

DALEEN TECHNOLOGIES INC

Form DEF 14A

April 28, 2003

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**SCHEDULE 14A  
(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934**

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material under Rule 14a-12
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

DALEEN TECHNOLOGIES, INC.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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o Fee paid previously with preliminary materials:

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the

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date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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April 29, 2003

Dear Daleen Stockholders,

You are cordially invited to attend the Annual Meeting of Stockholders of Daleen Technologies, Inc. (the Company) to be held on Tuesday, June 10, 2003. The meeting will begin promptly at 10:00 a.m. local time, at the Company's headquarters, 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487.

At this meeting, you will be asked to vote upon a proposal to elect three nominees to serve as directors of the Company for a three year term until the annual meeting of stockholders in 2006 (Proposal 1).

The notice of the meeting and proxy statement on the following pages contain information on the formal business of the meeting. We urge you to read the entire proxy statement carefully.

Your Board of Directors has appointed a nominating committee and the committee has evaluated and recommended certain individuals for membership on the Company's Board of Directors. Your Board of Directors has approved the committee's recommendation and has nominated these individuals for election as directors. The Board of Directors recommends that you vote **FOR** the proposal set forth in the attached proxy statement.

**Whether or not you expect to attend the meeting, please complete, sign, date and promptly return your proxy in the enclosed envelope to assure your stock will be represented at the meeting. If you decide to attend the annual meeting, you will have the opportunity to revoke your proxy and vote in person.**

The continuing interest of our stockholders in the business of the Company is gratefully appreciated. We hope you will attend the meeting.

Sincerely,

GORDON QUICK

*President and Chief Executive Officer*

EXECUTIVE OFFICES: 902 CLINT MOORE ROAD, SUITE 230, BOCA RATON, FL 33487

PHONE: (561) 999-8000 FACSIMILE: (561) 999-8080 HTTP://WWW.DALEEN.COM

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**DALEEN TECHNOLOGIES, INC.**

**902 Clint Moore Road, Suite 230  
Boca Raton, Florida 33487  
(561) 999-8000**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held June 10, 2003**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Daleen Technologies, Inc. (the Company) will be held at the Company's headquarters, 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487, at 10:00 a.m. local time, on June 10, 2003, for the following purposes:

1. To elect three nominees to serve as directors of the Company for a three year term until the annual meeting of stockholders in 2006;

2. To act upon such other business as may properly come before the Annual Meeting or at any adjournment thereof.

The Board of Directors has fixed the close of business on April 18, 2003, as the record date for the determination of stockholders entitled to notice of, and to vote at, the annual meeting. Only stockholders of record at the close of business on that date will be entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement thereof. A list of stockholders entitled to vote at the annual meeting will be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of ten days before the meeting at the Company's offices at 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487, and at the time and place of the meeting during the whole time of the meeting.

In order to assure a quorum, it is important that stockholders fill in, sign, date and return the enclosed proxy in the accompanying envelope.

By Order of the Board of Directors,

JEANNE PRAYTHER  
*Secretary*

April 29, 2003  
Boca Raton, Florida

**IMPORTANT**

**WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE MARK, DATE AND SIGN THE ENCLOSED PROXY CARD(S) AND RETURN SUCH PROXY CARD(S) IN THE ENVELOPE WHICH HAS BEEN PROVIDED. NO POSTAGE IS REQUIRED FOR MAILING IN THE UNITED STATES. IN THE EVENT YOU ARE ABLE TO ATTEND THE MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE YOUR SHARES IN PERSON.**

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**DALEEN TECHNOLOGIES, INC.**

**902 Clint Moore Road, Suite 230  
Boca Raton, Florida 33487  
(561) 999-8000**

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**PROXY STATEMENT  
FOR ANNUAL MEETING OF STOCKHOLDERS  
To Be Held on June 10, 2003**

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**INFORMATION CONCERNING SOLICITATION AND VOTING**

**Stockholders Meeting**

This proxy statement and the enclosed proxy card are furnished on behalf of the Board of Directors of Daleen Technologies, Inc., a Delaware corporation (the Company, we, our or us ), for use at the Annual Meeting of Stockholders to be held on June 10, 2003, at 10:00 a.m., Eastern time (the Annual Meeting ), or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the Company's headquarters, 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487. We intend to mail this proxy statement and the accompanying proxy card on or about April 29, 2003, to all stockholders entitled to vote at the Annual Meeting.

**Proposal**

At the Annual Meeting, we will request that the stockholders consider and vote upon the following proposal:

*Election of Directors (Proposal 1).* Proposal 1 is to elect three directors to our Board of Directors to serve a term expiring at the 2006 annual meeting of stockholders.

**Stockholders Entitled to Vote and Quorum**

Only holders of record of our common stock, par value \$0.01 per share ( common stock ) and Series F convertible preferred stock, par value \$0.01 per share ( Series F preferred stock ) at the close of business on April 18, 2003 (the Record Date ), will be entitled to notice of and to vote at the Annual Meeting. Pursuant to our Certificate of Incorporation, the holders of our outstanding common stock and Series F preferred stock are entitled to vote together as a single class on each matter to be voted on at the Annual Meeting. At the close of business on the Record Date, we had outstanding and entitled to vote 45,828,912 shares of common stock and 458,224 shares of Series F preferred stock. Each holder of record of common stock on such date will be entitled to one vote for each share held on all matters to be voted upon at the Annual Meeting. Each holder of record of Series F preferred stock on such date will be entitled to 100 votes for each share held on all matters to be voted upon at the Annual Meeting and will vote with the holders of common stock as a single class. As a result, an aggregate of 91,651,312 votes are entitled to be cast on the proposal at the Annual Meeting. The holders of a majority of the total shares of common stock and Series F preferred stock (determined on a 100 for 1 basis) outstanding on the Record Date, whether present at the Annual Meeting in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. The shares held by each stockholder who signs and returns the enclosed proxy card will be counted for the purposes of determining the presence of a quorum at the meeting, whether or not the stockholder abstains on all or any matter to be acted on at the meeting. Abstentions and broker non-votes both will be counted toward fulfillment of quorum requirements. Broker-

