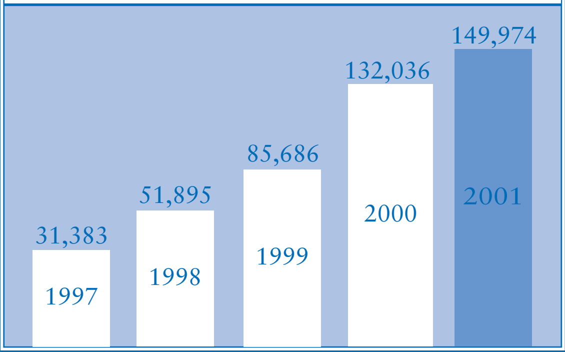
BRIO 2001 ANNUAL REPORT

— FISCAL YEAR 2001 FINANCIAL HIGHLIGHTS —

TOTAL REVENUES ($ IN THOUSANDS)



CONSOLIDATED STATEMENTS OF OPERATIONS DATA ($ IN THOUSANDS)

	1997	1998	1999	2000	2001
Total revenues	31,383	51,895	85,686	132,036	149,974
Gross profit	27,298	44,865	72,636	111,947	118,794
Total operating expenses	35,916	60,559	74,403	122,262	128,000
Loss from operations	(8,618)	(15,694)	(1,767)	(10,315)	(9,206)
Net loss applicable to common stock	(8,624)	(15,723)	(753)	(10,910)	(9,650)

CONSOLIDATED BALANCE SHEET DATA ($ IN THOUSANDS)

March 31, 2001	
Cash, cash equivalents and short-term investments	15,328
Total current assets	88,204
Total current liabilities	61,044
Noncurrent liabilities	793
Stockholders' equity	26,367

To Our Shareholders,

I was delighted to join Brio Technology as the new President and CEO this year. My twenty years of experience in industry, management consulting, and enterprise software with the likes of Oracle, Deloitte Consulting, Andersen Consulting, and Safeway Stores, provides me with a solid personal foundation on which to lead and profitably grow Brio Technology.

Real Customers. Real Products. Real Benefits. I joined Brio Technology for these three simple reasons.

Real Customers. Brio has 68% of the Fortune 100 and 40% of the Fortune 1,000 as customers as well as several thousand leading business, government, and educational institutions around the world. We have a diverse customer base across major industry sectors and in many major markets around the world. This provides us with a solid customer base upon which to grow our revenues for many years to come.

Real Products. Brio has great products that are easy to use and install. Organizations are flooded with potentially valuable information that commonly sits idle as meaningless data. Brio Technology's products and solutions help organizations transform meaningless data into actionable insights.

Real Benefits. I perceived that Brio's product and platform could deliver real business benefits. This was confirmed as I met with hundreds of Brio customers and partners around the world during this year's Customer Road Show and I was awed by the innovative ways in which our customers use Brio products and solutions to derive business benefits. Some of those uses include driving revenue in managing strategic accounts, reducing operational costs in running a major utility, analyzing traffic patterns to lower the number of accidents in Hong Kong, reducing the time it takes to bring a new drug to market, increasing the amount of donations from alumni, or providing real-time analysis to help executives keep their fingers on the pulse of their businesses.

A Strong Foundation. Overall, Fiscal 2001 was a positive year. It is upon this positive foundation that we can transform and grow Brio in the fiscal years ahead.

Highlights from Fiscal Year 2001 Results: Fiscal Year 2001 was a record year for Brio Technology. This includes:

- $150 million annual revenue
- $44.2 million fourth quarter revenue
- 12 deals over $1 million
- 273 deals over $100,000
- A new partnership with PeopleSoft and its Enterprise Performance Management suite
- A continuing strong partnership with IBM and its Websphere software platform

The Brio Transformation. You may be wondering about the paint and brush on the cover of this year's Annual Report. They are there to signify the dynamic and meaningful transformation that is currently underway at Brio. As the new CEO, my focus is to drive Brio's transformation from a developer of business intelligence tools to a leading provider of an Enterprise Business Intelligence Platform. Our goal is to help our customers achieve breakthrough business performance with our business performance software and solutions. We believe it is all about how a company uses business information intelligently, not business intelligence for its own sake.

The Right People. I have recruited a world class executive team from several of the leading enterprise software and consulting organizations to assist me in this transformation. As of this publication, the following executives have joined Brio:

- Don Beck, EVP, Worldwide Sales. Don brings more than 20 years of sales experience from IBM, J.D. Edwards, and Peritus Software Services.
- Jim Guthrie, EVP, Development. Jim brings more than 25 years of development experience, including Oracle and SAP.
- Brian Gentile, EVP and Chief Marketing Officer. Brian brings more than 17 years of marketing experience from Ariba, Sun Microsystems, and Apple.
- Todd Davis, EVP, Worldwide Operations. Todd brings more than 20 years of consulting, customer support, and information technology experience from Oracle, Staff Leasing, and Home Shopping Network.

Additional newly hired senior management members include Vincent DeGennaro, VP of European Operations. Vincent brings more than 25 years of sales and field operations experience from Sagent, Pilot, and Sybase; Ed Kirwin, VP, North American Consulting, who joins Brio with more than a decade of consulting experience from Oracle; Jane Ellen Zimmerman, VP, Customer Support, who joins Brio with more than 15 years of customer support experience with Oracle, Staff Leasing, and Liberty National Bank; and finally, George Churchill, our new VP, Information Technology with more than 20 years of managing information technology with experience at Oracle, Deloitte Consulting, and Acer.

The new members of the executive and senior management team, along with many outstanding and talented employees, are focused on transforming every aspect of Brio, from how we market, sell and implement our products and solutions, to how we develop and support our customer relationships.

In summary, I am very bullish about Brio's future. Organizations around the world are demanding software products and solutions that will not only help them improve their efficiency, but also help them to achieve breakthrough business performance in today's intensely competitive, customer-centric economy. Brio Technology is committed to meeting and exceeding those demands.

Thank you,

Craig D. Brennan

Jim Guthrie, Todd Davis, Craig Brennan, Don Beck, Brian Gentile, Tamara MacDuff

Don Beck
EVP, Worldwide Sales

After 22 years in technology sales, I'm eager and excited to be leading the transformation of the Brio Sales team. I joined Brio for three main reasons. First, Brio's vision and growth strategy are inspiring and the passion and strong commitment to success are felt throughout the organization. Second, the technology is excellent and, as a result, I believe we are well positioned to grow market share in the coming years. Third, the market is demanding thought leadership in our industry and Brio is in a position to capitalize on the current dynamics in the marketplace. Where Sales is concerned, getting to breakthrough sales performance is our single-minded goal and we will approach this challenge with a relentless focus on generating real value for our customers. Our success will come down to not only executing more effectively and efficiently, but also having a clear focus on the top initiatives and opportunities that have the highest marketplace impact.

Jim Guthrie
EVP, Development

The basics to build and deliver world class business performance software are already in place at Brio. We have a solid development team. Our products have a high degree of customer satisfaction. We have significant and relevant differentiation from our key competitors. These are the building blocks from which Brio can grow from a multi-million dollar software company to a billion dollar software company. Working in concert with marketing, sales, and professional services, we have put processes in place that will help us design products that meet our customers' and prospects' needs. We have identified improvements that will streamline and accelerate the development cycle while reducing costs. I'm very proud to be a part of the Brio team! We've got a great vision, a great team, and the infrastructure necessary to deliver world class business performance software.

Brian Gentile
EVP, and Chief Marketing Officer

Creating the industry's most capable business performance software is what Brio does best. Ensuring that the appropriate customer audience both understands our transition beyond a simple tools company and is compelled by Brio's new solution focus is the most important role for the marketing team. Now, we have marketing managers responsible for the total lifecycle and growth of specific products. Our goal in marketing this year is to become an irreplaceable partner to sales, product development, and professional services. I've been a fan of Brio for nearly twelve years, since my days at Apple Computer. I joined the Brio team because I wanted to participate in and help architect the rebirth of a profitable, successful Brio. It is a formidable, but attainable goal and the marketing team is ready for the challenge.

Todd Davis
EVP, Worldwide Operations

Brio's customer-facing services organizations are transforming to dramatically improve the brand experience of Brio with improved purchase and re-purchase decisions. How will we make this happen? Brio consulting is planning to bring to market "rapid install" and "tune-up" consulting packages that ease the buying decision and enable our consulting partners to quickly build their Brio businesses. Brio University is planning to bring to market education subscription packages and install an online learning management system to ease the wide scale adoption of the breakthrough business performance process across various user groups within an enterprise. Brio customer support is planning to package and segment our customer support offerings to more closely meet our customers' requirements and ensure the highest levels of software performance and adoption over time. These departments are closely aligned with product management and marketing to drive software development based on customer experiences and requirements.

I joined Brio because I felt it had the very best technology to quickly and radically realize a company's vision and objectives. With its new management team, I believe Brio can take the lead in realizing the remarkable potential of this software space.

Tamara MacDuff
EVP, and Chief Financial Officer

The theme for Brio for fiscal year 2002 is transformational change that will enable us to become a profitable software company and drive breakthrough business performance within Brio. In support of this goal, my organization has implemented several initiatives. We will use balanced scorecard metrics and "real-time" reporting to drive "real-time" decisions; drive the cost management initiative throughout the company; implement a pay-for-performance program to align employee behavior with company goals; and support the Brio@Brio initiative, among other things. By doing this, we become a more effective company, and we gain a better understanding of the needs and issues our customers face. We can apply what we learn in the development of our products, as we design programs in the consulting and services organizations and in the sales process to drive not only our revenue but to help our customers drive breakthrough business performance in their organizations as well. Becoming our best customer reference site is the best way to realize our goals for fiscal 2002.

Brio products have been implemented in over 10,000 sites worldwide, and Brio's customers include these well-known organizations:

Amtrak
Alaska Airlines
American Airlines
AT&T
BellSouth
The Boeing Company
Boise Cascade
BP Exploration
Bureau of Land Management
California State University
Carrefour
Cigna
Cisco Systems
Compaq
Credit Lyonnais
Dell Computers
Delta Airlines
DirecTV
Dow Jones
Enron Corporation
Exxon Mobil
Fidelity
Gap, Inc.
The Hartford
Hewlett-Packard
IBM
J.R. Simplott
KLA Tencor
Liberty Mutual
Merrill Lynch
Micron Electronics
Motorola
Nautilus Insurance Company
New Piper Aircraft, Inc.
Nike
Norfolk Southern
Nortel Networks
Northwest Airlines
Ohio State University
Oregon Dept. of Agriculture
PHH Vehicle Mgmt. Services
Qualcomm
Quantum
Remedy Corporation
Social Security Administration
Siemens
Starbucks
Sprint
Stanford University
Sun Microsystems
Timken
Time Warner AOL
Turner Broadcasting
United Airlines
U.S. Department of Labor
Vlasic Foods International
Wells Fargo
Weyerhaeuser
Yale University

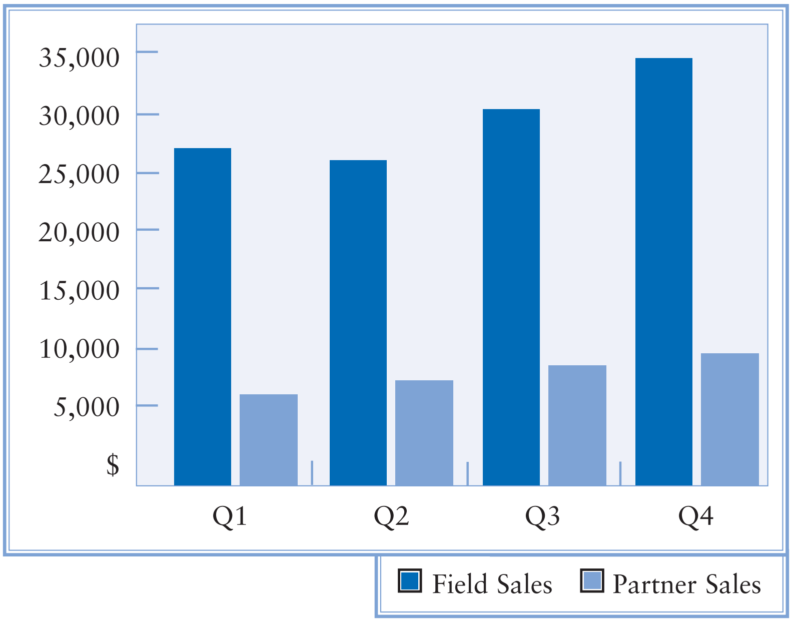
"In a world of ever increasing competition and decreasing margins, organizations must find ways to improve customer service while decreasing costs. Nautilus Insurance Company found such a way by utilizing the Brio solution to design and implement a customer-based, self-service portal, NautilusAgents.com. Brio allows us to share information in a secure, easy-to-access format with our most valued business partners — our customers. Brio is essential to our business strategy of maintaining customer service leadership. This self-service approach has also allowed us to reduce the resources previously involved in responding to customer inquiries."

Rob Kogan, Vice President, Information Systems
Nautilus Insurance Company, a W.R. Berkley Company

"Information Technology provides the lubricant that reduces friction in today's rapidly moving business environment. By giving our end-users improved access to information through Brio, we make it easier for our departments to communicate and exchange information with each other. Our company's interdepartmental transactions are now smoother, faster, less frustrating and less costly."

Travis Jarman, Vice President, Chief Information Officer
The New Piper Aircraft, Inc.
Vero Beach, Florida

	Q1	Q2	Q3	Q4	FY2001
Field Sales	$27,048	$26,628	$30,298	$34,462	$118,436
Partner Sales	$ 5,977	$ 7,258	$ 8,560	$ 9,743	$ 31,538



No one succeeds without partners and Brio is fortunate to include in its list of partners some of the world's top technology, consulting and systems integration companies. These partners are not only strong brands, but are also strong contributors to Brio's products, revenues and future. As a collaborative and enterprising company, we value their contributions and the opportunities that their partnerships have created. By continuing to develop best-of-class business performance applications and by striving to understand and adapt to the particular market needs of our partners and their customers, Brio will continue to establish new partnerships and grow existing relationships.

— BRIO'S PARTNERSHIPS & ALLIANCE AGREEMENTS —

Autonomy
Accenture
Andersen Consulting
Baan
Boston Consulting
Cap Gemini Ernst & Young
Citrix
Deloitte & Touche
EDS
Hewlett-Packard
Hyperion
IBM
Informatica
Informix
iSyndicate
KPMG
Microsoft
NCR
Nortel Networks
Novell
NxTrend
Oracle
PeopleSoft
PricewaterhouseCoopers
QueryObjects
SAP
Siebel Systems
Sun Microsystems
Sybase
Systemfabrik
Unisys
Vialog

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

FORM 10-K

(Mark One)

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

For the fiscal year 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: 000-23997

BRIO TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**77-0210797**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4980 Great America Parkway
Santa Clara, California 95054
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (408) 496-7400

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

None

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

Common Stock, $0.001 par value

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 than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (1) YES ☒ NO ☐; (2) 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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $86,651,229 as of June 25, 2001 based upon the closing sale price on the Nasdaq National Market reported for such date. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 29,213,746 shares of the registrant's Common Stock issued and outstanding as of June 25, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on August 23, 2001.

PART I

Certain statements in this Annual Report on Form 10-K, including, but not limited to, certain statements contained in Item 1, ''Business'' and Item 7, ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' constitute ''forward-looking statements'' within the meaning of Section 27A of the Securities Act of 1933, as amended (the ''Securities Act''), and Section 21E of the Securities Exchange Act of 1934, as amended (the ''Exchange Act''). Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Brio to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. All forward-looking statements included in this document are based on information available to Brio on the date hereof, and Brio assumes no obligation to update any such forward-looking statements. See Item 7, ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Factors That May Affect Future Operating Results.''

Item 1. *Business.*

Overview

Brio Technology, Inc. (Brio) delivers an analytic software platform that enables companies to drive better business decisions by leveraging their existing information technology (IT) infrastructures and information systems. The Brio Business Performance Platform™ helps drive an organization's business performance, allowing it to be more competitive, customer-centric and responsive to the changing demands of business. The Brio Business Performance Platform expands business intelligence beyond advanced query and analysis technologies to include powerful information delivery through enterprise-class reporting and executive dashboards, all with ease of experience and scalability. Brio solutions empower organizations to find, access, share, manage and exchange information with employees, partners and customers through an Internet-enabled enterprise.

Brio products and services are available through direct sales and professional services organizations located in the United States, Canada, Brazil, the United Kingdom, France, Germany, Belgium, Japan, Singapore, Hong Kong, Australia and more than 40 countries worldwide through value added resellers (VARs), private label partners (PLPs), resellers, system integrators and distributors. See Note 4 of Notes to Consolidated Financial Statements for additional information about geographic revenue.

Brio currently serves thousands of organizations worldwide with over 4,000 installed sites. Brio counts more than half of the Fortune 100 as customers. Brio's broad customer base includes Alaska Airlines, AT&T, the Boeing Company, British Telecom, California State University System, Carrefour, Compaq Computer Corp., Dell Computer, Fidelity Investments, Hewlett-Packard, Hoffman LaRoche, IBM, Merrill Lynch, Motorola, Sun Microsystems, United Pan Europe Communications and Yale University.

Industry Background

In today's increasingly competitive markets, organizations in every industry are seeking to improve the business professional's ability to make timely, fact-based business decisions. The key to achieving this goal is the effective use of business information across the organization. While many organizations have spent considerable effort and resources over the past decade to collect, organize and distribute data, few have been able to put it to use effectively. Over the past few years, the Web has opened up a new channel of information delivery.

Today, companies are looking to take advantage of the Web to provide users with a streamlined solution for tracking key indicators that drive business performance. The use of the Web has not only transformed how information is produced and distributed within an organization, but has also enabled organizations to extend access to information to their business partners and customers. Companies are now working together towards a common objective and sharing operating information via the Web for increased efficiencies and better perspective into their businesses.

Brio Solution

The Brio Business Performance Platform is Brio's flagship offering which provides a complete solution that integrates business intelligence, enterprise reporting, information delivery and analytic applications. This offering takes the entire enterprise into account—supporting traditional ''brick-and-mortar'' business requirements as well as the demands of e-business models. It is designed to meet the complete range of decision making needs—including internal employees as well as external customers, vendors and business partners. It aims to increase the business value of enterprise information by empowering everyone in the enterprise to easily access and utilize the information they need to help drive better business decisions.

The Brio Business Performance Platform delivers ease of use for both business decision makers and IT staff by providing:

- an intuitive, easy to understand and use interface;
- a personalized experience for each end user;
- adaptability for individual work styles and information needs;
- real-time interaction with information for greater understanding; and
- streamlined implementation, administration and maintenance.

Beyond ease-of-use, the Brio Business Performance Platform fulfills the performance requirements of large enterprise deployments by:

- being scalable in multiple dimensions from individual work groups to the entire enterprise, from bytes to terabytes of data, from one to hundreds of database and application servers, and from one to thousands of users; and
- providing distributed processing and operations across a broad range of platforms and data sources.

