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future.

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE IN FUTURE PERIODS, AND WE MAY FAIL TO MEET EXPECTATIONS.

Our revenue and operating results may vary significantly from quarter to quarter due to a number of factors. This fluctuation may cause our operating results to be below the expectations of public market analysts and investors, and the price of our common stock may fall. Factors that could cause quarterly fluctuations include:

- Variations in demand for our products and services;
- Competitive pressures;
- Further decrease in corporate information technology spending and decline in economic conditions and market;
- Prospective customers delaying their decision to acquire licenses for our products;
- Our quarterly revenue and expense levels;
- Our ability to develop and attain market acceptance of enhancements to the RevChain product family and any new products and services;
- The pace of product implementation and the timing of customer acceptance;
- Industry consolidation reducing the number of potential customers;
- Changes in our pricing policies or the pricing policies of our competitors; and
- The mix of sales channels through which our products and services are sold.

The timing of revenue and revenue recognition is difficult to predict. In any given quarter, most of our revenue has been attributable to a limited number of relatively large contracts and we expect this to continue. Further, our customer contract bookings and revenue recognized tends to occur predominantly

in the last two weeks of the quarter. As a result, our quarterly results of operations are difficult to predict and the deferral of even a small number of contract bookings or delays associated with delivery of products in a particular quarter could significantly reduce our revenue and increase our net loss, which would hurt our quarterly financial performance. In addition, a substantial

portion of our costs are relatively fixed and based upon anticipated revenue. A failure to book an expected order in a given quarter would not be offset by a corresponding reduction in costs and could adversely affect our operating results.

THE LOW PRICE OF OUR COMMON STOCK COULD RESULT IN THE DELISTING OF OUR COMMON STOCK FROM THE NASDAQ NATIONAL MARKET.

Our common stock is currently quoted on The Nasdaq National Market. We must satisfy Nasdaq's minimum listing maintenance requirements to maintain our listing on The Nasdaq National Market. Nasdaq listing maintenance requirements include a series of financial tests relating to net tangible assets, public float, number of market makers and shareholders, market capitalization, and maintaining a minimum bid price of $1.00 for shares of our common stock. The minimum closing bid price of our common stock has recently dropped to under $1.00 per share. If the minimum bid price of our common stock were to remain below $1.00 for 30 consecutive trading days, or if we are unable to continue to meet Nasdaq's standards for any other reason, our common stock could be delisted from The Nasdaq National Market. If our common stock is delisted from The Nasdaq National Market, the common stock would trade on either The Nasdaq SmallCap Market or on the OTC Bulletin Board, both of which are viewed by most investors as less desirable and less liquid marketplaces. Thus, delisting from The Nasdaq National Market could make trading our shares more difficult for investors, leading to further declines in share price. It would also make it more difficult for us to raise additional capital. In addition, we would incur additional costs under state blue sky laws to sell equity if our common stock is delisted from The Nasdaq National Market.

WE ARE INVOLVED IN LEGAL PROCEEDINGS AGAINST CERTAIN FORMER STOCKHOLDERS OF INLOGIC SOFTWARE INC., WHICH PROCEEDINGS, IF DETERMINED ADVERSELY TO US, COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION.

On May 11, 2001, we commenced a lawsuit against Mohammad Aamir, 1303949 Ontario Inc. and The Vengrowth Investment Fund Inc. (collectively, the "Defendants"). The case was filed in the Ontario Superior Court of Justice (Court File No. 01-CV-210809) and is styled DALEEN TECHNOLOGIES, INC. AND DALEEN CANADA CORPORATION V. MOHAMMAD AAMIR, 1303949 ONTARIO INC., AND THE VENGROWTH INVESTMENT FUND INC. All Defendants are former stockholders of Inlogic Software Inc. ("Inlogic"), a Nova Scotia unlimited liability company that we acquired in December 1999. Additionally, Mr. Aamir was the president and chief executive officer of Inlogic.