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dealers who hold their customers' shares in street name may, under the applicable rules of the exchanges and other self-regulatory organizations of which the broker-dealers are members, vote the shares of their customers on routine proposals, which under such rules typically includes the election of directors, when they have not received instructions from the customer. Under these rules, brokers may not vote shares of their customers on non-routine matters without instructions from their customers. A broker non-vote occurs with respect to any proposal when a broker holds shares of a customer in its name and is not permitted to vote on that proposal without instruction from the beneficial owner of the shares and no instruction is given.

**Counting of Votes**

The purpose of the Annual Meeting is to consider and act upon the matters that are listed in the accompanying Notice of Annual Meeting of Stockholders and set forth in this Proxy Statement. The shares represented by each proxy card will be voted in accordance with the stockholder's directions. A quorum must be present at the Annual Meeting, including representation by proxy.

*Election of Directors (Proposal 1).* The enclosed proxy card provides a means for a stockholder to vote for all of the nominees for director listed thereon or to withhold authority to vote for one or more of such nominees. Our bylaws provide that directors are elected by a plurality of the votes cast. Accordingly, the withholding of authority by a stockholder (including broker non-votes) will not be counted in computing a plurality and thus will have no effect on the results of the election of such nominees.

*Other Matters.* Approval of any other matters as may properly come before the meeting also will require the affirmative vote of a majority of the shares of common stock and Series F preferred stock (voting on a 100 for 1 basis and with the common stock as a single class) present in person or represented by a proxy and entitled to vote at the meeting.

**Proxies**

Proxies for use at the Annual Meeting are being solicited by our Board of Directors from our stockholders. The cost of this solicitation will be borne by the Company. We expect to make arrangements with brokerage firms, banks, custodians, nominees and other fiduciaries to forward proxy solicitation material for shares held of record by them to the beneficial owners of the shares. We will reimburse such persons for their reasonable out-of-pocket expenses in forwarding the material.

There is a proxy card for common stockholders and a separate proxy card for Series F preferred stockholders. We have enclosed a proxy card that represents your shares. When the enclosed proxy card is properly signed and returned, the shares that it represents will be voted at the Annual Meeting in accordance with the instructions noted on the proxy card. In the absence of such instructions, the shares represented by a signed proxy card will be voted in favor of the nominees for election to the Board of Directors as set forth in Proposal 1. The proxy confers discretionary authority on the persons named therein to vote with respect to the election of any person as a director where the nominee is unable to serve, or will not serve, and matters incident to the conduct of the Annual Meeting. The proxy also confers on the designated proxy holders discretionary authority to vote the shares represented by the proxy on other business, if any, that may properly come before the Annual Meeting or at any adjournment or postponement thereof.

Stockholders who hold their shares through an intermediary must provide instructions on voting as requested by their bank or broker. A stockholder who signs and returns a proxy card may revoke it at any time before it is voted by taking one of the following three actions: (i) giving written notice of the revocation to the Secretary of the Company; (ii) executing and delivering a proxy card with a later date; or (iii) voting in person at the Annual Meeting.

If you have any questions, please call our corporate secretary, Jeanne Prayther, at (561) 999-8000.

Our executive offices are located at 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487, and our telephone number is (561) 999-8000.



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On December 20, 2002, pursuant to an Asset Purchase Agreement dated October 7, 2002 (the "Asset Purchase Agreement"), Daleen Solutions, Inc. ("Daleen Solutions"), a wholly-owned subsidiary of the Company, consummated the purchase (the "Asset Purchase") of substantially all of the assets and assumption of certain liabilities of Abiliti Solutions, Inc. ("Abiliti"). As consideration for the Asset Purchase, we issued to Abiliti 11,406,284 shares of our common stock, 115,681 shares of our Series F preferred stock and warrants to purchase 5,666,069 additional shares of our common stock at an exercise price of \$0.9060 per share. Concurrently with the consummation of the Asset Purchase, on December 20, 2002, pursuant to an Investment Agreement dated October 7, 2002 (the "Investment Agreement"), we completed a private placement of 10,992,136 shares of our common stock, 115,681 shares of our Series F preferred stock, warrants to purchase 5,666,069 additional shares of our common stock at an exercise price of \$0.9060 per share, and warrants to purchase 500,000 additional shares of our common stock at an exercise price of \$0.17 per share, for a total consideration of \$5.015 million in cash (the "Private Placement"). The purchasers in the Private Placement were Behrman Capital II L.P. and Strategic Entrepreneur Fund II, L.P. (collectively, the "Behrman Funds"), which are related entities and stakeholders of Abiliti. Upon closing of the Asset Purchase, Abiliti transferred the common stock, Series F preferred stock and warrants that it received pursuant to the Asset Purchase Agreement to the Behrman Funds and to certain other creditors of Abiliti.