The Brio Business Performance Platform supports information delivery and analysis requirements for users throughout the enterprise, at every level of experience, technological sophistication and security clearance. Brio's solutions facilitate business intelligence by:

- enhancing the value of existing enterprise information;
- leveraging customers' information assets and infrastructure, including ERP, SFA and CRM applications, data marts and data warehouses; and
- empowering personnel, at every level of the enterprise as well as externally, to find, use and publish information that contributes to the company's success.

Brio Strategy

Brio's strategy is to be a leading provider of analytic software platforms for both traditional Fortune 1000 companies and emerging e-business companies. Brio's Business Performance Platform enables companies to achieve breakthrough business performance, using information—inside and outside the firewall—to be more competitive, customer-centric and responsive to the changing demands of business. The following are key elements of Brio's strategy:

Extend Technology Leadership. Brio has designed its products to satisfy customers' desire for rapid implementation, intuitive user interfaces, easy integration with existing database and other system software, high performance and limited information technology staff support. Brio products incorporate a number of advanced technologies, including a proprietary data analysis engine, a distributed architecture and Web access and delivery technology based on standards such as Java, HTML and XML. Brio intends to devote significant resources to research and development efforts and to form strategic relationships that will enable Brio to further enhance its products' functionality and ease of use.

Broaden Distribution Channels. To date, Brio has sold its products primarily through its direct sales and services organizations located in the United States, Canada, Brazil, the United Kingdom, France, Germany, Belgium, Japan, Singapore, Hong Kong and Australia. In addition, Brio has sold its products worldwide through VARs, PLPs, resellers, system integrators and distributors. Brio intends to grow its direct sales organization to intensify its coverage of large organizations and to augment its telesales operation to cover smaller organizations. In addition, Brio will continue to both leverage and grow its existing network of VARs, PLPs, resellers, system integrators and distributors to expand its indirect distribution channel worldwide.

Expand Product Deployments at Existing Customer Sites. Brio's products and related services are designed to enable its customers to deploy business intelligence throughout their organizations. Although most organizations initially deploy Brio's products on a departmental or pilot basis, Brio believes that initial customer success with this deployment can lead to significant opportunities for larger scale adoption of Brio's products within the organization. Brio intends to focus its sales and services efforts on large organizations seeking large-scale analytic deployments as well as making initial customer pilots or deployments successful.

Leverage Industry Relationships. To accelerate the adoption of Brio's products as a standard Enterprise Decision Platform, Brio has formed strategic relationships that provide for enhanced compatibility with partner technologies and increased market exposure and sales opportunities for Brio's products and services. Brio's partners include industry-leading providers of software and hardware, such as IBM, Microsoft and Oracle, that complement Brio's product and service offerings. Brio also partners with a wide range of training, implementation and application development service providers. Brio's strategic relationships can, among other things, consist of:

- participation in various sales and marketing initiatives sponsored by these companies, including joint presentations at industry trade shows and conferences; and
- agreements to support certain technology standards promoted by these companies.

Increase International Presence. Outside of the United States, Brio has:

- direct sales offices in Canada, Brazil, the United Kingdom, France, Germany, Belgium, Japan, Singapore, Hong Kong and Australia;
- established distributor relationships in more than 40 countries, including, Italy, The Netherlands and South Africa; and
- localized products in Chinese, French, German, Italian, Japanese, Portuguese (Brazilian) and Spanish.

Brio intends to expand its global sales capabilities by increasing the size of its direct sales, sales support and marketing organizations, expanding its distribution channels in Europe, Latin America and Asia/Pacific and continuing localization efforts of its products in selected markets.

Provide Premium Customer Support and Service. Brio believes that offering quality service and support is important to customer satisfaction and provides a significant opportunity to build customer loyalty and to differentiate itself from its competition. Brio intends to increase its focus on customer satisfaction by continuing to invest in support services including additional staffing, a Web-based help line and systems infrastructure. In addition, Brio is committed to providing customer-driven product functionality through feedback from user groups, prospects, consultants, partners and customer surveys.

Products and Technology

Brio offers a set of technologies that create an integrated analytic platform called the Brio Business Performance Platform. The Brio Business Performance Platform is designed to meet the entire range of business intelligence requirements of companies who need to provide decision processing and self-service business intelligence to a broad constituency of individuals, including employees, customers and business partners. The Brio Business Performance Platform product functionality includes enterprise reporting, analytical reporting, ad hoc query and on-line analytical processing (OLAP), information delivery, as well as tools for building and deploying a wide range of custom built analytic applications.

All of the products within the Brio Business Performance Platform are designed to deliver enterprise-caliber scalability, performance and ease of experience to users.

The major benefits of the Brio Business Performance Platform include the ability to:

- provide universal access to all information sources, including: data stored and maintained in data warehouses and data marts; ERP, SFA and CRM systems and other corporate or departmental applications; as well as documents, spreadsheets and other unstructured data;
- support the delivery of information and content across the entire Web-enabled enterprise;
- support the needs of both decision makers and the IT staff; and
- implement a single-source solution that supports the development and delivery of a wide-range of decision-processing applications, from personal query and reporting applications to strategic analytic applications.

The Brio Business Performance Platform is comprised of the following product line solutions:

- Brio.Enterprise, Brio's integrated business intelligence suite;
- Brio.Report, Brio's enterprise reporting technology;
- Brio.Portal, Brio's portal technology; and
- Brio.Inform and Brio.Impact, Brio's packaged analytic applications for strategic business analysis, revenue optimization and performance management.

Brio.Enterprise

Brio.Enterprise is Brio's integrated business intelligence suite that incorporates query, analysis and analytical reporting capabilities for client-server and Web environments. Brio.Enterprise includes: BrioQuery Designer, BrioQuery Explorer, BrioQuery Navigator, Brio.Insight, Brio.Quickview, Brio.Freeview and the Brio Enterprise Server (comprised of the Broadcast Server and the OnDemand Server).

BrioQuery. All editions of BrioQuery unify query, analysis, reporting, charting and analytic dashboard capabilities in one product for client-server users. To meet the differing needs of these users, BrioQuery is available in three editions:

- *BrioQuery Designer* extends the core BrioQuery capabilities with application administration functionality to define and manage security, auditing and centralized access to features which enable IT departments to control the intelligence environment;
- *BrioQuery Explorer* is designed for power users or independent analysts who need direct access to database tables and repositories of pre-defined data and reports and need to be able to create their own queries, analyses and reports; and
- *BrioQuery Navigator* is used by analysts or information consumers who do not have the technical ability or need to directly access database tables. These users typically only need access to pre-defined dashboards, data and reports that they can use as a basis for independent analyses.

Web-based Products. Brio's Web-based client products provide users with a wide range of report, query and analytical capabilities within standard Web browsers. Together with Brio's server-based products, they enable organizations to deploy software that facilitates simplified administration and maintenance. Brio's Web-based products include:

- *Brio.Insight* employs the same user-interface as BrioQuery and delivers interactive query, analysis, reporting, charting and analytical capabilities inside a standard Web browser. Whether connected to the Web, to the Brio Enterprise Server or operating without connection, Brio.Insight enables users to go beyond viewing static reports to perform independent analysis and reports on the delivered information;

- *Brio.Quickview* enables organizations to deliver a portfolio of ''view only'' analytic applications and reports to users through a Web browser. These portfolios can include fully formatted reports with color, highlights, charts and tables. When used in conjunction with the BrioEnterprise Server, Brio.Quickview provides users with the option to query the database live, retrieving data that is used to create their portfolio or to limit the view based on a set of criteria; and

- *Brio.Freeview* provides the same functionality as Brio.Quickview but allows the online display and printing of pre-built reports, with no analysis capabilities, and prohibits the ability to reach-through to the database to retrieve fresh data.

Brio Enterprise Server. The Brio Enterprise Server product includes two server modules, the Broadcast Server and the OnDemand Server. It also includes a unified administration tool. The Brio Enterprise Server is designed to meet the information distribution and data access needs of information consumers, while providing IT departments with centralized control, administration and security management functionality.

- *Broadcast Server* enables IT departments to control the integrity and distribution of business information. It allows information producers to take queries, analyses and reports created with BrioQuery, and to schedule automatic processing and delivery of such reports based on date, time or event. The Broadcast Server pushes the reports and documents in a highly compressed format out to Web, client-server and mobile users via file transfer protocol, email, Web servers and/or network file servers and printers.

- *OnDemand Server* is a Web-based application server, which offers both mobile and desktop users easy and secure access to a variety of data sources. Users log on to the OnDemand Server to retrieve a personalized list of reports and analysis packages they have privileges to access. With the OnDemand Server adaptive reporting feature, IT departments can determine on a report-by-report basis the level of Brio.Insight and Brio.Quickview functionality and interactivity that a particular user is allowed. Additionally, the OnDemand Server (optionally) allows users to author and run database queries over the Web. The server can then pre-build reports and transmit them to Brio's Web-based client products, Brio.Insight, Brio.Quickview and Brio.Freeview. The OnDemand Server also automates the installation and maintenance of Brio's Web client software.

Brio.Report

Brio.Report is a high-volume, high-performance server-based enterprise reporting tool that enables customers to develop and process a complete range of reports, from small reports to mission-critical operational reports that access large volumes of data in production databases, legacy applications and data warehouses. Output from Brio.Report can range from high-volume printed reports to highly interactive reports delivered via the Web and wireless devices. Brio.Report consists of Brio.Report Builder, Brio.Report SQR Server, Brio.Report Viewer and Brio.Report Activator, as described below:

- *Brio.Report Builder* is a powerful and flexible graphical report development environment enabling users to rapidly create enterprise reports via an easy point-and-click interface. Users can quickly build personalized reports such as visual analysis, with minimal assistance from their IT personnel;

- *Brio.Report SQR Server* is a powerful report processing and data manipulation technology for high-performance reporting providing native access to over 75 combinations of databases and operating environments;
- *Brio.Report Viewer* is a utility for viewing end-user reports; and
- *Brio.Report Activator* is a set of integration components and ActiveX controls designed to enable developers to add extensive, flexible data-access and reporting features to commercial and custom Microsoft Windows applications, allowing users of those applications to pull information from databases easily and quickly.

Brio.Portal

Brio.Portal provides dynamic, self-service access to enterprise information for employees, partners and customers. The distributed architecture of Brio.Portal manages structured and unstructured information and integrates knowledge management and business intelligence technology. This framework scales across platforms and locations and automatically personalizes the browser-based user interface and the content end users have access to based on each user's preferences and authorization. Brio.Portal also provides multiple integration capabilities to leverage existing enterprise information sources including data warehouses, applications, productivity tools and internet content.

Brio.Inform

Brio.Inform is a customizable analytic application that captures and automates best practices and analytic methods for optimizing business performance. Brio.Inform automates the time-consuming and complex process of data extraction and analysis to enable users in an organization to access information and make more informed decisions. The Brio.Inform solution is built with proven metrics to conduct in-depth performance analysis and also can be customized to embed top performance methodology directly into the application. Its key features include:

- powerful analytics which feature cross-functional dashboards that deliver real-time business views to give companies insight into revenue, customers, products and business channels;
- intuitive dashboards that are easy to use and learn. A web based ''point-and-click'' interface delivers information access and analysis to users, making it easier for people to look into key metrics in their enterprise;
- a customizable product architecture that includes a core of powerful analytic components and configuration tools; and
- out-of-the-box business modules for sales, marketing and supply chain applications for use in a number of business functions and vertical industries.

Brio.Impact

Brio.Impact is a Revenue Performance Optimization (RPO) software application designed specifically for global corporations that need to manage healthy, top-line growth in the environment of changing product, market and business needs. Brio.Impact produces insight into a company's revenue stream enabling users to find new opportunities to generate more revenue out of their existing business. Unlike other analytic applications, Brio.Impact provides specialized metrics that help companies track and manage the top-line. Its key features include:

- sophisticated content in the form of business rules and metrics for sales, marketing, product management and finance to help manage the revenue generation process;
- a complete and customizable analytic foundation that captures and automates best practices and analytical methods for analyzing and optimizing revenue performance;

- a tightly integrated, collaborative framework by which all users share and interact with the same embedded business and analytical models, tactics and plans; and
- an easy-to-use ''performance dashboard'' that provides intelligent navigation paths to isolate anomalies and analyze performance in the same way that top performers analyze and make decisions about their business.

Platforms

Brio's business intelligence solutions, information delivery, enterprise reporting solutions and analytic applications are designed to operate on most popular server platforms including Windows NT and UNIX (AIX, HP-UX and Sun Solaris). Brio's client products currently operate on a number of operating systems including Windows (95, 98, 2000 and NT), PowerMac and UNIX (AIX, HP-UX and Sun Solaris). Brio's products provide native, ODBC, DB2 and OLEDB connectivity to a variety of data sources including relational database management systems such as Oracle, DB2, SQL Server and Adaptive Server, non-relational database management systems such as Hyperion Essbase, Microsoft On-line Analytical Processing Services and Informix Metacube.

Sales and Marketing

Sales. To date, Brio has sold its products primarily through its direct sales and services organizations located in the United States, Canada, Brazil, the United Kingdom, France, Germany, Belgium, Japan, Singapore, Hong Kong and Australia, and has sold its products worldwide through VARs, PLPs, resellers, system integrators and distributors. The direct sales process involves the generation of sales leads through direct mail, e-mail, seminars and telemarketing, or requests for proposals from prospects. Brio's field sales force conducts multiple presentations and demonstrations of Brio's products to management and users at customer sites as part of the direct sales effort. Sales cycles typically range from three to nine months. The direct sales force is compensated for sales made through indirect channel partners as well as direct sales to ensure appropriate cooperation with Brio's VARs, PLPs, resellers, system integrators and distributors. The direct sales force supports local partners and engages in joint sales efforts with partners, while the channel sales organization provides channel management.

To date, Brio has generated a majority of its sales from its direct sales force, and has supplemented its direct sales efforts with the efforts of VARs, PLPs, resellers, system integrators and distributors in a variety of locations throughout the world. These third parties perform some or all of the following functions: sales and marketing; systems implementation and integration; software development and customization; and ongoing consulting, training, service and technical support. Brio generally offers such parties discounts on products and training, as well as a cooperative marketing program and field level assistance from Brio's direct and channel sales forces. Brio intends to leverage sales and marketing through indirect channel partners that will distribute or resell Brio's products in their respective markets. Revenues from VARs, PLPs, resellers, system integrators and distributors accounted for approximately 21% of total revenues in fiscal 2001, 26% of total revenues in fiscal 2000 and 21% of total revenues in fiscal 1999.

Brio intends to grow its direct sales organization and its telesales operation to serve smaller organizations. In addition, Brio will realign and grow its channel sales organization to develop new market opportunities and to continue to leverage and grow its existing network of VARs, PLPs, resellers, system integrators and distributors to expand its indirect distribution channel worldwide. Brio currently expects that it will fund such expansion out of its working capital. Brio's agreements with its VARs and PLPs generally provide for the right to resell a customized version of Brio's products in conjunction with sales of the VARs and PLPs products or services. Brio typically offers its VARs a purchase discount to incent the VARs to sell Brio's products. Brio's agreements with its distributors generally require that such distributors make certain minimum purchases of Brio's products, none of which minimum purchases are material in amount either individually or in the aggregate. Brio does not typically grant exclusive sales territories to its distributors.

Marketing. Brio is focused on building market awareness and acceptance of Brio and its products, as well as developing strategic partnerships. Brio has a marketing strategy with several key components: image and awareness building, direct marketing to both prospective and existing customers, a strong Web presence and broad-scale marketing programs in conjunction with key local and global partners. Brio's corporate marketing strategy includes public relations activities, a conference and trade show speakers program, as well as programs to work closely with key analysts and other influential third parties. Brio's direct marketing activities include participation in selected trade shows and conferences, targeted advertising, as well as ongoing direct mail efforts to existing and prospective customers. Brio has effectively used local, regional and Web-based seminars to assist prospects in selecting Brio's solutions. Brio has used the Web to further interest in Brio's products and services and help with the lead generation process to improve the quality of the leads that it provides to the sales organization. Brio has invested in building a partner and channel marketing function which helps to recruit, train, support and conduct cooperative marketing with technology partners, consultants, VARs, resellers, system integrators and distributors. These programs help to foster strong relationships between Brio and its various partners. The marketing organization also provides a wide-range of programs, materials and events to support the sales organization in its efforts.

Brio's sales and marketing organization consisted of 268 full-time employees as of March 31, 2001. The sales and marketing staff is based at Brio's corporate headquarters in Santa Clara, California. Brio also has field sales offices in the metropolitan areas of Chicago, New York, San Francisco, Columbus, Seattle, Boston, Denver, Irvine, Atlanta, Washington D.C. and Dallas, as well as international sales offices in Canada, Brazil, the United Kingdom, France, Germany, Belgium, Japan, Singapore, Hong Kong and Australia.

Research and Development

Brio's internal research and development teams have created the products that have been the basis for Brio's success, and Brio intends to continue to make substantial investments in research and development and related activities to maintain and enhance its product lines. Brio believes that its future success will, in large part, depend on its ability to maintain and improve current products and to develop new products that meet the needs of the market. Product requirements are based on customer feedback, customer support experience, market analysis and technology trends. Brio employs a professional development methodology that constantly monitors customer satisfaction, quality, cost and delivery schedules. As of March 31, 2001, Brio's research and development organization consisted of 146 full-time employees.

Customer Support

Brio believes that high quality, real-time customer support is a value-add to the successful marketing and sale of its products. Maintenance and support contracts, which are generally for twelve months and offered with an initial license, may be renewed annually and are typically set at a percentage of the total license fee. A large portion of Brio's direct sales to customers have maintenance and support contracts that entitle the customers to patches, updates and upgrades at no additional cost, when available, unlimited access to Brio's Web-based Customer Support information and request system and direct assistance from the Customer Support hotline. Customers purchasing maintenance have several programs to choose from that provide value-add options based on their business needs.

Customers submit their assistance requests directly into Brio's case tracking database via the web or a Customer Support engineer records the request in the database at the time of the call to the hotline. Brio's Web-based support services include access to frequently asked questions, a patch download area and an interface to the case-tracking database, which allows customers to view the status of any of their current cases on-line. In addition, to improve user access to explanatory materials, Brio provides on-line documentation with all of its products. Among other things, such documentation includes detailed explanations of product features as well as problem-solving tips.

Brio is planning a deployment of Siebel Service during fiscal 2002 which is designed to improve customer support by providing better visibility of all customer interactions with the company, improved case tracking and pattern matching of similar support issues across customers. The Siebel Service implementation will include a direct integration with product development's Rational program to allow visibility into development efforts on an ongoing basis and thus provide a tight collaborative relationship with that organization. As of March 31, 2001, Brio's services and support organization consisted of 153 full-time employees located in facilities around the world.