We acquired Inlogic pursuant to a Share Purchase Agreement dated December 16, 1999. In our Statement of Claim, we seek indemnification from the Defendants in the amount of [Cdn] $15 million plus restitution of a further Cdn $140,000, along with interest and attorney's fees and expenses. We seek this relief based, among other things, on our allegations that the Defendants breached certain representations and warranties that they made in the Share Purchase Agreement, including representations and warranties related to their business and financial plans, products, customer relationships and intellectual properties. We currently are considering additional legal action that may be available to us against the Defendants in connection with our acquisition of Inlogic. Based on our prior communications with the Defendants, we anticipate that the Defendants may likely file a counterclaim or other legal action against us seeking substantial damages based upon the Defendants' allegations that we breached certain of our representations and warranties in the Share Purchase Agreement. In the event the Defendants file a counterclaim or other action against us, it is our intention to vigorously defend against such claims. No assurance can be given as to the ultimate outcome of these legal proceedings or the impact that these proceedings or any threatened actions will have on our business or operations. Further, these proceedings may require a significant amount of time from our executive officers and directors, which may have a

material adverse impact on our business and operations.

WE FACE SIGNIFICANT COMPETITION FROM COMPANIES THAT MAY HAVE GREATER RESOURCES THAN WE DO.

The markets in which we compete are relatively new, intensely competitive, highly fragmented and rapidly changing. In some markets, limited capital resources are causing reduced spending in information technology. We expect competition to increase in the future, both from existing competitors as well as new entrants in our current markets. Our principal competitors include other internet enabled billing and customer care system providers, operation support system providers, systems integrators and service bureaus, and the internal information technology departments of larger communications companies, which may elect to develop functionalities similar to those provided by our product in-house rather than buying them from us. Many of our current and future competitors may have advantages over us, including:

- Longer operating histories;
- Larger customer bases;
- Substantially greater financial, technical, research and development and sales and marketing resources;
- A lead in expanding their business internationally;
- Greater name recognition; and
- Ability to more easily provide a comprehensive hardware and software solution.

Our current and potential competitors have established, and may continue to establish in the future, cooperative relationships among themselves or with third parties, including telecom hardware vendors, that would increase their ability to compete with us. In addition, competitors may be able to adapt more quickly than we can to new or emerging technologies and changes in customer needs, or to devote more resources to promoting and selling their products. If we fail to adapt to market demands and to compete successfully with existing and new competitors, our business and financial performance would suffer.

WE DEPEND ON STRATEGIC BUSINESS ALLIANCES TO SELL AND IMPLEMENT OUR PRODUCTS, AND ANY FAILURE TO DEVELOP OR MAINTAIN THESE ALLIANCES COULD HURT OUR FUTURE GROWTH.

Third parties such as operation support system providers, other software firms, consulting firms and systems integration firms help us with marketing and sales and implementation of our products. We plan to increase our reliance on systems integration firms to implement our products. To be successful, we must maintain our relationships with these firms, develop additional similar relationships and generate new business opportunities through joint marketing and sales efforts. We may encounter difficulties in forging and maintaining long-term relationships with these firms for a variety of reasons. These firms may discontinue their relationships with us, fail to devote sufficient resources

to market our products or develop relationships with our competitors. Many of these firms also work with competing software companies, and our success will depend on their willingness and ability to devote sufficient resources and

efforts to marketing our products versus the products of others. In addition, these firms may delay the product implementation or negatively affect our customer relationships. Our agreements with these firms typically are in the form of a non-exclusive referral fee or license and package discount arrangement that may be terminated by either party without cause or penalty and with limited notice.

IF OUR CUSTOMERS CANNOT SECURE ADEQUATE FINANCING, WE MAY NOT MAINTAIN THEIR BUSINESS OR WE MAY NOT BE ABLE TO RECOGNIZE REVENUE AS QUICKLY, IF AT ALL.