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth the amount and percent of shares of common stock and Series F convertible preferred stock as a class that, as of April 1, 2003, are deemed under the rules of the Securities and Exchange Commission (the "Commission") to be beneficially owned by any person or group (as that term is used in the Securities Exchange Act of 1934, as amended) known to us as of that date to be a beneficial owner of more than 5% of the outstanding shares of common stock of the Company, by each of our named executive officers, by each of our directors, by each nominee to become a director, and by all of our directors and executive officers as a group. The following information is based upon information provided to the Company or filed with the Commission by the stockholders.

Name of Beneficial Owner(1)	Common Stock Beneficially Owned		Series F Convertible Preferred Stock Beneficially Owned	
	Number of Shares	Percentage of Class(2)	Number of Shares	Percentage of Class(3)
Behrman Capital II L.P.(4)	48,354,500(5)	66.38%	220,596	48.14%
Strategic Entrepreneur Fund II, L.P.(4)	655,750(6)	1.42%	2,992	*
HarbourVest Partners V Direct Fund L.P.(7)	3,818,063	8.33%		
HarbourVest Partners VI Direct Fund L.P.(7)	15,452,616(8)	25.22%	126,195(9)	27.52%
SAIC Venture Capital Corporation(10)	13,836,046(11)	24.10%	94,646(12)	19.50%
St. Paul Venture Capital IV, L.L.C.(13)	795,566	1.74%		
St. Paul Venture Capital Affiliates Fund I, L.L.C.(13)	22,497	*		
St. Paul Venture Capital VI, LLC(13)	3,090,523(14)	6.32%	25,239(15)	5.42%
ABS Ventures IV, L.P.(16)	3,180,967(17)	6.58%	20,633(18)	4.45%
ABX Fund, L.P.(16)	564,006(19)	1.22%	4,606(20)	1.00%
NorthBay Opportunities, L.P.(21)	2,317,862(22)	4.88%	13,304(23)	2.87%

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Name of Beneficial Owner(1)	Common Stock Beneficially Owned		Series F Convertible Preferred Stock Beneficially Owned	
	Number of Shares	Percentage of Class(2)	Number of Shares	Percentage of Class(3)
NorthBay International Opportunities, Ltd.(21)	772,662(24)	1.67%	4,435(25)	*
James Daleen	455,925(26)	*		
Gordon Quick(27)				
Steven Kim(28)				
Jeanne Prayther	99,411(29)	*		
David McTarnaghan	253,561(30)	*		
Ofer Nemirovsky	19,270,679(31)	31.45%	126,195(32)	27.52%
Daniel J. Foreman	886,677(33)	1.93%		
Dennis Sisco(34)				
Stephen J. Getsy	113,473(35)	*		
John S. McCarthy	370,248(36)	*	1,675(37)	*
All directors and executive officers as a group (10 persons)	21,449,974(38)	23.92%	127,870(39)	27.91%

\* Less than 1% of the outstanding common stock or Series F preferred stock.

- (1) Except as set forth herein, the street address of each named beneficial owner is c/o Daleen Technologies, Inc., 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487.
- (2) For purposes of calculating the percentage beneficially owned, the number of shares of common stock deemed outstanding includes (i) 45,828,912 shares of common stock outstanding as of April 1, 2003, (ii) shares of common stock issuable by us pursuant to options or warrants held by the respective person or group which may be exercised within 60 days following April 1, 2003 ( Presently Exercisable Options ), and (iii) shares of common stock issuable by us upon conversion of shares of Series F preferred stock held by the respective person or group, including shares of Series F preferred stock issuable upon exercise of warrants ( Series F warrants ) held by such person or group. The common stock warrants, shares of Series F preferred stock, Series F warrants and the Presently Exercisable Options are considered to be outstanding and to be beneficially owned by the person or group holding such warrant and options for the purpose of computing the percentage ownership of such person or group but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group based on a conversion rate at April 1, 2003 of 122.4503 shares of common stock for each share of Series F preferred stock converted. The number of shares of common stock deemed outstanding excludes (i) warrants to purchase 11,332,138 shares of common stock at an exercise price of \$0.9060 per share which are not exercisable until June 20, 2003, (ii) warrants to purchase 500,000 shares of common stock at an exercise price of \$0.17 per share which are not exercisable until December 20, 2003 and (iii) warrants to purchase 250,000 shares of common stock at an exercise price of \$0.17 per share which are not exercisable until June 20, 2003.
- (3) For purposes of calculating the percentage beneficially owned, the number of shares of Series F preferred stock deemed outstanding includes (i) 458,224 shares of Series F preferred stock outstanding on April 1, 2003, and (ii) shares of Series F preferred stock issuable by us upon exercise of Series F warrants held by the respective person or group. The shares of Series F preferred stock issuable upon exercise of Series F warrants are considered to be outstanding and to be beneficially owned by the person or group holding such warrant for the purpose of computing the percentage ownership of such person or group but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group.