Competition

Brio's market is still developing. The business intelligence, enterprise reporting, information delivery and analytic applications markets are intensely competitive, highly fragmented and characterized by rapidly changing technology and evolving standards. Brio's current and potential competitors offer a variety of software solutions and generally fall within several categories:

- business intelligence software vendors such as Cognos, Business Objects, Crystal Decisions and Hummingbird;
- vendors offering alternative approaches to delivering reporting and analysis capabilities to users, such as MicroStrategy, Computer Associates, Information Advantage and Actuate;
- portal software vendors, such as Plumtree, Viador and Portal Software;
- database vendors that offer client products that operate specifically with their proprietary database, such as Microsoft, IBM, Oracle and Ardent;
- analytic application vendors such as E.piphany; and
- other companies that may in the future announce offerings similar to the Brio Business Performance Platform.

Brio's competitive position in the market is uncertain, due principally to the variety of current and potential competitors, and the emerging nature of the market. Brio has experienced and expects to continue to experience increased competition from current and potential competitors, many of whom have significantly greater financial, technical, marketing and other resources than Brio. Such competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sales of their products than Brio. Brio expects additional competition as other established and emerging companies develop business intelligence software and analytics products and technologies. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, longer sales cycles and loss of market share, any of which could materially and adversely affect Brio's business, operating results and financial condition.

Current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, increasing the ability of their products to address the needs of our prospective customers. Our current or future indirect channel partners may establish cooperative relationships with our current or potential competitors, limiting our ability to sell our products through particular distribution channels. Accordingly, competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Such competition could materially adversely affect Brio's ability to obtain new licenses and maintenance and support renewals for existing licenses, on terms favorable to Brio. Further, competitive pressures may require Brio to reduce the price of its products, which could have a material adverse effect on Brio's business, operating results and financial condition. Brio may not be able to compete successfully against current and future competitors, and the failure to do so could have a material adverse effect upon Brio's business, operating results and financial condition.

Brio competes on the basis of the following factors:

- completeness of product offering;
- product features;
- ease of use;
- product performance;
- product quality;
- analytical capabilities;
- scalability;
- open architecture;
- customer support;
- time to market; and
- price.

Brio believes it presently competes favorably with respect to each of these factors. However, Brio's market is still evolving and there can be no assurance that Brio will be able to compete successfully against current and future competitors, and the failure to do so successfully could have a material adverse effect on Brio's business, operating results and financial condition.

Proprietary Rights

Brio currently relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. Brio also believes that factors such as the technological and creative skills of its personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance are essential to establishing and maintaining a technology leadership position.

Because trade secret and copyright laws afford only limited protection, Brio also seeks to protect its software, documentation and other written materials under patent laws. Brio currently has one United States patent and twelve pending patent applications. These pending patent applications may not result in the issuance of patents. Our issued patent and any additional patents may not provide Brio competitive advantages. Brio may not obtain any more patents. Others may develop technologies that are similar or superior to our technology or design around our patent or any other patent that Brio may come to own.

Despite Brio's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of Brio's products or to obtain and use information that Brio regards as proprietary. Policing unauthorized use of Brio's products is difficult, and while Brio is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect Brio's proprietary rights as fully as do the laws of the United States. There can be no assurance that Brio's means of protecting its proprietary rights in the United States or abroad will be adequate or that competitors will not independently develop similar technology.

Brio has entered into source code escrow agreements with a number of customers and indirect channel partners requiring release of source code. Such agreements provide that the contracting party will have a limited, non-exclusive right to use the code, subject to the agreement, in the event that:

- there is a bankruptcy proceeding by or against Brio;
- Brio ceases to do business; or
- in some cases, Brio fails to meet its contractual obligations.

The provision of source code escrows may increase the likelihood of misappropriation by third parties.

Brio expects that software product developers will increasingly be subject to infringement claims as the number of products and competitors in Brio's industry segment grows and the functionality of products in different industry segments overlaps. Any claims, with or without merit, could:

- be time-consuming to defend;
- result in costly litigation;
- divert management's attention and resources;
- cause product shipment delays; or
- require Brio to enter into royalty, settlement or licensing agreements at substantial costs.

Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event of a successful claim of product infringement against Brio and its failure or inability to license the infringed or similar technology, Brio's business, operating results and financial condition could be materially adversely affected.

Finally, in the future Brio may rely upon software that it may license from third parties, including software that may be integrated with Brio's internally developed software and used in Brio's products to perform key functions. There can be no assurance that these third-party software licenses will be available on commercially reasonable terms. Brio's inability to obtain or maintain any third-party software licenses could result in shipment delays or reductions until equivalent software is developed, identified, licensed and integrated, which could have a material adverse effect on Brio's business, operating results and financial condition.

Employees

As of March 31, 2001, Brio had 661 full-time employees, including 268 in sales and marketing, 153 in services and support, 146 in research and development and 94 in general and administrative functions. Brio's success depends to a significant degree upon the continued contributions of its key management, engineering, sales and marketing personnel, many of whom would be difficult to replace. Brio has employment contracts with six members of its executive management personnel and does not maintain ''key person'' life insurance for any of its executive management.

Brio believes its future success will also depend in large part upon its ability to attract and retain highly skilled managerial, engineering, sales and marketing and finance personnel. Competition for such personnel is intense, and there can be no assurance that Brio will be successful in attracting and retaining such personnel. The loss of the services of any of the key personnel, the inability to attract or retain qualified personnel in the future or delays in either hiring required personnel, or the rate at which new people become productive, particularly sales personnel and engineers, could have a material adverse effect on Brio's business, operating results and financial condition. In particular, Brio has, from time to time, experienced and may continue to experience significant turnover of its sales and marketing force, due principally to the intensely competitive market for such personnel and changes in management. Such turnover tends to slow sales efforts until replacement personnel can be recruited and trained to become productive members of Brio's sales force.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Brio and their ages as of June 25, 2001 are as follows:

Name	Age	Position(s)
Craig D. Brennan	42	President, Chief Executive Officer and Director
Donald Beck	45	Executive Vice President, Worldwide Sales
Todd Davis	41	Executive Vice President, Worldwide Operations
Jim Guthrie	50	Executive Vice President, Product Development
Brian Gentile	38	Chief Marketing Officer
Tamara MacDuff	43	Chief Financial Officer and Executive Vice President, Finance

Craig D. Brennan joined Brio as its President and Chief Executive Officer and Director in January 2001. Prior to joining Brio, Mr. Brennan was a senior vice president Customer Relationship Management (CRM) at Oracle Corporation. Before that, he was a partner at Deloitte Consulting, where he built and managed the Global Siebel CRM Practice. Additional experience includes being a senior vice president of Marketing for BACG/Armature, a U.K. based Warburg Pincus software company. Mr. Brennan holds an MBA in marketing and management policy from the Kellogg Graduate School of Management, Northwestern University and a BA in economics and political science from the University of Michigan.

Donald Beck joined Brio as its Executive Vice President, Worldwide Sales in March 2001. Prior to joining Brio, Mr. Beck held a number of executive-level positions at J.D. Edwards & Company. Most recently, Mr. Beck was vice president of sales for strategic products, responsible for the 2001 sales execution of all J.D. Edwards' strategic product initiatives. Before J.D. Edwards, Mr. Beck was vice president of Peritus Software Services, a publicly held company and market leader in software maintenance outsourcing and mass change technologies. Prior to Peritus, Mr. Beck spent 18 years in a number of managerial sales and marketing roles at International Business Machines (IBM) Corporation. Mr. Beck holds a MBA from Miami University of Ohio and a BS from Michigan State University.

Todd Davis joined Brio as its Executive Vice President, Worldwide Operations in May 2001. Prior to joining Brio, Mr. Davis was vice president of CRM global operations at Oracle Corporation, where he was responsible for guiding Oracle's entry into the global CRM market. Before Oracle, Mr. Davis was senior vice president of operations at Staff Leasing, Inc. Prior to joining Staff Leasing, Inc., Mr. Davis held executive and managerial positions at The Home Shopping Network, Lucent Technologies, Northwest Airlines and Honeywell, Inc. Mr. Davis holds a BA in Liberal Arts with an emphasis in organizational development from the University of Minnesota.

James Guthrie joined Brio as Executive Vice President, Product Development in June 2001. Prior to joining Brio, Mr. Guthrie was vice president of Service and Contracts Applications Development within the CRM Division at Oracle Corporation. Before Oracle, Mr. Guthrie was director of development at SAP Labs, Inc. and senior program manager at Raytheon Inc., where he was responsible for numerous software and hardware development projects. Mr. Guthrie holds a MBA from Texas Tech University and a BS in electrical engineering from the University of North Dakota.

Brian Gentile joined Brio as its Chief Marketing Officer in June 2001. Prior to joining Brio, Mr. Gentile was a marketing executive at Ariba Technologies, Inc. Before Ariba, Mr. Gentile was the chief technical officer of Java Software at Sun Microsystems, Inc. He also held marketing, development and sales positions at Apple Computer, Inc. Mr. Gentile holds a MBA and a BA in business administration from the University of Arizona at Tucson.

Tamara MacDuff joined Brio in 1992 and is currently the Chief Financial Officer and Executive Vice President, Finance. Prior to joining Brio, she was a consultant with a public accounting firm providing business advisory services. Ms. MacDuff holds a bachelor's degree in finance with a minor in accounting from San Jose State University. Ms. MacDuff is also a Certified Public Accountant.

Item 2. *Properties.*

Brio's principal executive offices are located in Santa Clara, California where Brio leases approximately 141,000 square feet under a lease that expires in May 2010. Brio also leases space (typically less than 5,000 square feet per location) in various geographic locations primarily for sales and support personnel. Brio believes that its current facilities are adequate to meet its needs through the end of fiscal 2002, at which time Brio may need to lease additional space.

Brio was incorporated in California in February 1989 and was reincorporated in Delaware in April 1998. Its principal executive offices are located at 4980 Great America Parkway, Santa Clara, California 95054. Its telephone number at that location is (408) 496-7400.

Item 3. *Legal Proceedings.*

On January 20, 1997, Business Objects filed a complaint against Brio in the U.S. District Court for the Northern District of California in San Jose, alleging that certain of Brio's products (including at least the BrioQuery Navigator, BrioQuery Explorer and BrioQuery Designer products) infringed at least claims 1, 2, and 4 of U.S. Patent Number 5,555,403. On April 4, 1997, Brio filed an answer and affirmative defenses to the complaint, denying certain of the allegations in the complaint and asserting a counterclaim requesting declaratory relief that Brio is not infringing the patent and that the patent is invalid and unenforceable. In December 1997, venue for the case was changed to the Northern District of California in San Francisco. On July 30, 1999, Brio filed an action against Business Objects in the U.S. District Court for the Northern District of California in San Jose, alleging that certain of Business Objects' products infringe U.S. Patent Number 5,915,257. On September 9, 1999, Brio and Business Objects executed a Memorandum of Understanding settling Business Objects' pending patent litigation against Brio involving a patent number 5,555,403 for $10.0 million, payable in $1.0 million payments over 10 quarters with the first payment due September 30, 1999. As part of this settlement, Business Objects dismissed its pending lawsuit against Brio involving patent number 5,555,403 and Brio dismissed its pending lawsuit against Business Objects involving patent number 5,915,257.

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

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters.*

Brio's Common Stock has been traded on the NASDAQ National Market since its initial public offering on May 1, 1998. As of April 1, 2000, Brio changed its symbol from ''BRYO'' to ''BRIO.'' Brio has never declared or paid cash dividends on its capital stock. It currently intends to retain all available funds and any future earnings for use in the operation of its business and does not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of Brio's primary credit facility prohibit the paying of dividends without the lender's consent.

The following table sets forth the high and low sales prices of Brio's Common Stock as reported by the NASDAQ National Market for each fiscal quarter in the two-year period ended March 31, 2001:

	High	Low
Fiscal 2001		
First Quarter	$37.06	$13.13
Second Quarter	$21.38	$ 5.88
Third Quarter	$11.00	$ 2.63
Fourth Quarter	$15.31	$ 4.38
Fiscal 2000		
First Quarter	$21.00	$11.25
Second Quarter	$24.75	$12.81
Third Quarter	$64.50	$18.50
Fourth Quarter	$54.00	$27.06

Item 6. *Selected Financial Data.*

In August 1999, Brio completed its merger with SQRIBE Technologies Corp. (''SQRIBE'') in a transaction accounted for as a pooling-of-interests. All prior period consolidated financial statements have been restated for all periods presented, in accordance with required pooling-of-interests accounting and disclosures. SQRIBE had a fiscal year that ended on December 31 of each year. Restated historical consolidated financial statements combine the SQRIBE results for the fiscal year ended December 31, 1998 with Brio's results for the year ended March 31, 1999. In order to conform SQRIBE's fiscal year to Brio's fiscal year, the results of operations of SQRIBE for the three months ended March 31, 1999 have been reflected as an adjustment to retained earnings as of that date, and the consolidated balance sheet of Brio at March 31, 1999 includes the balance sheet of SQRIBE at March 31, 1999. Revenue, net loss and net loss applicable to common stock for SQRIBE was $10.8 million, $1.8 million and $3.6 million, respectively, for the three months ended March 31, 1999. See Note 3 of Notes to Consolidated Financial Statements for additional information and disclosure.

The selected historical consolidated financial data set forth below should be read in conjunction with Item 7, ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' the Consolidated Financial Statements and the Notes thereto and the other information contained in this Report. The selected consolidated statements of operations data for the years ended March 31, 2001, 2000 and 1999, and the selected consolidated balance sheet data as of March 31, 2001 and 2000, are derived from, and are qualified by reference to, the audited Consolidated Financial Statements of Brio appearing elsewhere in this Report. The selected consolidated statements of operations data for the years ended March 31, 1998 and 1997, and the selected consolidated balance sheet data as of March 31, 1999, 1998 and 1997, are derived from the audited Consolidated Financial Statements of Brio not included herein. The historical results of operations presented are not necessarily indicative of results to be expected for any subsequent period.

	Years Ended March 31,				
	2001	2000	1999	1998	1997
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Total revenues	$149,974	$132,036	$85,686	$ 51,895	$31,383
Loss from operations	(9,206)	(10,315)	(1,767)	(15,694)	(8,618)
Net income (loss)	(9,650)	(10,910)	163	(15,723)	(8,624)
Net loss applicable to common stock	(9,650)	(10,910)	(753)	(15,723)	(8,624)
Basic net loss per share	$ (0.34)	$ (0.43)	$ (0.04)	$ (1.22)	$ (0.66)
Shares used in computing basic net loss per share	28,335	25,261	19,984	12,871	13,018
Consolidated Balance Sheets Data:					
Cash, cash equivalents and short-term investments	$ 15,328	$ 33,404	$35,311	$ 7,326	$ 4,020
Total assets	88,204	85,864	68,260	29,423	17,947
Other noncurrent liabilities and redeemable common stock	—	2,903	3,110	344	516
Stockholders' equity (deficit)	26,367	28,126	26,288	(1,264)	152

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto and the other information included elsewhere in this Report. Certain statements in this ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' are forward-looking statements. The forward-looking statements contained herein are based on current expectations and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements. For a more detailed discussion of these and other business risks, see ''Risk Factors That May Affect Future Operating Results'' below.

Overview

Brio Technology, Inc. (Brio) delivers an analytic software platform that enables companies to drive better business decisions by leveraging their existing IT infrastructures and information systems. The Brio Business Performance Platform drives an organization's business performance, allowing it to be more competitive, customer-centric and responsive to the changing demands of business. Brio had net losses applicable to common stock of $9.7 million in fiscal 2001, $10.9 million in fiscal 2000 and $753,000 in fiscal 1999. Brio had an accumulated deficit of approximately $58.1 million as of March 31, 2001. See ''Risk Factors That May Affect Future Operating Results'' for a description of the risks related to Brio's operating results fluctuations in future periods.

In August 1999, Brio completed its merger with SQRIBE Technologies Corp. (SQRIBE), a Delaware corporation. Brio acquired all of the outstanding shares of SQRIBE preferred and common stock in a tax-free, stock-for-stock transaction for approximately 13.2 million shares of Brio common stock. In addition, Brio assumed all outstanding stock options and warrants of SQRIBE. The acquisition was accounted for as a pooling-of-interests. All prior period consolidated financial statements have been restated, in accordance with required pooling-of-interests accounting and disclosures.

Brio's revenues consist of license fees for software products and fees for services, including software maintenance and support, training and system implementation consulting. Revenues in current periods are generally attributable to the sale of the most recent version of Brio's products. Brio generally discontinues marketing older product versions when a new product version is introduced. The products are typically licensed on a per user basis with the price per user varying based on the selection of products licensed or on a per computer server basis with the price varying based on the computing power of the server. Additionally, Brio also sells larger enterprise-wide implementations of their products through site licenses with the price per site varying based on the selection of:

- products licensed;
- the number of authorized users or computer servers for each product at each site; and
- the number of licensed sites.

Revenues from license fees are recognized upon shipment of the software if:

- collection of the resulting receivable is probable;
- the fee is fixed or determinable; and
- vendor-specific objective evidence exists to allocate the total fee to all delivered and undelivered elements of the arrangement. If vendor-specific objective evidence does not exist to allocate the total fee to all delivered and undelivered elements of the arrangement, revenue is deferred until such evidence does exist for the undelivered elements, or until all elements are delivered, whichever is earlier.

If payments are subject to extended payment terms and are not deemed fixed or determinable, Brio defers revenue until payments become due. If an acceptance period is required, Brio recognizes revenue upon the earlier of customer acceptance or the expiration of the acceptance period. Brio establishes allowances for potential product returns and credit losses, which have been insignificant to date. Brio charges fees for services separately from license fees. Brio recognizes revenues from maintenance and support services, including ongoing product support and periodic product updates, ratably over the term of each contract, which is typically twelve months. Payments for maintenance and support services are generally made in advance and are non-refundable. Brio recognizes revenues from training and consulting services when the services are performed.

To date, Brio has derived revenues from license fees principally from direct sales of software products to end users through Brio's direct sales force. Although Brio believes that such direct sales will continue to account for a significant portion of revenues from license fees in the foreseeable future, Brio has recently developed, and intends to continue to develop, reselling relationships with VARs, PLPs, resellers, system integrators and distributors. Brio expects that revenues from sales through VARs, PLPs, resellers, system integrators and distributors will increase in the future as a percentage of revenues from license fees. Revenues from VARs, PLPs, resellers, system integrators and distributors were approximately 21% of total revenues for fiscal 2001, approximately 26% of total revenues for fiscal 2000 and approximately 21% of total revenues for fiscal 1999. Brio's ability to achieve revenue growth and improved operating margins, as well as increased worldwide sales in the future, will depend in large part upon its success in expanding and maintaining relationships with VARs, PLPs, resellers, system integrators and distributors. See ''Risk Factors That May Affect Future Operating Results'' for a description of the risks related to Brio's sales strategy.