Many of our potential customers are new entrants into their markets and lack significant financial resources. These companies rely to a large degree on access to the capital markets for growth which have cut back over the past several months. Their failure to raise capital has hurt their financial viability and their ability to purchase our products. The lack of funding has caused potential customers to reduce information technology spending. If our potential customers cannot obtain the resources to purchase our products, they may turn to other options such as service bureaus, which would hurt our business. Also, because we do at times provide financing arrangements to customers, their ability to make payments to us may impact when we can recognize revenue.

The revenue growth and profitability of our business depends significantly on the overall demand for software products and services that manage the revenue chain as it has been defined, particularly in the product and service segments in which we compete. Softening demand for these products and services caused by worsening economic conditions may result in decreased revenues or earning levels or growth rates. The U.S. economy has weakened over the past year. This has resulted in companies delaying or reducing expenditures, such as for information technology.

In addition, our current customers' ability to generate revenues or otherwise obtain capital could adversely impact on their ability to purchase additional products or renew maintenance and support agreements with us. If they go out of business there will be no future licenses to support revenue.

The lack of funding available in our customers' markets, the recent economic downturn in the technology market and customers shutting down operations or declaring bankruptcy may cause our accounts receivable to continue to increase. There is no assurance we will be able to collect all of these outstanding receivables.

OUR LENGTHY SALES CYCLE MAKES IT DIFFICULT TO ANTICIPATE THE TIMING OF SALES, AND REVENUE MAY VARY FROM PERIOD TO PERIOD.

The sales cycle associated with the purchase of our products is lengthy, and the time between the initial proposal to a prospective customer and the signing of a license agreement can be as long as one year. Our products involve a commitment of capital which may be significant to the customer, with attendant delays frequently associated with large capital expenditures and implementation procedures within an organization. These delays may reduce our revenue in a particular period without a corresponding reduction in our costs, which could hurt our results of operations for that period.

THE PRICE OF OUR COMMON STOCK HAS BEEN, AND WILL CONTINUE TO BE VOLATILE.

The trading price of our common stock has fluctuated in the past and will

fluctuate in the future. This future fluctuation could be a result of a number of factors, many of which are outside our control. Some of these factors include:

- Quarter-to-quarter variations in our operating results;
- Failure to meet the expectations of industry analysts;
- Announcements and technological innovations or new products by us or our competitors;
- Increased price competition; and
- General conditions in the Internet and telecommunications industry.

The stock market has experienced extreme price and volume fluctuations, which have particularly affected the market prices of many Internet and computer software companies, including ours, and which we believe have often been unrelated to the operating performance of these companies or our company.

OUR STRATEGY TO EXPAND INTO INTERNATIONAL MARKETS MAY NOT SUCCEED AS A RESULT OF LEGAL, BUSINESS AND ECONOMIC RISKS SPECIFIC TO INTERNATIONAL OPERATIONS.

Our strategy includes expansion into international markets through a combination of strategic relationships and internal business expansion. In addition to risks generally associated with international operations, our future international operations might not succeed for a number of reasons, including:

- Dependence on sales efforts of third party distributors and systems integrators;
- Difficulties in staffing and managing foreign operations;
- Difficulties in localizing products and supporting customers in foreign countries;

- Reduced protection for intellectual property rights in some countries;
- Greater difficulty in collecting accounts receivable; and
- Uncertainties inherent in transnational operations such as export and import regulations, taxation issues, tariffs and trade barriers.

To the extent that we are unable to successfully manage expansion of our business into international markets due to any of the foregoing factors, our business could be adversely affected.

WE RECENTLY INTRODUCED OUR REVCHAIN FAMILY OF INDUSTRY-FOCUSED SOFTWARE SUITES, THE SUCCESS OF WHICH WILL BE DEPENDENT UPON MARKET ACCEPTANCE.

