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COMMISSION CLERK

DOCUMENT NUMBER-DATE 09243 SEP 26 03 FPSC-COMMISSION CLERK

September 22, 2003

Florida Public Service Commission
Division of Competitive Markets & Enforcement Certification
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: Application for Authority to Provide Alternative Local Exchange Service

Enclosed is one original and 2 copies of the "Application for Authority to Provide Alternative Local Exchange Service" for Computer Network Technology Corporation.

We are resubmitting this request due to damage by the US Post Office upon delivery. Our check in the amount of $250.00 to cover the cost of the Application has already been deposited.

Please return the certificate to:

Paulette Bannack
486 Sequoia Trail
Roselle, IL 60172

If you have any questions, please feel free to call me on 630-980-6471.

Your assistance is greatly appreciated.

Thank you.

7144 North Harlem
Suite # 323
Chicago, IL 60631

866-270-1350
Fax: 866-270-1434
www.sourcecon.com

03094I-TY

** FLORIDA PUBLIC SERVICE COMMISSION **

DIVISION OF COMPETITIVE MARKETS AND ENFORCEMENT CERTIFICATION

APPLICATION FORM for AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

Instructions

- This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Page 12).

- Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

- Use a separate sheet for each answer which will not fit the allotted space.

- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of the Commission Clerk and Administrative Services
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6770

- If you have questions about completing the form, contact:

  Florida Public Service Commission
  Division of Competitive Markets and Enforcement Certification
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6600

DOCUMENT NUMBER-DATE
09243 SEP 26 8
FPSC-COMMISSION CLERK

APPLICATION

1. **This is an application for √ (check one):**

   (X) Original certificate (new company).

   ( ) Approval of transfer of existing certificate: Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

   ( ) Approval of assignment of existing certificate: Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

   ( ) Approval of transfer of control: Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. **Name of company:** Computer Network Technology Corporation

3. **Name under which the applicant will do business (fictitious name, etc.):** Computer Network Technology Corporation

4. **Official mailing address (including street name & number, post office box, city, state, zip code):** 6000 Nathan Lane ,Minneapolis, MN 55442

5. **Florida address (including street name & number, post office box, city, state, zip code):NRAI Services Inc., 526 E. Park Avenue, Tallahassee, FL 32301**

6. **Structure of organization:**

( ) Individual
(X) Foreign Corporation
( ) General Partnership
( ) Other
( ) Corporation
( ) Foreign Partnership
( ) Limited Partnership

7. **If individual, provide:**

Name:____Not applicable

Title:

Address:

City/State/Zip:

Telephone No.:__________________________ Fax No.:

Internet E-Mail Address:

Internet Website Address:

8. **If incorporated in Florida, provide proof of authority to operate in Florida:**

(a) **The Florida Secretary of State corporate registration number:**

__________ **Not Applicable**

9. **<u>If foreign corporation,</u> provide proof of authority to operate in Florida:**

(a) The Florida Secretary of State corporate registration number:

___________P32808

10. **<u>If using fictitious name-d/b/a,</u> provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:**

(a) The Florida Secretary of State fictitious name registration number:
___________**Not applicable**

11. **<u>If a limited liability partnership</u>, provide proof of registration to operate in Florida:**

(a) The Florida Secretary of State registration number:

_________Not Applicable

12. **<u>If a partnership</u>, provide name, title and address of all partners and a copy of the partnership agreement.**

Name:_________Not applicable

Title:

Address:

City/State/Zip:

Telephone No.:________________________ Fax No.:

Internet E-Mail Address:

Internet Website Address:

13. **<u>If a foreign limited partnership,</u> provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.**

Not applicable

(a) The Florida registration number:

14. Provide F.E.I. Number(if applicable): 411356476

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.

NO

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: Paulette Bannack

Title: Consultant
Address: 486 Sequoia Trail
City/State/Zip: Roselle, IL 60172
Telephone No.: 1630-980-6471 Fax No.: 1-630-351-3009
Internet E-Mail Address: pbannack@sourcecon.com
Internet Website Address: None

(b) Official point of contact for the ongoing operations of the company:

Name: Gregory Barnum
_Title: Vice President
__Address: 6000 Nathan Lane

City/State/Zip: Minneapolis, MN 55442
_Telephone No.: 1-763-268-6000 Fax No.: 1-763-268-6810 Internet E-Mail Address:

Internet Website Address: www.cnt.com

(c) Complaints/Inquiries from customers:

Name: Gregory Barnum

Title: Vice President of Finanace, CFO and Corporate Secretary

Address: 6000 Nathan Lane
City/State/Zip: Minneapolis, MN 55442

Telephone No. 1-763-268-6000 Fax No. 1-763-268-6810

Internet E-Mail Address:_ Gregory_barnum@cnt.com

Internet Website Address: www.cnt.com

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

None

(b) has applications pending to be certificated as an alternative local exchange company. AL, AZ, CA, CO, CT, FL, GA, IL, KY, LA, MD, MA, MI, MN, MO, NJ, NY, NC, OH, OK, PA, SC, TN, TX, VA and DC.

(c) is certificated to operate as an alternative local exchange company.
None

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

______________NONE

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

_________________NONE

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

______________________NO

18. Submit the following:

A. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.
Please see attachment A

B. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.
Please see attachment B.

C. Financial capability. Please see attachment C

The application **<u>should contain</u>** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer <u>affirming that the financial statements are true and correct</u> and should include:

1. the balance sheet:
2. income statement: and
3. statement of retained earnings.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **<u>written explanation</u>** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.
   Please see attachment D
2. **<u>written explanation</u>** that the applicant has sufficient financial capability to maintain the requested service.
   Please see attachment D
3. **<u>written explanation</u>** that the applicant has sufficient financial capability to meet its lease or ownership obligations.
   Please see attachment D

THIS PAGE MUST BE COMPLETED AND SIGNED

APPLICANT ACKNOWLEDGMENT STATEMENT

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

Greg Barnum
Print Name

Signature

CFO
Title

Date August 12, 2003

763 268-6000 | 763 268-6810
Telephone No. | **Fax No.**

Address:

6000 Nathan Lane
Minneapolis, MN 55442

THIS PAGE MUST BE COMPLETED AND SIGNED

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

Greg Barnum
Print Name

Signature

CFO
Title

Date August 12, 2003

763 268-6000 763 268-6810
Telephone No. **Fax No.**

Address:
6000 Nathan Lane
Minneapolis, MN 55442

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.

   1)________________ 2)

   ____

   3)________________ 4)

   ____

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

   1)________________ 2)

   ____

   3)________________ 4)

   ____

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

   <u>POP-to-POP</u> <u>OWNERSHIP</u>

   1)________________

   2)________________

   3)________________

   4)________________

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

I, (Name)
(Title)____ of (Name of Company)

and current holder of Florida Public Service Commission Certificate Number #
________________, have reviewed this application and join in the petitioner's request for a:

( ) sale

( ) transfer

( ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

Print Name **Signature**

Title **Date**

Telephone No. **Fax No.**

Address:

FORM PSC/CMU 8 (11/95)
Required by Commission Rule Nos 25-24 805, 25-24 810, and 25-24 815

ATTACHMENT A

COMPUTER NETWORK TECHNOLOGY CORPORATION

Attached are the Management Capability resumes of the officers of the company that would indicate sufficient managerial experience.

THOMAS G. HUDSON

45 Gideons Point Road
Tonka Bay, MN 55331

Residence: 612-401-0195
Office: 612-797-6100

Summary of Qualifications

Creative, results driven, technically proficient CEO; general manager, experienced in Technology Development, Systems Integration Services and Consulting, Global Marketing and Sales, for Services, Information Content, Systems and Technology industries; have created corporate business strategies and systems implementation teams that enable technology to address customer business problems and opportunities. I believe in aggressive leadership, building results oriented teams, and getting the results.

Computer Network Technology — **1996 to Present**

President and Chief Executive Officer since 7/1/96: Minneapolis based company stalled at $78 million in revenues; 500 people; high technology computer and wide area networking firm serving the large Fortune 500 companies worldwide. We are a data access and delivery company; we connect any device to any server at any distance and speed, and any user to any application and data. We provide solutions in three areas: channel networking, mainframe, server and Internet gateways; and storage area networking.

This is a turnaround situation that involves reestablishing a profitable growth model with new products, expanding the market niche and adding new technology partners. Currently at approximately $100 million in revenues. Early on we are addressing several specific priorities:

- developing and communicating a simple, clear direction and vision for the future;
- staffing a new executive management team;
- revitalizing the pipeline of new products;
- developing a new product strategy including the Internet and storage area networking;
- improving the quality of products shipped;
- introducing an expanded go-to-market strategy, including OEM and reseller channels.

The McGraw Hill Companies — **1993 to 1996**

Senior Vice President - Corporate Development Responsible to CEO for developing corporate strategy, assessing investments in new businesses, acquisitions, new products and sales channels.

Senior Vice President and General Manager - general manager of F.W. Dodge, 1993. Responsible for wholly owned, fully integrated division of parent. Dodge is the leading provider of information/content to the construction industry in the US. Its $160 million revenues come from three primary businesses: reports on all new building projects in the US; plans and specifications information; and economic analysis and trends.

Dodge was in a classic turnaround situation: market dominant, growth through price increases, not customer driven, and limited in automation deployment. Revenues had stagnated for five years and profits had eroded eighty percent.

- cut costs by $5 million in the first six months through downsizing and redeployment;
- repopulated the entire executive team in sales, CFO, systems, editorial, product management, production and distribution by recruiting top talent and experience;
- established process improvement teams for re-engineering out waste and improving internal and external customer satisfaction;
- developed two new software products and created a major national marketing launch program to generate new revenues from existing and new customers;
- improved overall competitiveness of information product line by making significant tactical design adjustments to improve competitiveness;
- established the unit's first goal setting, performance management and appraisal system for over 1500 employees at all levels;
- re-built the incentive system to incite growth and reward top performers.

These actions resulted in twelve months of business growth and the first real revenue and profit improvement in six years. Profits doubled the second year based upon subscription increases and cost/productivity improvements.

IBM Corporation — **1968 to 1993**

Developed worldwide strategy and implementation team for international financial services industry customers:

- managed industry hardware development: Charlotte, NC; Boeblinger, Germany; Tokyo, Japan;
- introduced new base of financial application software and architecture;
- began professional services/systems integration teams worldwide, focused on vertically integrated industry segments;
- established eight equity alliances and two new startup corporations; one has since gone public and the other has been acquired, all with substantial capital gains for IBM; a third spin off was later acquired as part of the core business.

General Manager with investment responsibility for worldwide missions:

- achieved all major measurements and objectives on time, in budget for last three years. Established quick response teams to cover two potential liability exposures;
- direct responsibility for profitable worldwide revenues in excess of $1.8 billion; developed strategy and deployment for matrix management of $12 billion in revenue;
- direct responsibility for 1300 professionals in worldwide development, services and consulting, marketing and sales;
- personally directed capital investments in new joint ventures, startups, and new equity alliances in excess of $150 million;
- managed terms and conditions for diverse marketing channels for products and services;
- chairman of internal "community" for finance industry of worldwide executive team, to determine requirements and priorities;

- measured and recognized for profit contribution, customer satisfaction, employee morale, quality, competitive ranking, market share and growth over a sustained time period;
- effective at cost cutting both before and during a business crisis: personally cut 650 staff from my division's headquarters; closed large development and manufacturing site through effective economizing and standardization. Organized rightsizing for 14,000 person division.
- quality review board executive and owner of Solution Integration Process for IBM Corporation.

Senior Executive for wide array of systems development for new products, application and systems software and services offerings, including:
- managed startup operations to large multi-site development efforts; budget exceeded $300 million annually;
- developed application software for mission critical applications in banking including: deposits, loans, trusts, trading, EFT/EDI, branch banking, telemarketing and servicing, consumer home banking, capital markets, risk and profitability management;
- developed unique products for the finance and distribution industry customer set; check/image hardware and software, branch delivery system products, and self service (ATM) machines;
- established architecture for industry applications: development of tools and models for improving productivity and quality in application design and rapid prototypes;
- developed new business line for Japan and other Asian countries for: printers, displays, POS and banking terminals, communications protocols, and application design and rapid prototypes;
- justified development of Kanjii language for all IBM system software;
- developed first OEM line of business offerings for storage products business;
- developed alliances and a subcontractor network to reduce risks and internal hiring, as well as gain required specialized skills to accomplish the objectives in a timely fashion.

Other Marketing and Sales experiences include overall responsibility for:
- worldwide services industry marketing including finance, brokerage, insurance, and distribution;
- directed applications software sales, services and consulting to large banking clients;
- US industry marketing executive for services industries;
- business area manager - marketing for all IBM products in Asia Pacific in Tokyo;
- national marketing manager for small and distributed systems;
- international large account sales manager for largest financial customer;
- sales executive for brokerage accounts in New York.

Creator of innovative partnerships in response to market needs and competitive pressures:
- established eight equity alliances and joint ventures for IBM solutions in specific application niches;
- established multiple customer joint development contracts to ensure focused development efforts and lower risk. Established multiple alternate sales and service channels via joint ventures in Japan and Far East countries.

Broad based functional and international management experience with proven results:
- recognized as a visionary leader for developing new ideas and strategies; implementation through team building and people management;
- assignments in worldwide marketing, application development, services, consulting, planning, and general business management;
- started outsourcing business for IBM in finance industry to meet customer needs and address severe competition to our core businesses. Spun this department off to another unit focused only on outsourcing: ISSC;
- generally viewed as the authority on marketing and development investments for the services sector;
- speaker at numerous industry leadership functions including: ABA, Group of Thirty, World Economic Council, MIT and Harvard, as well as many newspaper articles and a television news and commentary feature. These generally focused on "the impact of technology and leveraging technology in the finance industry."

Vice President, Services Sector Division — 1988 to 1993

Responsible for worldwide systems development, services/consulting and marketing in financial services industries. $1 billion profit and loss responsibility; $300 million budget; 1300 people.

Vice President Plans and Control, General Products Division — 1987 to 1988

Responsible for business plan management for worldwide revenue and profit, quality assurance for new product introduction, and marketing brand management.

General Manager, Product Development Tokyo, Japan — 1985 to 1987

New product development for banking, POS, printers and communications hardware.

Group Director, Product Marketing Tokyo, Japan — 1984 to 1985

Responsible for marketing, brand management and new product introduction for Asia Pacific Group.

Various Strategic Planning and Product Management Positions — 1982 to 1984

A Series of IBM Systems Engineering, Sales and Marketing Management Positions in the New York Territory — 1968 to 1982

Education

Harvard Business School, Advanced Management School, 1990

MBA, Finance, New York University, 1974

BS Electrical Engineering, University of Notre Dame, 1968

Memberships

CNT, Board of Directors, 1996 to Present
Seer Technologies, Board of Directors, Carey, NC, founded in 1990 to 1993
Financial Technologies, Board of Directors, New York, NY, founded in 1990 to 1993
Hogan Corporation, Board of Directors, Audit, Dallas, TX, 1988 to 1993

Information Industry Association, United Way Executive Campaigner

Who's Who in American Business

Harvard Alumni Club; Notre Dame Sorin Society

Top Secret clearance - current

Family

Married 29 years, four children; enjoy skiing, boating and gardening

GREGORY T. BARNUM

4760 Bayside Road
Orono, Minnesota 55359
(952) 472-7992 (home)
(763) 268-6110

EXPERIENCE

Computer Network Technology Corporation
Plymouth, Minnesota

Vice President of Finance, Chief Financial Officer and Secretary — July 1997 - Present

Responsibilities:

- Directly responsible for Accounting, Treasury, Credit and Collections, Contracts, Facilities, Financial Reporting, Investor Relations, Information Technology, Mergers and Acquisitions, Operations Planning, Order Entry, Supply Chain Management, Taxation, and the duties of the Secretary to the Board.

Tricord Systems, Inc.
Plymouth, Minnesota

Senior Vice President of Finance and Administration, Chief Financial Officer and Secretary — September 1992 - July 1998

Hired as Sr. Vice President of Finance and Administration and CFO in September 1992 after the Company had postponed its initial public offering due to serious internal control and system problems. My initial responsibility was to implement the appropriate controls and systems in order to complete the public offering. The Company's initial public offering was completed in March 1993. My primarily responsibilities then shifted towards more of an operations role, including implementation of aggressive inventory and cost reduction programs, ISO 9001 certification, materials management and the formation of operating units in the U.K., France, Germany, Canada, the Netherlands and Mexico. In February 1997, the company made a strategic decision to exit the enterprise server market and enter the storage management market, as a software developer. I participated in successfully right-sizing the Company and then resigned to pursue a more challenging opportunity.

Responsibilities:

- Directly responsible for Accounting, Treasury, Credit and Collections, Facilities, Financial Reporting, Human Resources, Investor Relations, Management Information Systems, Materials Management, Operations Planning, Order Entry, Taxation, and the duties of the Secretary to the Board.

Cray Computer Corporation
Colorado Springs, Colorado

Executive Vice President, Finance — November 1989 - September 1992
Chief Financial Officer, Treasurer and Secretary

Cray Computer Corporation (CCC) was spun-off by Cray Research, Inc. (CRI) on November 15, 1989 as a publicly held company. Previous to this CCC functioned as a division and subsidiary since 1983. In May 1988 the division was relocated to Colorado Springs from Chippewa Falls, Wisconsin. As Corporate Controller of CRI I transferred with the division with the responsibility to assist the founder, Seymour Cray, and the newly appointed President in establishing the operation. My assignment was for 2 years at the end of which I would relocate back to Minneapolis as Vice President, Finance. When CCC became a separate company in November 1989, my decision was to stay with CCC.

Responsibilities:

Directly responsible for Accounting, Financial Reporting, Operations Planning, Management Information Systems, Data Center, Human Resources, Facility Maintenance, Contracts, Investor Relations, Customer Visits, Taxation, Treasury and the duties of the Secretary to the Board.

Cray Research Inc.
Minneapolis, Minnesota

Vice President, Finance - Colorado Operations	March 1989 - November 1989
Corporate Controller	May 1983 - March 1989
Accounting Manager	August 1980 - May 1983

Responsibilities:

- Responsible for establishing Accounting, Financial Reporting, Operations Planning, International Operations, Tax (1980-1982) and Treasury (1980-1982) functions.

Peat Marwick Mitchell and Co.
St. Paul, Minnesota

Supervising Senior	June 1977 - August 1980

Responsibilities:

- In-charge responsibilities on medium to large size jobs.

- Computer Audit Specialist - involved training in computer audit techniques. One of two in the St. Paul office.

EDUCATION

Bachelor of Arts in Accounting - 1977
College of St. Thomas
St. Paul, Minnesota

Certified Public Accountant - Minnesota 1979
Certified Public Accountant - Colorado 1990

Organizations:

American Institute of Certified Public Accountants
Minnesota Society of Certified Public Accountants
Financial Executives Institute
Collaborative CFO roundtable

350 Lynthrum Lane
Medina, MN 55340

Work: 763-268-7509
Home: 763-478-8504
Ed_walsh@cnt.com

Edward J. Walsh

Experience

2001 - Present | CNT | Minneapolis, MN

Vice President - Strategy, Marketing and Alliances

- Responsible for CNT's Strategy, Marketing, Product Management and Marketing, Alliances and Channel Sales teams.

Vice President – Storage Solutions Group

- Responsible for CNT's Storage Solutions Group for North America. This included Sales, Pre-Sales and Professional Services Delivery teams.

1988–2001 | Articulent | Hopkinton, MA

An $88 million systems integrator and consulting company focusing on data management solutions. Business partners include IBM, Digital Equipment, Compaq, EMC, Microsoft and ATL.

VP of Field Operations

- Responsible for all of Articulent's Sales, Pre-Sales and Professional Services teams.

District Manager

- Responsible for Articulent's Mid-Atlantic and Metro New York districts. Managed the region's Sales, Pre-Sales and Professional Services teams.

Data Management Consultant

- In order to accomplish Berkshire's goal to penetrate strategic accounts in New York's Financial District, I focused on penetrating and managing these new accounts.

District Manager / Sales Representative

- Moved to New York City to open, establish and grow Berkshire's business in the Metro New York region.

Sales Representative / Co-Founder

- Berkshire was incorporated in 1988. Berkshire was a storage OEM at this time. the second person at Berkshire my roles were many and diverse. My roles included product concept development, product launches, sales, product testing and product installation.

Jan 1988–Dec 1988 EMC Corporation Hopkinton, MA

Marketing

- Worked in the marketing group responsible for compatible products for Digital Equipment Corporation's Systems.

Education

1992 University of Massachusetts Amherst, MA

- B.S. in Marketing with Minor in Computer Science.

WILLIAM C. COLLETTE

7610 Crestview Dr.
Eau Claire, Wisconsin 54701

(715) 878-4006

SUMMARY

A versatile professional with in-depth knowledge of operating systems, networking and software development. Proven expertise in systems development from microcomputer to supercomputer operations with knowledge of both hardware and software integration and operation. Familiar with UNIX, local area networks, wide area networks, servers and client systems. Strengths include creativity, high energy, innovation and proven ability to analyze and solve problems.

SUPERCOMPUTER SYSTEMS INC., Eau Claire WI.

Senior Software Engineer 1990 - 1993

Wrote the detailed test plan for the test and integration of the SS-1 Supercomputer. Executed the test and integration of the SS-1 which covered hardware and software installation, testing of the hardware and the UNIX operating system. The tasks also included installation and integration of HIPPI I/O devices including disk, and network devices on local and wide area networks. This project involved interfacing with several hardware and software groups, both internal and external.

Responsible for the design, testing, and implementation of network capabilities first on a Sun platform and then on the SS-1 Supercomputer. Wrote C programs to test the memory interface from the Network Systems router to the Sun. Worked closely with the vendor to approve, test and install a HIPPI driver on the Sun platform to fully test the HIPPI memory interface capability. The network capabilities included FTP TCP/IP and NFS UDP/IP over Ethernet and HIPPI.

Responsible for all network vendor interfacing and negotiations of contracts between SSI and the vendors. These included Zitel, Ultra Technologies, Netstar Inc., Computer Network Technologies and Network Systems Corporation.

CONTROL DATA CORPORATION, Arden Hills, MN.