Brio is also increasing its efforts to sell licenses to larger, enterprise-wide implementations of Brio's products, rather than departmental or local network sales, which may increase the complexity and length of the sales cycle. Brio has, in the past and may in the future, chosen to grant greater license discounts and discounts on other elements, such as training and consulting, for sales of site licenses. See ''Risk Factors That May Affect Future Operating Results'' for a description of the risks related to the sales cycle of Brio's products.

Brio has, to date, sold its products internationally through direct sales offices in Canada, Brazil, the United Kingdom, France, Germany, Belgium, Japan, Singapore, Hong Kong and Australia, and indirectly through established distribution relationships in more than 40 countries, including Italy, The Netherlands and South Africa. Brio's direct sales offices in the United Kingdom, China and Australia were formed through the acquisition of distributors in those countries. Sales to customers outside of the United States and Canada, including sales generated by Brio's foreign subsidiaries, represented approximately 20% of total revenues for fiscal 2001 and approximately 18% of total revenues for fiscal 2000 and fiscal 1999. A substantial portion of Brio's international sales in the past have been denominated and collected in foreign currencies and Brio believes that a portion of its cost of revenues and operating expenses will continue to be incurred in foreign currencies. To date, there have been no material effects of changes in foreign currency exchange rates on revenues or operating expenses. Brio incurred a loss on foreign currency translations resulting from intercompany receivables from foreign subsidiaries in an amount of approximately $870,000 in fiscal 2001, approximately $429,000 in fiscal 2000 and approximately $126,000 in fiscal 1999. Although it is impossible to predict future exchange rate movements between the U.S. dollar and other currencies, to the extent the U.S. dollar strengthens or weakens against other currencies, a substantial portion of Brio's revenues, cost of revenues and operating expenses will be commensurately lower or higher than would be the case in a more stable foreign currency environment. Although Brio has not historically undertaken foreign exchange hedging transactions to cover its potential foreign currency exposure, it may do so in the future. See ''Risk Factors That May Affect Future Operating Results'' for a description of the risks related to Brio's international sales strategy.

Results of Operations

The following table includes selected consolidated statements of operations data for all quarters of the periods indicated (in thousands, except per share amounts):

	Fiscal 2001				Fiscal 2000			
	4TH	3RD	2ND	1ST	4TH	3RD	2ND	1ST
Total revenues	$44,205	$38,858	$33,886	$33,025	$39,622	$34,179	$ 30,656	$27,579
Total cost of revenues	$ 8,574	$ 7,863	$ 7,742	$ 7,001	$ 5,631	$ 5,152	$ 4,661	$ 4,645
Gross profit	$35,631	$30,995	$26,144	$26,024	$33,991	$29,027	$ 25,995	$22,934
Net income (loss) applicable to common stock	$ (623)	$ (260)	$ (4,312)	$ (4,455)	$ 4,954	$ 3,129	$(17,472)	$ (1,521)
Net income (loss) per basic share	$ (0.02)	$ (0.01)	$ (0.15)	$ (0.16)	$ 0.18	$ 0.12	$ (0.66)	$ (0.07)
Net income (loss) per diluted share	$ (0.02)	$ (0.01)	$ (0.15)	$ (0.16)	$ 0.16	$ 0.10	$ (0.66)	$ (0.07)

The following table includes consolidated statements of operations data as a percentage of total revenues for the periods indicated:

	Years Ended March 31,		
	2001	2000	1999
Consolidated Statements of Operations Data:			
Revenues:			
License fees	59 %	68 %	68 %
Services	41	32	32
Total revenues	100	100	100
Cost of revenues:			
License fees	3	2	3
Services	18	13	12
Total cost of revenues	21	15	15
Gross profit	79	85	85
Operating expenses:			
Research and development	17	15	16
Sales and marketing	58	50	57
General and administrative	10	10	12
In-process research and development	—	—	2
Non-recurring operating expenses	—	17	—
Total operating expenses	85	92	87
Loss from operations	(6)	(7)	(2)
Interest and other income (expense), net	—	—	3
Income (loss) before provision for income taxes	(6)	(7)	1
Provision for income taxes	—	(1)	1
Net income (loss)	(6)	(8)	—
Increase in redemption value of redeemable common stock	—	—	(1)
Net loss applicable to common stock	(6)%	(8)%	(1)%

Fiscal Years Ended March 31, 2001, 2000 and 1999

Revenues

Brio derives revenues from license fees and services, which include software maintenance and support, training and system implementation consulting. Total revenues increased $17.9 million or 14% in fiscal 2001 when compared to fiscal 2000 and $46.4 million or 54% in fiscal 2000 compared to fiscal 1999. The increases were primarily due to increased license revenue and related maintenance and support revenue.

Revenues by geographic location were as follows:

	Years Ended March 31,		
	2001	2000	1999
Revenues by Geography:			
Domestic	$119,919	$107,779	$70,097
International	30,055	24,257	15,589
Total revenues	$149,974	$132,036	$85,686

Revenues from international sources increased $5.8 million or 24% in fiscal 2001 compared to fiscal 2000 and $8.7 million or 56% in fiscal 2000 compared to fiscal 1999. The increases were primarily due to increased demand for Brio products in Europe and Asia as Brio continued to expand direct and indirect sales efforts in these areas. See Note 4 of Notes to Consolidated Financial Statements for additional information about revenues in geographic areas.

License Fees. Revenues from license fees decreased $1.5 million or 2% in fiscal 2001 compared to fiscal 2000 and increased $31.4 million or 54% in fiscal 2000 compared to fiscal 1999. The decrease in fiscal 2001 compared to fiscal 2000 was primarily due to the lengthening of the sales cycle for large-scale deployments of Brio's products. The increase in fiscal 2000 compared to fiscal 1999 were due to growing sales to new customers—approximately $10.3 million of the increase—and increased follow-on sales to existing customers—approximately $21.1 million of the increase.

Services. Service revenues increased $19.4 million or 46% in fiscal 2001 compared to fiscal 2000 and $15.0 million or 55% in fiscal 2000 compared to fiscal 1999. The increases were due to an increase in maintenance and support revenues—approximately $12.4 million of the increase in fiscal 2001 and approximately $9.9 million of the increase in fiscal 2000—and an increase in training and consulting revenues related to Brio's installed customer base—approximately $7.0 million of the increase in fiscal 2001 and approximately $5.1 million of the increase in fiscal 2000.

Cost of Revenues

License Fees. Cost of revenues from license fees consists primarily of product packaging, shipping, media, documentation and related personnel and overhead allocations. Cost of revenues from license fees increased $398,000 or 12% in fiscal 2001 compared to fiscal 2000 and $672,000 or 26% in fiscal 2000 compared to fiscal 1999. The increases in absolute dollars in fiscal 2001, 2000 and fiscal 1999 were primarily due to the mix of customers purchasing master disks relative to customers purchasing ''shrink-wrapped'' product. Cost of revenues from license fees may vary between periods due to the mix of master disks versus ''shrink-wrapped'' product.

Services. Cost of revenues from services consists primarily of personnel costs and third-party consulting fees associated with providing software maintenance and support, training and consulting services. Cost of revenues from services increased by $10.7 million or 64% in fiscal 2001 compared to fiscal 2000 and $6.4 million or 61% in fiscal 2000 compared to fiscal 1999. The increases were due principally to increases in personnel and related costs resulting from qBrio's expansion of its support services in response to increased demand for maintenance and support and training and consulting services—approximately $7.7 million of the increase in fiscal 2001 and approximately $4.1 million of the increase in fiscal 2000—and increases in the use of outside consultants for training and consulting services—approximately $3.0 million of the increase in fiscal 2001 and approximately $2.3 million of the increase in fiscal 2000. Cost of revenues from services may vary between periods due to the mix of services provided by Brio's personnel relative to services provided by outside consultants and to varying levels of expenditures required to build the services organization.

Operating Expenses

Research and Development. Research and development expenses consist primarily of personnel and related costs associated with the development of new products, the enhancement and localization of existing products, quality assurance and testing. Research and development expenses increased $6.4 million or 32% in fiscal 2001 compared to fiscal 2000 and $6.2 million or 45% in fiscal 2000 compared to fiscal 1999. The increases from year to year were primarily due to increased personnel and related costs required to continue to develop new products and enhance existing products. Brio believes that significant investment in research and development is essential to product and technical leadership and anticipates that it will continue to commit substantial resources to research and development in the future. Brio anticipates that research and development expenditures will continue to increase in absolute dollars, although such expenses may vary as a percentage of total revenues.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries and other personnel related costs, commissions, bonuses and sales incentives, travel, marketing programs such as trade shows and seminars and promotion costs. Sales and marketing expenses increased $20.2 million or 31% in fiscal 2001 compared to fiscal 2000 and $17.7 million or 37% in fiscal 2000 compared to fiscal 1999. The increases were attributable to the costs associated with the expansion of Brio's sales and marketing organization, including domestically through the growth of the telesales organization, internationally through the establishment of subsidiary offices in the United Kingdom, France, Germany, Japan, Singapore, Hong Kong and Australia in addition to the expansion of the worldwide field sales organization which contributed approximately $13.5 million of the increase in fiscal 2001 and approximately $8.0 million of the increase in fiscal 2000. Higher sales commissions, bonuses and sales incentives associated with increased total revenues also contributed approximately $3.5 million of the increase in fiscal 2001 and approximately $6.1 million of the increase in fiscal 2000. Increased domestic and international marketing expenses, including marketing activities, personnel and related costs contributed approximately $3.2 million of the increase in fiscal 2001 and approximately $3.6 million of the increase in fiscal 2000. Brio believes that as it continues to expand its direct sales and pre-sales support organization and its third-party partnering relationships and its indirect channel sales organization on a worldwide basis, sales and marketing expenses will continue to increase in absolute dollars. These expenses are currently intended to be funded by Brio's working capital. In particular, Brio expects that sales compensation, travel and related expenses will increase significantly as Brio continues to increase the number of its direct sales personnel and its emphasis on direct field sales efforts. Brio expects sales and marketing expenses will continue to vary as a percentage of total revenues.

General and Administrative. General and administrative expenses consist primarily of personnel costs for finance, human resources and general management, as well as legal, accounting and unallocated overhead expenses. General and administrative expenses increased $1.4 million or 10% in fiscal 2001 compared to fiscal 2000 and $3.3 million or 31% in fiscal 2000 compared to fiscal 1999. The increase in fiscal 2001 was primarily attributable to increased personnel and related costs. The increase in fiscal 2000 was due to approximately $1.2 million in increased personnel and related costs, approximately $1.9 million of increased professional fees and approximately $200,000 in higher expenses associated with managing and supporting Brio's growth and facilities expansion. Brio expects that its general and administrative expenses will increase in absolute dollars as Brio expands its staffing to support expanded operations. Brio expects that such expenses will continue to vary as a percentage of total revenues.

Deferred Compensation. In connection with the granting of 1,369,368 stock options to employees during fiscal 1998, with a weighted average exercise price of $1.49 per share and a weighted average deemed fair market value of $1.91 per share, Brio recorded deferred compensation of $580,000, representing the difference between the deemed value of the common stock for accounting purposes and the option exercise price of such options at the date of grant. In addition, Brio granted 67,419 stock options to employees during fiscal 1999, at a weighted average exercise price of $1.56 per share, with a weighted average deemed fair market value of $4.27 per share and recorded the difference between the deemed fair market value of the common stock for accounting purposes and the option exercise price of such options at the date of grant as $63,000 of compensation expense and $188,000 of deferred compensation. Such amounts are presented as a reduction of stockholders' equity and amortized ratably over the vesting period of the applicable options. Approximately $55,000 was expensed during fiscal 2001, approximately $155,000 was expensed during fiscal 2000, approximately $129,000 was expensed during fiscal 1999 and the balance will be expensed ratably over the next year as the options vest. See Note 7 of Notes to Consolidated Financial Statements for additional information regarding deferred compensation.

Purchased In-Process Research and Development. In connection with the acquisition of MerlinSoft, Inc. (MerlinSoft) in October 1998, Brio allocated $1.7 million of the purchase price to in-process research and development projects. This allocation represented the estimated fair value based on future cash flows that have been adjusted by the project's completion percentage. While Brio relied upon an independent, third party appraisal of the acquired intangible assets, management was primarily responsible for estimating their fair values. At the acquisition date, the development of these projects had not yet reached technological feasibility due to issues involving the completion of scalability, performance and security functions and the research and development in progress had no alternative future uses. Accordingly, these costs were expensed as of the acquisition date. The excess of the purchase price over identified intangible assets was approximately $600,000.

Brio used a third-party appraiser to assess and value the in-process research and development. The value assigned to purchased in-process research and development was determined by estimating the contribution of the purchased in-process technology in developing a commercially viable product, estimating the resulting net cash flows from the expected sales of such a product, and discounting the net cash flows to their present value using an appropriate discount rate. The discount rate included a factor that took into account the uncertainty surrounding the successful development of the acquired in-process technology. Valuation of development efforts in the future was excluded from the research and development appraisal.

The purchased in-process research and development consisted of two projects. Both of these projects are aimed at the delivery of timely, in-depth, sophisticated analytical applications. The first product provides data models for analysis in specific industries and functional areas, metric libraries, a Web-based client and the ability for business users to manage application components (''Analysis Product''). The second product includes in-depth modeling features for margin analysis and what-if scenarios to determine the impact of various decisions and parameters (''Modeling Product''). The research and development costs incurred by MerlinSoft in the development of the Analysis Product were approximately $298,000 in fiscal 1998 and approximately $4,000 in fiscal 1997. The research and development costs incurred by MerlinSoft in the development of the Modeling Product were approximately $34,000 in fiscal 1998. At the date of acquisition, the research and development costs to complete the Analysis Product were estimated by MerlinSoft to be approximately $855,000 in fiscal 2000 and 1999. At the date of acquisition, the research and development costs to complete the Modeling Product project were estimated by MerlinSoft to be approximately $933,000 in each of the fiscal years ending 2000 and 1999.

The development technologies were evaluated in the context of Interpretation 4 of Statement of Financial Accounting Standards (SFAS) No. 2 and SFAS No. 86, where appropriate. In accordance with these provisions, research and development projects were evaluated individually to determine if technological feasibility had been achieved and if there was any alternative future use. Such evaluation consisted of a specific review of the efforts, including the overall objectives of the project, progress toward the objectives and uniqueness of developments to these objectives. The issue of alternative future use was addressed in discussions with the management of Brio. This process included on-site management interviews and review of technical data.

As of March 31, 2001, Brio has successfully completed the Analysis and Modeling Products. MerlinSoft's results have not differed significantly from the forecast assumptions. Brio's research and development expenditures since the acquisition have not differed materially from expectations. Revenue contribution from the acquired technology falls within an acceptable range of the forecast assumptions. The risks associated with products are still considered high and no assurance can be made that the products will meet market expectations.

Non-recurring operating expenses. Non-recurring operating expenses for fiscal 2000 are comprised of merger and restructuring costs related to the SQRIBE merger and the settlement of Brio's ongoing patent litigation with Business Objects as follows (in thousands):

	March 31, 2000
Merger and restructuring costs	$13,160
Settlement costs	9,137
Total non-recurring operating expenses	$22,297

Brio's merger with SQRIBE was completed on August 3, 1999. In fiscal 2000, merger and restructuring costs of $13.2 million consisted of $7.4 million in transaction and related professional fees, $639,000 in severance costs to terminate employees, $1.3 million in merger integration expenses, $387,000 in consolidation of facilities, $697,000 in equipment retirements and $2,737,000 in other miscellaneous merger-related expenses. All termination notices and benefits were communicated to the affected employees prior to year-end and all of the merger-related expenses were incurred prior to year-end. Substantially all of the merger-related charges were paid during fiscal 2000.

On September 9, 1999, Brio and Business Objects announced the settlement of a patent infringement action, pending in the U.S. District Court for the Northern District of California in San Jose, pursuant to which Brio agreed to pay to Business Objects $10.0 million, payable quarterly in $1.0 million payments over 10 quarters, with the first payment due September 30, 1999. The $9.1 million of settlement costs represent the net present value of the quarterly payments and the remaining $900,000 represents interest and will be recognized over the payment term using the effective interest rate method.

Interest and Other Income (Expense), Net

Interest and other income (expense), net, is comprised primarily of interest income and foreign currency transaction gains or losses and realized gains or losses from the sale of investments, net of interest expense. Interest expense is comprised of interest charges relating to the Business Objects litigation settlement and interest incurred on Brio's bank line of credit. Interest and other income (expense), net, decreased $1.1 million in fiscal 2001 compared to fiscal 2000 and $1.9 million in fiscal 2000 compared to fiscal 1999, primarily due to interest charges relating to the Business Objects litigation settlement, lower cash, cash equivalent and short-term investment balances and a higher loss on foreign currency translations resulting from intercompany receivables from foreign subsidiaries of approximately $870,000 in fiscal 2001, approximately $429,000 in fiscal 2000 and approximately $126,000 in fiscal 1999. See Note 2 of Notes to Consolidated Financial Statements for a description of foreign currency transactions and Brio's policy related to accounting for short-term investments.

Provision for Income Taxes

The provision for income taxes of $100,000 in fiscal year 2001 consisted primarily of current income taxes generated from international operations. The provision for income taxes of $1,343,000 in fiscal 2000 and $747,000 in fiscal 1999 consisted primarily of Federal and state alternative minimum taxes as Brio utilized net operating loss carryforwards to offset current income taxes generated from domestic operations.

At March 31, 2001, Brio has approximately $17,154,000 of Federal net operating loss carryforwards and approximately $16,188,000 of State net operating loss carryforwards both of which expire at various dates through 2021. Brio also has approximately $19,144,000 of Foreign net operating loss carryforwards, which expire at various dates through 2021 or carryforward indefinitely. In addition, Brio has Federal R&D tax credit carryforwards of approximately $2,787,000, State R&D tax credit carryforwards of approximately $1,723,000 and Federal alternative minimum tax credit carryforwards of approximately $247,000 which expire at various dates through 2021. Brio believes that, based on a number of factors, there is sufficient uncertainty regarding the realizability of carryforwards and credits and has therefore provided a valuation allowance for a significant portion of its deferred tax asset at March 31, 2001. These factors include a history of operating losses, recent increases in expense levels to support Brio's growth, the competitive nature of Brio's market and the lack of predictability of revenue. Management will continue to assess the realizability of the tax benefits available to Brio based on actual and forecasted operating results. Furthermore, the Internal Revenue Code contains provisions which may limit the net operating loss and research and development credit carryforwards to be used in any given year upon the occurrence of certain events, including a significant change in ownership.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activities.'' The statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 is effective for Brio's fiscal year beginning April 1, 2001. Management believes the adoption of SFAS No. 133 will not have a material effect on Brio's financial statements.