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- (4) Based solely on information filed with the Commission on Schedule 13D (Amend. No. 1) (the Behrman 13D ) on December 20, 2002, Behrman Brothers, L.L.C. ( Behrman Brothers ), the general partner of Behrman Capital II L.P ( Behrman Capital ) and Messrs. Grant G. Behrman and William M. Matthes, managing members of Behrman Brothers, may be deemed to share beneficial ownership with Behrman Capital, with respect to the Company s securities registered in the name of Behrman Capital. Mr. Behrman, the general partner of Strategic Entrepreneur Fund II, L.P ( SEF ) and Mr. Matthes may be deemed to share beneficial ownership with SEF, with respect to the Company s securities registered in the name of SEF. Amounts reported for Behrman Capital and SEF are based on the Behrman 13D, except that such amounts include (i) 1,125,370 shares of our common stock and 11,413 shares of our Series F preferred stock convertible into 1,397,525 shares of our common stock registered in the name of Behrman Capital, and (ii) 15,259 shares of our common stock and 155 shares of our Series F preferred stock convertible into 18,980 shares of our common stock registered in the name of SEF, which are presently entitled to be voted even though currently held in escrow, and exclude warrants registered in the name of: (i) Behrman Capital, to purchase (A) 493,311 shares of our common stock at an exercise price \$0.17 per share exercisable on or after December 20, 2003, and (B) 10,245,808 shares of our common stock at an exercise price of \$.9060 per share exercisable on or after June 20, 2003, and (ii) SEF, to purchase (A) 6,689 shares of our common stock at an exercise price of \$0.17 per share exercisable on or after December 20, 2003, and (B) 131,328 shares of our common stock at an exercise price of \$0.9060 per share exercisable on or after June 20, 2003, net of warrants held in escrow. The address of each of the reporting persons is 126 East 56th Street, 27th Floor, New York, NY 10022.
- (5) The shares include 27,012,046 shares of our common stock issuable upon the conversion of 220,596 shares of Series F preferred stock.
- (6) The shares include 366,371 shares of our common stock issuable upon the conversion of 2,992 shares of Series F preferred stock.
- (7) Based solely on information filed with the Commission on Schedule 13D (Amend. No. 3) (the HarbourVest 13D ) on January 3, 2003, HarbourVest Partners, LLC ( HarbourVest ) is the sole managing member of HVP V Direct Associates LLC ( Associates V ) and HVP VI Direct Associates LLC ( Associates VI ), the sole general partners of HarbourVest Partners V Direct Fund L.P. ( Fund V ) and HarbourVest Partners VI Direct Fund L.P. ( Fund VI ), respectively, and Messrs. D. Brooks Zug and Edward W. Kane are the managing members of HarbourVest. HarbourVest, as the sole managing member of Associates V and Associates VI, and Messrs. Zug and Kane, as the managing members of HarbourVest, may each be deemed to beneficially own all of the Company s securities registered in the name of Fund V and Fund VI. Messrs. Kane and Zug disclaim beneficial ownership of such securities, except to the extent of their pecuniary interest therein. Associates V, as the sole general partner of Fund V, and Fund V as the record owner, may each be deemed to beneficially own all of the Company s securities registered in the name of Fund V, and Associates VI, as the sole general partner of Fund VI, and Fund VI as the record owner, may each be deemed to beneficially own all of the Company s securities registered in the name of Fund VI. The address of each of the reporting persons is One Financial Center, 44th Floor, Boston, MA 02111.
- (8) Based on the HarbourVest 13D, the shares include (i) 11,037,548 shares of our common stock issuable upon the conversion of 90,139 shares of Series F preferred stock and (ii) 4,415,068 shares of our common stock issuable upon conversion of 36,056 shares of Series F preferred stock that may be acquired by Fund VI upon exercise of Series F warrants.
- (9) Based on the HarbourVest 13D, the shares include 36,056 shares of Series F preferred stock issuable upon exercise of Series F warrants held by Fund VI.
- (10) Based solely on information filed with the Commission on schedule 13D (Amend. No. 2) (the SVCC 13D ) on February 7, 2003, SAIC Venture Capital Corporation ( SVCC ) is a wholly-owned subsidiary of Science Applications International Corporation ( SAIC ). SVCC and SAIC may each be deemed to beneficially own all of the Company s securities registered in the name of

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SVCC. The address of SVCC is 3993 Howard Hughes Parkway, Suite 570, Las Vegas, NV 89109 and the address of SAIC is 10260 Campus Point Drive, San Diego, CA 92121.