Section Manager 1986 - 1990

Managed major software projects including all personnel issues, hiring and performance appraisals. Conducted communication meetings, and presentations to upper management regarding financial and schedule performance. Effectively utilized matrix management, to get projects completed on time and within budget.

Directed all aspects of network file archiving between a Control Data Cyber server and a UNIX client system. Managed this 14 person project and kept the project on schedule and on budget. Responsible for the selection of peripherals which were attached to the file server. including Network Systems Data Exchange hardware, Masstor Tape Cartridge subsystem, Storage Technology Tapes and Control Data Disks.

Managed a $28 million dollar project for hardware and delivery of several key features for the Naval Surface Weapons Center including common input/output queues, multiple level security and several other feature enhancements. The system was accepted on time and the project was on budget.

Managed a Management Information Center which supported two software development groups and other end users. This center achieved a 98%+ production availability along with a high level of efficiency and cost effectiveness.

Unit manager **1980 - 1986**

Evaluated, designed and developed turn-key solutions for large customers. The solutions were derived by evaluating the customers request for proposal as well as competition from other vendors. My group developed the software features for several large systems. Provided the Interface between the marketing and development organizations for future products.

Consultant **1975 - 1980**

Planned the migration of applications from the CDC NOS operating system to the NOS/VE operating system. Designed, coded and implemented an operating system on the PL10 hardware which included interrupt handling, I/O drivers and a communication interface.

Senior Programmer **1968 - 1975**

Using the Control Data assembly language, designed and implemented a communication subsystem for the Master Operating System. Managed multiple project groups, mainly in the I/O and driver areas of the operating system.

System Analyst **1965 - 1968**

Installed and supported the Master Operating System world-wide for Control Data Corporation. Analyzed and solved many extremely difficult problems that could not be solved by local analysts in the country.

Hardware Integration Engineer **1963 - 1965**

Debugged the instructions and I/O on the CDC 3300 and installed the systems on site.

EDUCATION

Metro State University, St. Paul, Minnesota

B.A. Business Management, 1979

Control Data Corporation
attended extensive computer courses

International Business Machines
attended Chief Programmer Top Level Design course

Resume of

James A. Fanella

23 Wescott Drive
South Barrington, Illinois 60010

Home: (847) 842-8331
Mobile: (847) 909-0417
Email: jafanella@yahoo.com

PROFESSIONAL OBJECTIVE:

To join a company as Chief Executive Officer (CEO) where I can utilize my expertise in profitably growing an existing firm.

QUALIFICATION SUMMARY:

A results driven Senior Vice President at Yahoo!, a $8.4 Billion Market Capitalization firm, with over 23 years experience in building profitable companies that achieve high growth. A leader with extensive expertise in strategic planning, product development, engineering, sales, consulting services and technology solutions implementation. Currently running Yahoo! Enterprise Solutions worldwide, a $200 million business unit, that make up over 20% of the company's revenues.

PROFESSIONAL EXPERIENCE

8/01-Present **Yahoo, Inc.** **Sunnyvale, California**

Senior Vice President, Yahoo! Enterprise Solutions (YES)

Responsible for leading all enterprise offerings for Yahoo!. Key business groups include: Enterprise Portals, Broadcast Rich Media, Small Businesses, eStores, Collaboration Solutions, and satellite businesses in Europe and Asia. Generating over $200M in revenues with 420 employees.

Key Accomplishments:

- Developed and implemented a strategy that enables YES to best leverage the Yahoo! brand and network. This strategy involves providing businesses with Yahoo! enterprise content and enterprise web services fully integrated with other business applications behind the corporate firewall. These secure enterprise services also have the customization of My Yahoo! and the "industrial strength" capabilities needed in the workplace.
- Expanded distribution channels to include OEM relationships with SAP, SUN, and BEA that include in every portal software sale, Yahoo! enterprise web services and content. This new approach has enabled YES to aggressively expand footprint and connection to the desktop. In addition, this OEM channel has provided Yahoo! with electronic access to cross sell more services to millions of enterprise desktop users.
- Provided the capability of enterprise clients to buy Yahoo! web services and premium content in a "self service" model either directly through their own portal or through the newly developed YES portal. These web applications are very scaleable and are now providing predictable, recurring revenues with higher margins. SBC/Yahoo! packaged services for Small and Medium Businesses is just one example.
- Built an infrastructure that enables Yahoo! to rapidly close large contracts in Fortune 2000 clients via leading with strategy consulting, then synergistically selling all of Yahoo! Enterprise Solutions, and providing Project Management Office (PMO) delivery services.
- On track in 2002 to grow revenues 28% and EBITDA 133% over 2001
- Recruited (6) key executives leading each business unit, sales and operations
- Key client wins include: Cigna, McDonalds, Merck, Bayer, Honeywell, State of Florida, Merrill Lynch, and Compaq

9/00-7/01	**Commerce One**	**Chicago, Illinois**

Vice President, Global Services

Led Global Services Group with Fortune 500 clients that included: Ford, BP Amoco, Covisint, Trade Ranger, Pantellos, and Quadrem. Was responsible for $175M in P&L services revenue and leadership responsibility for over 700 people.

Created and implemented vision that incorporated new approaches to expediting liquidity in exchanges. One new approach provided packaged "private labeled services" to e-marketplaces that were offered to their perspective buyers and suppliers. Restructured sales operations to industry verticals that doubled revenues from 2000 to 2001. In addition, developed additional practices in supply chain optimization, strategic sourcing, private labeled e-marketplace services, and virtual supply chain offerings. Also developed a national Project Management Office to ensure project quality amongst all existing projects.

Recruited seven senior executives in leadership roles that is the key to doubling revenue growth in 2001 as well as providing the necessary financial discipline and focus. In the past 15 years, have never missed revenue and EBITDA targets.

11/99-9/00	**AppNet, Inc.** ***(acquired by Commerce One)***	**Chicago, Illinois**

Group President and General Manager

One of three Group Presidents responsible for running a $120 Million pure play e-business company. Had service line Presidents as direct reports with a focus on full "end to end" e-business services managing over 500 people and $62 Million in direct P&L responsibility. Services include: strategic planning, technical architectural planning and implementation, application development, and integration services. Reported to Chairman and CEO.

Created and implemented vision of company to focus on Fortune 200 customers and providing them with "end-to-end" services ranging from strategy to full implementation. In addition, focused on integrating 13 companies that were part of a large rollup. Implemented numerous integration efforts to streamline company delivery and sales efforts including a knowledge management database and resource management system. Directed the methodology and development of re-useable object libraries and integrated delivery process used to condense project lifecyle to major "90 day deliverables." Set company strategic plan and prioritization of company e-business initiatives and was involved in leading several key acquisitions. Key financial accomplishments include: doubled business revenues, increased EBITDA from 3% to 21%, and decreased Days-Sales-Outstanding from 83 days to 37 days.

Since joining the firm, was awarded five of the largest B2B and e-business contracts in the U.S, including UCCnet, Prime Outlets, BP Amoco, Ford Motor Company, and Nationwide Insurance valued at over $65M in initial contracts. Personally recruited top management team of twelve people, all of which were formerly CEO's and top executives of major companies. Sample project initiatives include:

- *UCCnet*-was the largest B2B contract ever won at the time. Involved real time updates of all retail transactions over the internet via XML. Over 40,000 companies subscribed to this network.
- *Ford Motor Company*-Developing consumer connect initiative that allows, "build to order" cars over the internet.
- *BP Amoco*-Developing B2B portal that allows customers procurement of Natural Gas and Liquids (NGL) over the internet.

8/94-10/99	**Unisys Corporation**	**Lombard, Illinois**

Managing Principal/Partner (9/98-10/99)

Responsible for leading an Insurance Consulting Practice with 1999 service revenues of over $25 Million and 55 people. Responsible for general management and operations that included: developing financial services core competencies, delivery model, full practice P&L, strategic alliances, business development, and project delivery.

Accomplishments Include:

- Integrated Financial Services Lines of Business To Best Meet Client Needs
- Streamlined Services Delivery Infrastructure By Creating Service Templates
- Built Up Business Pipeline To Over $200 Million
- Closed Ten New Clients In First Half of 1999
- Implemented New Business Development Model
- Increased Practice Gross Margins Over 25% From 1998
- All Engagements Are On a Time & Materials Basis and Referenceable
- Increased Several Key Strategic Alliances

Senior Principal/Partner (8/94-9/98)

Responsible for building an Insurance Consulting Practice focused in the Midwest. Specific responsibilities include: business plan creation and execution, profit accountability, business development, project quality assurance, recruiting, skills development and project delivery. Developed new delivery model to instill discipline and focus on a selected group of core competencies. New delivery model was critical to the success of the practice. Was promoted to Senior Principal after only 18 months of joining the firm.

Significant Accomplishments:

- Developed a virtual internet bank for a $24 Billion insurance company by providing services from strategic planning to full implementation of products and services. Worked directly with CEO, President, COO and executive staff on vision, product and service offerings, brand differentiation, distribution channel mix, marketing plan, success metrics, competitive analysis, risk management and Phase I of product/service implementation. In addition, assisted in filing for a thrift charter with the Office of Thrift Supervision (OTS) as well as completed an information architecture.

- Awarded multi-million project at the largest workers compensation provider in the state of Michigan to integrate Cover-All and Pyramid that will provide a new client/server integrated Underwriting and Claims solution. Competed against Ernst & Young, Deloitte & Touche, and PriceWaterhouseCoopers. This solution involved significant process redesign, data migration from DMS II to Oracle, building intranet and extranets, Cover-All gap analysis and modifications, change management consulting, and the over-all integration and project management of five subcontractors.

- Provided data migration services to three of the largest non-standard auto providers on new client server platforms. Our services provided each of these clients with the ability to execute their multi-state expansion strategy on a single open systems platform. In addition, strategic and IT architecture planning services were also provided.

- Awarded multi-million Customer Information Systems Project at United Fire and Casualty Insurance. The services performed included an initial customer segmentation study to match customer-buying attributes with the optimal suite of insurance products. The new system now allows UFC to aggressively cross sell to their existing customer base. In addition, this solution has enabled UFC to become more customer focused on existing and new marketplaces. As a result of the new Customer Information System, revenues are up 31% with operating expenses being reduced by 28%.

- Awarded a major consulting engagement with the largest health care provider in the United States to assist in their execution of their rapid acquisition strategy. We lead a team of consultants in creating a template and methodology that will enable this client to expeditiously convert newly acquired companies into their current IT infrastructure. It is the implementation of this strategy that has been the key to their success.

- Implemented an Environmental Claims system for CNA Insurance. Solution involved complex workflow redesign, rapid application development, and imaging technologies. Currently system enables CNA to access complex claims history expeditiously. As a result of this system, CNA has aggressively reduced their claims loss ratios.

1989 - 1994 **Digital Equipment Corporation** **Chicago, Illinois**

Senior Project Manager, Professional Services
Responsible for project management, risk reduction and contingency planning, gross margin after project completion, client satisfaction, management of project consultants, recruiting and new business development.

Significant Accomplishments:

- Implemented an automated Underwriting, Claims, and rating system for Shand, Morahan & Company. In addition, provided consulting to Shand's executive staff on developing information architecture to support business strategies. The new solution cut Shand's annual Information Systems costs by 56%. Most importantly, Policy underwriting which once took weeks, now can be processed in minutes, thereby resulting in increased customer satisfaction. This project resulted in $4.8 million of services in the first year.

- Second year at Shand Morahan & Company project managed an additional $1.2 million in projects, which competitively displaced Hewlett Packard, Comdisco and Banyon. These solutions involved network integration consulting and have made it easier for Shand's customers to buy their products.

- Won a $960K consulting project at Near North Insurance. Project Managed and developed customized Client/Server Bond Tracking System that has improved customer service by enabling Near North's customers (i.e. Amoco, McDonalds) to electronically purchase surety bonds in seconds versus their competitor's average of six days.

- Provided consulting to CEO of Mid America Title on complete customized solution to revamp their old real estate title system. Utilized Business Process Re-Engineering to significantly reduce title closing time and processes. This new client win resulted in over $580K in consulting and application development revenues.

- Successfully competed against IBM consulting to win an $820K project at Alden Management Services Corporation. The new solution automates the management of their managed care facilities by determining room availability, service needs, and profitability of each facility.

1979 - 1989	Burroughs Corporation	Oakbrook, Illinois
Senior Account Manager	(1985 - 1989)	
Account Executive	(1979 - 1985)	

Primary responsibility was new account development with a focus on the Financial Services industry.

Significant Accomplishments:

- Sold Allstate personal lines Property & Casualty Insurance nationwide check processing system for $5.2 million. All insurance premium checks get processed and are ready for deposit directly to their local bank with this solution. Today over $25 million a day is being processed by these systems which are very mission critical to Allstate's cash flow.
- Managed implementation of check processing systems for all other Allstate Divisions: Allstate Commercial, Life and Motorclub.
- Part of sales team that sold American Hospital Supply large order entry system. This system positioned American Hospital as the worlds leading supplier of medical products by expediting the delivery of hospital orders faster than any of their competitors.
- Sold Kemper Insurance and Dean Witter Reynolds financial system solutions totaling $1.3 million, both of which were new accounts.
- Attained 120% of quota seven out of nine years and sold over $7 million in new competitive business in last two years.

PUBLICATIONS:

Articles published in *Insurance and Technology*, *Best Review*, *National Underwriter*, and *CPCU* magazine. Quoted in over 50 publications in 2002 on topics ranging from the future of portals, premium content, and monetizing value on the internet.

OTHER ACTIVITIES:

Served as Chairman of the American Management Association. Currently a member of the Board of Directors of PlanetCAD, a CAD-CAM and supply chain software provider.

EDUCATION:

School	*Degree*
Western Illinois University	Bachelor of Business

Jeffrey A. Bertelsen, C.P.A.
12405 51st Avenue North
Plymouth, MN 55442

(Home) 559-7368
(Work) 337-9394 - Confidential

SUMMARY

A Certified Public Accountant with 10 years of progressive experience with KPMG Peat Marwick assisting companies in the manufacturing and high technology industries, including annual audits, due diligence and acquisition activities, corporate tax matters, external financial reporting and various SEC filings.

EDUCATION

University of Minnesota
Minneapolis, MN

Bachelor of Science - Accounting
Cumulative G.P.A. - 3.5/4.0
1980 to 1984

EXPERIENCE

KPMG PEAT MARWICK
Minneapolis, MN

Senior Audit Manager
1991 to present
Audit Manager
1989 to 1991
Staff Auditor
1985 to 1989

Engagement Senior Manager for a variety of companies in the manufacturing and high technology industries. Responsibilities include overall management of the audit process, billing and collection, client relations, technical research and financial reporting assistance with a variety of SEC filings, including registration statements, Forms 10-Q, 10-K and annual report. Clients were also assisted with special projects, including due diligence for acquisition targets, internal audit activities and corporate tax issues.

Jeffrey Bertelsen, C.P.A.

Representative Clients and Services Provided

- GNB Batteries Technology Inc. -

  A $700 million manufacturer of automobile and industrial batteries which is a wholly owned subsidiary of Pacific Dunlop, a $5 billion public company based in Melbourne Australia. Activities include management of the annual audit, assistance with financial reporting under both U.S. and Australian Generally Accepted Accounting Principles, internal audits, due diligence for acquisitions and special operational audit activities resulting in significant savings from consolidation of the finance function.

- Advance Machine Company -

  A $90 million manufacturer and distributor of commercial and industrial floor maintenance equipment. Activities include management of the annual audit, assistance with purchase accounting, and due diligence provided for the Danish corporation which subsequently acquired Advance Machine Company.

- Computer Network Technology Corporation -

  A $60 million manufacturer of computer networking equipment. Special services provided include assistance with two public offerings, technical accounting assistance with respect to acquisitions (purchase price allocation, purchased in-process research and development, exchange of stock options, and pro forma financial information requirements) and accounting assistance including consolidations and foreign operations.

- Grand Casinos, Inc. -

  A large casino entertainment company with operations located throughout the United States. Special services provided include assistance with four public offerings of debt and equity securities, accounting for debt with detachable warrants, equity method accounting, consolidations with minority interest and earnings per share technical issues.

Other Clients Include:

- IMI Cornelius, Inc.
- SoDak Gaming, Inc.
- Ciprico, Inc.
- Bridon Cordage, Inc.
- Dahlberg, Inc.
- Pirelli Power Transmission, Inc.
- Caribou Coffee, Inc.
- Toro, Inc. - Wheelhorse Division

Personal Biography: Mark R. Knittel

Strengths

- Strong mix of business, technical, and marketing skills.

- Excellent communication skills.

- Strong analytic/strategic planning ability.

- Substantial operational experience managing large organizations.

- Significant dedication to work.

Work History (all posiitons at IBM)

* Sept. 1995 to present: Director of Campus Product Marketing

  - Responsible for all marketing and sales support activities for IBM LAN products, including Hubs, concentrators, Lan Switches, routers, adapters, etc.

  - 1996 revenue responsibility: $1.1 billion.

* 1992 to 1995: Director of Network Integration Products

  - 1992 to 1993: La Gaude France; Responsibilities:

    - Establish new business unit responsible for Intelligent Hub LAN products.
    - Establish alliance with major Intelligent Hub vendor. Alliance scope: joint development, manufacturing and marketing.
    - Strategy/planning, development (hardware/software), marketing of new products. Products developed include Token Ring, Ethernet, and ATM LAN concentration products, and a new suite of object oriented Network Management applications to support the new hardware.

  - 1993 to 1994: Responsibilities expanded to include workgroup/stackable Hub product group, located in RTP, North Carolina.

  - 1994 to Sept 1995: Relocated to RTP, North Carolina. Responsibilities expanded to include new Switched Lan/ATM product group.

  - Results: Intelligent Hub business unit established successfully, including joint alliance with outside company. This is now the fastest growing business segment in the Networking Hardware Division, with revenue of app $400m, and app. 300 employees (approximately 50% hardware engineers, and 50% software engineers.). As part of this responsibility, I led the definition of the IBM campus ATM strategy, and led the design, development, and standards activities related to campus ATM.

* 1990 - 1992: Director of Advanced Connectivity Systems, La Gaude, France. Responsible for Strategy development and systems management of new multi-function network controller

system. Recently announced as the Nways 2220 Switching Family.

- 1988 - 1990: Systems Manager for Network Management; RTP. Responsible for technical/marketing strategy development and plan management for all Network Management activities in IBM. Participated in company wide System Mgmt strategy definition/implementation efforts.

- 1987 - 1988: Product manager for Advanced Telecommunication Products, RTP. Responsible for software development activities associated with APPN. This was a new organization, which I created and staffed to develop a new, portable telecommunications access method for host and personal systems. This group eventually grew to be approximately 130 persons.

- 1985 - 1986: Manager of Vtam Design and Performance group; RTP. 2nd line position, with responsibility for all product design and performance assessments for VTAM, a very large/ complex host telecommunication access method.

- 1984 - 1985: Manager of SNA System design; RTP. Managed a group of top system designers responsible for new SNA architecture enhancements, including APPN.

- 1982 - 1984: Manager of Large Systems Technical strategy; Poughkeepsie, New York. Particiapted in the definition of the S/390 Sysplex strategy definition. Responsible for integration of networking into this strategy.

- 1980 - 1982: Lead Systems Engineer for Federal Reserve Bank team; Chicago, Illinois. Led design for Fed Reserve Communications Systems/90's (FRCS/90), which was a complete re-write of the Fed Funds Transfer system, based upon IMS/Fast Path, and VTAM.

- 1978 - 1980: Systems Engineer; Chicago, Illinois. Technical support for large accounts in Finance Industry. Principal role: Data Base and Data Communications specialist.

- 1977 - 1978: Hired by IBM as Systems Engineer in Chicago, Illinois. Spent first year in required sales and technical training classes

Education

- Bachelor of Arts degree from Eckerd College - Saint Petersburg, Florida. Major: Philosophy

- Master of Arts Degree from University of Chicago - Chicago, Illinois. Major: Analytic Philosophy.

- Other:

  - Attended IBM Systems Research Institute in 1981; location: New York City; duration: 10 weeks.

  - Attended Business Management program at Wharton School of business for 2 weeks in 1987.

Robert R. Beyer

4950 Shady Island Circle
Mound, MN 55364
Home: (612)470-6019
Office: (612)638-7104

Qualifications Profile:

Highly skilled computer executive with over fifteen years experience in engineering, sales, and customer support settings. Areas of expertise include:

- Operations Management
- Financial Management
- Program Development and Deployment
- Change Management
- Vendor Management
- Computer Service Delivery
- Personnel Management
- Strategic Planning
- Contract Negotiations
- Conflict Management
- Support Planning
- Cross Functional Management

Results oriented leader with experience in start-up, turn-around, and growth situations. Dedicated individual with strong problem solving, communication, and leadership skills. Extensive background in leading technical professionals in highly complex computer support and business critical environments. Respected and viewed as a strong leader by senior executive management.

Professional Experience:

NCR Corporation, Dayton, Ohio — 1989 to Present

Vice President, High Availability Services — 1997 to Present

- Provide strategic, tactical, and operational leadership in supporting computer service delivery operation.
- Design and execute US computer service delivery and support operations model providing best-in-class profit margins.
- Negotiate multi-year/multi-million dollar support service contracts with customers and strategic alliances.
- Provide leadership and direction in the design of the High Availability Services organization which consists of over 400 engineers, 30 district managers, and 5 region directors.
- Provide leadership and support to international partners in implementing US support and service methodologies.
- Partner with NCR leadership team formulating strategic direction for NCR's key support strategies.
- Member of key quality improvement teams.
- Provide post-sale support for two of NCR's key initiatives.
- Executive sponsor for key customers.

Achievements/Accomplishments

- Received highest associate satisfaction ratings while improving customer satisfaction and overall profitability.
- Selected as "high potential" succession candidate.
- First NCR employee to attend AT&T's Leadership Development Program.
- Exceeded revenue and profit objectives every year.
- Best-in-class revenue per associate in the industry.
- Developed and initiated support methodologies that were adopted by worldwide operation and results in profitable value-add services.
- Led cross functional team in creating new service organization and aligning support systems in less than three months.
- Selected by peers as one of the "Best of the Best."