Liquidity and Capital Resources

As of March 31, 2001, Brio had cash, cash equivalents and short-term investments of $15.3 million. In addition, Brio maintains a bank line of credit. The line provides for up to $15.0 million in borrowings, with interest at the bank's prime rate. Borrowings under the accounts receivable line of credit are limited to 80% of eligible accounts receivable. The line of credit is collateralized by substantially all of Brio's assets, including Brio's intellectual property, accounts receivable and property and equipment to the extent required to secure the line. As of March 31, 2001, the line of credit requires Brio to comply with various covenants, including quarterly requirements to maintain a minimum quick ratio as well as achieve minimum profitability or not exceed a maximum quarterly loss. Brio was not in compliance with the profitability covenant as of March 31, 2001, however, a waiver was obtained from the bank. The line expires on March 31, 2002. No amounts are outstanding under the line as of March 31, 2001.

As part of the merger with SQRIBE, Brio assumed a $2.5 million bank line of credit. During fiscal 2000, all amounts outstanding under the line were paid and the line was cancelled. Brio also assumed a $1.0 million equipment purchase line of credit under which a $500,000 letter of credit was outstanding to support a facilities lease. In December 2000 the letter of credit was cancelled. A new letter of credit in the amount of $300,000 was issued under the new Brio bank line of credit in May 2001.

Net cash used by operating activities was $197,000 in fiscal 2001. Net cash generated by operating activities was $1.3 million in fiscal 2000 and $3.9 million in fiscal 1999. The increase in net cash used by operating activities in fiscal 2001 was primarily due to $3.0 million of unfavorable changes in the balances of operating assets and liabilities, offset by a $1.3 million decrease in net loss applicable to common stock. The decrease in net cash provided by operating activities in fiscal 2000 was primarily due to a $10.2 million increase in net loss applicable to common stock, offset by $7.6 million of favorable changes in the balances of operating assets and liabilities. The increase in fiscal 1999 was primarily due to a $15.1 million decrease in net loss applicable to common stock, offset by $10.1 million of unfavorable changes in the balances of operating assets and liabilities.

Net cash used in investing activities was $16.1 million in fiscal 2001, consisting primarily of $26.4 million for the purchase of property and equipment, offset by approximately $9.4 million in sales of short-term investments, net of purchases, and $890,000 of proceeds from the sale of property and equipment. Net cash used in investing activities was $6.9 million in fiscal 2000, consisting of approximately $9.3 million for the purchase of property and equipment, offset by approximately $2.4 million in sales of short-term investments, net of purchases. Net cash used in investing activities was $20.1 million in fiscal 1999, consisting of approximately $4.1 million for the purchase of property and equipment, approximately $13.8 million for the purchase of short-term investments, net of sales and approximately $2.2 million for the purchase of MerlinSoft, net of cash acquired.

Net cash provided by financing activities was $7.2 million in fiscal 2001, consisting of $6.8 million of proceeds from the issuance of common stock to employees under various incentive stock plans and approximately $433,000 of proceeds from the repayment of notes receivable from stockholders. Net cash provided by financing activities was $6.0 million in fiscal 2000, consisting of approximately $6.7 million of proceeds from the issuance of common stock to employees under various incentive stock plans and approximately $1.3 million of proceeds from the repayment of notes receivable from stockholders, offset by approximately $2.0 million of repayments of notes payable. Net cash provided by financing activities was $29.9 million in fiscal 1999, consisting of approximately $33.3 million of proceeds from the issuance of common stock to employees under various incentive stock plans and the proceeds from Brio's initial public offering, offset by approximately $1.6 million for the issuance of notes to stockholders, net of repayments and approximately $1.8 million in net repayments of notes payable.

Brio currently has no material commitments other than those under operating lease agreements. Brio has experienced a substantial increase in its capital expenditures and operating lease arrangements since inception, which is consistent with increased staffing, and anticipates that this will continue in the future. Additionally, Brio will continue to evaluate possible acquisitions of, or investments in businesses, products and technologies that are complementary to those of Brio, which transactions may require the use of cash. Management believes existing cash, cash equivalents and short-term investments will be sufficient to meet Brio's operating requirements for at least the next twelve months; however, Brio may sell additional equity or debt securities or obtain credit facilities to further enhance its position. The sale of additional securities could result in additional dilution to Brio's stockholders.

RISK FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

We desire to take advantage of the ''Safe Harbor'' provisions of the Private Securities Litigation Reform Act of 1995 and of Section 21B and Rule 3b-6 under the Securities and Exchange Act of 1934. Specifically, we wish to alert readers that the following important factors, as well as other factors including, without limitation, those described elsewhere in reports we have filed with the SEC and incorporated into this annual report on Form 10-K by reference, could in the future affect, and in the past have affected, our actual results and could cause our results for future periods to differ materially from those expressed in any forward-looking statements made by or on behalf of us. We assume no obligation to update these forward-looking statements.

Because our plans to achieve profitability in the future require us to grow our work force, improve our infrastructure and acquire and develop new technologies, failure to successfully do so could lower our operating results and cause our stock price to decrease. If we cannot execute our growth strategy, our stock price could decrease. Successfully achieving our growth strategy depends upon the combined company's ability to:

- expand, train and manage our work force;
- continue to attract, retain and motivate qualified personnel; and
- develop or acquire new businesses, products and technologies.

In addition, if we cannot manage an expanding work force, improve our reporting systems and customer service infrastructure and manage the integration of acquired businesses, products or technologies, we will be unable to continue to manage the growth of our operations, which could harm our business and financial results.

Brio has a history of net losses, and may not be profitable in the future. Brio has a history of net losses, and cannot provide any assurance that we will experience revenue growth or profitability on a quarterly or annual basis in the future. In particular, Brio incurred net losses applicable to common stock of $9.7 million in fiscal 2001, $10.9 million in fiscal 2000 and $753,000 in fiscal 1999. As of March 31, 2001, Brio had stockholders' equity of approximately $26.4 million.

Brio anticipates increased operating expenses and a reduced rate of revenue growth in the future. Brio currently expects to increase its expenses, and our operating results will be harmed if increased revenues do not accompany these increased expenses. Brio may not sustain the same rate of sequential quarterly revenue growth it has experienced in the past in future periods. In addition, Brio will likely increase its operating expenses significantly in fiscal 2002. Brio currently intends to commit substantial financial resources to research and development, customer support and sales and marketing, including the continued expansion of its domestic and international direct sales force, third-party partnering relationships and Brio's domestic and international indirect channel sales organization. Brio also expects to increase staffing and systems infrastructure in order to support expanding operations.

Our prospects for increased future revenues must be considered in light of the risks, expenses and difficulties frequently encountered by companies in a similar stage of development, particularly companies in rapidly evolving markets. To address these risks, the company must:

- successfully increase the scope of its operations;
- respond to competitive developments;
- continue to attract, retain and motivate qualified personnel; and
- continue to commercialize products incorporating advanced technologies.

Brio may not be able to achieve these goals.

Brio's quarterly operating results will likely fluctuate based on factors beyond our control. Brio has experienced, and expects to continue to experience, significant fluctuations in quarterly operating results based on a number of factors, many of which are not within its control. Among other things, Brio's operating results have fluctuated in the past due to:

- the timing of product enhancements and new product announcements;
- the lengthy sales cycle of its products;
- market acceptance of and demand for its products;
- capital spending patterns of its customers;
- customer order deferrals in anticipation of enhancements or new products;
- its ability to attract and retain key personnel;
- the mix of domestic and international sales;
- the mix of license and service revenues;
- personnel changes; and
- changes in the timing and level of operating expenses.

During fiscal 2001, Brio found that several of these factors negatively impacted its profitability. In particular, Brio found that deals for large-scale deployments of its products, which have become more prevalent, have a longer sales cycle than smaller implementations. In addition, the mix of license and service revenues varied significantly when compared to historical results.

In addition, the announcement or introduction of new products by Brio or its competitors or any change in industry standards may cause customers to defer or cancel purchases of existing products. Furthermore, the introduction of products with reliability, quality or compatibility problems could result in reduced orders, delays in collecting accounts receivable and additional service costs. Accordingly, Brio's results of operations may also fluctuate in the future due to a number of additional factors, including but not limited to those discussed above, as well as:

- the number and significance of product enhancements and new product announcements by competitors;
- changes in pricing policies by Brio and its competitors;
- Brio's ability to develop, introduce and market new and enhanced versions of its products on a timely basis;
- customer order deferrals in anticipation of enhancements or new products offered by competitors;
- nonrenewal of service agreements, software defects and other product quality problems;
- the mix of direct and indirect sales;
- currency fluctuations; and
- general economic conditions.

Due to these factors, quarterly revenue and operating results are difficult to forecast and may not meet expectations.

Seasonality may affect Brio's results. Brio has experienced seasonality due to customer capital spending patterns and the general summer slowdown in sales. Brio expects to continue to experience seasonality as a result of these factors. This seasonality could materially hurt results of operations, particularly for the quarters ending June 30 or September 30.

If Brio's operating results do not meeting financial analysts' expectations, our stock price may decline. In the future, our reported or anticipated operating results may fail to meet or exceed the expectations of securities analysts or investors. In that event, Brio's common stock price could be materially reduced.

Because Brio depends on a direct sales force, any failure by Brio to attract and retain adequate sales personnel could slow its sales and increase its expenses, causing significant financial and operational risks. Brio may not be able to attract and retain adequate sales personnel, despite the expenditure of significant resources to do so, and the failure to do so could materially harm its ability to sell its products at expected levels. Because turnover tends to slow sales efforts until replacement personnel can be recruited and trained, failure to retain sales personnel could seriously hamper our business, operating results and financial condition. Competition for personnel with a sufficient level of expertise and experience for direct sales positions is intense, particularly among competitors who may have substantially greater resources than Brio or greater resources dedicated to hiring direct sales personnel. In addition, Brio has experienced significant turnover of its sales force.

Brio's success depends on key personnel who may not continue to work for it. The loss of the services of any of the key personnel or the inability to attract or retain qualified personnel in the future could harm Brio's business, operating results and financial condition. The success of Brio will depend to a significant degree upon the continued contributions of key management, engineering, sales and marketing personnel, many of whom would be difficult to retain or replace if they leave Brio. Because competition for qualified personnel is intense, Brio may not be successful in attracting and retaining the personnel it seeks.

Brio has recently experienced difficulties in hiring highly qualified sales, engineering and IT personnel, and may continue to have difficulty in attracting employees in those categories. Brio has employment contracts with six members of its executive management personnel. Brio does not maintain ''key person'' life insurance on any of its executive management.

Our management team has limited prior experience together. Brio hired a new president and chief executive officer in January 2001 and has thereafter hired other key members of executive management. Because our management team has limited experience working together, they may not effectively manage our operations. Management ineffectiveness may disrupt our entire business operation, distract our employees and impair our ability to execute our strategy.

Because the sales cycle for Brio's products is long, the timing of sales is difficult to predict and Brio's quarterly revenues and earnings may fluctuate significantly. Based in part on the lengthy sales cycle for Brio's products, quarterly revenues and operating results could vary significantly in the future. The sales cycle associated with the purchase of Brio's products is typically three to nine months in length and subject to a number of significant risks over which Brio has little or no control, including customers' budgeting constraints and internal acceptance review procedures. In particular, large-scale deployments of Brio's products, which are becoming more prevalent in the industry, take longer to evaluate, implement and close than historical sales cycles seem to indicate. Sales transactions may be delayed during the customer acceptance process because Brio must provide a significant level of education to prospective customers regarding the use and benefits of its products. Additionally, the sales cycle for Brio's products in international markets has historically been, and is expected to continue to be, longer than the sales cycle in the United States and Canada. Accordingly, if Brio's international operations expand, the average sales cycle for its products is expected to lengthen. In addition, Brio anticipates that an increasing portion of its revenue could be derived from larger orders, in which case the timing of receipt and fulfillment of those orders could cause material fluctuations in operating results, particularly on a quarterly basis.

Because Brio expects to achieve revenue growth and increased margins through indirect sales channels, Brio's failure to develop and manage indirect sales channels could limit its sales growth and financial performance. Brio may not be able to continue to attract and retain additional indirect channel partners that will be able to market its products effectively and provide timely and cost-effective customer support and services. Brio may not be able to manage conflicts within its indirect channel or that its focus on increasing sales through the indirect channels will not divert management resources and attention from direct sales. In addition, Brio's agreements with indirect channel partners do not restrict the channel partners from distributing competing products, and in many cases may be terminated by either party without cause. The ability of Brio to achieve revenue growth and improved operating margins on product sales in the future will depend in large part upon its success in expanding and maintaining indirect channels worldwide. Indirect channels include VARs, PLPs, resellers, system integrators and distributors.

To date, Brio has generated a majority of its sales from its direct sales force, and has supplemented its direct sales efforts with the efforts of VARs, PLPs, resellers, system integrators and distributors in a variety of locations throughout the world. These third parties perform some or all of the following functions: sales and marketing; systems implementation and integration; software development and customization; and ongoing consulting, training, service and technical support. Brio generally offers such parties discounts on products and training, as well as a cooperative marketing program and field level assistance from Brio's direct and channel sales forces. Brio intends to leverage sales and marketing through indirect channel partners that will distribute or resell Brio's products in their respective markets. Revenues from VARs, PLPs, resellers, system integrators and distributors accounted for approximately 21% of total revenues in fiscal 2001, approximately 26% of total revenues in fiscal 2000 and approximately 21% of total revenues in fiscal 1999.

Brio's strategy of acquiring new businesses and technologies involves integration and transaction completion risks. As part of our business strategy, we expect to enter into business combinations and acquisitions. Acquisition transactions are accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of the acquired companies;
- the potential disruption of our ongoing business and distraction of management;
- the difficulty of incorporating acquired technology or content and rights into our products;
- the correct assessment of the relative percentages of in-process research and development expense which can be immediately written off as compared to the amount which must be amortized over the appropriate life of the asset;
- the failure to successfully develop an acquired in-process technology could result in the impairment of amounts currently capitalized as intangible assets;
- unanticipated expenses related to technology integration;
- the maintenance of uniform standards, controls, procedures and policies;
- the impairment of relationships with employees and customers as a result of any integration of new management personnel; and
- the potential unknown liabilities associated with acquired businesses.

We may not be successful in addressing these risks or any other problems encountered in connection with such acquisitions.

Brio is in a highly competitive industry and some of its competitors may be more successful in attracting and retaining customers. The market in which Brio operates is highly competitive. Brio expects that competition will continue to intensify. Increased competition could result in:

- price reductions;
- fewer customer orders;
- reduced gross margins;
- longer sales cycles; and
- loss of market share.

Brio or its competitors may announce enhancements to existing products, or new products embodying new technologies, industry standards or customer requirements that have the potential to supplant or provide lower-cost alternatives to Brio's existing products.

Current and potential competitors offer a variety of software solutions and generally fall within several categories:

- business intelligence software vendors such as Cognos, Business Objects, Crystal Decisions and Hummingbird;
- vendors offering alternative approaches to delivering reporting and analysis capabilities to users, such as MicroStrategy, Computer Associates, Information Advantage and Actuate;
- portal software vendors, such as Plumtree, Viador and Portal Software;
- database vendors that offer client products that operate specifically with their proprietary database, such as Microsoft, IBM, Oracle and Ardent;
- analytic application vendors such as E.piphany; and
- other companies that may in the future announce offerings similar to the Brio Business Performance Platform.

These competitors may be able to respond more quickly than Brio to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sales of their products than Brio. Brio expects additional competition as other established and emerging companies enter into the business intelligence software market and new products and technologies are introduced. Brio will compete on the basis of the following factors:

- completeness of product offering;
- product features;
- ease of use;
- product performance;
- product quality;
- analytical capabilities;
- scalability;
- open architecture;
- customer support;
- time to market; and
- price.

Our failure to compete favorably in these areas could limit our ability to attract and retain customers, which could have a material adverse affect on our results of operations.

Market consolidation may create more formidable competitors. Alliances among current and new competitors may emerge and rapidly gain significant market share. The failure of Brio to compete successfully against current and future competitors could materially harm its business, operating results and financial condition by driving down prices and reducing revenue growth. Current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing the ability of their products to address the needs of Brio's prospective customers. Current or future indirect channel partners of Brio may establish cooperative relationships with current or potential competitors, thereby limiting Brio's ability to sell its products through particular distribution channels. Such competition could have a material adverse effect on Brio's ability to obtain new licenses and maintenance and support renewals for existing licenses on favorable terms. Further, competitive pressures may require Brio to reduce the price of its products, which could have a material adverse effect on our business, operating results and financial condition.

Brio's plans to expand internationally expose Brio to risks related to managing international operations, currency exchange rates, tariffs and other difficulties related to foreign operations. A key component of Brio's strategy is its planned expansion into additional international markets. If the international revenues generated by these expanded operations are not adequate to offset the expense of establishing and maintaining these foreign operations, Brio's business, operating results and financial condition could be materially harmed. In addition to the uncertainty as to Brio's ability to expand its international presence, there are risks inherent in doing business on an international level, including:

- technical difficulties associated with product localization in foreign countries;
- increased liability and financial exposure under foreign laws;
- increased difficulty in controlling operating expenses;
- unexpected changes in regulatory requirements;
- tariffs and other trade barriers;
- difficulties in staffing and managing foreign operations;
- longer payment cycles;
- problems in collecting accounts receivable;
- political instability;
- fluctuations in currency exchange rates;
- seasonal reductions in business activity during the summer months in Europe; and
- potentially adverse tax consequences.

Each of these factors could adversely impact the success of Brio's international operations and, consequently, could harm Brio's business, operating results and financial condition. In particular, Brio's international sales are generally denominated and collected in foreign currencies, and Brio has not historically undertaken foreign exchange hedging transactions to cover potential foreign currency exposure. Brio incurred a loss on foreign currency translations resulting from intercompany receivables from foreign subsidiaries in an amount of approximately $870,000 fiscal 2001, approximately $429,000 in fiscal 2000 and approximately $126,000 in fiscal 1999.

Brio's future success will depend upon successful product development in the face of changing customer requirements and rapid technological change. Brio's failure to develop and introduce new products and product enhancements on a timely basis that meet changing customer requirements and technological changes could result in reduced demand for or market acceptance of Brio's products, which could hurt Brio's business, operating results and financial condition. Brio's products incorporate a number of advanced technologies, including proprietary data analysis engines, a distributed architecture, as well as Web access and delivery technology. Brio may be required to change and improve its products in response to changes in operating systems, applications, networking and connectivity software, computer and communications hardware, programming tools and computer language technology.

Brio may not successfully respond to changing technology, identify new product opportunities or develop and bring new products to market in a timely and cost-effective manner. In the past Brio has experienced delays in software development. In particular, development efforts in the UNIX server environment are complex, and in the past Brio has encountered delays in developing products for this environment. Brio may experience delays in connection with current or future product development activities.

Because Brio's future success will depend upon successful product development in the face of evolving industry standards, failure to introduce new products could hurt its growth and profitability. Brio's failure to introduce new products or product enhancements on a timely basis that are compatible with industry standards could delay or hinder demand for or market acceptance of its products, which could hurt Brio's growth and profitability.