We introduced the RevChain product family in early 2001. This new product family is an evolution of our former customer management and billing products that were significantly enhanced and re-positioned to address the customer need for managing the entire revenue chain. The RevChain product family consists of several industry-focused suites, some of which are in the early stages of their release, and are undergoing further development. As a result, the market's acceptance of our new RevChain product family, and the maturity of some of the

industry-focused product suites, may have an affect on our business and financial performance, including our revenues.

IF WE DO NOT CONTINUALLY ENHANCE OUR PRODUCT OFFERING TO MEET THE CHANGING NEEDS OF SERVICE PROVIDERS, WE WILL LOSE FUTURE BUSINESS TO OUR COMPETITORS.

We believe that our future success will depend to a significant extent upon our ability to enhance our product offering and packaged industry suites and to introduce new products and features to meet the requirements of our customers in a rapidly developing and evolving market. We devote significant resources to refining and expanding our software products, developing our pre-configured industry suites and investigating complimentary products and technologies. The requirements of our customers may change and our present or future products or packaged industry suites may not satisfy the evolving needs of our targeted markets. If we are unable to anticipate or respond adequately to customer needs, we will lose business and our financial performance will suffer.

IF WE CANNOT CONTINUE TO OBTAIN OR IMPLEMENT THE THIRD-PARTY SOFTWARE THAT WE INCORPORATE INTO OUR PRODUCT OFFERING, WE MAY HAVE TO DELAY OUR PRODUCT DEVELOPMENT OR REDESIGN EFFORTS.

Our product offering involves integration with products and systems developed by third parties. If any of these third-party products should become unavailable for any reason, fail under operation with our product offering or fail to be supported by their vendors, it would be necessary for us to redesign our product offering. We might encounter difficulties in accomplishing any necessary redesign in a cost-effective or timely manner. We also could experience difficulties integrating our product offering with other hardware and software. Furthermore, if new releases of third-party products and systems occur before we develop products compatible with these new releases, we could experience a decline in demand for our product offering, which could cause our business and financial performance to suffer.

WE MAY BE UNABLE TO PROTECT OUR PROPRIETARY TECHNOLOGY, AND OUR COMPETITORS MAY INFRINGE ON OUR TECHNOLOGY.

Any misappropriation of our technology or the development of competitive technology could seriously harm our business. We regard a substantial portion of our software product as proprietary and rely on a combination of patent,

copyright, trademark and trade secret laws, customer license agreements and employee and third-party agreements to protect our proprietary rights. These steps may not be adequate, and we do not know if they will prevent misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect proprietary rights as fully as do the laws of the United States. Other companies could independently develop similar or superior technology without violating our proprietary rights. If we have to resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive and could involve a high degree of risk.

CLAIMS BY OTHERS THAT WE INFRINGE THEIR PROPRIETARY TECHNOLOGY COULD DIVERT OUR RESOURCES, RESULT IN UNEXPECTED LICENSE FEES AND HARM OUR BUSINESS.

Third parties could claim that our current or future products or technology infringe their proprietary rights. An infringement claim against us could be costly even if the claim is invalid, and could distract our management from the operation of our business. Furthermore, a judgment against us could require us

to pay substantial damages and could also include an injunction or other court order that could prevent us from selling our product offering. If we faced a claim relating to proprietary technology or information, we might seek to license technology or information, or develop our own, but we might not be able to do so. Our failure to obtain the necessary licenses or other rights or to develop non-infringing technology could prevent us from selling our products and could seriously harm our business.

LOSS OF OUR SENIOR MANAGEMENT PERSONNEL WOULD LIKELY HURT OUR BUSINESS.

Our future success depends to a significant extent on the continued services of our senior management and other key personnel, particularly James Daleen, our founder and chief executive officer. If we lost the services of Mr. Daleen or other key employees it would likely hurt our business. We have employment and non-compete agreements with some of our executive officers, including Mr. Daleen. However, these agreements do not obligate them to continue working for us.