Director, Business Critical Support Services 1993 to 1997

- Responsible for seven regional managers and over 100 support representatives in providing post-sale support for Teradata systems in the Western Region.
- Designed, Developed, and Deployed business critical support methodologies that were implemented across the world.
- Participated on numerous cross functional teams in supporting NCR's key initiatives.

Executive Account Manager 1993 to 1993

- Responsible for key Teradata customers in the Kansas City area.

District Manager 1992 to 1993

- Responsible for leading 20 field engineers in supporting key Teradata customers.

System Support Representative 1989 to 1992

- Responsible for onsite hardware and software support at Teradata's largest customer.

Additional Professional Experience:

Clear With Computers, Account Director
Powermation, Sales Engineer
South Dakota State University, Lecturer in Electrical Engineering Department
TL Systems, Sales Engineer
Hughes Aircraft, Field Engineer

Military:

United States Marine Corps 1978 to 1982

- Promoted meritoriously to Sergeant in 20 months, honorably discharged.

Education:

- South Dakota State University, BS Electrical Engineering 1986, 3.4 GPA.
- Kellar Graduate School of Management, various courses.
- University of St. Thomas, Executive MBA, complete 1999.

References Available Upon Request

ATTACHMENT B

COMUTER NETWORK TECHNOLOGY CORPORATION

18 B Attached are the Technical Capability resumes of the officers of the company that would indicate sufficient technical experience. They are as follows:

THOMAS G. HUDSON

45 Gideons Point Road
Tonka Bay, MN 55331

Residence: 612-401-0195
Office: 612-797-6100

Summary of Qualifications

Creative, results driven, technically proficient CEO; general manager, experienced in Technology Development, Systems Integration Services and Consulting, Global Marketing and Sales, for Services, Information Content, Systems and Technology industries; have created corporate business strategies and systems implementation teams that enable technology to address customer business problems and opportunities. I believe in aggressive leadership, building results oriented teams, and getting the results.

Computer Network Technology — **1996 to Present**

President and Chief Executive Officer since 7/1/96: Minneapolis based company stalled at $78 million in revenues; 500 people; high technology computer and wide area networking firm serving the large Fortune 500 companies worldwide. We are a data access and delivery company; we connect any device to any server at any distance and speed, and any user to any application and data. We provide solutions in three areas: channel networking, mainframe, server and Internet gateways; and storage area networking.

This is a turnaround situation that involves reestablishing a profitable growth model with new products, expanding the market niche and adding new technology partners. Currently at approximately $100 million in revenues. Early on we are addressing several specific priorities:

- developing and communicating a simple, clear direction and vision for the future;
- staffing a new executive management team;
- revitalizing the pipeline of new products;
- developing a new product strategy including the Internet and storage area networking;
- improving the quality of products shipped;
- introducing an expanded go-to-market strategy, including OEM and reseller channels.

The McGraw Hill Companies — **1993 to 1996**

Senior Vice President - Corporate Development — Responsible to CEO for developing corporate strategy, assessing investments in new businesses, acquisitions, new products and sales channels.

Senior Vice President and General Manager - general manager of F.W. Dodge, 1993. Responsible for wholly owned, fully integrated division of parent. Dodge is the leading provider of information/content to the construction industry in the US. Its $160 million revenues come from three primary businesses: reports on all new building projects in the US; plans and specifications information; and economic analysis and trends.

Dodge was in a classic turnaround situation: market dominant, growth through price increases, not customer driven, and limited in automation deployment. Revenues had stagnated for five years and profits had eroded eighty percent.

- cut costs by $5 million in the first six months through downsizing and redeployment;
- repopulated the entire executive team in sales, CFO, systems, editorial, product management, production and distribution by recruiting top talent and experience;
- established process improvement teams for re-engineering out waste and improving internal and external customer satisfaction;
- developed two new software products and created a major national marketing launch program to generate new revenues from existing and new customers;
- improved overall competitiveness of information product line by making significant tactical design adjustments to improve competitiveness;
- established the unit's first goal setting, performance management and appraisal system for over 1500 employees at all levels;
- re-built the incentive system to incite growth and reward top performers.

These actions resulted in twelve months of business growth and the first real revenue and profit improvement in six years. Profits doubled the second year based upon subscription increases and cost/productivity improvements.

IBM Corporation — **1968 to 1993**

Developed worldwide strategy and implementation team for international financial services industry customers:

- managed industry hardware development: Charlotte, NC; Boeblinger, Germany; Tokyo, Japan;
- introduced new base of financial application software and architecture;
- began professional services/systems integration teams worldwide, focused on vertically integrated industry segments;
- established eight equity alliances and two new startup corporations; one has since gone public and the other has been acquired, all with substantial capital gains for IBM; a third spin off was later acquired as part of the core business.

General Manager with investment responsibility for worldwide missions:

- achieved all major measurements and objectives on time, in budget for last three years. Established quick response teams to cover two potential liability exposures;
- direct responsibility for profitable worldwide revenues in excess of $1.8 billion; developed strategy and deployment for matrix management of $12 billion in revenue;
- direct responsibility for 1300 professionals in worldwide development, services and consulting, marketing and sales;
- personally directed capital investments in new joint ventures, startups, and new equity alliances in excess of $150 million,
- managed terms and conditions for diverse marketing channels for products and services;
- chairman of internal "community" for finance industry of worldwide executive team, to determine requirements and priorities;

- measured and recognized for profit contribution, customer satisfaction, employee morale, quality, competitive ranking, market share and growth over a sustained time period;
- effective at cost cutting both before and during a business crisis: personally cut 650 staff from my division's headquarters; closed large development and manufacturing site through effective economizing and standardization. Organized rightsizing for 14,000 person division.
- quality review board executive and owner of Solution Integration Process for IBM Corporation.

Senior Executive for wide array of systems development for new products, application and systems software and services offerings, including:
- managed startup operations to large multi-site development efforts; budget exceeded $300 million annually;
- developed application software for mission critical applications in banking including: deposits, loans, trusts, trading, EFT/EDI, branch banking, telemarketing and servicing, consumer home banking, capital markets, risk and profitability management;
- developed unique products for the finance and distribution industry customer set; check/image hardware and software, branch delivery system products, and self service (ATM) machines;
- established architecture for industry applications: development of tools and models for improving productivity and quality in application design and rapid prototypes;
- developed new business line for Japan and other Asian countries for: printers, displays, POS and banking terminals, communications protocols, and application design and rapid prototypes;
- justified development of Kanjii language for all IBM system software;
- developed first OEM line of business offerings for storage products business;
- developed alliances and a subcontractor network to reduce risks and internal hiring, as well as gain required specialized skills to accomplish the objectives in a timely fashion.

Other Marketing and Sales experiences include overall responsibility for:
- worldwide services industry marketing including finance, brokerage, insurance, and distribution;
- directed applications software sales, services and consulting to large banking clients;
- US industry marketing executive for services industries;
- business area manager – marketing for all IBM products in Asia Pacific in Tokyo;
- national marketing manager for small and distributed systems;
- international large account sales manager for largest financial customer;
- sales executive for brokerage accounts in New York.

Creator of innovative partnerships in response to market needs and competitive pressures:
- established eight equity alliances and joint ventures for IBM solutions in specific application niches;
- established multiple customer joint development contracts to ensure focused development efforts and lower risk. Established multiple alternate sales and service channels via joint ventures in Japan and Far East countries.

Broad based functional and international management experience with proven results:
- recognized as a visionary leader for developing new ideas and strategies; implementation through team building and people management;
- assignments in worldwide marketing, application development, services, consulting, planning, and general business management;
- started outsourcing business for IBM in finance industry to meet customer needs and address severe competition to our core businesses. Spun this department off to another unit focused only on outsourcing: ISSC;
- generally viewed as the authority on marketing and development investments for the services sector;
- speaker at numerous industry leadership functions including: ABA, Group of Thirty, World Economic Council, MIT and Harvard, as well as many newspaper articles and a television news and commentary feature. These generally focused on "the impact of technology and leveraging technology in the finance industry."

<u>Vice President, Services Sector Division</u> — 1988 to 1993

Responsible for worldwide systems development, services/consulting and marketing in financial services industries. $1 billion profit and loss responsibility; $300 million budget; 1300 people.

<u>Vice President Plans and Control, General Products Division</u> — 1987 to 1988

Responsible for business plan management for worldwide revenue and profit, quality assurance for new product introduction, and marketing brand management.

<u>General Manager, Product Development Tokyo, Japan</u> — 1985 to 1987

New product development for banking, POS, printers and communications hardware.

<u>Group Director, Product Marketing Tokyo, Japan</u> — 1984 to 1985

Responsible for marketing, brand management and new product introduction for Asia Pacific Group.

<u>Various Strategic Planning and Product Management Positions</u> — 1982 to 1984

<u>A Series of IBM Systems Engineering, Sales and Marketing Management Positions in the New York Territory</u> — 1968 to 1982

Education

Harvard Business School, Advanced Management School, 1990

MBA, Finance, New York University, 1974

BS Electrical Engineering, University of Notre Dame, 1968

Memberships

CNT, Board of Directors, 1996 to Present
Seer Technologies, Board of Directors, Carey, NC, founded in 1990 to 1993
Financial Technologies, Board of Directors, New York, NY, founded in 1990 to 1993
Hogan Corporation, Board of Directors, Audit, Dallas, TX, 1988 to 1993

Information Industry Association, United Way Executive Campaigner

Who's Who in American Business

Harvard Alumni Club; Notre Dame Sorin Society

Top Secret clearance - current

Family

Married 29 years, four children; enjoy skiing, boating and gardening

GREGORY T. BARNUM

4760 Bayside Road
Orono, Minnesota 55359
(952) 472-7992 (home)
(763) 268-6110

EXPERIENCE

Computer Network Technology Corporation
Plymouth, Minnesota

Vice President of Finance, Chief Financial Officer and Secretary — July 1997 - Present

Responsibilities:

- Directly responsible for Accounting, Treasury, Credit and Collections, Contracts, Facilities, Financial Reporting, Investor Relations, Information Technology, Mergers and Acquisitions, Operations Planning, Order Entry, Supply Chain Management, Taxation, and the duties of the Secretary to the Board.

Tricord Systems, Inc.
Plymouth, Minnesota

Senior Vice President of Finance and Administration, Chief Financial Officer and Secretary — September 1992 - July 1998

Hired as Sr. Vice President of Finance and Administration and CFO in September 1992 after the Company had postponed its initial public offering due to serious internal control and system problems. My initial responsibility was to implement the appropriate controls and systems in order to complete the public offering. The Company's initial public offering was completed in March 1993. My primarily responsibilities then shifted towards more of an operations role, including implementation of aggressive inventory and cost reduction programs, ISO 9001 certification, materials management and the formation of operating units in the U.K., France, Germany, Canada, the Netherlands and Mexico. In February 1997, the company made a strategic decision to exit the enterprise server market and enter the storage management market, as a software developer. I participated in successfully right-sizing the Company and then resigned to pursue a more challenging opportunity.

Responsibilities:

- Directly responsible for Accounting, Treasury, Credit and Collections, Facilities, Financial Reporting, Human Resources, Investor Relations, Management Information Systems, Materials Management, Operations Planning, Order Entry, Taxation, and the duties of the Secretary to the Board.

Cray Computer Corporation
Colorado Springs, Colorado

Executive Vice President, Finance — November 1989 - September 1992
Chief Financial Officer, Treasurer and Secretary

Cray Computer Corporation (CCC) was spun-off by Cray Research, Inc. (CRI) on November 15, 1989 as a publicly held company. Previous to this CCC functioned as a division and subsidiary since 1983. In May 1988 the division was relocated to Colorado Springs from Chippewa Falls, Wisconsin. As Corporate Controller of CRI I transferred with the division with the responsibility to assist the founder, Seymour Cray, and the newly appointed President in establishing the operation. My assignment was for 2 years at the end of which I would relocate back to Minneapolis as Vice President, Finance. When CCC became a separate company in November 1989, my decision was to stay with CCC.

Responsibilities:

Directly responsible for Accounting, Financial Reporting, Operations Planning, Management Information Systems, Data Center, Human Resources, Facility Maintenance, Contracts, Investor Relations, Customer Visits, Taxation, Treasury and the duties of the Secretary to the Board.

Cray Research Inc.
Minneapolis, Minnesota

Vice President, Finance - Colorado Operations	March 1989 - November 1989
Corporate Controller	May 1983 - March 1989
Accounting Manager	August 1980 - May 1983

Responsibilities:

- Responsible for establishing Accounting, Financial Reporting, Operations Planning, International Operations, Tax (1980-1982) and Treasury (1980-1982) functions.

Peat Marwick Mitchell and Co.
St. Paul, Minnesota

Supervising Senior	June 1977 - August 1980

Responsibilities:

- In-charge responsibilities on medium to large size jobs.

- Computer Audit Specialist - involved training in computer audit techniques. One of two in the St. Paul office.

EDUCATION

Bachelor of Arts in Accounting - 1977
College of St. Thomas
St. Paul, Minnesota

Certified Public Accountant - Minnesota 1979
Certified Public Accountant - Colorado 1990

Organizations:

American Institute of Certified Public Accountants
Minnesota Society of Certified Public Accountants
Financial Executives Institute
Collaborative CFO roundtable

350 Lynthrum Lane
Medina, MN 55340

Work: 763-268-7509
Home: 763-478-8504
Ed_walsh@cnt.com

Edward J. Walsh

Experience

2001 - Present CNT Minneapolis, MN

Vice President - Strategy, Marketing and Alliances

- Responsible for CNT's Strategy, Marketing, Product Management and Marketing, Alliances and Channel Sales teams.

Vice President – Storage Solutions Group

- Responsible for CNT's Storage Solutions Group for North America. This included Sales, Pre-Sales and Professional Services Delivery teams.

1988–2001 Articulent Hopkinton, MA

An $88 million systems integrator and consulting company focusing on data management solutions. Business partners include IBM, Digital Equipment, Compaq, EMC, Microsoft and ATL.

VP of Field Operations

- Responsible for all of Articulent's Sales, Pre-Sales and Professional Services teams.

District Manager

- Responsible for Articulent's Mid-Atlantic and Metro New York districts. Managed the region's Sales, Pre-Sales and Professional Services teams.

Data Management Consultant

- In order to accomplish Berkshire's goal to penetrate strategic accounts in New York's Financial District, I focused on penetrating and managing these new accounts.

District Manager / Sales Representative

- Moved to New York City to open, establish and grow Berkshire's business in the Metro New York region.

Sales Representative / Co-Founder

- Berkshire was incorporated in 1988. Berkshire was a storage OEM at this time. the second person at Berkshire my roles were many and diverse. My roles included product concept development, product launches, sales, product testing and product installation.

Jan 1988–Dec 1988 EMC Corporation Hopkinton, MA

Marketing

- Worked in the marketing group responsible for compatible products for Digital Equipment Corporation's Systems.

Education

1992 University of Massachusetts Amherst, MA

- B.S. in Marketing with Minor in Computer Science.

WILLIAM C. COLLETTE

7610 Crestview Dr.
Eau Claire, Wisconsin 54701

(715) 878-4006

SUMMARY

A versatile professional with in-depth knowledge of operating systems, networking and software development. Proven expertise in systems development from microcomputer to supercomputer operations with knowledge of both hardware and software integration and operation. Familiar with UNIX, local area networks, wide area networks, servers and client systems.. Strengths include creativity, high energy, innovation and proven ability to analyze and solve problems.

SUPERCOMPUTER SYSTEMS INC., Eau Claire WI.

Senior Software Engineer 1990 - 1993

Wrote the detailed test plan for the test and integration of the SS-1 Supercomputer. Executed the test and integration of the SS-1 which covered hardware and software installation, testing of the hardware and the UNIX operating system. The tasks also included installation and integration of HIPPI I/O devices including disk, and network devices on local and wide area networks. This project involved interfacing with several hardware and software groups, both internal and external.

Responsible for the design, testing, and implementation of network capabilities first on a Sun platform and then on the SS-1 Supercomputer. Wrote C programs to test the memory interface from the Network Systems router to the Sun. Worked closely with the vendor to approve, test and install a HIPPI driver on the Sun platform to fully test the HIPPI memory interface capability. The network capabilities included FTP TCP/IP and NFS UDP/IP over Ethernet and HIPPI.

Responsible for all network vendor interfacing and negotiations of contracts between SSI and the vendors. These included Zitel, Ultra Technologies, Netstar Inc., Computer Network Technologies and Network Systems Corporation.

CONTROL DATA CORPORATION, Arden Hills, MN.

Section Manager 1986 - 1990

Managed major software projects including all personnel issues, hiring and performance appraisals. Conducted communication meetings, and presentations to upper management. regarding financial and schedule performance. Effectively utilized matrix management, to get projects completed on time and within budget.

Directed all aspects of network file archiving between a Control Data Cyber server and a UNIX client system. Managed this 14 person project and kept the project on schedule and on budget. Responsible for the selection of peripherals which were attached to the file server. including Network Systems Data Exchange hardware, Masstor Tape Cartridge subsystem, Storage Technology Tapes and Control Data Disks.

Managed a $28 million dollar project for hardware and delivery of several key features for the Naval Surface Weapons Center including common input/output queues, multiple level security and several other feature enhancements. The system was accepted on time and the project was on budget.

Managed a Management Information Center which supported two software development groups and other end users. This center achieved a 98%+ production availability along with a high level of efficiency and cost effectiveness.

Unit manager **1980 - 1986**

Evaluated, designed and developed turn-key solutions for large customers. The solutions were derived by evaluating the customers request for proposal as well as competition from other vendors. My group developed the software features for several large systems. Provided the Interface between the marketing and development organizations for future products.

Consultant **1975 - 1980**

Planned the migration of applications from the CDC NOS operating system to the NOS/VE operating system. Designed, coded and implemented an operating system on the PL10 hardware which included interrupt handling, I/O drivers and a communication interface.

Senior Programmer **1968 - 1975**

Using the Control Data assembly language, designed and implemented a communication subsystem for the Master Operating System. Managed multiple project groups, mainly in the I/O and driver areas of the operating system.

System Analyst **1965 - 1968**

Installed and supported the Master Operating System world-wide for Control Data Corporation. Analyzed and solved many extremely difficult problems that could not be solved by local analysts in the country.

Hardware Integration Engineer **1963 - 1965**

Debugged the instructions and I/O on the CDC 3300 and installed the systems on site.

EDUCATION

Metro State University, St. Paul, Minnesota

B.A. Business Management, 1979

Control Data Corporation
attended extensive computer courses

International Business Machines
attended Chief Programmer Top Level Design course

Resume of

James A. Fanella

23 Wescott Drive
South Barrington, Illinois 60010

Home: (847) 842-8331
Mobile: (847) 909-0417
Email: jafanella@yahoo.com

PROFESSIONAL OBJECTIVE:

To join a company as Chief Executive Officer (CEO) where I can utilize my expertise in profitably growing an existing firm.

QUALIFICATION SUMMARY:

A results driven Senior Vice President at Yahoo!, a $8.4 Billion Market Capitalization firm, with over 23 years experience in building profitable companies that achieve high growth. A leader with extensive expertise in strategic planning, product development, engineering, sales, consulting services and technology solutions implementation. Currently running Yahoo! Enterprise Solutions worldwide, a $200 million business unit, that make up over 20% of the company's revenues.

PROFESSIONAL EXPERIENCE

8/01-Present **Yahoo, Inc.** **Sunnyvale, California**

Senior Vice President, Yahoo! Enterprise Solutions (YES)

Responsible for leading all enterprise offerings for Yahoo!. Key business groups include: Enterprise Portals, Broadcast Rich Media, Small Businesses, eStores, Collaboration Solutions, and satellite businesses in Europe and Asia. Generating over $200M in revenues with 420 employees.

Key Accomplishments:

- Developed and implemented a strategy that enables YES to best leverage the Yahoo! brand and network. This strategy involves providing businesses with Yahoo! enterprise content and enterprise web services fully integrated with other business applications behind the corporate firewall. These secure enterprise services also have the customization of My Yahoo! and the "industrial strength" capabilities needed in the workplace.
- Expanded distribution channels to include OEM relationships with SAP, SUN, and BEA that include in every portal software sale, Yahoo! enterprise web services and content. This new approach has enabled YES to aggressively expand footprint and connection to the desktop. In addition, this OEM channel has provided Yahoo! with electronic access to cross sell more services to millions of enterprise desktop users.
- Provided the capability of enterprise clients to buy Yahoo! web services and premium content in a "self service" model either directly through their own portal or through the newly developed YES portal. These web applications are very scaleable and are now providing predictable, recurring revenues with higher margins. SBC/Yahoo! packaged services for Small and Medium Businesses is just one example.
- Built an infrastructure that enables Yahoo! to rapidly close large contracts in Fortune 2000 clients via leading with strategy consulting, then synergistically selling all of Yahoo! Enterprise Solutions, and providing Project Management Office (PMO) delivery services.
- On track in 2002 to grow revenues 28% and EBITDA 133% over 2001
- Recruited (6) key executives leading each business unit, sales and operations
- Key client wins include: Cigna, McDonalds, Merck, Bayer, Honeywell, State of Florida, Merrill Lynch, and Compaq

9/00-7/01	Commerce One	Chicago, Illinois

Vice President, Global Services

Led Global Services Group with Fortune 500 clients that included: Ford, BP Amoco, Covisint, Trade Ranger, Pantellos, and Quadrem. Was responsible for $175M in P&L services revenue and leadership responsibility for over 700 people.

Created and implemented vision that incorporated new approaches to expediting liquidity in exchanges. One new approach provided packaged "private labeled services" to e-marketplaces that were offered to their perspective buyers and suppliers. Restructured sales operations to industry verticals that doubled revenues from 2000 to 2001. In addition, developed additional practices in supply chain optimization, strategic sourcing, private labeled e-marketplace services, and virtual supply chain offerings. Also developed a national Project Management Office to ensure project quality amongst all existing projects.

Recruited seven senior executives in leadership roles that is the key to doubling revenue growth in 2001 as well as providing the necessary financial discipline and focus. In the past 15 years, have never missed revenue and EBITDA targets.