The market may not accept Brio's products, which would reduce revenues, growth and profitability. Brio is focusing its selling efforts increasingly on larger, enterprise-wide implementations of its products, and Brio expects these sales to constitute an increasing portion of any of its future revenue growth. Failure of a significant market for analytic solutions to continue to grow, or failure of enterprise-wide implementations of Brio's products to achieve broad market acceptance, could materially harm Brio's business, operating results and financial condition. To date, Brio's selling efforts have resulted in limited enterprise-wide implementations of its products. Brio believes that most companies currently are not yet aware of the benefits of enterprise-wide analytic solutions or of its products and capabilities, nor have most companies deployed analytic solutions on an enterprise-wide basis. Brio's efforts to promote market awareness of its products and the problems its products address may not be sufficient to build market awareness of the need for analytic solutions or acceptance of Brio's products.

Product defects could adversely affect Brio's operating results. As a result of their complexity, Brio's software products may contain undetected errors, failures or viruses. Brio or its customers may discover errors in new products or enhancements after commencement of commercial shipments, resulting in loss of revenues, delay in market acceptance or damage to Brio's reputation, which could have a material adverse effect upon Brio's business, operating results and financial condition. Further, Brio's license agreements with customers typically contain provisions designed to limit Brio's exposure for potential claims based on error or malfunctions of Brio's products. The limitation of liability provisions contained in Brio's license agreements may not be effective under the laws of all jurisdictions. Brio's sale and support of its products entail the risk of warranty claims, and Brio's insurance against product liability risks may not be adequate to cover a potential claim. A product liability claim brought against Brio could have a material adverse effect on its business, operating results and financial condition.

Brio has one issued patent and twelve pending patent applications. Brio's intellectual property protection may not be adequate to prevent competitors from entering its markets or developing competing products. Brio's limited intellectual property protection may allow competitors to enter its market or develop competing products, resulting in competitive harm to Brio. The methods used by Brio to protect its proprietary rights afford only limited protection. Brio currently relies primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. Brio currently has one U.S. patent and twelve pending applications. The patent applications may not result in the issuance of a patent. Our issued patent and any additional patents issued to us may be invalidated, circumvented or challenged, and the rights granted under these patents might not provide Brio competitive advantages. Brio may not obtain any more patents. Others may develop technologies that are similar or superior to Brio's technology or design around our patent or any other patent that we may come to own.

Despite Brio's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of Brio's products or to obtain and use information that Brio regards as proprietary. Policing unauthorized use of Brio's products is difficult, and while Brio is unable to determine the extent to which piracy of its software products exists, Brio expects software piracy to be a persistent problem. In addition, the laws of some foreign countries do not protect proprietary rights as fully as do the laws of the U.S. Brio's means of protecting its proprietary rights in the U.S. or abroad may not be adequate, and competitors may independently develop similar technology.

Investment Risks

Brio's common stock has a limited trading history and a volatile price. There has only been a public market for Brio's common stock since April 30, 1998, and an active public market may not continue. The market price of the shares of Brio's common stock is likely to be highly volatile and may be significantly affected by a number of factors, including:

- actual or anticipated fluctuations in our operating results;
- announcement of business partnerships;
- technological innovations or new product introductions by us or our competitors;
- changes of estimates of our future operating results by securities analysts;
- developments with respect to copyrights or proprietary rights; or
- general market conditions.

In addition, the stock market has, from time to time, experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many technology companies. Broad market fluctuations, as well as economic conditions generally and in the software industry specifically, may result in material adverse effects on the market price of Brio's common stock. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. Such litigation may occur in the future with respect to Brio, and could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect upon Brio's business, operating results and financial condition.

Anti-takeover provisions may adversely effect Brio's stock price and make it more difficult for a third party to acquire Brio. Provisions of Brio's charter documents may have the effect of delaying or preventing a change in control of Brio or its management, which could have a material adverse effect on the market price of Brio's common stock. These include provisions:

- relating to a classified board of directors and provisions eliminating cumulative voting;
- eliminating the ability of stockholders to take actions by written consent; and
- limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice.

In addition, the Brio board of directors has authority to issue up to 2,000,000 shares of preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares without any further vote or action by the stockholders. The rights of the holders of Brio's common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that Brio may issue in the future. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of Brio's outstanding voting stock, thereby delaying, deferring or preventing a change in control of Brio. Brio has no present plan to issue shares of preferred stock.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

Brio's exposure to market risk for changes in interest rates relates primarily to Brio's investment portfolio. Brio maintains an investment policy which ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of March 31, 2001, Brio had $13.0 million of cash and cash equivalents with a weighted average variable rate of 4.62% and $2.3 million of short-term investments with a weighted average variable rate of 5.95%.

Brio mitigates default risk by attempting to invest in high credit quality securities and by constantly positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity and maintains a prudent amount of diversification.

Brio currently has no cash flow exposure due to rate changes for long-term debt obligations. Brio has entered into borrowing agreements to support general corporate purposes including capital expenditures and working capital needs, should the need arise. Brio currently has no short-term or long-term debt outstanding.

Brio conducts business on a global basis in international currencies. As such, it is exposed to adverse or beneficial movements in foreign currency exchange rates. Brio may enter into foreign currency forward contracts to minimize the impact of exchange rate fluctuations on certain foreign currency commitments and balance sheet positions. At March 31, 2001 there were no outstanding foreign currency exchange contracts.

Item 8. ***Financial Statements and Supplementary Data***

BRIO TECHNOLOGY, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of Brio Technology, Inc.:

We have audited the accompanying consolidated balance sheets of Brio Technology, Inc. (a Delaware corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended March 31, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brio Technology, Inc. and subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed under 14 (a) is presented for purposes of complying with the Securities and Exchange Commissions rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

San Jose, California
April 17, 2001

BRIO TECHNOLOGY, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	March 31, 2001	March 31, 2000
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 13,048	$ 21,573
Short-term investments	2,280	11,831
Accounts receivable, net of allowance for doubtful accounts of $2,814 and $2,848, respectively	34,085	31,429
Inventories	333	822
Deferred income taxes	447	1,890
Prepaid expenses and other current assets	4,877	3,862
Total current assets	55,070	71,407
Property and Equipment, net	31,508	12,118
Other Assets	1,626	2,339
	$ 88,204	$ 85,864
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 7,679	$ 7,801
Accrued liabilities:		
Payroll and related benefits	13,307	11,423
Other	9,695	8,786
Deferred revenue, current	30,363	24,108
Total current liabilities	61,044	52,118
Noncurrent Deferred Revenue	793	2,717
Other Noncurrent Liabilities	—	2,903
Total liabilities	61,837	57,738
Commitments and Contingencies (Notes 5 and 8)		
Stockholders' Equity:		
Preferred stock, $0.001 par value: Authorized—2,000,000 shares, none issued and outstanding	—	—
Common stock, $0.001 par value: Authorized—60,000,000 shares Issued and outstanding—28,758,899 shares at March 31, 2001 and 27,669,555 shares at March 31, 2000	29	28
Additional paid-in capital	83,720	76,807
Notes receivable from stockholders	(36)	(483)
Deferred compensation	(32)	(118)
Accumulated components of comprehensive income	756	312
Accumulated deficit	(58,070)	(48,420)
Total stockholders' equity	26,367	28,126
	$ 88,204	$ 85,864

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

BRIO TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Years Ended March 31,		
	2001	2000	1999
Revenues:			
License fees	$ 88,196	$ 89,670	$58,282
Services	61,778	42,366	27,404
Total revenues	149,974	132,036	85,686
Cost of revenues:			
License fees	3,652	3,254	2,582
Services	27,528	16,835	10,468
Total cost of revenues	31,180	20,089	13,050
Gross profit	118,794	111,947	72,636
Operating expenses:			
Research and development	26,291	19,917	13,732
Sales and marketing	86,453	66,208	48,470
General and administrative	15,256	13,840	10,548
In-process research and development	—	—	1,653
Non-recurring operating expenses	—	22,297	—
Total operating expenses	128,000	122,262	74,403
Loss from operations	(9,206)	(10,315)	(1,767)
Interest and other income (expense), net	(344)	748	2,677
Income (loss) before provision for income taxes	(9,550)	(9,567)	910
Provision for income taxes	100	1,343	747
Net income (loss)	(9,650)	(10,910)	163
Increase in redemption value of redeemable common stock	—	—	(916)
Net loss applicable to common stock	$ (9,650)	$ (10,910)	$ (753)
Basic net loss per share	$ (0.34)	$ (0.43)	$ (0.04)
Shares used in computing basic net loss per share	28,335	25,261	19,984

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

	hensive Loss	Shares	Amount	Shares	Amount	Paid-in Capital	Stock-holders	Compen-sation	Comprehensive Income (Loss)	lated Deficit	Equity (Deficit)
BALANCE, MARCH 31, 1998		10,076,769	$ 5	11,259,375	$ 11	$32,456	$ (292)	$(459)	$ 155	$(33,140)	$ (1,264)
Conversion of preferred stock to common stock		(5,466,172)	—	5,466,172	5	(5)	—	—	—	—	—
Exercise of common stock options for cash		—	—	329,203	1	515	—	—	—	—	516
Exercise of common stock options for notes receivable		—	—	1,232,589	1	1,640	(1,641)	—	—	—	—
Issuance of common stock pursuant to Employee Stock Purchase Plan		—	—	105,137	—	737	—	—	—	—	737
Issuance of common stock during initial public offering, net		—	—	3,085,000	3	30,421	—	—	—	—	30,424
Repurchase of restricted shares		—	—	(52,548)	—	(54)	54	—	—	—	—
Stock compensation arrangements		—	—	—	—	390	—	(188)	—	—	202
Repayment of notes receivable from stockholders		—	—	—	—	—	59	—	—	—	59
Amortization of deferred compensation		—	—	—	—	—	—	129	—	—	129
Termination of shares granted under incentive stock plans		—	—	—	—	(62)	—	62	—	—	—
Income tax benefit from stock options exercised		—	—	—	—	142	—	—	—	—	142
Adjustment to conform SQRIBE Technologies, Corp. fiscal year-end		—	—	—	—	—	—	—	—	(3,617)	(3,617)
Net loss applicable to common stock	$ (753)	—	—	—	—	—	—	—	—	(753)	(753)
Cumulative translation adjustment	(23)	—	—	—	—	—	—	—	(23)	—	(23)
Unrealized loss on investments	(264)	—	—	—	—	—	—	—	(264)	—	(264)
	$ (1,040)										
BALANCE, MARCH 31, 1999		4,610,597	5	21,424,928	21	66,180	(1,820)	(456)	(132)	(37,510)	26,288
Conversion of preferred stock to common stock		(4,610,597)	(5)	4,610,597	5	—	—	—	—	—	—
Conversion of redeemable common stock to common stock		—	—	—	—	3,110	—	—	—	—	3,110
Exercise of common stock options for cash		—	—	1,287,331	1	4,123	—	—	—	—	4,124
Issuance of common stock pursuant to Employee Stock Purchase Plan		—	—	347,324	1	2,554	—	—	—	—	2,555
Repurchase of restricted shares		—	—	(625)	—	—	—	—	—	—	—
Repayment of notes receivable from stockholders		—	—	—	—	—	1,337	—	—	—	1,337
Amortization of deferred compensation		—	—	—	—	—	—	155	—	—	155
Termination of shares granted under incentive stock plans		—	—	—	—	(183)	—	183	—	—	—
Income tax benefit from stock options exercised		—	—	—	—	1,023	—	—	—	—	1,023
Net loss applicable to common stock	$ (10,910)	—	—	—	—	—	—	—	—	(10,910)	(10,910)
Cumulative translation adjustment	128	—	—	—	—	—	—	—	128	—	128
Unrealized gain on investments	316	—	—	—	—	—	—	—	316	—	316
	$(10,466)										
BALANCE, MARCH 31, 2000		—	—	27,669,555	28	76,807	(483)	(118)	312	(48,420)	28,126
Exercise of common stock options for cash		—	—	478,514	—	1,877	—	—	—	—	1,877
Exercise of common stock warrants for cash		—	—	25,602	—	180	—	—	—	—	180
Issuance of common stock pursuant to Employee Stock Purchase Plan		—	—	580,771	1	4,728	—	—	—	—	4,729
Issuance of common stock for stock bonus		—	—	18,182	—	100	—	—	—	—	100
Repurchase of restricted shares		—	—	(13,725)	—	(14)	14	—	—	—	—
Repayment of notes receivable from stockholders		—	—	—	—	—	433	—	—	—	433
Amortization of deferred compensation		—	—	—	—	—	—	55	—	—	55
Compensation expense associated with the acceleration of options		—	—	—	—	73	—	—	—	—	73
Termination of shares granted under incentive stock plans		—	—	—	—	(31)	—	31	—	—	—
Net loss applicable to common stock	$ (9,650)	—	—	—	—	—	—	—	—	(9,650)	(9,650)
Cumulative translation adjustment	567	—	—	—	—	—	—	—	567	—	567
Unrealized loss on investments	(123)	—	—	—	—	—	—	—	(123)	—	(123)
	$ (9,206)										
BALANCE, MARCH 31, 2001		—	$ —	28,758,899	$ 29	$83,720	$ (36)	$ (32)	$ 756	$(58,070)	$ 26,367

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

BRIO TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended March 31,		
	2001	2000	1999
Cash Flows from Operating Activities:			
Net loss applicable to common stock	$ (9,650)	$(10,910)	$ (753)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:			
Depreciation and amortization	6,092	2,977	2,378
Amortization of long-term assets	372	371	150
Adjustment to conform SQRIBE Technologies Corp. fiscal year-end	—	—	(1,767)
Increase in redemption value of redeemable common stock	—	—	916
In-process research and development	—	—	1,653
Gain on sale of business	—	—	(692)
Loss on disposal of property and equipment	60	768	52
Provision for returns and doubtful accounts	978	1,494	823
Provision for loss on marketable securities	—	346	—
Stock compensation	173	—	202
Deferred compensation amortization	55	155	129
Deferred income taxes	1,443	205	(1,915)
Income tax benefit of option exercises	—	1,023	142
Changes in operating assets and liabilities, net of acquired business:			
Accounts receivable	(3,634)	(12,249)	(6,756)
Inventories	489	(446)	(15)
Prepaid expenses and other assets	(674)	(3,308)	(915)
Accounts payable and accrued liabilities	(232)	14,911	5,218
Deferred revenue	4,331	5,965	5,060
Net cash (used in) provided by operating activities	(197)	1,302	3,910
Cash Flows from Investing Activities:			
Purchases of property and equipment	(26,432)	(9,323)	(4,058)
Proceeds from sales of property and equipment	890	—	—
Purchases of short-term investments	(1,785)	(24,662)	(15,490)
Sales of short-term investments	11,213	27,086	1,633
Issuance of note receivable to officer	(1,500)	—	—
Proceeds from repayment of note receivable to officer	1,500	—	—
Acquisition of business, net of cash acquired	—	—	(2,203)
Net cash used in investing activities	(16,114)	(6,899)	(20,118)
Cash Flows from Financing Activities:			
Proceeds from notes payable	—	—	2,000
Repayments under notes payable	—	(2,000)	(3,805)
Proceeds from issuance of common stock, net	6,786	6,679	33,318
Proceeds from repayment of notes receivable from stockholders	433	1,337	59
Issuance of notes to stockholders	—	—	(1,641)
Net cash provided by financing activities	7,219	6,016	29,931
Net (decrease) increase in cash and cash equivalents	(9,092)	419	13,723
Effect of exchange rate changes on cash	567	128	(23)
Cash and cash equivalents, beginning of period	21,573	21,026	7,326
Cash and cash equivalents, end of period	$ 13,048	$ 21,573	$ 21,026
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 447	$ 361	$ 75
Cash paid for income taxes	$ —	$ 1,266	$ 2,575
Noncash investing and financing activities:			
Conversion of redeemable common stock into common stock	$ —	$ 3,110	$ —
Termination of shares granted under incentive stock plans	$ 31	$ 183	$ 62
Stock issued for notes, net of repurchases	$ —	$ —	$ 1,587
Adjustment to conform SQRIBE Technologies Corp. fiscal year-end	$ —	$ —	$ 1,850

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

1. ORGANIZATION AND OPERATIONS:

Brio Technology, Inc. (Brio) was incorporated in California in 1989 and reincorporated in Delaware in April 1998 (see Note 7). Brio delivers an analytic software platform that enables companies to drive better business decisions by leveraging their existing information technology (IT) infrastructures and information systems. The Brio Business Performance Platform drives an organization's business performance, allowing them to be more competitive, customer-centric and responsive to the changing demands of business. The Brio Business Performance Platform expands business intelligence beyond advanced query and analysis technologies to include powerful information delivery through enterprise-class reporting and executive dashboards, all with ease of experience and scalability. Brio solutions empower organizations to find, access, share, manage and exchange information with employees, partners and customers through an Internet-enabled enterprise.

Brio is subject to a number of risks associated with companies in a similar stage of development, including rapid technological change, dependence on key personnel and the sales force, potential competition from larger, more established companies, dependence on product development and the ability to penetrate the market with its products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements include the accounts of Brio and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

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

Foreign Currency Translation

The functional currency of Brio's subsidiaries is the local currency. Accordingly, Brio applies the current rate method to translate the subsidiaries' financial statements into U.S. dollars. Translation adjustments are included in accumulated components of comprehensive income (loss) in stockholders' equity (deficit) in the accompanying consolidated financial statements. Transaction gains and losses of approximately $870,000 in fiscal 2001, approximately $429,000 in fiscal 2000 and approximately $126,000 in fiscal 1999, are included in interest and other income (expense), net, in the accompanying consolidated statements of operations.

Cash and Cash Equivalents

Brio considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At March 31, 2001 and 2000, Brio held its cash in checking and money market accounts.

Short-Term Investments

Management determines the appropriate classifications of investments in debt and equity securities at the time of purchase. All of Brio's investments are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in accumulated components of comprehensive income (loss) in stockholders' equity (deficit) in the accompanying consolidated financial statements. The fair value of Brio's available-for-sale securities is based on quoted market prices at the balance sheet dates. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest and other income (expense), net, in the accompanying consolidated statements of operations. The cost of securities sold is based on the specific identification method. Interest on securities classified as available-for-sale is included in interest and other income (expense), net, in the accompanying consolidated statements of operations.

A summary of the fair value of Brio's available-for-sale investment portfolio is as follows (in thousands):

	March 31, 2001	March 31, 2000
Corporate debt securities and commercial paper	$8,036	$16,651
Government debt securities	1,000	8,780
Total	9,036	25,431
Less: Cash equivalents	6,756	13,600
Total short-term investments	$2,280	$11,831

Significant Concentrations

Financial instruments that potentially subject Brio to concentrations of credit risk consist principally of accounts receivable. Brio performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. As of March 31, 2001, one customer accounted for more than 10% of total accounts receivable. As of March 31, 2000, no customer accounted for more than 10% of total accounts receivable. For the years ended March 31, 2001, 2000 and 1999, no customer accounted for more than 10% of total revenues.