- (11) Based on the SVCC 13D, the shares include (i) 8,278,130 shares of our common stock issuable upon conversion of 67,604 shares of Series F preferred stock and (ii) 3,311,301 shares of our common stock issuable upon conversion 27,042 shares of Series F preferred stock that may be acquired by SVCC upon exercise of Series F warrants.
- (12) Based on the SVCC 13D, the shares include 27,042 shares of Series F preferred stock issuable upon exercise of Series F warrants held by SVCC.
- (13) Based solely on information filed with the Commission on Schedule 13G (Amend. No. 1) (the St. Paul 13G ) on January 23, 2002, St. Paul Fire and Marine Insurance Company ( SPFM ) owns 99% of St. Paul Venture Capital IV, LLC ( SPVC IV ) and St. Paul Venture Capital VI, LLC ( SPVC VI ). SPFM is a wholly-owned subsidiary of The St. Paul Companies, Inc. ( The St. Paul ). The St. Paul owns 79% of St. Paul Venture Capital, Inc., the manager of St. Paul Venture Capital Affiliates Fund I, LLC ( Affiliates ). The St. Paul may be deemed to beneficially own the shares held by SPVC IV, SPVC VI and Affiliates and SPFM may be deemed to beneficially own the shares held by SPVC IV and SPVC VI. The address of each of the reporting persons is 385 Washington St., St. Paul, MN 55102.
- (14) Based on the St. Paul 13G, the shares include (i) 2,207,534 shares of our common stock issuable upon the conversion of 18,028 shares of Series F preferred stock and (ii) 882,989 shares of our common stock issuable upon conversion of 7,211 shares of Series F preferred stock that may be acquired by SPVC VI upon exercise of Series F warrants.
- (15) Based on the St. Paul 13G, the shares include 7,211 shares of Series F preferred stock issuable upon exercise of Series F warrants held by SPVC VI.
- (16) ABS Ventures IV, L.P. ( ABS ) and ABX Fund, L.P. ( ABX ) may be deemed to be under common control. Bruns Grayson and Philip Bleche are the managing members of the respective general partner to each ABS and ABX and control the investment and voting power of each of ABS and ABX. The street address of the named beneficial owners is 1 South Street Suite 2150 Baltimore, MD 21202-3220.
- (17) The shares include (i) 1,804,763 shares of our common stock issuable upon conversion of 14,738 shares of Series F preferred stock and (ii) 721,845 shares of our common stock issuable upon conversion of 5,895 shares of Series F preferred stock that may be acquired by ABS upon exercise of Series F warrants.
- (18) The shares include 5,895 shares of Series F preferred stock issuable upon exercise of Series F warrants held by ABS.
- (19) The shares include (i) 402,861 shares of our common stock issuable upon the conversion of 3,290 shares of Series F preferred stock and (ii) 161,145 shares of our common stock issuable upon conversion of 1,316 shares of Series F preferred stock that may be acquired by ABX upon exercise of Series F warrants.
- (20) The shares include 1,316 shares of Series F preferred stock issuable upon exercise of Series F warrants held by ABX.
- (21) The sole general partner of NorthBay Opportunities, L.P., a Delaware limited partnership, is BayStar Management, LLC. The Investment Manager of NorthBay International Opportunities, Ltd., a British Virgin Islands corporation, is BayStar International Management, LLC. Both BayStar Management, LLC and Baystar International Management, LLC are owned equally by NorthBay Partners, LLC a Wisconsin limited liability company and MarinView Capital, LLC, a Delaware limited liability company. Michael Roth and Brian Stark share the investment and voting power of NorthBay Opportunities, L.P. and NorthBay International Opportunities Ltd. The street address of the named beneficial owner is 1500 W. Market Street, Suite 200, Mequon, WI 53092.
- (22) The shares include (i) 966,868 shares of our common stock issuable upon the conversion of 7,896 shares of Series F preferred stock and (ii) 662,211 shares of our common stock issuable upon

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conversion of 5,408 shares of Series F preferred stock that may be acquired by NorthBay Opportunities, L.P. upon exercise of Series F warrants.

- (23) The shares include 5,408 shares of Series F preferred stock issuable upon exercise of Series F warrants held by NorthBay Opportunities, L.P.
- (24) The shares include (i) 322,289 shares of our common stock issuable upon the conversion of 2,632 shares of Series F preferred stock and (ii) 220,778 shares of our common stock issuable upon conversion of 1,803 shares of Series F preferred stock that may be acquired by NorthBay International Opportunities, Ltd. upon exercise of Series F warrants.
- (25) The shares include 1,803 shares of Series F preferred stock issuable upon exercise of Series F warrants held by NorthBay International Opportunities, Ltd.
- (26) The shares include 405,901 shares issuable upon exercise of Presently Exercisable Options, 48,220 shares held by the James Daleen Irrevocable Trust and 1,804 shares held by Mr. Daleen's wife. Mr. Daleen disclaims beneficial ownership of the shares held by the trust and his wife.
- (27) Mr. Quick commenced employment with the Company on December 20, 2002 and beneficially owned no shares as of April 1, 2003.
- (28) Mr. Kim resigned as Executive Vice President of Products and Technologies on May 31, 2002 and beneficially owned no shares as of April 1, 2003.
- (29) The shares include 98,711 shares issuable upon exercise of Presently Exercisable Options.
- (30) The shares include 251,561 shares issuable upon exercise of Presently Exercisable Options.
- (31) The shares include (i) 3,818,063 shares of our common stock owned by HarbourVest Partners V Direct Fund L.P. ( Fund V ), (ii) 11,037,548 shares of our common stock issuable upon the conversion of 90,139 shares of Series F preferred stock held by HarbourVest Partners VI Direct Fund L.P., ( Fund VI ) and (iii) 4,415,068 shares of our common stock issuable upon conversion of 36,056 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants held by Fund VI. Mr. Nemirovsky is a managing director of HarbourVest Partners LLC and a member of HVP V Direct Associates LLC and HVP VI Direct Associates LLC, the general partners of Fund V and Fund VI, respectively, and therefore may be deemed to share beneficial ownership of the Company's common stock held by Fund V and Fund VI. Mr. Nemirovsky disclaims beneficial ownership of these shares.
- (32) The shares include (i) 90,139 shares of Series F preferred stock held by Fund VI and (ii) 36,056 shares of Series F preferred stock issuable upon exercise of Series F warrants held by Fund VI. Mr. Nemirovsky disclaims beneficial ownership of these shares.
- (33) The shares include 620,669 shares of our common stock held by ABN AMRO Inc., 224,614 shares of our common stock held by I Eagle Trust and 41,394 shares of our common stock held by Burnham Capital, LLC. I Eagle Trust and Burnham Capital, LLC are affiliates of ABN AMRO Inc. Mr. Foreman, a director of the Company, is a managing director of ABN AMRO Inc. and therefore may be considered to share beneficial ownership of these shares. Mr. Foreman disclaims ownership of these shares.
- (34) Mr. Sisco is a partner of Behrman Capital, an investment firm that manages Behrman Capital II L.P. Mr. Sisco does not have beneficial ownership in the Company's securities held by Behrman Capital II L.P. or Strategic Entrepreneur Fund II, L.P.
- (35) The shares include 50,973 shares of our common stock held by the Stephen Getsy Living Trust. Also includes 62,500 shares of our common stock issuable upon exercise of Presently Exercisable Options.
- (36) The shares include (i) 143,461 shares of our common stock held by Gateway Partners, L.P. ( Gateway ), (ii) 21,683 shares of our common stock held by Mr. McCarthy, (iii) 178,165 shares of our common stock issuable upon the conversion of 1,455 shares of Series F preferred stock held by Gateway and (iv) 26,939 shares of our common stock issuable upon the conversion of 220 shares of Series F preferred stock held by Mr. McCarthy. Mr. McCarthy is a managing general partner of