11/99-9/00	AppNet, Inc. *(acquired by Commerce One)*	Chicago, Illinois

Group President and General Manager

One of three Group Presidents responsible for running a $120 Million pure play e-business company. Had service line Presidents as direct reports with a focus on full "end to end" e-business services managing over 500 people and $62 Million in direct P&L responsibility. Services include: strategic planning, technical architectural planning and implementation, application development, and integration services. Reported to Chairman and CEO.

Created and implemented vision of company to focus on Fortune 200 customers and providing them with "end-to-end" services ranging from strategy to full implementation. In addition, focused on integrating 13 companies that were part of a large rollup. Implemented numerous integration efforts to streamline company delivery and sales efforts including a knowledge management database and resource management system. Directed the methodology and development of re-useable object libraries and integrated delivery process used to condense project lifecyle to major "90 day deliverables." Set company strategic plan and prioritization of company e-business initiatives and was involved in leading several key acquisitions. Key financial accomplishments include: doubled business revenues, increased EBITDA from 3% to 21%, and decreased Days-Sales-Outstanding from 83 days to 37 days.

Since joining the firm, was awarded five of the largest B2B and e-business contracts in the U.S, including UCCnet, Prime Outlets, BP Amoco, Ford Motor Company, and Nationwide Insurance valued at over $65M in initial contracts. Personally recruited top management team of twelve people, all of which were formerly CEO's and top executives of major companies. Sample project initiatives include:

- *UCCnet*-was the largest B2B contract ever won at the time. Involved real time updates of all retail transactions over the internet via XML. Over 40,000 companies subscribed to this network.
- *Ford Motor Company*-Developing consumer connect initiative that allows, "build to order" cars over the internet.
- *BP Amoco*-Developing B2B portal that allows customers procurement of Natural Gas and Liquids (NGL) over the internet.

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8/94-10/99 **Unisys Corporation** **Lombard, Illinois**

Managing Principal/Partner (9/98-10/99)

Responsible for leading an Insurance Consulting Practice with 1999 service revenues of over $25 Million and 55 people. Responsible for general management and operations that included: developing financial services core competencies, delivery model, full practice P&L, strategic alliances, business development, and project delivery.

Accomplishments Include:

- Integrated Financial Services Lines of Business To Best Meet Client Needs
- Streamlined Services Delivery Infrastructure By Creating Service Templates
- Built Up Business Pipeline To Over $200 Million
- Closed Ten New Clients In First Half of 1999
- Implemented New Business Development Model
- Increased Practice Gross Margins Over 25% From 1998
- All Engagements Are On a Time & Materials Basis and Referenceable
- Increased Several Key Strategic Alliances

Senior Principal/Partner (8/94-9/98)

Responsible for building an Insurance Consulting Practice focused in the Midwest. Specific responsibilities include: business plan creation and execution, profit accountability, business development, project quality assurance, recruiting, skills development and project delivery. Developed new delivery model to instill discipline and focus on a selected group of core competencies. New delivery model was critical to the success of the practice. Was promoted to Senior Principal after only 18 months of joining the firm.

Significant Accomplishments:

- Developed a virtual internet bank for a $24 Billion insurance company by providing services from strategic planning to full implementation of products and services. Worked directly with CEO, President, COO and executive staff on vision, product and service offerings, brand differentiation, distribution channel mix, marketing plan, success metrics, competitive analysis, risk management and Phase I of product/service implementation. In addition, assisted in filing for a thrift charter with the Office of Thrift Supervision (OTS) as well as completed an information architecture.

- Awarded multi-million project at the largest workers compensation provider in the state of Michigan to integrate Cover-All and Pyramid that will provide a new client/server integrated Underwriting and Claims solution. Competed against Ernst & Young, Deloitte & Touche, and PriceWaterhouseCoopers. This solution involved significant process redesign, data migration from DMS II to Oracle, building intranet and extranets, Cover-All gap analysis and modifications, change management consulting, and the over-all integration and project management of five subcontractors.

- Provided data migration services to three of the largest non-standard auto providers on new client server platforms. Our services provided each of these clients with the ability to execute their multi-state expansion strategy on a single open systems platform. In addition, strategic and IT architecture planning services were also provided.

- Awarded multi-million Customer Information Systems Project at United Fire and Casualty Insurance. The services performed included an initial customer segmentation study to match customer-buying attributes with the optimal suite of insurance products. The new system now allows UFC to aggressively cross sell to their existing customer base. In addition, this solution has enabled UFC to become more customer focused on existing and new marketplaces. As a result of the new Customer Information System, revenues are up 31% with operating expenses being reduced by 28%.

- Awarded a major consulting engagement with the largest health care provider in the United States to assist in their execution of their rapid acquisition strategy. We lead a team of consultants in creating a template and methodology that will enable this client to expeditiously convert newly acquired companies into their current IT infrastructure. It is the implementation of this strategy that has been the key to their success.

- Implemented an Environmental Claims system for CNA Insurance. Solution involved complex workflow redesign, rapid application development, and imaging technologies. Currently system enables CNA to access complex claims history expeditiously. As a result of this system, CNA has aggressively reduced their claims loss ratios.

1989 - 1994 **Digital Equipment Corporation** **Chicago, Illinois**

Senior Project Manager, Professional Services
Responsible for project management, risk reduction and contingency planning, gross margin after project completion, client satisfaction, management of project consultants, recruiting and new business development.

Significant Accomplishments:

- Implemented an automated Underwriting, Claims, and rating system for Shand, Morahan & Company. In addition, provided consulting to Shand's executive staff on developing information architecture to support business strategies. The new solution cut Shand's annual Information Systems costs by 56%. Most importantly, Policy underwriting which once took weeks, now can be processed in minutes, thereby resulting in increased customer satisfaction. This project resulted in $4.8 million of services in the first year.

- Second year at Shand Morahan & Company project managed an additional $1.2 million in projects, which competitively displaced Hewlett Packard, Comdisco and Banyon. These solutions involved network integration consulting and have made it easier for Shand's customers to buy their products.

- Won a $960K consulting project at Near North Insurance. Project Managed and developed customized Client/Server Bond Tracking System that has improved customer service by enabling Near North's customers (i.e. Amoco, McDonalds) to electronically purchase surety bonds in seconds versus their competitor's average of six days.

- Provided consulting to CEO of Mid America Title on complete customized solution to revamp their old real estate title system. Utilized Business Process Re-Engineering to significantly reduce title closing time and processes. This new client win resulted in over $580K in consulting and application development revenues.

- Successfully competed against IBM consulting to win an $820K project at Alden Management Services Corporation. The new solution automates the management of their managed care facilities by determining room availability, service needs, and profitability of each facility.

1979 - 1989	**Burroughs Corporation**	**Oakbrook, Illinois**
Senior Account Manager	(1985 - 1989)	
Account Executive	(1979 - 1985)	

Primary responsibility was new account development with a focus on the Financial Services industry.

Significant Accomplishments:

- Sold Allstate personal lines Property & Casualty Insurance nationwide check processing system for $5.2 million. All insurance premium checks get processed and are ready for deposit directly to their local bank with this solution. Today over $25 million a day is being processed by these systems which are very mission critical to Allstate's cash flow.
- Managed implementation of check processing systems for all other Allstate Divisions: Allstate Commercial, Life and Motorclub.
- Part of sales team that sold American Hospital Supply large order entry system. This system positioned American Hospital as the worlds leading supplier of medical products by expediting the delivery of hospital orders faster than any of their competitors.
- Sold Kemper Insurance and Dean Witter Reynolds financial system solutions totaling $1.3 million, both of which were new accounts.
- Attained 120% of quota seven out of nine years and sold over $7 million in new competitive business in last two years.

PUBLICATIONS:

Articles published in *Insurance and Technology, Best Review, National Underwriter*, and *CPCU* magazine. Quoted in over 50 publications in 2002 on topics ranging from the future of portals, premium content, and monetizing value on the internet.

OTHER ACTIVITIES:

Served as Chairman of the American Management Association. Currently a member of the Board of Directors of PlanetCAD, a CAD-CAM and supply chain software provider.

EDUCATION:

School	*Degree*
Western Illinois University	Bachelor of Business

Jeffrey A. Bertelsen, C.P.A.
12405 51st Avenue North
Plymouth, MN 55442

(Home) 559-7368
(Work) 337-9394 - Confidential

SUMMARY

A Certified Public Accountant with 10 years of progressive experience with KPMG Peat Marwick assisting companies in the manufacturing and high technology industries, including annual audits, due diligence and acquisition activities, corporate tax matters, external financial reporting and various SEC filings.

EDUCATION

University of Minnesota
Minneapolis, MN

Bachelor of Science - Accounting
Cumulative G.P.A. - 3.5/4.0
1980 to 1984

EXPERIENCE

KPMG PEAT MARWICK
Minneapolis, MN

Senior Audit Manager
1991 to present
Audit Manager
1989 to 1991
Staff Auditor
1985 to 1989

Engagement Senior Manager for a variety of companies in the manufacturing and high technology industries. Responsibilities include overall management of the audit process, billing and collection, client relations, technical research and financial reporting assistance with a variety of SEC filings, including registration statements, Forms 10-Q, 10-K and annual report. Clients were also assisted with special projects, including due diligence for acquisition targets, internal audit activities and corporate tax issues.

Jeffrey Bertelsen, C.P.A.

Representative Clients and Services Provided

- GNB Batteries Technology Inc. -

  A $700 million manufacturer of automobile and industrial batteries which is a wholly owned subsidiary of Pacific Dunlop, a $5 billion public company based in Melbourne Australia. Activities include management of the annual audit, assistance with financial reporting under both U.S. and Australian Generally Accepted Accounting Principles, internal audits, due diligence for acquisitions and special operational audit activities resulting in significant savings from consolidation of the finance function.

- Advance Machine Company -

  A $90 million manufacturer and distributor of commercial and industrial floor maintenance equipment. Activities include management of the annual audit, assistance with purchase accounting, and due diligence provided for the Danish corporation which subsequently acquired Advance Machine Company.

- Computer Network Technology Corporation -

  A $60 million manufacturer of computer networking equipment. Special services provided include assistance with two public offerings, technical accounting assistance with respect to acquisitions (purchase price allocation, purchased in-process research and development, exchange of stock options, and pro forma financial information requirements) and accounting assistance including consolidations and foreign operations.

- Grand Casinos, Inc. -

  A large casino entertainment company with operations located throughout the United States. Special services provided include assistance with four public offerings of debt and equity securities, accounting for debt with detachable warrants, equity method accounting, consolidations with minority interest and earnings per share technical issues.

Other Clients Include:

- IMI Cornelius, Inc.
- SoDak Gaming, Inc.
- Ciprico, Inc.
- Bridon Cordage, Inc.
- Dahlberg, Inc.
- Pirelli Power Transmission, Inc.
- Caribou Coffee, Inc.
- Toro, Inc. - Wheelhorse Division

Personal Biography: Mark R. Knittel

Strengths

- Strong mix of business, technical, and marketing skills.

- Excellent communication skills.

- Strong analytic/strategic planning ability.

- Substantial operational experience managing large organizations.

- Significant dedication to work.

Work History (all posiitons at IBM)

* Sept. 1995 to present: Director of Campus Product Marketing

  - Responsible for all marketing and sales support activities for IBM LAN products, including Hubs, concentrators, Lan Switches, routers, adapters, etc.

  - 1996 revenue responsibility: $1.1 billion.

* 1992 to 1995: Director of Network Integration Products

  - 1992 to 1993: La Gaude France; Responsibilities:

    - Establish new business unit responsible for Intelligent Hub LAN products.
    - Establish alliance with major Intelligent Hub vendor. Alliance scope: joint development, manufacturing and marketing.
    - Strategy/planning, development (hardware/software), marketing of new products. Products developed include Token Ring, Ethernet, and ATM LAN concentration products, and a new suite of object oriented Network Management applications to support the new hardware.

  - 1993 to 1994: Responsibilities expanded to include workgroup/stackable Hub product group, located in RTP, North Carolina.

  - 1994 to Sept 1995: Relocated to RTP, North Carolina. Responsibilities expanded to include new Switched Lan/ATM product group.

  - Results: Intelligent Hub business unit established successfully, including joint alliance with outside company. This is now the fastest growing business segment in the Networking Hardware Division, with revenue of app $400m, and app. 300 employees (approximately 50% hardware engineers, and 50% software engineers.). As part of this responsibility, I led the definition of the IBM campus ATM strategy, and led the design, development, and standards activities related to campus ATM.

* 1990 - 1992: Director of Advanced Connectivity Systems. La Gaude, France. Responsible for Strategy development and systems management of new multi-function network controller

system. Recently announced as the Nways 2220 Switching Family.

- 1988 - 1990: Systems Manager for Network Management; RTP. Responsible for technical/marketing strategy development and plan management for all Network Management activities in IBM. Participated in company wide System Mgmt strategy definition/implementation efforts.

- 1987 - 1988: Product manager for Advanced Telecommunication Products; RTP. Responsible for software development activities associated with APPN. This was a new organization, which I created and staffed to develop a new, portable telecommunications access method for host and personal systems. This group eventually grew to be approximately 130 persons.

- 1985 - 1986: Manager of Vtam Design and Performance group; RTP. 2nd line position, with responsibility for all product design and performance assessments for VTAM, a very large/ complex host telecommunication access method.

- 1984 - 1985: Manager of SNA System design; RTP. Managed a group of top system designers responsible for new SNA architecture enhancements, including APPN.

- 1982 - 1984: Manager of Large Systems Technical strategy; Poughkeepsie, New York. Particiapted in the definition of the S/390 Sysplex strategy definition. Responsible for integration of networking into this strategy.

- 1980 - 1982: Lead Systems Engineer for Federal Reserve Bank team; Chicago, Illinois. Led design for Fed Reserve Communications Systems/90's (FRCS/90), which was a complete re-write of the Fed Funds Transfer system, based upon IMS/Fast Path, and VTAM.

- 1978 - 1980: Systems Engineer; Chicago, Illinois. Technical support for large accounts in Finance Industry. Principal role: Data Base and Data Communications specialist.

- 1977 - 1978: Hired by IBM as Systems Engineer in Chicago, Illinois. Spent first year in required sales and technical training classes

<u>**Education**</u>

- Bachelor of Arts degree from Eckerd College - Saint Petersburg, Florida. Major: Philosophy.

- Master of Arts Degree from University of Chicago - Chicago, Illinois. Major: Analytic Philosophy.

- Other:

  - Attended IBM Systems Research Institute in 1981; location: New York City; duration: 10 weeks.

  - Attended Business Management program at Wharton School of business for 2 weeks in 1987.

Robert R. Beyer

4950 Shady Island Circle
Mound, MN 55364
Home: (612)470-6019
Office: (612)638-7104

Qualifications Profile:

Highly skilled computer executive with over fifteen years experience in engineering, sales, and customer support settings. Areas of expertise include:

- Operations Management
- Financial Management
- Program Development and Deployment
- Change Management
- Vendor Management
- Computer Service Delivery
- Personnel Management
- Strategic Planning
- Contract Negotiations
- Conflict Management
- Support Planning
- Cross Functional Management

Results oriented leader with experience in start-up, turn-around, and growth situations. Dedicated individual with strong problem solving, communication, and leadership skills. Extensive background in leading technical professionals in highly complex computer support and business critical environments. Respected and viewed as a strong leader by senior executive management.

Professional Experience:

NCR Corporation, Dayton, Ohio — 1989 to Present

Vice President, High Availability Services — **1997 to Present**

- Provide strategic, tactical, and operational leadership in supporting computer service delivery operation.
- Design and execute US computer service delivery and support operations model providing best-in-class profit margins.
- Negotiate multi-year/multi-million dollar support service contracts with customers and strategic alliances.
- Provide leadership and direction in the design of the High Availability Services organization which consists of over 400 engineers, 30 district managers, and 5 region directors.
- Provide leadership and support to international partners in implementing US support and service methodologies.
- Partner with NCR leadership team formulating strategic direction for NCR's key support strategies.
- Member of key quality improvement teams.
- Provide post-sale support for two of NCR's key initiatives.
- Executive sponsor for key customers.

Achievements/Accomplishments

- Received highest associate satisfaction ratings while improving customer satisfaction and overall profitability.
- Selected as "high potential" succession candidate.
- First NCR employee to attend AT&T's Leadership Development Program.
- Exceeded revenue and profit objectives every year.
- Best-in-class revenue per associate in the industry.
- Developed and initiated support methodologies that were adopted by worldwide operation and results in profitable value-add services.
- Led cross functional team in creating new service organization and aligning support systems in less than three months.
- Selected by peers as one of the "Best of the Best."

Director, Business Critical Support Services 1993 to 1997

- Responsible for seven regional managers and over 100 support representatives in providing post-sale support for Teradata systems in the Western Region.
- Designed, Developed, and Deployed business critical support methodologies that were implemented across the world.
- Participated on numerous cross functional teams in supporting NCR's key initiatives.

Executive Account Manager 1993 to 1993

- Responsible for key Teradata customers in the Kansas City area.

District Manager 1992 to 1993

- Responsible for leading 20 field engineers in supporting key Teradata customers.

System Support Representative 1989 to 1992

- Responsible for onsite hardware and software support at Teradata's largest customer.

Additional Professional Experience:

Clear With Computers, Account Director
Powermation, Sales Engineer
South Dakota State University, Lecturer in Electrical Engineering Department
TL Systems, Sales Engineer
Hughes Aircraft, Field Engineer

Military:

United States Marine Corps 1978 to 1982

- Promoted meritoriously to Sergeant in 20 months, honorably discharged.

Education:

- South Dakota State University, BS Electrical Engineering 1986, 3.4 GPA.
- Kellar Graduate School of Management, various courses.
- University of St. Thomas, Executive MBA, complete 1999.

References Available Upon Request

ATTACHMENT C

COMPUTER NETWORK TECHNOLOGY CORPORATION

18 C Financial Capability-attached are copies of the financial statements of the corporation via their annual reports for 2000, 2001 and 2002.

CNT

2000 Annual Report

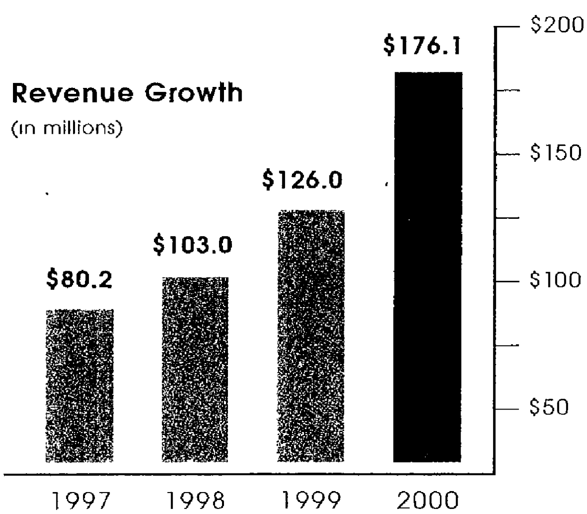
About CNT

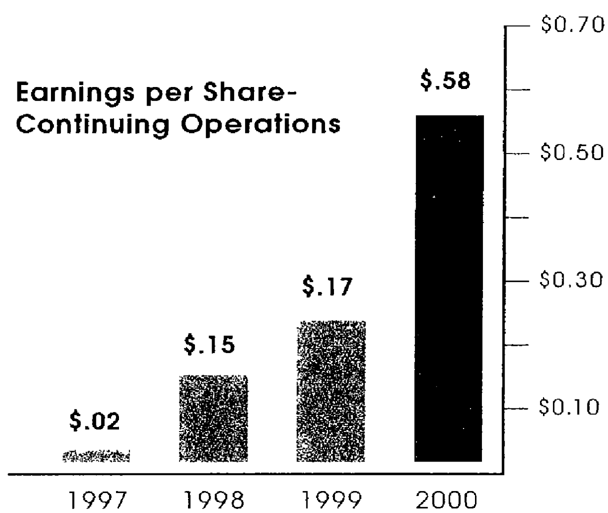
CNT is the global specialist in storage networking, delivering innovative solutions that drive superior business results for its customers. CNT solutions are relied on by organizations around the world to integrate business-critical applications and storage environments so their information is safe and accessible to all that need it—anytime, anywhere.

Through an intelligent combination of innovative technology and professional services, CNT's storage networking solutions provide organizations with the confidence and enthusiasm to use technology to connect and manage information, the most important corporate asset.

CNT provides storage networking products and services for all types of organizations, from Fortune 500 corporations to Global 2000 businesses. More than half of the Fortune 100 companies are CNT customers. Our strategic partnerships include the world's leading enterprise storage, software and platform vendors.

A global company based in Minneapolis, Minnesota, CNT has more than 790 employees, five international operating subsidiaries, over 20 international distributors and customers in 30 countries. CNT is listed on the Nasdaq National Market System under the symbol CMNT.





(in thousands, except per share data)	**2000**	1999	1998	1997
Total revenue	**$176,106**	$125,989	$103,021	$80,195
Earnings from continuing operations	**16,129**	4,326	3,359	449
Diluted earnings per share from continuing operations	**$0.58**	$0.17	$0.15	$0.02
Total assets	**268,623**	110,654	87,596	78,950
Shareholders' equity	**213,102**	78,472	60,558	55,607
Operating margin	**11.9%**	5.1%	4.5%	(0.8%)

To Our Shareholders:

Storage networking is complex. It is about data. The way that it is accessed. How it is protected and made available throughout an enterprise. The distances across which it is moved and shared. How cost-effectively it is managed. And most important, it is about turning data into information—mission-critical information that serves as the foundation of business. Across every industry, companies are entrusting CNT with their valuable data to create and manage storage infrastructure solutions that transform data into information.

In 2000, CNT continued to build its business upon one simple truth: we have the products, services and experience to access, move, store and manage information throughout any enterprise and across any distance—providing organizations with the confidence and enthusiasm to use information technology to drive superior business results. We accomplish this through continuous technical innovation and an unwavering passion for customer service.

At the end of calendar 1999, we announced our intention to focus exclusively on storage networking and divest our Enterprise Integration Solutions (EIS) business. In fiscal 2000, we took an important step in that direction by first selling IntelliFrame, and recently renaming EIS as Propelis™, in anticipation of its separation from CNT later this year.