Inventories

Brio's inventories are carried at the lower of cost or market on a first-in, first-out basis. Inventory consists principally of completed software packages including media and documentation.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives (three to seven years) of the assets. Leasehold improvements are amortized over the shorter of the term of the related lease or the estimated useful life of the asset.

Property and equipment consists of the following (in thousands):

	March 31, 2001	March 31, 2000
Software	$ 14,305	$ 4,234
Computer equipment	14,084	9,010
Furniture and fixtures	4,908	3,825
Leasehold improvements	10,616	2,259
	43,913	19,328
Less: Accumulated depreciation and amortization	(12,405)	(7,210)
	$ 31,508	$12,118

Long-lived Assets

Brio periodically reviews long-lived assets, certain identifiable intangibles and goodwill related to these assets for impairment in accordance with SFAS No. 121, ''Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed Of.''

For assets to be held and used, including acquired intangibles, Brio initiates its review whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. Recoverability of an asset is measured by comparison of its carrying amount to the expected future undiscounted cash flows (without interest charges) that the asset is expected to generate. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value.

Assets to be disposed of and for which management has committed to a plan to dispose of the assets, whether through sale or abandonment, are reported at the lower of carrying amount or fair value less cost to sell.

Revenue Recognition

Effective April 1, 1998, Brio adopted Statement of Position (SOP) 97-2, ''Software Revenue Recognition.'' SOP 97-2 provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. The adoption of SOP 97-2 did not have a material impact on Brio's consolidated financial position or the timing of Brio's revenue recognition, or cause changes to its revenue recognition policy.

The Company's revenues are derived from two sources, license fees and services. Services include software maintenance and support, training and system implementation consulting.

Revenue from license fees is recognized upon shipment of the software if collection of the resulting receivable is probable, the fee is fixed or determinable and vendor-specific objective evidence exists to allocate the total fee to all delivered and undelivered elements of the arrangement. If vendor-specific objective evidence does not exist to allocate the total fee to all delivered and undelivered elements of the arrangement, revenue is deferred until such evidence does exist for the undelivered elements, or until all elements are delivered, whichever is earlier. Such undelivered elements in these arrangements typically consist of services.

Allowances are established for potential product returns and credit losses. In instances where payments are subject to extended payment terms, revenue is deferred until the earlier of the date when payments become due or the date payment is received. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

Maintenance revenue is recognized ratably over the term of the maintenance contract. If maintenance is included in an arrangement which includes a license agreement, amounts related to maintenance are unbundled from the license fee based on vendor specific objective evidence. Consulting and training revenue is recognized when the services are performed.

Cost of revenues consists primarily of third-party fees, related personnel and overhead allocations, the cost of media, documentation, packaging and shipping related to products sold.

Deferred Revenue

Deferred revenue represents amounts received from customers under certain license, maintenance and service agreements for which the revenue earnings process has not been completed. In situations where the services are not expected to be provided and revenue recognized within twelve months of the balance sheet date, such amounts are classified as noncurrent deferred revenue.

Software Development Costs

Under Statement of Financial Accounting Standards (SFAS) No. 86 ''Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed,'' costs incurred in the research and development of software products are expensed as incurred until technological feasibility has been established. Once established, these costs are capitalized. Amounts that could have been capitalized under this Statement were insignificant and, therefore, no costs have been capitalized to date.

Comprehensive Income

In 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, ''Reporting Comprehensive Income,'' which was adopted by Brio in the quarter ended June 30, 1998. SFAS No. 130 requires companies to report a new, additional measure of income on the statement of operations or to create a new financial statement that has the new measure of income on it. ''Comprehensive income (loss)'' includes foreign currency translation gains and losses and other unrealized gains and losses that have been previously excluded from net income (loss) and reflected in equity instead. Brio has reported the components of comprehensive income (loss) on its consolidated statements of stockholders' equity (deficit).

Computation of Basic Net Loss Per Share

Basic net loss per share is computed using the weighted average number of shares of common stock outstanding. No diluted net loss per share information is presented as Brio has incurred net losses in all periods presented. Potential common shares from conversion of preferred stock, stock options and warrants and contingently issuable shares have been excluded from the calculation of diluted net loss per share as they are antidilutive. Potential common shares of 2,399,000 and 5,023,873 using the treasury stock method were not included in the computation of diluted net loss per share for the years ended March 31, 2001 and 2000, respectively, because Brio incurred a loss in these periods and, therefore, their effect would be antidilutive.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activities.'' The statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 is effective for Brio's fiscal year beginning April 1, 2001. Management believes the adoption of SFAS No. 133 will not have a material effect on Brio's financial statements.

Reclassifications

Certain prior year financial statement balances have been reclassified to conform to the fiscal 2001 presentation.

3. ACQUISITIONS:

SQRIBE

On February 23, 1999, Brio entered into a definitive merger agreement with SQRIBE Technologies Corp. (SQRIBE). Under the terms of the agreement, upon closing of the transaction, Brio stockholders would hold approximately 55% of Brio, with former SQRIBE stockholders holding approximately 45%.

In August 1999, Brio completed its merger with SQRIBE. Brio acquired all of the outstanding shares of SQRIBE preferred and common stock in a tax-free, stock-for-stock transaction for approximately 13.2 million shares of Brio common stock. In addition, Brio assumed all outstanding stock options and warrants of SQRIBE. The acquisition was accounted for as a pooling-of-interests. All prior period consolidated financial statements were restated, in accordance with required pooling-of-interests accounting and disclosures. SQRIBE had a fiscal year that ended on December 31 of each year. The consolidated financial statements combine the SQRIBE results for the fiscal year ended December 31, 1998, with Brio's results for the year ended March 31, 1999. In order to conform SQRIBE's fiscal year to Brio's fiscal year, the results of operations of SQRIBE for the three months ended March 31, 1999 have been reflected as an adjustment to retained earnings as of that date. Revenue, net loss and net loss applicable to common stock for SQRIBE was $10.8 million, $1.8 million and $3.6 million, respectively, for the three months ended March 31, 1999. Reconciliation of the consolidated financial statements with previously reported separate company performance for the year ended March 31, 1999 is presented below (in thousands):

	Year Ended March 31, 1999
Total revenues	
Brio	$46,524
SQRIBE	39,162
Combined and restated	$85,686
Net income (loss)	
Brio	$ (887)
SQRIBE	1,050
Combined and restated	$ 163
Net income (loss) applicable to common stock	
Brio	$ (887)
SQRIBE	134
Combined and restated	$ (753)

MerlinSoft

In October 1998, Brio acquired all of the outstanding stock of MerlinSoft, Inc. (MerlinSoft), a California corporation, for cash. The total purchase price was $2.2 million, and the acquisition was accounted for as a purchase. In connection with the acquisition, net intangibles of $2.3 million were acquired. The results of operations of MerlinSoft and the estimated fair value of the assets acquired and liabilities assumed are included in Brio's financial statements from the date of acquisition. Intangibles arising from the acquisition are being amortized on a straight-line basis over three years. While Brio relied upon a third party appraisal of the acquired intangible assets, management was primarily responsible for estimating their fair values. Management estimates that $1.7 million of the purchased intangibles represented purchased in-process research and development that had not yet reached technological feasibility and had no alternative future use. The excess of the purchase price over identified assets was approximately $600,000.

The purchased in-process research and development consisted of two projects. Both of these projects are aimed at the delivery of timely, in-depth, sophisticated analytical applications. The first product provides data models for analyses in specific industries and functional areas, metric libraries, a web-based client, and the ability for business users to manage application components (''Analysis Product''). The second product includes in-depth modeling features for margin analysis and what-if scenarios to determine the impact of various decisions and parameters (''Modeling Product''). The research and development costs incurred by MerlinSoft in the development of the Analysis Product were approximately $298,000 in fiscal 1998 and approximately $4,000 in fiscal 1997. The research and development costs incurred by MerlinSoft in the development of the Modeling Product were approximately $34,000 in fiscal 1998. At the date of acquisition, the research and development costs to complete the Analysis Product were estimated by MerlinSoft to be approximately $855,000 in fiscal 2000 and 1999. At the date of acquisition, the research and development costs to complete the Modeling Product project were estimated by MerlinSoft to be approximately $933,000 in fiscal 2000 and 1999.

As of March 31, 2001, Brio has successfully completed the Analysis and Modeling Products. MerlinSoft's results have not differed significantly from the forecast assumptions. The risks associated with the products are still considered high and no assurance can be made that the products will meet market expectations. If these projects do not meet market expectations, the operating results and financial condition of Brio may be adversely affected. Additionally, the value of other intangible assets acquired may become impaired. Comparative pro forma information has not been presented as the operations of MerlinSoft were not material to Brio's consolidated financial statements.

4. INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION:

Brio adopted SFAS No. 131, ''Disclosures about Segments of an Enterprise and Related Information,'' in fiscal 1998. SFAS No. 131 establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

Brio is organized based upon the nature of the products and services it offers. Under this organizational structure, Brio operates in two business segments: license fees and services. Brio evaluates its segment's performance based on several factors including revenue and gross profit. Brio does not allocate or report financial operations by segment beyond revenue and cost of revenue, nor do we allocate long-term assets by business segment. No additional segment information is reported in this footnote as required segment disclosures are included in the Consolidated Statements of Operations.

Brio markets its products in the United States and Canada and in other foreign countries through its domestic sales personnel and its foreign subsidiaries. Revenues by geographic area were as follows:

	2001	2000	1999
United States and Canada	80%	82%	82%
Europe, the Middle East and Africa	13%	13%	13%
Asia Pacific and the rest of the world	7%	5%	5%

No one foreign country comprised more than 10% of total revenues for fiscal 2001, 2000, and 1999. None of Brio's international operations have material items of long-lived assets.

5. COMMITMENTS:

Brio leases various facilities under operating leases which expire on various dates through May 2010. Brio also leases office equipment under various non-cancelable operating leases with terms which expire through

December 2004. For leases with escalating rent payments, rent expense is amortized on a straight-line basis over the life of the lease. Future minimum lease payments relating to these agreements are as follows:

Years Ended March 31,	
2002	$ 8,063,690
2003	7,429,551
2004	6,935,530
2005	5,953,988
2006	4,870,401
Thereafter	19,389,165
	$52,642,325

Rent expense for the years ending March 31, 2001, 2000 and 1999 was $7,950,000, $4,620,000 and $3,533,000, respectively.

6. LINE OF CREDIT:

As of March 31, 2001, Brio maintains a bank line of credit. The line provides for up to $15.0 million in borrowings, with interest at the bank's prime rate (8.0% at March 31, 2001). Borrowings under the accounts receivable line of credit are limited to 80% of eligible accounts receivable. The line of credit is collateralized by substantially all of Brio's assets, including Brio's intellectual property, accounts receivable and property and equipment to the extent required to secure the line. As of March 31, 2001, the line of credit requires Brio to comply with various covenants, including quarterly requirements to maintain a minimum quick ratio as well as achieve minimum profitability or not exceed a maximum quarterly loss. Brio was not in compliance with the profitability covenant as of March 31, 2001, however, a waiver was obtained from the bank. The line of credit expires on March 31, 2002. No amounts are outstanding under the line as of March 31, 2001.

As part of the merger with SQRIBE, Brio assumed a $2.5 million bank line of credit. During fiscal 2000, all amounts outstanding under the line were paid and the line was cancelled. Brio also assumed a $1.0 million equipment purchase line of credit under which a $500,000 letter of credit was outstanding to support a facilities lease. In December 2000, the letter of credit was cancelled. A new letter of credit in the amount of $300,000 was issued under the new Brio bank line of credit in May 2001.

7. STOCKHOLDERS' EQUITY:

Common Stock

In February 1998, the Board of Directors authorized the filing of a registration statement with the Securities and Exchange Commission to register shares of its common stock in connection with a proposed Initial Public Offering (IPO). On May 1, 1998, the offering was consummated and all of the then currently outstanding convertible preferred stock converted to 5,466,172 shares of common stock upon the closing of the IPO.

In April 1998, Brio's board of directors approved a one-for-two reverse stock split of its preferred and common stock. All preferred stock, common stock and per share amounts have been adjusted retroactively to give effect to the reverse stock split.

In April 1998, Brio's board of directors approved the reincorporation of Brio in Delaware in connection with Brio's IPO which was consummated May 1, 1998. Upon reincorporation, Brio issued new shares with a par value of $0.001 per share to all preferred and common stockholders.

Upon closing of the merger with SQRIBE in August 1999, all of the then outstanding shares of SQRIBE convertible preferred stock were converted to 4,610,597 shares of Brio common stock.

Upon closing of the merger with SQRIBE in August 1999, all of the then outstanding shares of redeemable common stock of SQRIBE were converted to 153,612 shares of Brio common stock.

As of March 31, 2001, Brio has reserved the following shares of its common stock for future issuance:

Employee stock purchase plan	1,058,777
Exercise of stock options	16,851,305
Other option and warrant agreements	2,560
Total shares reserved	17,912,642

During fiscal 1997, certain employees funded the purchase of common stock under the 1992 Stock Option Plan with fully secured notes payable to Brio.

As part of the merger with SQRIBE, Brio assumed an agreement, dated in fiscal 1998, that permitted certain employees to accelerate the exercisability of their options to purchase 1,232,589 shares of common stock covered by their option agreements in exchange for full recourse promissory notes totaling $1,641,000. The notes bear interest at 7% and are due in 2003. Repayment of the notes accelerates in the event of termination of employment. The shares purchased under the agreement have been pledged as partial security for the notes. Brio has the right to repurchase these shares at the original sale price based on the vesting schedule in the original option agreements. During fiscal 2001, 12,611 shares of stock were repurchased and the related notes from the terminated employees were cancelled as permitted under the arrangement. No shares were repurchased under this agreement in fiscal 2000. At March 31, 2001, all notes subject to this repurchase right have been paid in full or have been cancelled due to termination as permitted under the arrangement.

Stock Options

Through March 31, 2001, Brio has 2,079,795 shares of common stock reserved for issuance under the 1992 Stock Option Plan (the ''Plan''). Under the Plan, the Board of Directors may grant options to purchase Brio's common stock to employees, directors, or consultants at an exercise price of not less than 100% of the fair value of Brio's common stock. Any options granted must be granted by the tenth anniversary of the effective date of the Plan. Options issued under the Plan generally have a term of five years from the date of grant and generally one-fourth of the shares vest one year from the vesting commencement date with the remaining shares vesting in 36 equal monthly installments.

Brio's 1998 Stock Option Plan (the ''1998 Plan'') was adopted by Brio's Board of Directors in February 1998. Through March 31, 2001, Brio has 9,862,087 shares of common stock reserved for issuance under the 1998 Plan. The shares reserved for issuance under the 1998 Plan increase annually on the first day of Brio's fiscal year through April 1, 2003, by the lesser of 1,000,000 or four percent of the shares outstanding on the last day of the immediately preceding fiscal year. Under the 1998 Plan, the Board of Directors may grant options to purchase Brio's common stock to employees, directors or consultants at an exercise price of not less than 100% of the fair value of Brio's common stock on the date of grant, in the case of incentive stock options, and not less than 85% of the fair value of Brio's common stock on the date of grant, in the case of nonqualified stock options. Options must all be granted by the tenth anniversary of the effective date of the 1998 Plan. Options issued under the 1998 Plan will generally have a term of 10 years from the date of grant and will generally one-fourth of the shares vest one year from the vesting commencement date with the remaining shares vesting in 36 equal monthly installments.

Brio's 1998 Directors' Stock Option Plan (the ''Directors' Plan'') was adopted by Brio's Board of Directors in February 1998. A total of 300,000 shares of common stock have been reserved for issuance under the Directors' Plan. Through March 31, 2001, 125,000 options have been granted under the Directors' Plan. The Directors' Plan provides for the initial grant of nonqualified stock options to purchase 20,000 shares of common stock on the date on which the optionee first becomes a non-employee director of Brio subsequent to the initial public offering (the ''First Option''), and an additional option to purchase 5,000 shares of common stock on the next anniversary to existing and future non-employee directors of Brio if, on such date, the director has served on the board for at least six months (the ''Subsequent Option''). The exercise price per share of all options granted under the Directors' Plan will equal the fair market value of a share of Brio's common stock on the date of grant of the option. Options issued under the Directors' Plan will have a term of 10 years from the date of grant; the First Option shall become exercisable in installments of 25% of the total number of shares subject to the First Option on each of the first, second, third and fourth anniversaries of the date of grant of the First Option; each Subsequent Option shall become exercisable in full on the day before the first anniversary of the date of grant of that Subsequent Option.

Brio's 2000 Stock Option Plan (the ''2000 Plan'') was adopted by Brio's Board of Directors in July 2000. Through March 31, 2001, Brio has 6,000,000 shares of common stock reserved for issuance under the 2000 Plan. Under the 2000 Plan, the Board of Directors may grant only non-qualified stock options to purchase Brio's common stock to non-executive employees, directors or consultants at an exercise price of not less than not less than 85% of the fair value of Brio's common stock on the date of grant. Options must all be granted by the tenth anniversary of the effective date of the 2000 Plan. Options issued under the 2000 Plan will generally have a term of 10 years from the date of grant and generally one-fourth of the shares vest one year from the vesting commencement date with the remaining shares vesting in 36 equal monthly installments.

As part of the merger with SQRIBE, Brio assumed all options outstanding under SQRIBE's 1995 Stock Option Plan as amended and restated. No additional options will be granted under this plan. Stock options granted under this plan generally have vesting terms of four years and are exercisable for a period not to exceed ten years from the date of issuance.

Option activity under the Plans is as follows:

	Shares Available for Grant	Options Outstanding	Weighted Average Exercise Price
Outstanding—March 31, 1998	892,711	3,254,994	$ 1.56
Authorized	3,740,267	—	—
Restricted shares repurchased	52,548	—	—
Options granted	(3,106,173)	3,106,173	7.46
Options exercised	—	(1,561,792)	1.38
Options canceled	397,629	(397,629)	4.31
Outstanding—March 31, 1999	1,976,982	4,401,746	5.53
Authorized	2,267,703	—	—
Restricted shares repurchased	625	—	—
Options granted	(3,208,498)	3,208,498	22.27
Options exercised	—	(1,287,331)	3.22
Options canceled	1,173,770	(1,173,770)	8.62
Outstanding—March 31, 2000	2,210,582	5,149,143	15.78
Authorized	9,956,369	—	—
Restricted shares repurchased	13,725	—	—
Options granted	(8,439,365)	8,439,365	7.53
Options exercised	—	(478,514)	4.45
Options canceled	2,418,394	(2,418,394)	16.06
Outstanding—March 31, 2001	6,159,705	10,691,600	$ 9.74

A summary of options outstanding and exercisable is as follows:

	As of March 31, 2001				
	Options Outstanding			Options Exercisable	
Range of Contractual Prices	Number of Options	Average Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.60–$ 5.91	6,809,094	9.20	$ 5.39	916,590	$ 4.22
$ 6.00–$17.75	2,536,646	8.11	11.17	682,725	11.91
$17.88–$34.00	1,055,924	8.50	25.88	233,671	25.95
$34.50–$47.25	260,196	8.54	40.24	72,240	40.32
$47.69–$60.00	29,740	8.72	56.92	9,191	57.03
$ 0.60–$60.00	10,691,600	8.85	$ 9.74	1,914,417	$11.23

Brio's 1998 Employee Stock Purchase Plan (the ''Purchase Plan'') was adopted by Brio's Board of Directors in February 1998. Through March 31, 2001, Brio has 2,092,009 shares of common stock reserved for issuance under the Purchase Plan. The shares reserved for issuance under the Purchase Plan increase annually on the first day of Brio's fiscal year through April 1, 2000, by the lesser of 300,000 or two percent of the shares outstanding on the last day of the immediately preceding fiscal year. The Purchase Plan permits eligible employees to purchase common stock at 85% of the lower of the fair market value of Brio's common stock on the first day or the last day of each six-month offering period.