PRODUCT DEFECTS OR SOFTWARE ERRORS COULD ADVERSELY AFFECT OUR BUSINESS DUE TO COSTLY REDESIGNS, PRODUCTION DELAYS AND CUSTOMER DISSATISFACTION.

Design defects or software errors in our products may cause delays in product introductions or damage customer satisfaction, either of which could seriously harm our business. Our software products are highly complex and may, from time to time, contain design defects or software errors that may be difficult to detect and correct. We have a customer support organization that is responsible for providing maintenance and support to our customers. Maintenance and support includes identifying and correcting any reported product defects or software errors and our margins may be affected if the amounts of resources needed to address these issues are substantial. Although we have license agreements with our customers that contain provisions designed to limit our exposure to potential claims and liabilities arising from customer problems, these provisions may not effectively protect us against all claims. In addition, claims and liabilities arising from customer problems could significantly damage our reputation and hurt our business.

POTENTIAL ACQUISITIONS OF COMPANIES OR TECHNOLOGIES COULD RESULT IN DISRUPTIONS TO OUR BUSINESS, DIVERSION OF MANAGEMENT AND COULD REQUIRE THAT WE ENGAGE IN FINANCING TRANSACTIONS THAT COULD HURT OUR FINANCIAL PERFORMANCE.

We may in the future make acquisitions of companies, products or technologies, or enter into strategic relationship agreements that require substantial up-front investments. We will be required to assimilate the acquired businesses and may be unable to maintain uniform standards, controls, procedures

and policies if we fail to do so effectively. We may have to incur debt or issue equity securities to pay for any future acquisitions. The issuance of equity securities for any acquisition could be substantially dilutive to our stockholders. In addition, our profitability may suffer because of acquisition-related costs or amortization costs for acquired goodwill and other intangible assets.

THE ANTI-TAKEOVER PROVISIONS WE HAVE ADOPTED MAY DELAY, DEFER OR PREVENT A CHANGE OF CONTROL

Certain provisions of Delaware Law, our Certificate of Incorporation and our Bylaws contain provisions that could delay, deter or prevent a change in control

of Daleen. Our Certificate of Incorporation and Bylaws, among other things, provide for a classified board of directors, restrict the ability of stockholders to call stockholders meetings by allowing only stockholders holding, in the aggregate, not less than 10% of the capital stock entitled to cast votes at these meetings to call a meeting, preclude stockholders from raising new business for consideration at stockholder meetings unless the proponent has provided us with timely advance notice of the new business, and limit business that may be conducted at stockholder meetings to those matters properly specified in notices delivered to us. Moreover, we have not opted out of Section 203 of the Delaware General Corporation Law, which prohibits mergers, sales of material assets and some types of self-dealing transactions between a corporation and a holder of 15% or more of the corporation's outstanding voting stock for a period of three years following the date the stockholder became a 15% holder, unless an applicable exemption from the rule is available. These provisions do not apply to the purchasers of our Series F Preferred Stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our financial instruments consist of cash that is invested in institutional money market accounts and less than 90-day securities invested in corporate fixed income bonds. We do not use derivative financial instruments in our operations or investments and do not have significant operations subject to fluctuations in commodities prices or foreign currency exchange rates.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are the defendant in a number of lawsuits and claims incidental in our ordinary course of business. We do not believe the outcome of any of this litigation would have a material adverse impact on our financial position or our results of operations.