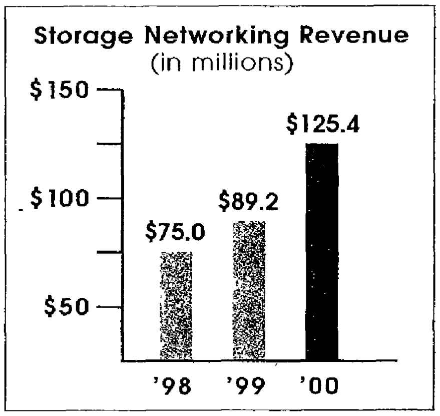
Our steadfast commitment to the rapidly expanding storage networking market drove record revenue growth in 2000, despite the weakening economy, which caused a slower than anticipated fourth quarter. We delivered two industry-first storage-networking technologies that utilize low-cost and infinite distance Internet Protocol (IP), allowing customers to leverage their existing infrastructures for cost-effective storage networks. In addition, we formally launched our professional services organization, which enables companies to further benefit from our proven expertise in storage networking.

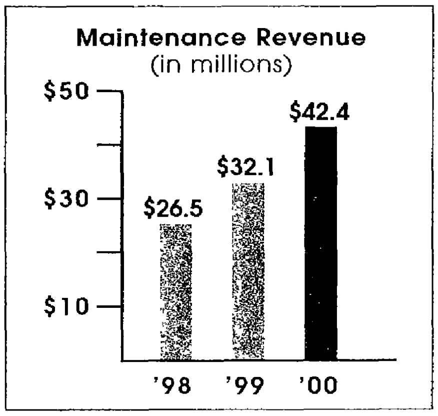
Financial Results

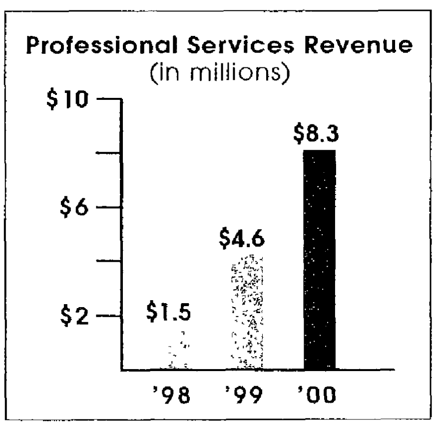
For fiscal 2000, CNT reported record revenues of $176.1 million, an increase of 40 percent from $126.0 million in 1999. Net income from continuing operations, excluding a one-time gain of $287,000 from the reversal of a restructuring accrual, totaled $15.9 million, or $.57 per share, up 160 percent compared to net income from continuing operations, before special charges, of $6.1 million, or $.24 per share, in 1999. Including discontinued operations and the one-time gain of $287,000, net income totaled $12.0 million, or $.43 per share, a 158 percent rise from 1999.

CNT raised $110 million during the third quarter from the sale of 4.6 million shares of CNT common stock. Proceeds from the offering will allow the company to invest in key storage networking and professional services markets, and pursue complementary product and business acquisitions.

In the first quarter of fiscal 2001, CNT sold its IntelliFrame business to webMethods, Inc. (Nasdaq: WEBM) for $8.8 million in cash and 273,542 shares of newly issued webMethods common stock.







Storage Networking—The UltraNet® Products

Networking product revenues rose substantially in 2000, to $125.4 million, up 41 percent from 1999. Storage networking-related products sales were exceptionally strong, up 64 percent from 1999 to a record $87.8 million.

Driving demand for storage, and particularly storage networking, is the proliferation and increasingly critical nature of information. Our customers need 24x7 availability, greater storage capacity, protection and disaster recovery, and guaranteed data integrity.

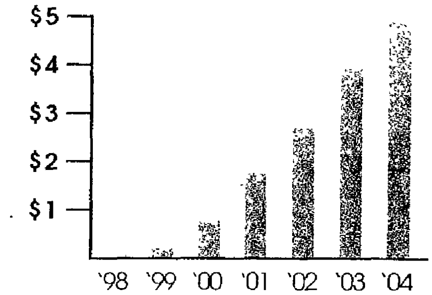
During 2000, CNT delivered two industry-first technologies: data mirroring over IP in partnership with EMC Corporation; and IP Storage capabilities for tape, fibre channel and Small Computer Systems Interface (SCSI), enabling companies to build storage infrastructures over IP networks, such as intranets and Virtual Private Networks (VPNs). These key technologies demonstrate our ongoing commitment to leadership and innovation.

I want to emphasize that we did not simply announce these solutions, as did our industry competitors; we are delivering, installing and supporting them in production at customer sites today. We continue to be the only company providing such capability over IP networks.

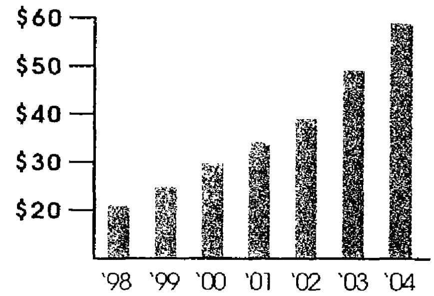
Our customers face the increasing, and often overwhelming, complexity of storage networking. They need a single source to bring together the diverse technologies from multiple vendors that are necessary for a comprehensive storage solution. CNT is the leading specialist in all types of storage networks, across any distance. Through trusted and established relationships with leaders in the storage industry, we are able to combine our own hardware, software and services with products from every major storage player to deliver complete solutions directly to our global 1000 customers.

Industry Trends

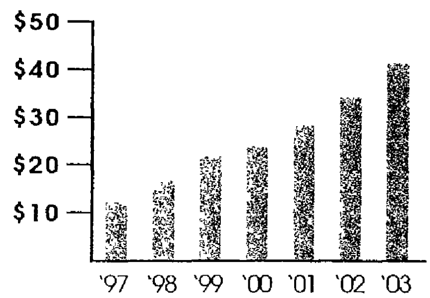
(in billions)



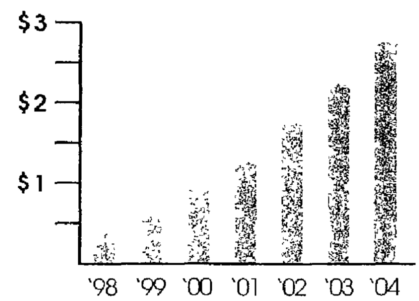
Fibre Channel Market*



Storage Market**



Managed Services Market***



Data Mirroring Market****

* Source Dataquest December 2000
** Source IDC April 2000
*** Source IDC May 2000
**** Source Dataquest May 2000

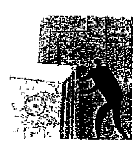
Storage Networking—Services

CNT's professional services group grew substantially in both size and revenue during fiscal 2000. Professional services revenue rose to $8.3 million, up 82 percent from 1999. Our services group grew by 31 employees during the year, bringing its year-end total to 57. Recently, we more than doubled the services group by gaining 120 professionals with our acquisition of leading storage management services provider, Articulent. The transaction was a stock purchase for $12 million in cash, plus the assumption of approximately $24 million of liabilities and included the acquisition of approximately $19 million of tangible assets.

In October we announced the availability of our field-proven Storage Networking Services organization, formed to help customers design and implement storage networks quickly and cost-effectively using the industry's best SAN technologies. We have professionally trained and certified storage networking services personnel—service consultants who are certified in dozens of technologies, and have field-proven experience.

According to Steve Duplessie, Senior Analyst and Founder, Enterprise Storage Group, "CNT is one of the few large SAN assessment and professional services companies we've found that has multi-platform, multi-vendor, real-life experience designing storage networks."

A testament to our real-world storage networking experience can be found in EchoStar/DISH Networks, a direct broadcast satellite television products and services company. CNT's Storage Networking Services organization provided satellite broadcaster EchoStar/DISH Networks with a detailed, comprehensive plan for storage network design, implementation and proof-of-concept testing that enabled improved data protection and operating efficiency.



Outlook

CNT's story is one of success. Four years ago we were in a small, declining market with an aging product line. Today CNT is a growth company positioned in a market that is large and fast growing: storage networking.

As an acknowledged leader and technical innovator, we're helping to meet and drive the demand for cost-effective, comprehensive storage networking solutions--serving as a trusted partner to efficiently manage and protect information for some of the world's largest corporations.

Our steadfast commitment to technology leadership and long-term growth is delivering record financial performance. While there are short-term economic uncertainties, and quarter to quarter lumpiness, we measure ourselves on delivering annual growth and sustained improvement. We remain confident of storage networking's growth prospects.

We move into fiscal 2001 with a strong balance sheet — debt-free and with a positive cash flow—delivering real profits and growth to our shareholders and employees, and innovative products and services to our customers.

In the coming months we will continue to focus on storage networking, specifically:

- continuing our industry leadership in IP storage solutions and standards;
- further developing our professional services organization;
- pursuing opportunities to add to our growing family of storage services including consulting, implementation and managed services;
- continuing to explore innovative technological solutions in metropolitan area network (MAN), optical networking, network operations and storage resource management.

On behalf of CNT's board I want to extend a special thanks to long time board member Larry Pearlman, who will be retiring from CNT's board after twelve years of service. Larry's contributions have helped CNT grow from $3 million to more than $170 million in revenues. Everyone at CNT sincerely appreciates the guidance, insight and inspiration he has brought to the company.

I also would like to thank you for your continued support and extend a special thanks to our 790 forward-thinking employees who continue to go the extra mile to keep CNT at the forefront of the storage networking industry.

Sincerely,

Thomas G Hudson

Thomas G. Hudson

President, Chief Executive Officer and
Chairman of the Board

April 12, 2001

Principal Outside Counsel
Leonard, Street and Deinard Professional Association
Minneapolis, Minnesota

Independent Auditors
KPMG LLP
Minneapolis, Minnesota

Transfer Agent
Shareholder inquiries relating to shareholder records, stock transfer, change of ownership or change of address should be directed to the company's transfer agent:

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
(888) 213-0965
www mellon-investor.com

Form 10-K
A copy of our annual report on Form 10-K, filed with the Securities and Exchange Commission, will be furnished free of charge to any CNT shareholder upon request to:

Investor Relations
CNT
6000 Nathan Lane North
Minneapolis, Minnesota 55442
(763) 268-6111
investor_relations@cnt.com

Investor Inquiries
Shareholders, securities analysts, portfolio managers and others in the investment community seeking information about CNT should contact Investor Relations at (763) 268-6111 or by e-mail at investor_relations@cnt.com.

Annual Meeting
Shareholders, employees and friends are invited to attend CNT's annual meeting on Thursday, June 28, at 10:00 a.m. at CNT's corporate headquarters in the Minneapolis suburb of Plymouth, Minnesota.

Corporate Location
CNT
6000 Nathan Lane North
Minneapolis, Minnesota, USA
Tel: 763-268-6000
Fax: 763-268-6800

Board of Directors
Thomas G. Hudson
Chairman of the Board

Patrick W. Gross
Founder and Chairman, Executive Committee
American Management Systems, Inc.

Erwin A. Kelen
President, Kelen Ventures

Lawrence Perlman
Retired Chairman and Chief Executive Officer,
Ceridian Corporation
Retiring from CNT Board as of June 28, 2001

John A. Rollwagen
Investor/Business Advisor

Management
Thomas G. Hudson
President, Chief Executive Officer and
Chairman of the Board

Gregory T. Barnum
Chief Financial Officer, Vice President of Finance
and Corporate Secretary

Jeffrey A. Bertelsen
Corporate Controller and Treasurer

Robert R. Beyer
Vice President of Worldwide Customer Support Services

William C. Collette
Chief Technology Officer and Vice President of
Advanced Technology

Nick V. Ganio
Group Vice President of Worldwide Sales,
Marketing and Services

Kevin J. Hansen
Senior Director of Human Resources

Gary M. Johnson
Vice President of Storage Networking Services

Mark R. Knittel
Group Vice President of Worldwide Product Operations

Paul J. Martin
Vice President of Engineering Operations

James I. Morin
Vice President of Strategic Planning

Ernest J. Parsons
General Manager of Systems Integration and
Consulting Services

Julie C. Quintal
Vice President of Quality and Business Process

Barbara L. Schmit
Chief Information Officer

CNT® www.cnt.com

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 31, 2001
Commission file number: 0-13994

COMPUTER NETWORK TECHNOLOGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Minnesota (State or Other Jurisdiction of Incorporation or Organization)	41-1356476 (I.R.S. Employer Identification No.)
6000 Nathan Lane North, Plymouth, Minnesota (Address of Principal Executive Offices)	55442 (Zip Code)

(763) 268-6000
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock $.01 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 that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes √ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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 Common Stock held by non-affiliates of the Registrant as of April 1, 2001 was approximately $316,904,000 based on a closing price of $10.81 per share as reported by the Nasdaq National Market on such date.

As of April 1, 2001 Registrant had 29,722,581 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Computer Network Technology Corporation's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 28, 2001 are incorporated by reference into Part III of this Form 10-K.

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PART IV

PART I

Item 1. Business

BUSINESS

Overview

We are a leading provider of hardware and software products, related professional services, and managed services in the rapidly growing storage networking market. We focus primarily on helping our customers design, develop, deploy and manage storage networks, a high speed network within a business' existing computer system that allows the business to manage its expanding data storage needs with greater efficiency and less disruption to its overall network. We design, manufacture, market and support a wide range of products for critical storage networking applications such as remote disk mirroring, or the real-time backup of data to remotely located disks, and remote tape vaulting, or the backup of data to remotely archived tapes. Revenue from our storage networking products were $87.8 million, $53.6 million and $31.9 million for the years ended January 31, 2001, December 31, 1999 and 1998, respectively.

Our storage networking products enable businesses to cost-effectively manage their increasing storage requirements, connect geographically dispersed storage networks, provide continuous availability to greater amounts of data and protect increasing amounts of data more efficiently. We market our storage networking products and services directly to customers through our sales force, worldwide distributors and original equipment manufacturers, or OEMs. Our distribution and OEM relationships include Hewlett Packard and StorageTek. We also have strategic marketing partnerships with leading storage industry and fibre switching companies, including Brocade, Compaq, EMC, Hitachi Data Systems, IBM, Legato and SCH Technologies.

We were the first to develop, and remain a leader in, the following storage networking applications:

- *Storage networking over wide area networks, or WANs.* Our storage networking over WAN products enable businesses to manage and protect data across remote locations, in real time if necessary, through applications such as remote disk mirroring and remote tape vaulting. Wide area networks, or WANs, are networks dispersed over long distances that communicate by traditional or fiber optic third-party telecommunication lines.
- *Fibre Channel-based storage networking over WANs.* In October 1999, we introduced our first Fibre Channel-based storage networking over WAN product. Fibre Channel is a recently developed technology that dramatically improves the speed of data input and output, or I/O, between existing storage networking storage devices and the ability to connect additional devices to storage networking. We believe our Fibre Channel-based storage networking over WAN products offer significant growth prospects. These products uniquely address constraints in distance, connectivity and data transmission speeds inherent in the Fibre Channel standard. We believe Fibre Channel technology combined with our products will enable businesses to efficiently consolidate, cluster and share data from multiple storage devices on storage networks.
- *Storage networks over IP-based networks.* In February 2000, we introduced the first products to allow storage networking applications, such as remote disk mirroring, to be deployed over private networks that are based on Internet protocol, or IP, the standard method for data transmission over the Internet. Our products were the first to extend the Fibre Channel, SCSI and ESCON standards to IP-based networks, and we are the only company currently providing such products. SCSI and ESCON are older, widely used standards for communicating between computers. These products uniquely enable businesses that use virtual private IP-based networks, including many Web-based businesses, to build storage networking over WAN applications.

Our storage networking solutions operate across most business computing environments, including open systems, servers and mainframes. Open systems and servers are newer systems that are easy to scale, or expand, and that use hardware and software standards not proprietary to any vendor. Mainframes are computer systems with high processing power that have historically been used by large businesses for storing and processing large amounts of data. Compared to available alternatives, we believe our storage networking products offer greater ability to connect various applications and heterogeneous environments using different interfaces, protocols and standards, and to connect and link devices in storage networks transparently, meaning with little or no alteration of other vendors' hardware or software products.

We believe the recent introduction of our products that enable storage networking applications over IP-based networks will benefit existing customers and expand our reach into the rapidly growing Internet market. This product extends the "bandwidth on demand" advantages of IP-based networks into storage applications and allows customers to access telecommunications capacity only as needed through a general connection, as opposed to leasing expensive dedicated lines. By deploying storage networks over IP-based networks, companies can leverage their existing under-utilized bandwidth, and can rely on their existing IP network knowledge. We believe that these cost savings, along with the generally expected decreasing costs of telecommunications capacity, will create high-growth opportunities for us in remote disk mirroring, remote tape vaulting and future storage networking applications we enable.

Historically, we have operated through two vertically integrated divisions. We have and continue to market our storage networking products through our continuing operations, which we have historically referred to as our Networking Solutions Division, which represent our core business. Our storage networking products consist primarily of our UltraNet® and Channelink® families of products. Our continuing operations also market our established channel networking products, which enable computers to transmit data over unlimited distances. Our discontinued operations, which we have historically referred to as our Enterprise Integration Solutions Division, develop and sell our enterprise application integration, or EAI, software that automates the integration of computer software applications and business workflow processes, as well as our traditional server gateways and tools, which enable multiple desktop computers and mainframe terminals to communicate with one another. We recently changed the name of our Enterprise Integration Solutions Division to Propelis Software, Inc. We have announced our intention to divest Propelis Software, Inc. in order to focus all of our resources on our storage networking products and related services.

Our Market Opportunities

We believe several forces will continue to drive the demand for our storage networking products:

- The volume of enterprise data is increasing significantly due to the proliferation of Internet and Web-based content, digital media, e-mail, e-commerce and data warehousing. As a result, the demand for storage capacity is growing rapidly.
- Actual and expected declines in telecommunications costs and the introduction of new, cost-effective technologies such as Fibre Channel switching and fiber optic transmission capabilities will make remote disk mirroring and remote tape backup applications more cost effective for our customers. We also believe the total cost of ownership for storage may be increasing, due to labor, management and other costs required to implement shared storage across the enterprise. The decrease in telecommunications costs, coupled with an overall increase in the cost of ownership, contributes to a trend of consolidating and connecting storage across many servers and many locations, which drives demand for our products.
- Storage networking applications over IP-based networks will further expand the type and amount of data our customers will backup and disk mirror to remote locations, and also bring Web-based and storage service provider companies into our customer base.

As a result of the foregoing and other factors, International Data Corporation, or IDC, estimates that the worldwide revenue for storage network-attached disk storage systems will grow from $1.4 billion in 1999 to $10.9 billion in 2003, a compound annual growth rate of 66%. Another indication of a strong demand for our storage networking products is the growth of the Fibre Channel market. IDC estimates the revenue for Fibre Channel hubs and switches will grow from $0.4 billion in 1999 to $4.2 billion in 2003, which reflects a compound annual growth rate of 76%. It is notable however, that we are in the midst of a current economic slowdown affecting most technology sectors and communications in particular. We are uncertain of the depth and duration of this slowdown. However, we believe the need for storage networking solutions is significant and will continue to increase.

Selected Recent Developments

On April 24, 2001 we announced that our anticipated revenues for our first quarter ending April 30, 2001 will be 30%-40% lower than the fourth quarter of fiscal 2000. As a result, we announced a one-time charge for our first quarter consisting of $700,000, or $.02 per share after tax, for an approximate 10% reduction in workforce; $300,000, or $.01 per share after tax, for a write-off of non-strategic product lines; and $2.0 million, or $.04 per share after tax, for an increase in reserves for slow-moving inventory. We also announced other cost control measures including elimination of most outside contract and temporary employees; a freeze on all wage increases; a 10% pay reduction for executive management; a 5% pay reduction for all other employees; a consolidation of facilities; and cuts in discretionary spending company wide. In addition, our board of directors authorized the repurchase of up to $50 million of our common stock to be effected from time to time.

Acquisition of Articulent Inc. On April 3, 2001 we acquired all of the outstanding stock of Articulent Inc., a privately held, leading provider of storage management services for $12 million in cash, plus the assumption of approximately $24 million of liabilities and the acquisition of approximately $19 million of tangible assets. The agreement includes a $10 million incentive payout based upon meeting certain revenue and earnings milestones over the next twelve months. The acquisition further strengthens our storage services organization, which provides companies with the expertise to manage information enterprise-wide.

Divestiture of Propelis Software, Inc. Our board of directors has determined to divest Propelis Software, Inc. formerly known as our Enterprise Integration Solutions Division in order to focus all of our resources on our storage networking products. Accordingly, the financial information for this wholly owned subsidiary has been accounted for as discontinued operations. In the first quarter of fiscal 2001, we expect to accrue for the estimated future losses to be generated by Propelis Software, Inc. through the potential date of divestiture, resulting in a one-time after tax loss of approximately $3.5 million.

Sale of IntelliFrame. On February 2, 2001, we completed the sale of our IntelliFrame subsidiary, which was part of Propelis Software, Inc., including the technology underlying our Propelis BPm™ product to WebMethods for $8.8 million in cash and 273,542 shares of WebMethods stock. Propelis Software, Inc. retains a license, subject to certain restrictions, to the Propelis BPm™ product, its name, the customers and the prospects. We expect that Propelis Software, Inc. will continue to sell the Propelis BPm™ product in the future. In the first quarter of fiscal 2001, we expect to recognize a one-time after tax gain of approximately $12.5 million from the sale of IntelliFrame in the discontinued operations section of our statement of operations. The stock we received from WebMethods has experienced a significant decline in value since February 2, 2001. We will not record a loss in our statement of operations for the decline in value of the WebMethods stock until such time as the stock is sold, or the decline in value is determined to be other than temporary. As a result of the divestiture of Propelis Software, Inc. and the sale of Intelliframe, we expect to report a net one-time after tax gain of approximately $9.0 million in the first quarter of fiscal 2001.

Secondary Stock Offering. On October 11, 2000, we completed a secondary stock offering, raising approximately $110 million from the sale of 4.6 million shares of our common stock.