Brio accounts for its stock option and employee stock purchase plans (the ''Plans'') under APB Opinion No. 25, ''Accounting for Stock Issued to Employees.'' Had compensation expense for these Plans been determined consistent with SFAS No. 123, ''Accounting for Stock Based Compensation,'' Brio's net loss applicable to common stock would have increased to the following pro forma amounts (in thousands, except per share information):

	Years Ended March 31,		
	2001	2000	1999
Net loss applicable to common stock:			
As reported	$ (9,650)	$(10,910)	$ (753)
Pro forma	$(13,013)	$(14,049)	$(2,777)
Basic net loss per share:			
As reported	$ (0.34)	$ (0.43)	$ (0.04)
Pro forma	$ (0.46)	$ (0.56)	$ (0.14)

The weighted average grant date fair value of options granted during fiscal 2001, 2000, and 1999, was $6.33, $14.00 and $4.47, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants:

	Years Ended March 31,		
	2001	2000	1999
Risk-free interest rates	5.09–6.70%	5.09–6.65%	4.33–5.73%
Expected dividend yields	0%	0%	0%
Expected lives	3.21 years	2.76 years	3.14 years
Volatility	160.5%	101.9%	100.9%

During fiscal 2001, 2000 and 1999, Brio issued 580,771 shares, 347,324 shares and 105,137 shares, respectively, under the Purchase Plan. The weighted average grant date fair value of each purchase right issued under the Purchase Plan during fiscal 2001, 2000 and 1999 was $6.80, $5.00 and $4.76, respectively. The fair value of the purchase rights granted in fiscal 2001, 2000 and 1999 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Years Ended March 31,		
	2001	2000	1999
Risk-free interest rate	6.09%	6.15%	4.24%
Expected dividend yields	0%	0%	0%
Expected lives	0.85 years	1 year	0.5 years
Volatility	160.5%	101.9%	100.9%

Other Option and Warrant Agreements

As part of the merger with SQRIBE, Brio assumed a warrant agreement that granted rights to purchase 2,560 shares of common stock at $4.10 per share. These rights were issued in connection with a financing transaction in 1995. As of March 31, 2001, the warrant, which expires in fiscal 2002, is still outstanding.

As part of the merger with SQRIBE, Brio assumed a severance agreement with an officer, dated in 1996, whereby the officer was granted the right to purchase 8,534 shares of common stock at $2.34 per share if the fair market value of the common stock did not exceed certain specified targets by December 31, 1999. In 1996, $110,000 was accrued as severance expense for the estimated fair value of the arrangement. As of December 31, 1999, the specified targets discussed above were met and, accordingly, the right to purchase the shares expired.

As part of the merger with SQRIBE, Brio assumed a warrant agreement, dated in fiscal 1998, that granted rights to a consulting firm to purchase 25,602 shares of common stock at $7.03 per share. An expense of $106,000 was recorded for the fair value of these warrants when they were issued. The warrants to purchase 25,602 shares of common stock were exercised in fiscal 2001.

Deferred Compensation

In connection with the granting of 1,369,368 stock options to employees during the fiscal year ended March 31, 1998, with a weighted average exercise price of $1.49 per share and a weighted average deemed fair market value of $1.91 per share, Brio recorded deferred compensation of $580,000, representing the difference between the deemed value of the common stock for accounting purposes and the option exercise price of such options at the date of grant. In addition, Brio granted 67,419 stock options to employees during fiscal 1999, at a weighted average exercise price of $1.56 per share, with a weighted average deemed fair market value of $4.27 per share and recorded the difference between the deemed fair market value of the common stock for accounting purposes and the option exercise price of such options at the date of grant as $63,000 of compensation expense and $188,000 of deferred compensation. Such amount is presented as a reduction of stockholder's equity (deficit) and amortized ratably over the vesting period of the applicable options. Approximately $55,000, $155,000, and $129,000 was expensed during the fiscal years ended March 31, 2001, 2000, and 1999, respectively, and the balance will be expensed ratably over the next year as the options vest.

8. CONTINGENCIES:

On January 20, 1997, Business Objects filed a complaint against Brio in the U.S. District Court for the Northern District of California in San Jose, alleging that certain of Brio's products (including at least the

BrioQuery Navigator, BrioQuery Explorer and BrioQuery Designer products) infringed at least claims 1, 2, and 4 of U.S. Patent Number 5,555,403. On April 4, 1997, Brio filed an answer and affirmative defenses to the complaint, denying certain of the allegations in the complaint and asserting a counterclaim requesting declaratory relief that Brio is not infringing the patent and that the patent is invalid and unenforceable. In December 1997, venue for the case was changed to the Northern District of California in San Francisco. On July 30, 1999, Brio filed an action against Business Objects in the U.S. District Court for the Northern District of California in San Jose, alleging that certain of Business Objects' products infringe U.S. Patent Number 5,915,257. On September 9, 1999, Brio and Business Objects executed a Memorandum of Understanding settling Business Objects' pending patent litigation against Brio involving patent number 5,555,403 for $10.0 million, payable in $1.0 million payments over 10 consecutive quarters, with the first payment due September 30, 1999. Of the $10.0 million settlement, $9.1 million represents the net present value of the 10 quarterly payments and is included in non-recurring operating expenses for the year ended March 31, 2000. The remaining $900,000 represents interest that will be recognized over the payment term using the effective interest rate method. As part of this settlement, Business Objects dismissed its pending lawsuit against Brio involving patent number 5,555,403 and Brio dismissed its pending lawsuit against Business Objects involving patent number 5,915,257. As of of March 31, 2001, approximately $2.9 million is included in the accompanying balance sheet in accrued liabilities of which $3.0 million represents the gross value of the remaining quarterly payments, offset by $119,000 which represents the interest that will be recognized over the remaining quarterly payments. As of March 31, 2000, $4.0 million in the accompanying balance sheet is included in accrued liabilities and $3.0 million is included in other noncurrent liabilities, representing the gross value of the remaining quarterly payments, offset by $423,900 included in accrued liabilities and $119,000 included in other noncurrent liabilities, representing the interest that will be recognized over the remaining quarterly payments.

9. NON-RECURRING OPERATING EXPENSES:

Non-recurring operating expenses for fiscal 2000 are comprised of merger and restructuring costs related to the SQRIBE merger and the settlement of Brio's ongoing patent litigation with Business Objects as follows (in thousands):

	March 31, 2000
Merger and restructuring costs	$13,160
Settlement costs (see Note 8)	9,137
Total non-recurring operating expenses	$22,297

Brio's merger with SQRIBE was completed on August 3, 1999. In fiscal 2000, merger and restructuring costs of $13.2 million consisted of $7.4 million in transaction and related professional fees, $639,000 in severance costs to terminate employees, $1.3 million in merger integration expenses, $387,000 in consolidation of facilities, $697,000 in equipment retirements and $2,737,000 in other miscellaneous merger-related expenses. All termination notices and benefits were communicated to the affected employees prior to year-end and all of the merger-related expenses were incurred prior to year-end. Substantially all of the merger-related charges were paid during fiscal 2000.

10. INCOME TAXES:

Brio accounts for income taxes using an asset and liability approach which requires the recognition of deferred tax assets and liabilities for expected future tax consequences. The deferred tax assets and liabilities are determined using the current applicable enacted federal and state tax rates.

Brio's income (loss) before provision for income taxes consists of income (loss) generated by its domestic operations and losses generated by its foreign subsidiaries as follows (in thousands):

	Years Ended March 31,		
	2001	2000	1999
Domestic	$(4,970)	$(4,244)	$ 3,478
Foreign	(4,580)	(5,323)	(2,568)
Total income (loss) before provision for income taxes	$(9,550)	$(9,567)	$ 910

The provision for income taxes consists of the following (in thousands):

	Years Ended March 31,		
	2001	2000	1999
Current			
State	$ 20	$ 823	$ 364
Federal	—	269	1,967
Foreign	80	46	100
Total current	100	1,138	2,431
Deferred			
State	—	205	—
Federal	—	—	(1,684)
Total deferred	—	205	(1,684)
Total provision for income taxes	$100	$1,343	$ 747

The difference between the statutory U.S. Federal income tax rate of 34% and Brio's actual income taxes is due to the following (in thousands):

	Years Ended March 31,		
	2001	2000	1999
Expected income tax expense (benefit)	$(3,247)	$(3,253)	$ 309
Expected state income taxes, net of federal tax expense (benefit)	(531)	(288)	36
Non-deductible merger costs	—	2,430	—
Foreign taxes	80	27	—
State franchise taxes	20	—	—
Tax credits	(1,216)	(1,251)	(824)
Increase in valuation allowance	4,709	3,769	1,023
Non-deductible items	284	188	203
Other	1	(279)	—
Provision for income taxes	$ 100	$ 1,343	$ 747

Brio has a net deferred tax asset as follows (in thousands):

	Year Ended March 31, 2001	Year Ended March 31, 2000
Allowance for sales returns and doubtful accounts	$ 1,006	$ 686
Depreciation and amortization	(626)	55
Deferred revenue	4,475	4,001
Accrued expenses and other	3,165	4,768
Intangible assets	747	551
Federal and state credits	4,757	3,151
Capitalized research and development	722	112
Net operating losses	13,524	11,180
	27,770	24,504
Valuation allowance	(27,323)	(22,614)
Net deferred tax asset	$ 447	$ 1,890

Brio has provided a valuation allowance for a significant portion of its deferred tax asset as of March 31, 2001. Approximately $4,808,000 of the valuation allowance relates to income tax benefits arising from the exercise of stock options which will be credited directly to stockholders' equity and will not be available to benefit the income tax provisions in any future period.

At March 31, 2001, Brio has approximately $17,154,000 of Federal net operating loss carryforwards and approximately $16,188,000 of State net operating loss carryforwards, both of which expire at various dates through 2021. Brio also has approximately $19,144,000 of Foreign net operating loss carryforwards which expire at various dates through 2021 or carryforward indefinitely. In addition, Brio has Federal R&D tax credit carryforwards of approximately $2,787,000, State R&D tax credit carryforwards of approximately $1,723,000 and Federal alternative minimum tax credit carryforwards of $247,000, all of which expire at various dates through 2021. Furthermore, the Internal Revenue Code contains provisions which may limit the net operating loss and research and development credit carryforwards to be used in any given year upon the occurrence of certain events, including a significant change in ownership.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended March 31, 2001:				
Allowance for returns and doubtful accounts	$2,848,000	$ 978,000	$1,012,000	$2,814,000
Year ended March 31, 2000:				
Allowance for returns and doubtful accounts	$1,394,000	$1,494,000	$ 40,000	$2,848,000
Year ended March 31, 1999:				
Allowance for returns and doubtful accounts	$ 997,000	$ 823,000	$ 426,000	$1,394,000

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

PART III

Certain information required by Part III is omitted from this report because Brio will file a definitive proxy statement within 120 days after the end of its fiscal year pursuant to Regulation 14A (the ''*Proxy Statement*'') for its Annual Meeting of Stockholders to be held on August 23, 2001, and the information included in the Proxy Statement is incorporated herein by reference.

Item 10. ***Directors and Executive Officers of the Registrant.***

(a) *Executive Officers*—See the section entitled ''Executive Officers of the Registrant'' in Part I, Item 1 hereof.

(b) *Directors*—the information required by this Item is incorporated by reference to the section entitled ''Election of Directors'' in the Registrant's Proxy Statement.

Item 11. ***Executive Compensation.***

The information required by this Item is incorporated by reference to the section entitled ''Compensation of Executive Officers'' in the Registrant's Proxy Statement.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management.***

The information required by this Item is incorporated by reference to the section entitled ''Brio Common Stock Ownership of Certain Beneficial Owners and Management'' of the Registrant's Proxy Statement.

Item 13. ***Certain Relationships and Related Transactions.***

The information required by this Item is incorporated by reference to the section entitled ''Certain Relationships and Related Transactions'' in the Registrant's Proxy Statement.

PART IV

Item 14. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K.***

(a) The following documents are filed as part of this report:

(1) Financial Statements and Report of Arthur Andersen LLP, Independent Public Accountants

(2) Financial Statement Schedule

(3) Exhibits (numbered in accordance with Item 601 of Regulation S-K)

(b) Reports on Form 8-K.

None

(c) Exhibits and Financial Statement Schedule.

(1) The following exhibits are filed herewith or incorporated herein by reference:

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated February 23, 1999 among Brio, Socrates Acquisition Corporation and SQRIBE Technologies Corp. **
2.2	Amendment No. 1 to Agreement and Plan of Merger dated March 24, 1999 among Brio, Socrates Acquisition Corporation and SQRIBE Technologies Corp. (included in Exhibit 2.1). **
2.3	Amendment No. 2 to Agreement and Plan of Merger dated July 2, 1999 among Brio, Socrates Acquisition Corporation and SQRIBE Technologies Corp. (included in Exhibit 2.1). **
3.1	Amended and Restated Certificate of Incorporation of Brio. *
3.2	Form of Amended and Restated Certificate of Incorporation of Brio. *
3.3	Bylaws of Brio. *
4.1	Specimen Stock Certificate. *
4.2	Amended and Restated Rights Agreement dated as of June 27, 1997 between Brio and the individuals and entities listed in the signature pages hereto, as amended effective February 27, 1998. *
4.3	Amendment to Rights Agreement dated February 24, 1999. **
10.1	Form of Indemnification Agreement between Brio and each of its Officers and Directors. *
10.2	Amended and Restated Loan and Security Agreement dated March 31, 2001 between Brio and Silicon Valley Bank.
10.8	1992 Stock Option Plan. *
10.9	1998 Stock Option Plan. *
10.10	1998 Director's Stock Option Plan. *
10.11	1998 Employee Stock Purchase Plan. *
10.12	Form of Affiliate Agreement. **
10.17	Lease Agreement dated December 20, 1999 between Brio and Sobrato Development Group. ***
10.18	Employment Agreement dated January 2, 2001 between Brio and Craig Brennan. +
10.19	Confidential Separation Agreement and General Release of Claims dated January 31, 2001 between Brio and Yorgen Edholm. +

10.20 Employment Agreement dated March 6, 2001 between Brio and Don Beck. +

10.21 Confidential Separation Agreement and General Release of Claims dated March 30, 2001 between Brio and Sujata Luther. +

10.22 Confidential Separation Agreement and General Release of Claims dated March 31, 2001 between Brio and Scott Chalmers. +

21.1 List of Subsidiaries. *

23.1 Consent of Independent Public Accountants.

24.1 Power of Attorney (see page 59).

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* Incorporated by reference to identically numbered exhibits filed with Brio's Registration Statement on Form S-1 (No. 333-47263) and amendments thereto which became effective April 30, 1998

** Incorporated by reference to identically numbered exhibits filed with Brio's Registration Statement on Form S-4 (No. 333-82341) and amendments hereto which became effective August 3, 1999.

*** Incorporated by reference to identically numbered exhibits filed with Brio's Form 10-K, as amended, filed on July 28, 2000.

\+ Designates management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BRIO TECHNOLOGY, INC.

By: /s/ CRAIG D. BRENNAN

Craig D. Brennan
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: June 29, 2001

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Craig D. Brennan and Tamara MacDuff, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ CRAIG D. BRENNAN **Craig D. Brennan**	President, Chief Executive Officer and Director (Principal Executive Officer)	June 29, 2001
/s/ TAMARA MACDUFF **Tamara MacDuff**	Chief Financial Officer and Executive Vice President, Finance and Operations (Principal Financial and Accounting Officer)	June 29, 2001
/s/ YORGEN H. EDHOLM **Yorgen H. Edholm**	Co-Chairman of the Board of Directors	June 29, 2001
/s/ OFIR KEDAR **Ofir Kedar**	Chairman of the Board of Directors	June 29, 2001
/s/ BERNARD J. LACROUTE **Bernard J. Lacroute**	Director	June 29, 2001
/s/ E. FLOYD KVAMME **E. Floyd Kvamme**	Director	June 29, 2001
/s/ MICHAEL KLINE **Michael Kline**	Director	June 29, 2001
/s/ ERNEST VON SIMSON **Ernest von Simson**	Director	June 29, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Mark One)

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

For the fiscal year 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: 000-23997

BRIO TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0210797**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4980 Great America Parkway
Santa Clara, California 95054
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (408) 496-7400
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value

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 than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (1) YES ☒ NO ☐; (2) 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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $86,651,229 as of June 25, 2001 based upon the closing sale price on the Nasdaq National Market reported for such date. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 29,213,746 shares of the registrant's Common Stock issued and outstanding as of June 25, 2001.

The Registrant hereby amends the text in the section titled Documents Incorporated by Reference and in the introduction to Item 3 of its Form 10-K for the fiscal year ended March 31, 2001 filed with the Securities and Exchange Commission on June 29, 2001 to read as follows:

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on September 7, 2001.

PART III

Certain information required by Part III is omitted from this report because Brio will file a definitive proxy statement within 120 days after the end of its fiscal year pursuant to Regulation 14A (the ''Proxy Statement'') for its Annual Meeting of Stockholders to be held on September 7, 2001, and the information included in the Proxy Statement is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BRIO TECHNOLOGY, INC.

By: /s/ CRAIG D. BRENNAN

Craig D. Brennan
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: July 24, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ CRAIG D. BRENNAN **Craig D. Brennan**	President, Chief Executive Officer and Director (Principal Executive Officer)	July 24, 2001
* **Tamara MacDuff**	Chief Financial Officer and Executive Vice President, Finance and Operations (Principal Financial and Accounting Officer)	July 24, 2001
* **Yorgen H. Edholm**	Co-Chairman of the Board of Directors	July 24, 2001
* **Ofir Kedar**	Co-Chairman of the Board of Directors	July 24, 2001
* **Bernard J. Lacroute**	Director	July 24, 2001
* **E. Floyd Kvamme**	Director	July 24, 2001
* **Michael Cline**	Director	July 24, 2001
* **Ernest von Simson**	Director	July 24, 2001

*/s/ CRAIG D. BRENNAN

Craig D. Brennan
Attorney-in-Fact