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Gateway and may be deemed to share beneficial ownership of our common stock held by Gateway. Mr. McCarthy disclaims beneficial ownership of the shares held by Gateway. The shares exclude (i) warrants to purchase an aggregate of 71,264 shares held by Gateway, and (ii) warrants to purchase an aggregate of 10,771 shares held by Mr. McCarthy. The warrants have an exercise price of \$0.0960 per share and are not exercisable until June 20, 2003.

- (37) The shares include (i) 1,455 shares of Series F preferred stock held by Gateway and (ii) 220 shares of Series F preferred stock held by Mr. McCarthy. Mr. McCarthy disclaims beneficial ownership of the shares held by Gateway.
- (38) The shares include (i) 38,621,070 shares of our common stock issuable upon the conversion of 315,402 shares of Series F preferred stock, (ii) 4,415,068 shares of our common stock issuable upon the conversion of 36,056 shares of Series F preferred stock that may be acquired upon exercise of Series F Warrants, and (iii) 818,673 shares issuable upon exercise of Presently Exercisable Options. Amount includes an aggregate of 20,529,006 shares for which beneficial ownership is disclaimed. See the footnotes above for further explanation of these securities.
- (39) The shares include 36,056 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. Amount includes an aggregate of 127,650 shares for which beneficial ownership has been disclaimed (see footnotes 32 and 36).

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**PROPOSAL 1**

**ELECTION OF DIRECTORS**

**Introduction**

Our Board of Directors is divided into three classes, each of whose members serve for a staggered three-year term. At each annual meeting of stockholders, a class of directors is elected for a three-year term to succeed the directors of the same class whose terms are then expiring. The Board is currently comprised of three Class I directors (Dennis G. Sisco, John S. McCarthy and Ofer Nemirovsky), two Class II directors (Daniel J. Foreman and Stephen J. Getsy), and two Class III directors (James Daleen and Gordon Quick). The terms of the Class I directors expire at the Annual Meeting. The terms of the Class II directors and Class III directors will expire upon the election and qualification of successor directors at the 2004 and 2005 annual meeting of stockholders, respectively. Pursuant to the terms of the Investment Agreement between the Company and the Behrman Funds and the other signatories thereto, the Company agreed to cause the nomination of two directors designated by the Behrman Funds and one director designated by HarbourVest Partners V Direct Fund L.P. and HarbourVest Partner VI Direct Fund L.P. (collectively HarbourVest ) with respect to the Company's 2003 Annual Meeting. The Behrman Funds designees for director are Messrs. Dennis G. Sisco and John S. McCarthy and the HarbourVest designee is Mr. Ofer Nemirovsky. Mr. Sisco and Mr. Nemirovsky, each a nominee director of the Company, are affiliates of the Behrman Funds and HarbourVest, respectively. In order to effectuate nominations, Mr. Nemirovsky, the director designated by HarbourVest, was reclassified from a Class III director to a Class I director by action of the Board at a meeting on February 19, 2003.

Additionally, Abiliti, HarbourVest and Behrman entered into a supplemental voting agreement for each party to vote their shares of our common stock and Series F preferred stock at our 2003 Annual Meeting for the election of two directors designated by the Behrman Funds and one director designated by the HarbourVest. Abiliti, HarbourVest and the Behrman Funds will control a sufficient amount of our voting power to elect directors as contemplated by the supplemental voting agreement. The supplemental voting agreement expires by its terms upon the final adjournment of the Annual Meeting.

Based on the recommendation of the Nominating Committee, the Board of Directors has nominated Dennis G. Sisco, John S. McCarthy and Ofer Nemirovsky as Class I directors.

Our bylaws provide that each class of directors will be elected by a plurality of all votes cast at the meeting. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of each nominee. In the event that a nominee should be unavailable for election, such shares will be voted for the election of such substitute nominee as the Nominating Committee and the Board of Directors may select. Alternatively, the Board of Directors may choose to leave such vacancy open or fill the vacancy subsequent to the Annual Meeting. Each of the nominees currently is a member of our Board of Directors and has consented to serve as a director if elected. There are no family relationships among any of the directors or director nominees of the Company. Management has no reason to believe that any of the nominees will be unable to serve.

The Nominating Committee has evaluated each nominee and recommended that the Board of Directors nominate each of the nominees for election to the Company's Board of Directors. The Board of Directors recommends a vote **FOR** each named nominee.

**Information Concerning the Directors**

The name and age, principal occupation or employment, and other data regarding each director, including nominees for director, based on information received from the respective director, are set forth below:

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### ***Nominees to Serve as Class I Directors until the 2006 annual meeting pursuant to the recommendation of the Company's Nominating Committee:***

*Dennis G. Sisco*, age 56, has served as a director of the Company since December 2002. Mr. Sisco has served as a Partner of Behrman Capital, an investment firm that manages Behrman Capital II L.P., since January 1998. Mr. Sisco is also a director of Gartner, Inc. and Mercator Software, Inc.