Storage Networking Applications Over IP-Based Networks. In February 2000, we introduced the first products to allow storage networking applications, such as remote disk mirroring using EMC's SRDF software, and remote tape vaulting to be deployed over standard IP-based networks. We anticipate expanding our product offerings to support additional storage networking applications from other vendors. The recent expansion of support of IP includes what we believe is the only working capability to extend Fibre Channel technology and the SCSI interface over IP-based networks.

Storage Networking Overview

Storage Networking Industry Background

Growth in Enterprise Data

The volume of enterprise data is increasing significantly due to the proliferation of Internet and Web-based content distribution, digital media, e-commerce, e-mail and data warehousing. Furthermore, the proliferation of the Internet has created new industries in Web hosting and data caching, which has led to an increase in the volume of enterprise data needed to be tracked and stored.

Limitations of Traditional Storage Solutions

The rapid escalation of the size and amount of data stored has presented organizations with significant data management challenges and increased storage related costs. As the volume of data stored, and the number of users that require access to the data continue to increase, storage systems and servers are burdened by an increased number of input/output, or I/O, transactions they must perform. However, traditional storage architecture has inherent speed, distance, capacity and performance constraints. For example, depending on the standards and protocols used, the following constraints may exist:

- bandwidth, or the data transmission rate, is generally fixed at 15, 40 or 80 megabytes per second;
- distance between devices is limited to 12 to 150 meters;
- connectivity is limited to 15 storage devices;
- the lack of data management capability in SCSI devices places the burden for management tasks on servers, thereby degrading network performance;
- if the server to which the data storage device is connected fails, the data cannot be accessed; and
- LAN performance can be significantly degraded while the LAN is being used for storage backup applications.

Advent of Fibre Channel

In response to the speed, distance, capacity and performance limitations of traditional storage architectures, the Fibre Channel interface was developed in the mid-1990s as an open standard technology specifically for high performance, data intensive environments. Fibre Channel products offer over one gigabit per second of bandwidth and enable the inter-connectivity of millions of storage devices and servers. Fibre Channel also offers distance connectivity of up to 10 kilometers, a single interface for networking and I/O applications, technology that supports a variety of traditional I/O and LAN protocols and interfaces and the ability to support simultaneous two-way communications, which effectively doubles bandwidth. The introduction of the Fibre Channel interface means that storage networks are becoming a viable alternative to traditional data storage architecture.

However, Fibre Channel-based storage networks do not provide complete solutions for managing large amounts of data in a distributed environment. Consequently, solutions are required that address the following Fibre Channel limitations:

- *Distance* — Customers require products that support transfers over unlimited distances. Fibre Channel supports a maximum connection distance of 10 kilometers. Transmission across third-party telecommunications lines is not supported by Fibre Channel.
- *Connectivity* — Customers want their existing computing systems to communicate with one another and share data. Mainframe systems have interface channels using the ESCON or bus and tag protocols, and open systems use SCSI or LAN standards known as TCP/IP, or Transmission Control Protocol/Internet Protocol. Fibre Channel switches cannot communicate with non-Fibre Channel switches, requiring further connectivity solutions. Protocols are a set of rules for communicating between computers. Standards are specifications for hardware or software that are

widely used and accepted. An interface is the connection and interaction between hardware, software and the user.

- *Application availability* — Customers need to keep applications online and running during infrastructure changes, backup, testing and unplanned outages to remain competitive in today's business economy. Fibre Channel by itself does not provide continuous application availability.

- *Bandwidth on demand* — Dedicated high capacity telecommunications lines that have traditionally been used with storage networks, namely T1, T3 and ATM lines, are expensive and permit remote backup of only the most mission critical data. Customers require storage networking solutions that utilize less expensive IP-based networks in order to remotely backup greater amounts of information and make greater use of storage networking advantages. Fibre Channel does not provide the inherent ability to transmit data over IP-based networks.

Our Storage Networking Solutions

Our storage networking products address the limitations of traditional storage architecture and Fibre Channel technology in the following ways:

- *Storage networks over unlimited distance* — Our products enable organizations to create secure storage networks without any distance limitations. This allows the creation of storage networking over WAN environments in such critical applications as remote disk mirroring and remote tape vaulting.

- *Any-to-any connectivity* — Our products are protocol independent — they can connect devices that use Fibre Channel, SCSI, ESCON, and bus and tag protocols. These devices can be connected and extended over telecommunications links including T1/E1, T3/E3 and ATM, or WAN protocols like IP, Fibre Channel and fiber optics. We believe our products connect with substantially all storage vendors.

- *Infrastructure options* — Our products enable the use of IP, ATM, Fibre Channel and fiber optics for expanded use of a storage network infrastructure. This supports the growing amounts of storage created by applications like e-commerce and increases due to user demands to access applications in a continuous mode.

- *IP-based networking solutions* — We enable remote disk mirroring using EMC's SRDF software and tape vaulting over standard IP-based networks. Our solutions allow our customers to capitalize on inexpensive bandwidth on demand capabilities of IP-based networks and use under-utilized, existing IP bandwidth, especially at low traffic times of the day, and rely on existing IP network knowledge. We anticipate expanding storage networking application support with products from other vendors.

Our storage networking solutions are used for immediate, or real-time, backup and recovery, and support a technology known as remote disk mirroring. Disk mirroring avoids the serious threat to businesses posed by the loss of data between data system backups by simultaneously creating up-to-the-minute images of business-critical data on multiple backup storage disks. Our remote disk mirroring technology permits the backups to be transmitted to a geographically separated location, thereby reducing the risk of natural and site-wide disasters. This technique also permits rapid recovery of data when needed, as it is not necessary to reload tapes.

We also enhance continuous business operations. Traditional LAN-based storage management requires manual handling and transportation of storage to an off-site location. While this ensures a physically-separated copy of valuable corporate data, it requires additional time and expense for handling and transportation. In addition, finding the right tape in a timely manner can be difficult. By bridging the storage network over the WAN, backups can be instantly made to remote locations on disk media, including by disk mirroring, or on tape, known as electronic tape vaulting. The benefit is secure archiving and timely retrieval of the correct business-critical data.

Our Storage Networking Strategy

We intend to build upon our position as a leading provider of storage networking solutions. Key elements of this strategy are as follows:

Extend Storage Networking Leadership

We intend to extend our storage networking leadership by continuing to broaden our product and service offerings and by expanding our storage networking solutions into new markets. An example of this strategy is our recent introduction of Fibre Channel over ATM WANs. We intend to build market share by continuing to focus on areas which make storage networks more useful and accessible, such as WAN applications, any-to-any connectivity, and IP-based network solutions. To achieve leadership, we intend to capitalize on the remote disk mirroring and remote tape vaulting capabilities of our products.

Expand IP-Based Network Solutions

Currently, our IP-based network solutions enable remote disk mirroring, in conjunction with EMC's SRDF software products, and remote tape vaulting over IP-based networks. We are currently developing solutions which will operate in conjunction with storage network applications of other storage networking vendors.

Partner with Storage Networking Industry Leaders

We have established relationships with leaders in the storage networking market, including storage vendors, storage management software providers and Fibre Channel switch manufacturers. Our strategic partners include companies such as Brocade, Compaq, EMC, Hewlett Packard, Hitachi Data Systems, IBM, Legato, Nortel, SCH Technologies and StorageTek. We intend to strengthen our relationships with existing strategic partners and develop relationships with new strategic partners that offer complementary products and services. We believe that current and future strategic relationships will facilitate the integration of our products with our strategic partners, thereby increasing our market share and reducing the length of our sales cycle.

Focus on Professional Services

Our professional services help customers evaluate, analyze, design, install and manage storage networks. We believe this value-added professional service assists customers in designing SANs, integrating SAN components and implementing SANs better than they could on their own. Our integration services eliminate the complexity of implementing a SAN that is scalable and compatible with customer resources. These services bolster sales of our products and allow us to generate high margin revenues.

Explore Additional Managed Services

We offer outsourced storage management services that complement our current storage networking products. Our data migration service helps our customers migrate large amounts of data from one data center or storage facility to another during consolidation or expansion of data centers. This is a turnkey service including personnel, equipment, software and support. We provide an outsourced electronic tape vaulting service in conjunction with Iron Mountain. We anticipate adding other outsourced services that help drive demand for our storage networking products.

Our Storage Networking Products

Our storage networking products include the UltraNet® family of storage products, and our channel networking product known as Channelink®.

UltraNet® Storage Director is a high performance switching product that operates at the center of the storage network. It enables storage networks to establish a direct connection between storage elements and servers and share data among diverse servers and storage systems, and networks that are local and geographically dispersed. The switch provides connectivity among SCSI, ESCON, Fibre Channel and WANs. Two sizes are offered — with 6 or 12 expansion slots.

UltraNet® Storage Gateway provides much of the same functionality and performance of the UltraNet® Storage Director at a lower entry price. The product is targeted at small storage networking applications.

UltraNet® Fibre Channel Switch enhances our ability to provide open systems solutions for Fibre Channel only configurations as well as mixed environments. Mixed environments can include SCSI server and storage systems that require access to Fibre Channel solutions. Brocade manufactures this switch and we resell it alone or with our storage network system solutions. This switch is available in 8 and 16 expansion slot models.

UltraNet® Wave Optimizer and UltraNet® Wave Multiplexer increase the bandwidth available from fiber optic lines by carrying multiple signals over a single cable using different wave lengths (colors of light) or time slots. Pandatel manufactures these DWDM, or dense wave division multiplexing, and TDM, or time dimension multiplexing products.

Channelink® offers connectivity over unlimited distances and is used for remote disk mirroring and remote tape vaulting in environments using older protocols.

Our Storage Networking Partners

Offering customers effective storage networking solutions requires integrating diverse components, including disk and tape storage devices, storage management software, network management products and Fibre Channel products. The optimal package of goods and services allows a customer to reduce storage management costs by consolidating data centers and centralizing data management. We work with our business partners to provide customers with those benefits. Our storage networking alliances include those with key storage vendors, storage management software providers and manufacturers of Fibre Channel and optical networking products. We market our storage networking products directly and through worldwide distributors and OEMs, including Hewlett Packard and StorageTek. We also have strategic marketing partnerships with leading storage industry and fibre switching companies, including Brocade, Compaq, EMC, Hewlett Packard, Hitachi Data Systems, IBM, Legato and SCH Technologies. Benefits of our alliances include:

- The working relationship provides us with visibility regarding market trends and technology requirements and allows us to contact customers earlier in the sales cycle and ascertain their needs.
- Sales of storage systems for disk mirroring provides a ready market for our remote disk mirroring applications.
- A platform to demonstrate our interoperability with various platforms and integrate heterogeneous components allowing us to gain preferred provider status with key vendors.
- The resulting customer base provides us with strong reference accounts to further increase market penetration.

EMC

We have established a relationship with EMC for remote disk mirroring applications. This existing relationship includes an agreement to provide an exclusive package of remote disk mirroring hardware, software and implementation service. Together with EMC, we offer complementary professional services and linked customer support organizations. We work with EMC to provide our mutual customers with timely, effective service. In fiscal 2000, sales of our storage networking products to customers using EMC's disk mirroring systems accounted for 28% of our total product revenue. We also market our remote disk mirroring applications with other vendors, including Hitachi Data Systems and IBM.

IBM

IBM is one of our oldest strategic partners. We coordinate local market activities with IBM, provide mutual assistance and prepare combined proposals. We also partner with IBM to provide customers with outsourced disaster avoidance and recovery capability and remote disk mirroring applications.

StorageTek

In November 1999, we entered into a three-year agreement with StorageTek under which it resells our storage networking over WAN products. In addition, we purchased StorageTek's DXE/RDE product line for $2.5 million in cash and assumed ongoing manufacturing and engineering responsibilities for this product line. This acquisition will provide us with access to StorageTek's large installed base of customers for cross-selling our storage networking products. We discontinued the DXE/RDE product line in March 2001, and plan to transition the customer base to our UltraNet® and Channelink® products. We have certified StorageTek's tape drives with our UltraNet® product and work closely with them to ensure interoperability.

Compaq

Our UltraNet® Open Systems Gateway product supports Compaq's StorageWorks Data Replication Manager over long distances. The relationship with Compaq is significant because we believe Compaq is the largest provider of storage today. In 1999, Compaq entered into a multi-million dollar commitment to resell our storage networking products. In fiscal 2000, Compaq purchased $5.7 million of product under their commitment. We have released them from any further commitment, and will be working with them on a co-sell basis in the future. We believe this type of arrangement will be more beneficial to both companies going forward.

Brocade

Our UltraNet® Fibre Channel Switch, which is manufactured by Brocade, became generally available in June 1999. We believe the combination of our UltraNet® storage networking solutions and UltraNet® family of Fibre Channel switches offers customers an attractive architecture for developing storage networking solutions. The industry expects complete interoperability for Fibre Channel devices, and we believe our storage networking solutions are a step in that direction.

Other Storage Networking Products

We also offer channel extension products, which are certified for use with over 250 different devices. These products offer connectivity over unlimited distances, free of limitations imposed by traditional standards and protocols. These products are used for the following applications:

- *Data Center Consolidation:* The consolidation of data centers in different locations to one location; often useful after mergers or acquisitions.
- *Remote Printing/Imaging:* High-speed digital printing or imaging at remote locations.
- *Data Center Load Balancing:* Operating two or more data centers from one site. The application is transparent to the systems and servers that are interconnected as well as to data users, meaning users do not know that the data is not located centrally.

Under our agreement with StorageTek, we have also assumed ongoing manufacturing and continuing engineering responsibility for StorageTek's DXE/RDE product line. This product line is used for similar applications as our Channelink® product line and substantially all sales of such products are to StorageTek. We discontinued the DXE/RDE product line in March 2001 and plan to transition the customer base to our UltraNet® and Channelink® products.

Professional Services

SAN Services

Our SAN assessment analyzes a company's storage needs, determines a SAN solution to meet those needs, and assists in development of a business case to justify the SAN solution. With a SAN assessment, we assist our customers in making their existing networks more flexible and easier to manage. This thorough assessment assists information technology managers and corporate executives responsible for planning and funding computer resources in making sound data management and storage decisions.

Our reliable, repeatable SAN assessment process includes the following phases. These phases are designed for efficient evaluation and recommendation of an appropriate storage networking infrastructure for storage.

- *SAN audit:* the audit contains a summary of business needs and an inventory of a customer's network components and storage capability.
- *SAN analysis:* the analysis includes a profile of a customer's current environment compared to its competitors, capacity planning, and a projection of a customer's future needs.
- *SAN recommendation:* this phase develops a detailed summary report containing one to three recommended SAN solutions.
- *SAN implementation:* this phase implements the recommended solution, including deployment of SAN components, testing and documentation.

Storage Architecture Services

Our professional services help companies implement storage networking and business continuance solutions. Our consulting and implementation services include strategic planning, project planning, analyzing, designing and documenting a detailed network, installing storage components, integrating storage components, and testing the functionality of the implemented storage solution. Our storage networking products are at the heart of our storage architecture implementations, and our long-standing partnerships with well-known and successful storage equipment and software manufacturers place us at the forefront of storage management solutions.

Product Support

We offer standard maintenance contracts for our storage networking products. The contracts generally have a one-year term and provide for advance payment. Customers are offered a variety of contracts to choose from to suit their particular needs. For instance, current options allow a customer to choose support seven days a week, 24 hours per day, or five days per week, 11 hours a day. Other options offer the customer the choice to select air shipment or replacement parts, with the part being installed by the customer's staff, or on site support with spare parts and service being provided by a local parts distributor.

Sales and Marketing

We market our storage networking products in the United States through a direct sales force. We have established representative offices in Canada, the United Kingdom, France, Germany, Australia, Japan, and The Netherlands. We also market the products in the United States and throughout the world through OEMs, systems integrators and independent distributors.

We maintain our own marketing staff and direct sales force. On January 31, 2001, we had approximately 200 persons in our marketing and sales organization for continuing operations.

Customers

Our customers include:

Financial Services	**Telecommunications**	**Information Outsourcing**
American Express	AT&T Technologies	Comdisco Disaster Recovery Services
Bank of America	British Telecom	Computer Sciences Company Ltd
Barclays	Sprint	Electronic Data Systems
Chase	Worldcom	IBM Global Services
Citibank		Integrated Systems Solutions Corp.
Merrill Lynch		
Rabo Bank		

Research and Development

The markets in which we operate are characterized by rapidly changing technology, new standards and changing customer requirements. Our long term success in these markets depends upon our continuing ability to develop advanced network hardware and software technologies.

To meet the future demands of our customers, we expect to:

- increase the compatibility of our products with the products made by others;
- emphasize the flexible and modular architecture of our products to permit the introduction of new and improved products within existing systems;
- continue to focus on providing sophisticated diagnostic support tools to help deliver high network availability and, in the event of failure, rapid return to service; and
- develop new products based on customer feedback and market trends.

Research and development expenses were equal to 13% of our total revenue in 2000, compared to 15% and 14% of total revenue in 1999 and 1998, respectively. We intend to continue to apply a significant portion of resources to product enhancements and new product development for the foreseeable future. We cannot assure you that our research and development activities will be successful.

Manufacturing and Suppliers

In-house manufacturing activities for our products primarily involve quality assurance testing of subassemblies and final system assembly, integration and quality assurance testing. We became ISO 9001 certified in 1999 and have been ISO 9002 certified since 1993.

We manufacture our products based on forecasted orders. Forecasting orders is difficult as most shipments occur at the end of each quarter. Our customers generally place orders for immediate delivery, not in advance of need. Customers may generally cancel or reschedule orders without penalties. Accordingly, we believe that backlog is generally not meaningful for purposes of predicting our revenue for any fiscal period.

Some of our products, including Fibre Channel switches, time division multiplexers and wave division multiplexers, are manufactured by OEMs for sale by us. We manufacture our other products from subassemblies, parts and components, such as integrated circuits, printed circuit boards, power supplies and metal parts, each manufactured by others. Some items manufactured by suppliers are made to our specific design criteria.

At January 31, 2001, we held $4.4 million of inventory for parts that our vendors no longer manufacture. Products in which those parts are included accounted for approximately $112.5 million of sales in 2000. We expect that this inventory will be used in the ordinary course of our business over the next five years. Relevant parts will have to be redesigned after the inventory is used.

We believe that we currently have adequate supply channels. Components and subassemblies used in our products and systems are generally available from a number of different suppliers. However, certain OEM products, such as Fibre Channel switches, time division multiplexers and wave division multiplexers, and components in our other products are purchased from a limited number of sources. We do not anticipate any difficulty in obtaining an adequate supply of purchased OEM products and required components. An interruption in our existing supplier relationships or delays by some suppliers, however, could result in production delays and harm our results of operations.

Competition

Our products are sold in markets where other market participants have significantly greater revenues and internationally known brand names. Many of those market participants do not currently sell products similar to ours. However, such market participants may do so in the future, and new products we develop may compete with products sold by well-known market participants. Our competitors in channel networking and storage networking include storage system vendors and others including Crossroads, Gadzoox, InRange, McData, Network Systems, QLogic, StorageTek and Vixel. In addition, Cisco Systems recently acquired a company which is developing IP-based network solutions which may have functionality similar to our product offerings.

The markets in which we operate are characterized by rapidly changing technology and evolving industry standards, resulting in rapid product obsolescence and frequent product and feature introductions and improvements. We compete with several companies that have greater engineering and development resources, marketing resources, financial resources, manufacturing capability, customer support resources and name recognition. As a result, our competitors may have greater credibility with existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours, which would allow them to respond more quickly than we can to new or emerging technologies and changes in customer requirements. These competitive pressures may materially harm our business.

The competitive environments of markets in which our storage networking products are sold are continuing to develop rapidly. We are not in a position to prepare long range plans in response to unknown competitive pressures. As these markets grow, we anticipate other companies will enter with competing products. In addition, customers and business partners could possibly develop and introduce competing products. We anticipate the markets will be highly competitive.

The declining sales of channel networking products present unique competitive pressures. We anticipate pricing pressures may increase in these markets. Consolidation of competing vendors of these products could also have negative consequences.

The principal competitive factors affecting our products include customer service, flexibility, price, performance, reliability, ease of use and functionality. In many situations, the potential customer has an installed base of a competitor's products, which can be difficult to dislodge. IBM, Microsoft and others can significantly influence customers and control technology in our markets.

Intellectual Property Rights

We rely on a combination of trade secret, copyright, patent and trademark laws, nondisclosure agreements and technical measures to establish and protect our intellectual property rights. That protection may not preclude competitors from developing products with features similar to our products.

We currently own three patents and have eight patent applications filed or in the process of being filed in the United States with respect to our continuing operations. Our pending patent applications, however, may not be issued. We have not applied for patent protection in any foreign countries. Not all of our unique products are patented. Our issued patents may not adequately protect our technology from infringement or prevent others from claiming that our technology infringes that of third parties. Failure to protect our intellectual property could materially harm our business. We believe that patent and copyright protection are less significant to our competitive position because of the rapid pace of technological change in the markets in which our products are sold and because of the effectiveness and quality of our support services, the knowledge, experience and ability of our employees and the frequency of our enhancements.

We rely upon a patent license agreement to manufacture our Channelink® and UltraNet® products that use ESCON. This license expires on December 31, 2004.

We have from time to time received, and may in the future receive, communications from third parties asserting that our products infringe on their patents. We believe that we possess or license all required proprietary rights to the technology involved in our products and that our products, trademarks and other intellectual property rights do not infringe upon the proprietary rights of others. However, there can be no assurance that others will not claim a proprietary interest in all or a part of the technology we use or assert claims of infringement. Any such claim, regardless of its merits, could involve us in costly litigation and materially harm our business.

The existence of a large number of patents in the markets in which our products are sold, the rapid rate of issuance of new patents and short product development cycles means it is not economically practical to determine in advance whether a product infringes patent rights of others. We believe that, based upon industry practice, any necessary license or rights under such patents may be obtained on terms that would not materially harm our consolidated financial position or results of operations. However, there can be no assurance in this regard.

Employees

As of January 31, 2001, we had 769 full-time employees for both divisions. On that date, 148 full-time employees provided services to both divisions and are members of our administrative and manufacturing departments. On that date, our continuing operations had 525 employees in addition to those who provide services to both divisions. We consider our ability to attract and retain qualified employees and to motivate such employees to be essential to our future success. Competition for highly skilled personnel is particularly intense in the computer and data communications industry, and we cannot assure that we will continue to attract and retain qualified employees.