On May 11, 2001, we commenced a lawsuit against Mohammad Aamir, 1303949 Ontario Inc. and The Vengrowth Investment Fund Inc. (collectively, the "Defendants"). The case was filed in the Ontario Superior Court of Justice (Court File No. 01-CV-210809) and is styled DALEEN TECHNOLOGIES, INC. AND DALEEN CANADA CORPORATION V. MOHAMMAD AAMIR, 1303949 ONTARIO INC., AND THE VENGROWTH INVESTMENT FUND INC. All Defendants are former stockholders of Inlogic Software Inc. ("Inlogic"), a Nova Scotia unlimited liability company that we acquired in December 1999. Additionally, Mr. Aamir was the president and chief executive officer of Inlogic. We acquired Inlogic pursuant to a Share Purchase Agreement dated December 16, 1999. In our Statement of Claim, we seek indemnification from the Defendants in the amount of [Cdn] $15 million plus restitution of a further Cdn $140,000, along with interest and attorney's fees and expenses. In the alternative to the claim for indemnification we are seeking damages against the Defendant Mohammad Aamir in the amount of Cdn $15 million. We seek this relief based, among other things, on our allegations that the Defendants breached certain representations and warranties that they made in the Share Purchase Agreement, including representations and warranties related to their business and financial plans, products, customer relationships and intellectual properties. We currently are considering additional legal action that may be

available to us against the Defendants in connection with our acquisition of Inlogic. Based on our prior communications with the Defendants, we anticipate that the Defendants may file a counterclaim or other legal action against the Company seeking substantial damages based upon the Defendants' allegations that we breached certain of our representations and warranties in the Share Purchase Agreement. In the event the Defendants file a counterclaim or other action against us, it is our intention to vigorously defend against such claims. No assurance can be given as to the ultimate outcome of these legal proceedings or any threatened actions related to these proceedings.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibit List

EXHIBIT NUMBER	DESCRIPTION
10.1+	Daleen Technologies, Inc. Amended & Restated 1999 Stock Incentive Plan [incorporated by reference to Exhibit 10.37 to the Company's Form 10-K filed on April 5, 2001 (File No. 0-27491)].
10.2+	Promissory Note and Stock Pledge Agreement dated January 11, 2001 by and between James Daleen and J.D. Investment Company Limited Partnership and Daleen Technologies, Inc. [incorporated by reference to Exhibit 10.38 to the Company's Form 10-K filed on April 5, 2001 (File No. 0-27491)].
10.3+	PartnerCommunity, Inc. 2000 Stock Incentive Plan [incorporated by reference to Exhibit 10.39 to the Company's Form 10-K filed on April 5, 2001 (File No. 0-27491)].
10.4+	Securities Purchase Agreement dated March 30, 2001 by and between Daleen Technologies, Inc. and the Escrow Purchasers named therein [incorporated by reference to Exhibit 10.45 to the Company's Form 10-K filed on April 5, 2001 (File No. 0-27491)].
10.5+	Form of Certificate of Amendment for the Series F Convertible Preferred Stock [incorporated by reference to Exhibit 10.46 to the Company's Form 10-K filed on April 5, 2001 (File No. 0-27491)].
10.6+	From of Warrant Agreement by and between Daleen Technologies, Inc. and the Escrow Purchasers named therein [incorporated by reference to Exhibit 10.47 to the Company's Form 10-K filed on April 5, 2001 (File No. 0-27491)].
10.7+	Registration Rights Agreement dated March 30, 2001 by and between Daleen Technologies, Inc. and the Escrow Purchasers named therein [incorporated by reference to Exhibit 10.48 to the Company's Form 10-K filed on April 5, 2001 (File No. 0-27491)].
10.8+	Escrow Agreement dated March 30, 2001 by and between Daleen Technologies, Inc. and the Escrow Purchasers named therein [incorporated by reference to Exhibit 10.49 to the Company's Form 10-K filed on April 5, 2001 (File No. 0-27491)].
10.9	Employment Agreement, dated April 21, 2000 between Steven Kim and Daleen Technologies, Inc.

+Previously filed.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended March 31, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DALEEN TECHNOLOGIES, INC.

Date: May 15, 2001 /s/ JAMES DALEEN

JAMES DALEEN
Chairman of the Board of Directors
and Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2001 /s/ STEPHEN M. WAGMAN

STEPHEN M. WAGMAN
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)