*John S. McCarthy*, age 54, has served as a director of the Company since December 2002. Mr. McCarthy has been the Managing General Partner of Gateway Associates, L.P., a venture capital firm, since its inception in 1984. Mr. McCarthy is also a director of Netsolve, Incorporated.

*Ofer Nemirovsky*, age 45, has served as a director of the Company since September 1997. Mr. Nemirovsky has been a managing director and member of HarbourVest Partners, LLC since January 1997. HarbourVest Partners, LLC was formed by the management team of Hancock Venture Partners, of which Mr. Nemirovsky had served in various capacities, including managing director and vice president, since 1986.

### ***Continuing Directors***

### ***The directors of the Company continuing in office as Class II Directors, elected to serve until the 2004 annual meeting, are as follows:***

*Daniel J. Foreman*, age 44, has served as a director of the Company since July 1998. Mr. Foreman has served as a managing director of ABN AMRO, Inc., an investment firm, since October 1997.

*Stephen J. Getsy*, age 58, has served as a director of the Company since October 1997. Mr. Getsy has been the president and chief executive officer of On-Line Ventures, Inc., a business consulting and investment company, since November 1993.

### ***The directors of the Company continuing in office as Class III Directors, elected to serve until the 2005 annual meeting, are as follows:***

*James Daleen*, age 43, our founder, has served as chairman of the board of the Company since our inception in 1989. He served as chief executive officer of the Company from 1989 until December 2002, and served as president of the Company from our inception to January 1998 and then from January 2002 to December 2002.

*Gordon Quick*, age 55, has served as a director, president and chief executive officer of the Company since December 2002. Mr. Quick served as the president and chief executive officer of Abiliti Solutions, Inc. from August 1999 to December 2002. Mr. Quick served as the chief operating officer of HighwayMaster Corporation from January 1995 until April 1999.

### **Meetings of the Board of Directors**

During 2002, our Board of Directors held 22 meetings. During intervals between meetings, the directors engage in informal discussions among themselves and with management of the Company, and in some instances, take action by consent in lieu of meeting. In 2002, our Board of Directors took action by unanimous written consent twice. All of the incumbent directors attended at least 75% of the aggregate total number of meetings of the Board of Directors and meetings of committees of the Board of Directors on which they served that occurred during the period in which they were board members.

### **Committees of the Board of Directors**

The Compensation Committee of the Board of Directors, which currently consists of Mr. Foreman, the chairman, and Messrs. Sisco and Nemirovsky, held 3 meetings during 2002 and took action by unanimous written consent four times during 2002. Ms. Paula J. Hilbert, a former director of the



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Company, served on the Compensation Committee until her resignation from the Board of Directors in October 2002. Mr. Foreman replaced Mr. Getsy as chairman of the Compensation Committee in December 2002. Mr. Sisco was appointed as a member of the Compensation Committee in December 2002. Each of the members of the Compensation Committee was a member of the Board of Directors during 2002 and none of the members is an executive officer of the Company. The Compensation Committee reviews and establishes the compensation and benefits of all of our officers and reviews and establishes general policy matters relating to compensation and benefits of our employees. The Compensation Committee also administers our stock incentive plans.

The Audit Committee of the Board of Directors, which currently consists of Mr. Getsy, the chairman, and Messrs. Foreman and McCarthy, held 4 meetings during 2002. William A. Roper, Jr., a former director of the Company, served on the Audit Committee until his resignation from the Board of Directors in March 2002. Mr. Nemirovsky was elected to the Audit Committee effective upon Mr. Roper's resignation and served briefly until Mr. Getsy was appointed to replace him. Mr. Cataford, a former director of the Company, served on the Audit Committee until his resignation from the Board of Directors in December 2002. Mr. McCarthy was appointed as a member of the Audit Committee in December 2002. Mr. Getsy replaced Mr. Foreman as chairman of the Audit Committee in December 2002. The Audit Committee reviews the scope and timing of our audit services and any other services our independent auditors are asked to perform. In addition, the Audit Committee reviews and evaluates our audit and control functions and makes recommendations to our Board of Directors for the selection of independent auditors for the following year.

The Nominating Committee, which currently consists of Mr. Sisco, the chairman, and Mr. Daleen, held 1 meeting during 2002. Ms. Hilbert, a former director of the Company, served on the Nominating Committee until her resignation from the Board of Directors in October 2002. Mr. Cataford, a former director of the Company, served on the Nominating Committee until his resignation from the Board of Directors in December 2002. Messrs. Sisco and Daleen replaced Mr. Foreman and Mr. Cataford on the Nominating Committee in December 2002 and Mr. Sisco was appointed as the chairman. Mr. Foreman replaced Mr. Sisco as a member and chairman of the Nominating Committee in February 2003 prior to the Nominating Committee's consideration of members to be recommended for reelection. Subsequent to the Nominating Committee's recommendation to the Board of Directors and the Board of Directors' nomination of directors for reelection, Mr. Sisco replaced Mr. Foreman as a member and chairperson of the Nominating Committee in February 2003. The Nominating Committee evaluates and recommends individuals for membership on the Company's Board of Directors. While our Nominating Committee and Board of Directors will consider nominees recommended by stockholders, it has not actively solicited recommendations from our stockholders for nominees nor, subject to the procedural requirements set forth in our Certificate of Incorporation and our bylaws, has it established any procedures for this purpose.