Discontinued Operations — Propelis Software, Inc.

Our board of directors has determined to divest Propelis Software, Inc., formerly known as our Enterprise Integration Solutions Division, in order to focus all of our resources on our storage networking products. Accordingly, the financial information for this wholly owned subsidiary has been accounted for as discontinued operations. In the first quarter of fiscal 2001, we expect to accrue for the estimated future losses to be generated by Propelis Software, Inc. through the potential date of divestiture, resulting in a one-time after tax loss of approximately $3.5 million.

On February 2, 2001, we completed the sale of our IntelliFrame subsidiary including the technology underlying our Propelis BPm™ product to WebMethods for $8.8 million in cash and 273,542 shares of WebMethods stock. Propelis Software, Inc. retains a license, subject to certain restrictions, to the Propelis BPm™ product, its name, the customers and the prospects. We expect that Propelis Software, Inc. will continue to sell the Propelis BPm™ product in the future. In the first quarter of fiscal 2001, we expect to recognize a one-time after tax gain of approximately $12.5 million from the sale of IntelliFrame in the discontinued operations section of our statement of operations.

Our Enterprise Integration Solution

Our EAI solutions help organizations integrate legacy applications with powerful new business applications that improve customer productivity and customer satisfaction. Our EAI solutions preserve our customers' investment in their computer systems, allow enterprise-wide real-time access to data, are flexible and highly scalable. In addition to integrating existing systems, our EAI solutions are particularly suited for developing new applications, such as:

- *CRM applications:* CRM applications facilitate integration of information collected in different areas of a company that affect customer relations. CRM applications can instantly pull together customer information from multiple databases.

- *E-commerce applications:* Customer data integrated from a variety of legacy environments can enhance a company's ability to interact with suppliers and partners, sell products and provide customer service over the Internet. Our solutions filter legacy data, translate and format it so that it can be used with Sun Microsystem's NetDynamics and Lotus' Domino products and other Internet tools to build effective Internet-based sales and service applications in less time.

Further, Propelis BPm™ includes new tools that provide business logic, rules and process workflow management for improved development and deployment of large e-commerce and CRM applications. With Propelis BPm™, our EAI solution is able to do more than just display information — it is able to suggest alternative courses of action. For instance, Propelis BPm™ can recommend whether a customer should use funds in an account to pay a credit card bill, or transfer funds to a more favorable interest bearing account. A beta version of our Propelis BPm™ product became available during the second quarter of 2000, and we recorded our first revenue from the sale of Propelis BPm™ in the third quarter of 2000. The product will be sold both on a standalone basis and with Propelis EAi subject to certain restrictions in a license agreement with WebMethods.

Our EAI products are marketed through a direct sales staff and through our business partner program. An alliance with Siebel provides a comprehensive solution to established call centers and for sales force applications. Alliances with Cap Gemini, Deloitte Consulting and PricewaterhouseCoopers provide a platform for each business partner to introduce our EAI products to customers by trained specialists.

Our Enterprise Integration Solutions Products

Propelis EAi is a development tool that permits legacy applications to be linked real-time with new business applications. The product is used with our Propelis BPm™ offering. Propelis EAi uses a "zero coding" approach, i.e., it captures application screens, analyzes the interaction between the legacy system and the user, builds a model of the legacy application, and establishes all of the necessary data paths, transformations and logic for integrating the legacy application with the new front-end application. As a result of "zero coding," Propelis EAi provides one of the fastest ways to e-commerce by enabling the easy reuse of existing legacy application programs. Key features of Propelis EAi include:

- no changes to our customers' existing applications software environment;

- a graphical user interface, which promotes rapid implementation;

- three-tier architecture for mainframe, server and client workstations, which enhance scalability and transparency; and

- centralized management to administer, monitor and troubleshoot large-scale deployments.

Propelis BPm™ is a business process management tool that enables creation of new business processes quickly and seamlessly. With Propelis BPm™, organizations can integrate mission-critical business processes, applications, data and people, online and in real time. Propelis BPm™ features a five step process including:

- business process modeling, including built-in workflow, integrated project management and dynamic process change capabilities;

- tasks are developed graphically with reusable components, including both graphical user interface (GUI) and non-GUI task options, and support for standard Web and Java interfaces;

- graphical incorporation of required data and open architecture, including built-in legacy integration for mainframe and AS/400 applications, graphical drill-down to industry standard adapters, database integration and optional integration of existing or newly developed custom code;
- automated single point deployment that generates the entire run-time environment from the solution model, including updating all clients and servers eliminating consistency/compatibility issues and dynamic deployment that allows for automatic change processes at run time with no stop/recompile/start, and;
- run time that allows for user-based definition of views and GUI options, flexibility to deploy Java or HTML clients, or integration with a preferred desktop environment.

Special Note Regarding Forward-Looking Statements

This Form 10-K and other documents we have filed with the Securities and Exchange Commission contain forward-looking statements, which may include statements about our:

- anticipated receipt of orders and demand for our products;
- business strategy;
- timing of and plan for the introduction or phase-out of products or services;
- enhancements of existing products or services;
- the divestiture of Propelis Software, Inc. formerly known as our Enterprise Integration Solutions Division;
- ability to integrate Articulent Inc. with our existing businesses;
- entering into strategic partnerships; and
- other plans, objectives, expectations and intentions contained in the Form 10-K that are not historical facts.

When used in this Form 10-K, the words "may," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential" or "continue" and similar expressions are generally intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties. Actual results could differ materially from those expressed or implied by these forward-looking statements as a result of certain risk factors, including but not limited to (i) competitive factors, including pricing pressures; (ii) variability in quarterly sales; (iii) economic trends generally and in various geographic markets; (iv) relationships with our strategic partners; (v) unanticipated risks associated with introducing new products and features, including Propelis BPm™; (vi) technological change affecting our products; (vii) the financial performance of Propelis Software, Inc. prior to the proposed divestiture ; (viii) our ability to integrate Articulent Inc. with our existing businesses and (viii) other events and other important factors disclosed previously and from time to time in our filings with the U.S. Securities and Exchange Commission and in Exhibit 99 to this 10-K. In addition, there can be no assurance that the divestiture of Propelis Software, Inc. can be completed on acceptable terms and conditions. In addition, there can be no assurance the stock of WebMethods received in the IntelliFrame transaction can be liquidated within any time frame or at a gain. We assume no obligation to update any forward-looking statements. These statements are only predictions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Item 2. Properties

Facilities and Properties

Our principal administrative, manufacturing, engineering and development functions are located in leased facilities in the Minneapolis, Minnesota suburb of Plymouth. In addition, we lease office space in

England, France, Germany, Australia, Japan, and The Netherlands. We also lease space for sales offices for our direct sales staff and systems consultants in a number of locations throughout the United States and Canada. We believe our facilities are adequate to meet our current needs.

Item 3. Legal Proceedings

We are currently not a party to any legal proceedings that could materially harm our business.

Item 4. Submission of Matters to a vote of Security Holders

None.

Item 4A. Executive Officers of the Company

Our executive officers are as follows:

Name	Position Served	Age
Thomas G. Hudson	Chairman of the Board, President and Chief Executive Officer	54
Gregory T. Barnum	Chief Financial Officer, Vice President of Finance and Corporate Secretary	46
Jeffrey A. Bertelsen	Corporate Controller and Treasurer	38
William C. Collette	Chief Technology Officer and Vice President of Advanced Technology	57
Nick V. Ganio	Group Vice President of Worldwide Sales, Marketing and Services	41
Mark R. Knittel	Group Vice President of Worldwide Product Operations	46

Thomas G. Hudson has served as President and Chief Executive Officer since June 1996, as a director since August 1996 and Chairman of the Board since May 1999. Mr. Hudson has also served as acting general manager of Propelis Software, Inc. since November 1999. From 1993 to June 1996, Mr. Hudson served as Senior Vice President of McGraw Hill Companies, a leading information services provider, serving as General Manager of its F.W. Dodge Division, and as Senior Vice President, Corporate Development. From 1968 to 1993, Mr. Hudson served in a number of management positions at IBM Corporation, most recently as Vice President Services Sector Division. Mr. Hudson's IBM career included varied product development, marketing and strategic responsibilities for IBM's financial services customers and extensive international and large systems experience. Mr. Hudson is a graduate of the University of Notre Dame and New York University. Mr. Hudson attended the Harvard Advanced Management Program in 1990.

Gregory T. Barnum was appointed Vice President of Finance, Chief Financial Officer and Corporate Secretary in July 1997. From September 1992 to July 1997, Mr. Barnum served as Senior Vice President of Finance and Administration, Chief Financial Officer and Corporate Secretary at Tricord Systems, Inc., a manufacturer of enterprise servers. From May 1988 to September 1992, Mr. Barnum served as the Executive Vice President, Finance, Chief Financial Officer, Treasurer and Corporate Secretary for Cray Computer Corporation, a development stage company engaged in the design of supercomputers. Prior to that time, Mr. Barnum served in various accounting and financial management capacities for Cray Research, Inc., a manufacturer of supercomputers. Mr. Barnum is a graduate of the University of St. Thomas.

Jeffrey A. Bertelsen was appointed Corporate Controller and Treasurer in December 1996. Mr. Bertelsen served as our Controller from March 1995 to December 1996. From 1985 to March 1995, Mr. Bertelsen was employed by KPMG LLP, a public accounting firm, most recently as a Senior Audit Manager. Mr. Bertelsen is a graduate of the University of Minnesota.

William C. Collette was appointed Chief Technology Officer in December 1998 and Vice President of Advanced Technology in October 1999. Mr. Collette served as our Vice President of Engineering from

December 1995 to October 1999, and as our Director of Future Software Development and as a Software Development Manager from June 1993 to December 1995. From 1990 to 1993, Mr. Collette was employed by SuperComputer Systems, Inc. as a Senior Software Engineer, where he worked with Steve Chen to design the networking for the SS1 Supercomputer. Mr. Collette holds a bachelors degree in business management from Metro State University.

Nick V. Ganio was appointed Group Vice President of Worldwide Sales, Marketing and Services in October 1999. From November 1998 to October 1999, Mr. Ganio served as Vice President of Worldwide Sales and also as Vice President of Direct Sales Worldwide from April 1998 to November 1998. From September 1996 to February 1998, Mr. Ganio served as Vice President of Worldwide Sales and Marketing for Xyplex, Inc. From March 1987 to September 1996, Mr. Ganio held various high-level positions with Digital Equipment Corporation, including Vice President of Operations in Japan, Vice President and General Manager of the Americas Networks Product business and Vice President and Executive Assistant to the Office of President. Mr. Ganio held various sales positions with IBM from May 1981 to February 1987. Mr. Ganio holds a bachelors degree, magna cum laude from Bernard Baruch College.

Mark R. Knittel was appointed Group Vice President of Worldwide Product Operations in October 1999. From May 1997 to October 1999, Mr. Knittel served as our Vice-President of Marketing and also as our Vice President of Architecture and Business Development from March 1997 to May 1997. From July 1977 to March 1997, Mr. Knittel was employed with IBM where he held several executive development positions for both hardware and software networking products, as well as multiple strategy positions. Most recently, Mr. Knittel held the position of Director of Campus Product Marketing within the Network Hardware Division of IBM. Mr. Knittel has a masters degree in philosophy from the University of Chicago.

PART II

Item 5. Market for the Registrant's Securities and Related Shareholder Matters

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol "CMNT." The following table sets forth for the indicated periods the range of high and low per share sales prices for our common stock as reported on the Nasdaq National Market:

	Price Range of Common Stock	
	High	**Low**
2000		
First Quarter	$27.00	$11.50
Second Quarter	19.88	11.56
Third Quarter	35.25	15.25
Fourth Quarter	40.00	18.69
1999		
First Quarter	$17.56	$ 9.75
Second Quarter	30.63	13.00
Third Quarter	23.25	9.19
Fourth Quarter	27.63	7.38
1998		
First Quarter	$ 5.00	$ 3.69
Second Quarter	5.88	3.88
Third Quarter	6.50	3.50
Fourth Quarter	14.25	3.75

As of April 1, 2001, there were 1,000 shareholders of record. The Company estimates that approximately an additional 6,000 shareholders own stock held for their accounts at brokerage firms and financial institutions.

DIVIDEND POLICY

We have not paid any cash dividends since our inception, and we do not intend to pay any cash dividends in the future.

Item 6. Selected Consolidated Financial Information

	Year Ended January 31, 2001	Years Ended December 31, 1999	1998	1997	1996
		(in thousands, except per share data)			
Consolidated Statements of Operations Data:					
Revenue:					
Product sales	$125,432	$ 89,248	$ 74,969	$56,127	$61,412
Service fees	50,674	36,741	28,052	24,068	20,667
Total revenue	176,106	125,989	103,021	80,195	82,079
Cost of revenue	83,181	56,795	45,616	36,002	38,111
Cost of revenue — special charges	—	1,414(2)	—	—	—
Total cost of revenue	83,181	58,209	45,616	36,002	38,111
Gross profit	92,925	67,780	57,405	44,193	43,968
Operating expenses:					
Sales and marketing	41,019	34,626	32,255	27,504	22,370
Engineering and development	22,572	18,456	14,236	12,384	10,963
General and administrative	8,697	6,922	6,252	4,944	5,137
Special charges	(287)(1)	1,331(2)	—	—	(779)(3)
Total operating expenses	72,001	61,335	52,743	44,832	37,691
Income (loss) from operations	20,924	6,445	4,662	(639)	6,277
Other income, net	3,152	110	427	1,400	2,072
Income from continuing operations before income taxes	24,076	6,555	5,089	761	8,349
Provision for income taxes	7,947	2,229	1,730	312	3,173
Income from continuing operations	16,129	4,326	3,359	449	5,176
Income (loss) from discontinued operations, net of tax	(4,135)	329	1,370	(2,763)	(3,816)
Net income (loss)	$ 11,994	$ 4,655	$ 4,729	$(2,314)	$ 1,360
Diluted income (loss) per share:					
Continuing operations	$ .58	$ .17	$ .15	$ .02	$ .22
Discontinued operations	$ (.15)	$ .01	$ .06	$ (.12)	$ (.16)
Net income (loss)	$ .43	$ .18	$ .21	$ (.10)	$ .06
Diluted shares	27,813	25,818	22,572	22,702	23,557

	As of January 31, 2001	As of December 31, 1999	1998	1997	1996
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$150,477	$ 26,895	$ 12,362	$10,824	$35,065
Working capital	182,625	50,715	35,587	30,380	48,192
Total assets	268,623	110,654	87,596	78,950	81,561
Long-term obligations	1,952	1,780	1,816	701	—
Total shareholders' equity	213,102	78,472	60,558	55,607	64,161

(1) Reflects a reversal of the unused balance of a 1999 fourth quarter accrual for an abandoned facility of $287,000.

(2) Reflects special charges in the fourth quarter of 1999 of $1.4 million for the write-off of non-storage network-related products and $1.3 million for an abandoned facility.

(3) Reflects a $779,000 reversal of a portion of a 1995 management reorganization charge.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading provider of hardware and software products and related professional services in the rapidly growing storage networking market. We focus primarily on helping our clients design, develop, deploy and manage storage networks. Our storage networking products represent our core business and account for a substantial majority of our revenue and profit. Our storage networking products consist primarily of our UltraNet® and Channelink® families of products. We also market our established channel networking products, which enable computers to transmit data over unlimited distances.

The current global economic slowdown makes it difficult to predict the demand for our products as we cannot forecast the length, duration and impact of the slowdown. Slower growth throughout the economy has caused our customers to reevaluate their capital spending plans, and to defer previously planned projects for information technology infrastructure. However, we believe the need for storage networking solutions is significant and will continue to increase.

On April 24, 2001 we announced that our anticipated revenues for our first quarter ending April 30, 2001 will be 30%-40% lower than the fourth quarter of fiscal 2000. As a result, we announced a one-time charge for our first quarter consisting of $700,000, or $.02 per share after tax, for an approximate 10% reduction in workforce; $300,000, or $.01 per share after tax, for a write-off of non-strategic product lines; and $2.0 million, or $.04 per share after tax, for an increase in reserves for slow-moving inventory. We also announced other cost control measures including elimination of most outside contract and temporary employees; a freeze on all wage increases; a 10% pay reduction for executive management; a 5% pay reduction for all other employees; a consolidation of facilities; and cuts in discretionary spending company wide. In addition, our board of directors authorized the repurchase of up to $50 million of our common stock to be effected from time to time.

On April 3, 2001 we acquired all of the outstanding stock of Articulent Inc., a privately held, leading provider of storage management services for $12 million in cash, plus the assumption of approximately $24 million of liabilities and the acquisition of approximately $19 million of tangible assets. The agreement includes a $10 million incentive payout based upon meeting certain revenue and earnings milestones over the next twelve months. The acquisition further strengthens our storage services organization, which provides companies with the expertise to manage information enterprise-wide.

On January 12, 2000, we changed our fiscal year end to January 31, from December 31. References in this Form 10-K to fiscal year 2000 represent the twelve months ended January 31, 2001. References in this Form 10-K to fiscal years 1999 and 1998 represent the twelve months ended December 31, 1999 and 1998. We have not submitted financial information for the twelve months ended January 31, 2000 and 1999 in this Form 10-K because the information is not practical or cost beneficial to prepare. We believe that the twelve months ended December 31, 1999 and 1998 provide a meaningful comparison to the twelve months ended January 31, 2001. There are no factors, of which we are aware, seasonal or otherwise, that would impact the comparability of information or trends, if results for the twelve months ended January, 31, 2000 and 1999 were presented in lieu of results for the twelve months ended December 31, 1999 and 1998.

Discontinued Operation — Divestiture of Propelis Software, Inc.

Our discontinued operations, which we have historically referred to as our Enterprise Integration Solutions Division, develops and sells our EAI software that automates the integration of computer applications and business workflow processes, as well as our traditional server gateways and tools which enable multiple desktop computers and mainframe terminals to communicate with one another. We recently changed the name of our Enterprise Integration Solutions Division to Propelis Software, Inc. Our board of directors has determined to divest Propelis Software, Inc. in order to focus all of our resources on our other storage networking products. As a result of this decision, Propelis Software, Inc. is shown as a discontinued operation in our consolidated statements of operations, meaning that the division's revenues, costs and expenses are not shown and its net income (loss), net of tax for all periods are included under the "Discontinued Operations" caption.

In the first quarter of fiscal 2001, we expect to accrue for the estimated future losses to be generated by Propelis Software, Inc. through the potential date of divestiture, resulting in a one-time after tax loss of approximately $3.5 million.

On February 2, 2001, we completed the sale of our IntelliFrame subsidiary, which was part of Propelis Software, Inc., including the technology underlying our Propelis BPm™ product to WebMethods for $8.8 million in cash and 273,542 shares of WebMethods stock. Propelis Software, Inc. retains a license, subject to certain restrictions, to the BPm™ product, its name, the customers and the prospects. We expect that Propelis Software, Inc. will continue to sell the BPm™product in the future. In the first quarter of fiscal 2001, we expect to recognize a one-time after tax gain of approximately $12.5 million from the sale of Intelliframe in the discontinued operations section of our statement of operations.

For additional information regarding the results of operations of Propelis Software, Inc., see note 4, "Discontinued Operations" to the consolidated financial statements. Certain general and administrative, facility and information technology infrastructure costs that had previously been allocated to and reported in the operating results of Propelis Software, Inc. have been reallocated and reported in the results for continuing operations.

Results of Continuing Operations

The following table sets forth financial data for our continuing operations for the periods indicated as a percentage of total revenue except for gross profit, which is expressed as a percentage of the related revenue.

	Year Ended January 31,	Years Ended December 31,	
	2001	1999	1998
Revenue:			
Product sales	71.2%	70.8%	72.8%
Service fees	28.8	29.2	27.2
Total revenue	100.0	100.0	100.0
Gross profit:			
Product sales	57.9	57.0	63.4
Service fees	40.2	46.1	35.2
Total gross profit	52.8	53.8	55.7
Operating expenses:			
Sales and marketing	23.3	27.5	31.3
Engineering and development	12.8	14.6	13.8
General and administrative	4.9	5.5	6.1
Abandoned facility	(.2)	1.1	—
Total operating expenses	40.8	48.7	51.2
Income from operations	12.0	5.1	4.5
Other income, net	1.7	.1	.4
Income from continuing operations before income taxes	13.7	5.2	4.9
Provision for income taxes	4.5	1.8	1.7
Income from continuing operations	9.2	3.4	3.2
Income (loss) from discontinued operations, net of tax	(2.4)	.3	1.4
Net income	6.8%	3.7%	4.6%

Revenue

Years Ended January 31, 2001 and December 31, 1999

Revenue from products increased 41% in 2000 to $125.4 million from $89.2 million in 1999. Storage networking applications for both open systems and mainframes continued to drive our new product revenue. Storage networking related product revenue increased 64% in 2000 to $87.8 million from $53.6 million in 1999. Revenue in the fourth quarter was negatively impacted because slower growth throughout the economy caused our customers to reevaluate their capital spending plans, and to defer previously planned projects for information technology infrastructure. Sales of channel extension product applications increased 6% in 2000 to $37.7 million from $35.6 million in 1999. Although we expect sales of channel extension products to decline in the future, it continues to be a profitable part of our business and a key application for many of our storage networking customers.

During 2000, partner relationships with STK and Compaq generated significant product revenue. Sales of the DXE product to STK contributed $9.3 million of product revenue, while our OEM relationship with Compaq contributed $5.7 million of product revenue. We discontinued the DXE/RDE product line in March 2001, and plan to transition the customer base to our UltraNet® and Channelink® products. In 1999, Compaq entered into a multi-million dollar commitment to resell our storage networking products. We have released them from any further commitment, and will be working with them on a co-sell basis in the future. We believe this type of arrangement will be more beneficial to both companies going forward.

Service revenue increased 38% in 2000 to $50.7 million from $36.7 million in 1999. Professional service revenue in 2000 totaled $8.3 million, an increase of 82%, from $4.6 million in 1999 as a result of increased demand for our new professional service offerings. Traditional maintenance services accounted for the remaining increase in revenue due to the growing installed base of customers using our networking products.