The Litigation Committee, which currently consists of Mr. Getsy, the chairman, and Messrs. Foreman and McCarthy, was formed by the Company in September, 2002, and held 1 meeting in 2002. Mr. Foreman was replaced by Mr. Getsy, a member of the Litigation Committee, as the chairman of the Litigation Committee in December 2002. Mr. Cataford, a former director of the Company, served on the Litigation Committee until his resignation in December 2002. Mr. McCarthy replaced Mr. Cataford as a member of the Litigation Committee in December 2002. The Litigation Committee was formed for the purpose of monitoring the class action securities litigation (*Fazari v. Daleen Technologies, Inc., et. al.*) and making recommendations to the Board of Directors with respect to the Company's litigation strategy and any proposed settlement or other resolution of such litigation.

**Report of the Audit Committee**

The Audit Committee of the Board of Directors is comprised solely of non-employee directors, each of whom is independent as defined under the current Nasdaq National Market listing standards. Each of the members of the Audit Committee do not have any relationship to the Company that may interfere with the Audit Committee's independence from the Company and its management.

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Management is responsible for the Company's financial reporting process including its system of internal control, and for the preparation of consolidated financial statements in accordance with generally accepted accounting principles. The Company's independent auditors are responsible for auditing those financial statements. The Audit Committee's responsibility is to monitor and review these processes. It is not the Audit Committee's duty or responsibility to conduct auditing or accounting reviews or procedures. The members of the Audit Committee are not employees of the Company. Therefore, the Audit Committee has relied on management's representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and on the representations of the independent auditors included in their report on the Company's financial statements.

In conducting its oversight function, the Audit Committee discusses with the Company's independent auditor's, with and without management present, the overall scope and plan for their audit. The Audit Committee meets with the independent auditors with or without management present, to discuss the results of their examinations, the evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

The following report of the Audit Committee does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this report by reference therein.

As set forth in more detail in the Audit Committee Charter, which was attached as Appendix F to the Company's proxy statement for the 2001 annual meeting of stockholders, the Audit Committee's primary responsibilities include:

monitoring the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;

monitoring the independence and performance of the Company's independent auditors; and

providing an avenue of communication among the independent auditors, management and the Board of Directors.

The Audit Committee recommends the selection of the Company's independent auditors to the Board of Directors and meets with the Company's independent auditors to discuss the scope of the annual audit and to review the results of the annual audit as well as the results of the independent auditor's quarterly reviews.

The Audit Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to each of the matters assigned to it under the Committee's charter. To carry out its responsibilities, the Audit Committee met four times during 2002.

The Audit Committee has reviewed the Company's audited consolidated financial statements and met with both management and KPMG LLP, the Company's independent auditors, to discuss those audited consolidated financial statements, including the independent auditor's delivery of a going concern paragraph in its report of our audited consolidated financial statements as of and for the year ended December 31, 2002. Management has represented to the Audit Committee that the consolidated financial statements were prepared in accordance with generally accepted accounting principles.

The Audit Committee has received from and discussed with KPMG LLP, the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). These items relate to that firm's independence from the Company. The Audit Committee has also discussed with KPMG LLP any matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

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On the basis of these reviews and discussions, the Audit Committee recommended to the Board of Directors that the Board approve inclusion of the Company's audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, for filing with the Securities and Exchange Commission. The Audit Committee has also recommended and the Board has approved the selection of KPMG LLP as the independent auditor for the year ending December 31, 2003.

Audit Committee

Stephen J. Getsy (Chairman)

Daniel J. Foreman

John S. McCarthy

**Compensation of Directors**

On October 25, 2002, our board of directors adopted a new policy with respect to the compensation of each of our directors who is not an officer, employee or consultant (a qualified director). Each qualified director receives for his services an annual retainer of \$25,000, plus \$1,500 for each committee for which he serves as chairman. We pay the annual retainer on a quarterly basis. Each qualified director receives \$1,200 for attendance at each regular meeting of the board of directors and \$1,000 for attendance at each special meeting of the board of directors (if the special meeting lasts one hour or more). Additionally, each qualified director receives \$500 for each committee meeting attended, or \$750 for the chairman of the committee; provided, however that we do not pay fees for attendance at committee meetings that occur on the same day as a meeting of the board of directors. We reimburse each director for reasonable out-of-pocket expenses incurred in attending meetings of the Board of Directors and any of its committees. In addition, our qualified directors will each receive an initial one-time grant of options in 2003 to purchase 250,000 shares of our common stock and thereafter an annual grant of options will be made to purchase an additional 25,000 shares of our common stock. We will not grant options or provide cash compensation as a director to Mr. Daleen during the period that he is serving as a consultant to us. From time to time directors may receive special option grants that are offered to all the Company's employees. During 2002, no directors were issued options and there was no cash compensation paid to directors.

**Table of Contents****Executive Compensation**

*Summary Compensation Table.* The following table presents the total compensation paid for the three years ended December 31, 2002, for the persons serving as our chief executive officer during 2002, and our two other executive officers who were serving as executive officers at the end of the fiscal year and one additional person who was an executive officer during 2002 but was not serving as an executive officer at the end of the 2002 fiscal year (collectively, the Named Executive Officers ).

Name and Principal Position	Year	Annual Compensation			Long Term Compensation	All Other Compensation(2)
		Salary	Bonus	Other Annual Compensation(1)	Number of Securities Underlying Options	
Gordon Quick (3)	2002					
President and Chief Executive Officer	2001					
	2000					
James Daleen	2002	328,900				1,762,567(4)
Chairman of the Board	2001	328,900			410,000	3,786(4)
(formally president and chief executive officer)	2000	328,900	180,895		72,500	3,611(4)