Years Ended December 31, 1999 and 1998

Revenue from products increased 19% in 1999 to $89.2 million from $75.0 million in 1998. Storage networking applications for both open systems and mainframes continued to drive new product revenue during 1999. Storage networking product sales increased 68% in 1999 to $53.6 million from $31.9 million in 1998. Channel extension product applications declined 17% in 1999 to $35.6 million from $43.1 million in 1998.

Service revenue increased 31% in 1999 to $36.7 million, due to the growing installed base of customers using our products. In addition, the sale of professional services increased 203% in 1999 to $4.6 million from $1.5 million in 1998.

General

Revenue from the sale of products and services outside the United States increased in 2000 and 1999 by $8.9 million, or 20%, and $10.1 million, or 30%, respectively, when compared to the prior year. We derived 30%, 35% and 32% of our revenue outside the United States in 2000, 1999 and 1998, respectively. The increase in revenue generated outside the United States is primarily attributable to growing customer demand for storage networking-related product applications.

No single customer accounted for more than 10% of our revenue in 2000, 1999 or 1998. Revenue increases in 2000 and 1999 were attributable to increases in sales of storage networking products and additional services. Price increases for our products and services did not have a significant impact on revenue in 2000, 1999 or 1998.

During the year ended January 31, 2001, approximately 21%, 5% and 10% of our product revenue was derived from businesses in the financial services, telecommunications and information outsourcing industries, respectively.

We derive an increasingly significant portion of our revenue from sales of our storage networking products. We expect that revenue from traditional channel networking products will decline in the future as we continue to focus more of our resources on our storage networking products and service offerings.

We primarily sell our storage networking products directly to end-user customers in connection with joint marketing activities with our business partners and OEMs. OEMs combine our products with their own products and sell the combined products to their customers. For a new customer, the initial sales and design cycle, from first contact through shipment, can vary from 90 days to 12 months or more. We expect that this cycle will continue.

We expect continued quarter-to-quarter fluctuations in revenue in both domestic and international markets. The timing of sizable orders, because of their relative impact on total quarterly sales, may contribute to such fluctuations. The level of product sales reported by us in any given period will continue to be affected by the receipt and fulfillment of sizable new orders in both domestic and international markets.

Gross Profit Margin

Years Ended January 31, 2001 and December 31, 1999

Gross profit margin from the sale of products was 58% in 2000, compared to 57% in 1999. Excluding a $1.4 million charge for the write-off of non-storage networking-related products, gross profit margin from the sale of products would have been 59% in 1999. The decrease in gross profit margin to 58% from 59% in 1999 was due to an increase in sales of our DXE product to STK, and our UltraNet® Gateway product to Compaq, both of which carry lower gross margin, but comparable operating margin, than our Channelink® and UltraNet® products sold through direct channels.

Gross profit margin from services revenues in 2000 and 1999 was 40% and 46%, respectively. The decrease in gross margin was due to new professional services employees who have been added in 2000 in anticipation of future growth in professional services.

Years Ended December 31, 1999 and 1998

Gross profit margin from the sale of products was 57% in 1999, compared to 63% in 1998. The decrease in gross profit margin in 1999 compared to 1998 is attributable to the write-off of non-storage networking-related products totaling $1.4 million. Excluding this charge, gross profit margin from the sale of products would have been 59% in 1999. The remaining decrease in gross profit margin in 1999 was due to an increase in UltraNet® product sales, which have a slightly lower gross margin than our traditional Channelink® products.

Gross profit margin from service revenues in 1999 and 1998 was 46% and 35%, respectively. The improvement in gross profit margin in 1999 compared to 1998 is attributable to economies of scale resulting from the steadily increasing base of our customers contracting for services and new incremental revenue from professional services, which offers a higher gross margin than our traditional service business.

Operating Expenses

Years Ending January 31, 2001 and December 31, 1999

Sales and marketing expense increased 18% in 2000 to $41.0 million from $34.6 million in 1999. The increase in expense resulted from higher commissions and additional headcount required to generate the 41% increase in product revenue for 2000.

Engineering and development expense increased 22% in 2000 to $22.6 million from $18.5 million in 1999. The increase was primarily due to continued development of our UltraNet® family of products that provide customers with additional applications to satisfy their growing storage networking capabilities. During 2000, we announced storage networking over standard IP solutions, including tape, SCSI and Fibre Channel over IP to strengthen our presence in the IP solutions market.

General and administrative expense increased 26% in 2000 to $8.7 million from $6.9 million in 1999. The increase was due to higher costs for wages, insurance and professional fees.

Years Ended December 31, 1999 and 1998

Sales and marketing expense increased 7% in 1999 to $34.6 million from $32.3 million in 1998. The increase in expense resulted from higher commissions and additional headcount required to generate the 19% increase in product revenue for 1999.

Engineering and development expense increased 30% in 1999 to $18.5 million from $14.2 million in 1998. The increase was due to the continued development of our UltraNet® family of products that provide customers with additional applications to satisfy their growing need for storage networking capabilities. Revenue related to shipments of UltraNet® products increased 111% to $37.5 million in 1999 from $17.7 million in 1998.

General and administrative expense increased 11% in 1999 to $6.9 million from $6.3 million in 1998 due to increases in insurance costs and professional fees.

Special Charges

Years Ended January 31, 2001, December 31, 1999 and 1998

During the fourth quarter of 1999, we recorded a $1.3 million charge for the future costs associated with a facility that was abandoned prior to the expiration of the lease term and a $1.4 million charge for the write-off of non-storage networking related products. We reversed the unused portion of the $1.3 million charge for the abandoned facility in the third quarter of 2000. The amount of the reversal was $287,000.

Other

Years Ending January 31, 2001, December 31, 1999 and 1998

Other income increased in 2000 and 1999 by $3.0 million and $351,000, respectively, when compared to the prior year due to an increase in interest income resulting from higher balances of cash and marketable securities available for investment. In October of 2000, we raised $110 million from a secondary stock offering. Pending use of the offering proceeds for general corporate purposes or complementary acquisitions, the funds have been invested in investment grade, interest-bearing securities.

Interest expense increased to $338,000 in 2000 from $264,000 in 1999 due to an increase in capital lease obligations.

We recorded a provision for income taxes at an effective tax rate of 33% in 2000, and at an effective tax rate of 34% in both 1999 and 1998. The fluctuations in our effective tax rate are primarily due to the large special charges that have been recorded each year, the amount of nondeductible foreign losses and fluctuations in the level of benefit from our foreign sales corporation. Based on an assessment of our taxable earnings history and prospective future taxable income, we have determined it to be more likely than not that our net deferred tax asset will be realized in future periods. We may be required to provide a valuation allowance for this asset in the future if we do not generate sufficient taxable income as planned.

Discontinued Operations

Years Ending January 31, 2001 and December 31, 1999

Discontinued operations consisting of Propelis Software, Inc. formerly known as our Enterprise Integration Solutions Division generated a loss after income taxes in 2000 of $4.1 million, compared to income after income taxes of $329,000 in 1999. The decrease in profitability can be attributed to a 64% decline in revenue from sales of our server gateways and tools products in 2000 to $3.5 million from $9.7 million in 1999. In addition, lower margin hardware sales accounted for a larger percentage of server gateways and tools product revenue in 2000 when compared to the same periods of 1999. Maintenance revenue from our traditional server gateways and tools products declined in 2000 to $2.5 million, from $5.0 million in 1999, due to a drop off in the installed base of customers using our traditional server gateways and tools products.

Years Ended December 31, 1999 and 1998

Discontinued operations generated income after income taxes of $329,000 in 1999 compared to income after income taxes of $1.4 million in 1998. The decrease in profitability can be attributed to a 40% decline in revenue from sales of our server gateways and tools products in 1999 to $9.7 million from $16.1 million in 1998. In addition, total maintenance revenue declined to $6.3 million in 1999 from $7.6 million in 1998 due to a drop off in the installed base of customers using our traditional server gateways and tools products.

Acquisition and Sale of Intelliframe

On December 3, 1998, we acquired, for $2.0 million, all of the outstanding stock of IntelliFrame, a start-up software and services company that develops technology for integrating legacy systems with client/server systems and the Internet. On February 2, 2001, we sold IntelliFrame to WebMethods, Inc. for $8.8 million in cash and 273,542 shares of WebMethods stock. In the first quarter of fiscal 2001, we expect to recognize a one-time after tax gain of approximately $12.5 million from the sale of Intelliframe in the discontinued operations section of our statement of operations. Since February 2, 2001, WebMethods stock has experienced a significant decline in market value. We will not record a loss in our statement of operations for this decline in market value until such time as the stock is sold, or the decline in value is determined to be other than temporary.

Options

We have issued options for the purchase of approximately 2.9 million shares of common stock in Propelis Software, Inc. (formerly RealLegacy.com, Inc.) our wholly owned subsidiary including our EAI business, to our directors and the employees and officers of Propelis Software, Inc. The options have an exercise price of $2.00 per share, equal to their estimated fair market value on the date of grant, and have individually defined terms and vesting periods.

Liquidity and Capital Resources

We have historically financed our operations through the public and private sale of equity securities, bank borrowings under lines of credit, capital and operating equipment leases and cash generated by operations.

Cash, cash equivalents and marketable securities at January 31, 2001 totaled $150.5 million, an increase of $133.9 million since January 31, 2000. During the third quarter of 2000, we raised $110 million from a secondary stock offering. Operations and proceeds from the exercise of stock options provided cash in 2000 of $36.8 million and $7.5 million, respectively. Uses of cash in 2000 included the purchase of property and equipment, field support spares and purchased technology totaling $17.2 million.

Expenditures for capital equipment and field support spares have been, and will likely continue to be, a significant capital requirement. We believe that our current balances of cash, cash equivalents and marketable securities, when combined with anticipated cash flows from operations, will be adequate to fund our operating plans and meet our current anticipated aggregate capital requirements, at least through fiscal 2001.

In March of 2001, our board of directors adopted an amendment to our 1999 Non-Qualified Stock Award Plan increasing the number of shares authorized for issuance from 1,730,000 to 3,230,000.

We believe that inflation has not had a material impact on our operations or liquidity to date.

New Accounting Pronouncements

Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), effective for us on February 1, 2001, establishes new standards for recognizing all derivatives as either assets or liabilities and measuring those instruments at fair value. SFAS No. 133 did not have a material impact on our financial position or results of operations.

Change in Fiscal Year

On January 12, 2000, we changed our fiscal year end to January 31, rather than December 31. Our summary January 2000 results are as follows: revenues $4.3 million; gross profit $1.3 million; operating expenses $5.3 million; net loss from continuing operations $2.6 million; net loss from discontinued operations $1.0 million; and net loss $3.6 million. We typically incur significant losses in the first month following the completion of a quarter because our revenue is significantly less than the average monthly revenues we generate in any quarterly or annual period.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We have no derivative financial instruments in our cash, cash equivalents and marketable securities. We mainly invest our cash and cash equivalents in investment grade, highly liquid investments, consisting of money market instruments, bank certificates of deposits and investments in commercial paper. On February 2, 2001, we received 273,542 shares of WebMethods stock in connection with the sale of IntelliFrame. For purposes of recognizing our gain on sale, the stock was value at $17.0 million, or $62 per share. Since February 2, 2001, WebMethods stock has experienced a significant decline in market value. We will not record a loss in our statement of operations for this decline in market value until such time as the stock is sold, or the decline in value is determined to be other than temporary.

At January 31, 2001, our marketable securities include a $514,000 investment in a Standard and Poors 500 stock price index fund and a $402,000 investment in a NASDAQ 100 index tracking stock. These investments were purchased to directly offset any investment gains or losses owed to participants under our executive deferred compensation plan which has been established for selected key employees.

We are exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and the assets and liabilities of our foreign subsidiaries, are denominated in foreign currencies, primarily French francs, the euro and British pounds sterling. As of January 31, 2001, we have hedged a portion of our risk by purchasing forward exchange contracts for 900,000 British pounds sterling that settle at various times through April 2001.

Item 8. Consolidated Financial Statements and Supplementary Data

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	January 31, 2001	December 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 39,444	$ 16,184
Marketable securities	111,033	10,711
Receivables, net	43,613	29,517
Inventories	22,447	14,425
Net current assets of discontinued operations	5,430	5,089
Deferred tax asset	11,415	3,415
Other current assets	2,226	1,776
Total current assets	235,608	81,117
Property and equipment, net	25,215	17,529
Field support spares, net	4,446	3,879
Deferred tax asset	—	2,070
Goodwill and other intangibles, net	1,200	1,222
Net non-current assets of discontinued operations	—	4,645
Other assets	2,154	192
	$268,623	$110,654
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 20,293	$ 11,408
Accrued liabilities	15,780	10,010
Deferred revenue	15,489	8,296
Current installments of obligations under capital lease	1,421	688
Total current liabilities	52,983	30,402
Deferred tax liability	586	—
Obligations under capital lease, less current installments	1,952	1,780
Total liabilities	55,521	32,182
Shareholders' equity:		
Undesignated preferred stock, authorized 965 shares; none issued and outstanding	—	—
Series A Junior Participating Preferred Stock, authorized 40 shares; none issued and outstanding	—	—
Common stock, $.01 par value; authorized 100,000 shares; issued and outstanding 29,656 at January 31, 2001, and 23,792 at December 31, 1999	297	238
Additional paid-in capital	195,910	68,927
Unearned compensation	(1,304)	(838)
Retained earnings	19,165	10,796
Accumulated other comprehensive income-foreign currency translation adjustment	(966)	(651)
Total shareholders' equity	213,102	78,472
	$268,623	$110,654

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended January 31, 2001	Years Ended December 31, 1999	Years Ended December 31, 1998	Month Ended January 31, 2000
	$125,432	$89,248	$74,969	$ 1,237
	50,674	36,741	28,052	3,105
	176,106	125,989	103,021	4,342
sales	52,873	38,411	27,441	894
	30,308	19,798	18,175	2,148
venue	83,181	58,209	45,616	3,042
	92,925	67,780	57,405	1,300
	41,019	34,626	32,255	2,643
ment	22,572	18,456	14,236	1,814
nistrative	8,697	6,922	6,252	836
	(287)	1,331	—	—
ses	72,001	61,335	52,743	5,293
operations	20,924	6,445	4,662	(3,993)
pense):				
	3,802	744	393	95
	(338)	(264)	(79)	(6)
	(312)	(370)	113	4
net	3,152	110	427	93
continuing operations before income	24,076	6,555	5,089	(3,900)
income taxes	7,947	2,229	1,730	(1,287)
continuing operations	16,129	4,326	3,359	(2,613)
continued operations, net of tax	(4,135)	329	1,370	(1,012)
	$ 11,994	$ 4,655	$ 4,729	$(3,625)
ss) per share:				
tions	$ .64	$ .19	$ .15	$ (.11)
rations	$ (.16)	$ .01	$ .06	$ (.04)
ss)	$ .47	$ .20	$ .21	$ (.15)
	25,383	23,137	22,095	23,815
oss) per share:				
rations	$ .58	$ .17	$ .15	$ (.11)
perations	$ (.15)	$ .01	$ .06	$ (.04)
oss)	$ .43	$ .18	$ .21	$ (.15)
	27,813	25,818	22,572	23,815

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 1997	22,195	$222	$ 54,439	$ (35)	$ 1,412	$(431)	$ 55,607
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	454	5	2,041	(401)	—	—	1,645
Tax benefits from employee stock transactions	—	—	195	—	—	—	195
Repurchase of common stock	(395)	(4)	(1,754)	—	—	—	(1,758)
Compensation expense	—	—	—	81	—	—	81
Comprehensive income:							
Net income	—	—	—	—	4,729	—	4,729
Translation adjustment, net of tax effect of $0	—	—	—	—	—	59	59
Total comprehensive income	—	—	—	—	—	—	4,788
Balance, December 31, 1998	22,254	$223	$ 54,921	$ (355)	$ 6,141	$(372)	$ 60,558
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	1,538	15	9,354	(799)	—	—	8,570
Tax benefits from employee stock transactions	—	—	4,652	—	—	—	4,652
Compensation expense	—	—	—	316	—	—	316
Comprehensive income:							
Net loss	—	—	—	—	4,655	—	4,655
Translation adjustment, net of tax effect of $0	—	—	—	—	—	(279)	(279)
Total comprehensive income	—	—	—	—	—	—	4,376
Balance, December 31, 1999	23,792	$238	$ 68,927	$ (838)	$10,796	$(651)	$ 78,472
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	49	—	507	(341)	—	—	166
Tax benefits from employee stock transactions	—	—	—	—	—	—	—
Compensation expense	—	—	—	49	—	—	49
Comprehensive income:							
Net loss	—	—	—	—	(3,625)	—	(3,625)
Translation adjustment, net of tax effect of $0	—	—	—	—	—	49	49
Total comprehensive loss	—	—	—	—	—	—	(3,576)
Balance, January 31, 2000	23,841	$238	$ 69,434	$(1,130)	$ 7,171	$(602)	$ 75,111
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	1,215	13	8,181	(675)	—	—	7,519
Shares issued pursuant to a secondary stock offering, net of offering costs	4,600	46	110,189	—	—	—	110,235
Tax benefits from employee stock transactions	—	—	8,106	—	—	—	8,106
Compensation expense	—	—	—	501	—	—	501
Comprehensive income:							
Net income	—	—	—	—	11,994	—	11,994
Translation adjustment, net of tax effect of $0	—	—	—	—	—	(364)	(364)
Total comprehensive income	—	—	—	—	—	—	11,630
Balance, January 31, 2001	29,656	$297	$195,910	$(1,304)	$19,165	$(966)	$213,102

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended January 31, 2001	Years Ended December 31, 1999	Years Ended December 31, 1998	Month Ended January 31, 2000
Operating Activities:				
Net income (loss)	$ 11,994	$ 4,655	$ 4,729	$(3,625)
Discontinued operations	4,135	(329)	(1,370)	1,012
Depreciation and amortization	11,812	9,083	7,414	652
Compensation expense	346	219	58	49
Change in deferred taxes	(5,344)	(1,936)	506	—
Changes in operating assets and liabilities:				
Receivables	(14,833)	(5,872)	872	608
Inventories	(3,717)	3,489	(6,815)	(4,305)
Other current assets	(445)	(804)	127	(4)
Accounts payable	11,036	4,272	(78)	(2,151)
Accrued liabilities	17,754	2,563	4,179	(3,878)
Deferred revenue	5,569	2,636	(1,528)	2,045
Net cash provided by (used in) continuing operations	38,307	17,976	8,094	(9,597)
Net cash provided by (used in) discontinued operations	(1,490)	789	2,829	1,051
Cash provided by (used in) operating activities	36,817	18,765	10,923	(8,546)
Investing Activities:				
Additions to property and equipment	(14,329)	(8,262)	(6,345)	(542)
Additions to field support spares	(2,520)	(2,727)	(2,198)	(271)
Additions to purchased technology	(375)	—	(185)	—
Purchase of marketable securities	(148,389)	(15,421)	(18,054)	—
Redemption of marketable securities	45,998	5,286	23,512	2,070
Other assets	(1,967)	327	6	3
Discontinued operations — acquisition of business	—	—	169	—
Discontinued operations — additions to long-term assets	(158)	(507)	(547)	(12)
Cash provided by (used in) investing activities	(121,740)	(21,304)	(3,642)	(1,248)
Financing Activities:				
Payments for repurchases of common stock	—	—	(1,758)	—
Proceeds from issuance of common stock	117,754	8,570	1,645	166
Repayments of obligations under capital leases	(1,187)	(327)	(181)	(65)
Discontinued operations — repayment of debt	—	(1,000)	—	(1,000)
Cash provided by (used in) financing activities	116,567	7,243	(294)	(899)
Effects of exchange rate changes	(174)	(306)	9	(13)
Net increase (decrease) in cash and cash equivalents	31,470	4,398	6,996	(8,210)
Cash and cash equivalents — beginning of period	7,974	11,786	4,790	16,184
Cash and cash equivalents — end of period	$ 39,444	$ 16,184	$ 11,786	$ 7,974

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2001, December 31, 1999 and 1998
(tabular amounts in thousands except per share data)

(1) Summary of Significant Accounting Policies

Description Of Business

Computer Network Technology Corporation is a leading worldwide provider of high-performance storage networking solutions and world class services.

Discontinued Operations

The Company has determined to divest Propelis Software, Inc. formerly known as the Enterprise Integration Solutions Division. Accordingly, Propelis Software, Inc. has been accounted for as discontinued operations in the accompanying financial statements.

Change in Year End

On January 12, 2000, the Company changed its fiscal year end to January 31, from December 31. The Company believes that the twelve months ended December 31, 1999 and 1998 provide a meaningful comparison to the twelve months ended January 31, 2001. There are no factors, of which the Company is aware, seasonal or otherwise, that would impact the comparability of information or trends, if results for the twelve months ended January 31, 1999 and 1998 were presented in lieu of results for the twelve months ended December 31, 1999 and 1998. References in these footnotes to fiscal 2000 represent the twelve months ended January 31, 2001. References to fiscal 1999 and 1998 represent the twelve months ended December 31, 1999 and 1998.

Principles Of Consolidation

The accompanying consolidated financial statements include the accounts of Computer Network Technology Corporation and its subsidiaries (together, the Company). All significant intercompany balances and transactions are eliminated in consolidation.

Revenue Recognition

Revenue from product sales is generally recognized by the Company upon shipment or signed customer acceptance depending on the terms of the contract or purchase order. Service fees are recognized as revenue when earned, which is generally on a straight-line basis over the contracted service period. Deferred revenue primarily consists of the unearned portion of service agreements billed in advance to customers.

In December of 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," (SAB 101), which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition polices. Adoption of SAB 101 during the fourth quarter of 2000 did not have a material impact on the Company's financial position or results of operations.

Cash Equivalents

The Company considers investments in highly liquid debt securities having an initial maturity of three months or less to be cash equivalents.

Marketable Securities

If significant, unrealized gains and losses on available-for-sale securities are excluded from earnings and are reflected as a separate component of shareholders' equity. Unrealized gains and losses on trading securities are included in earnings.

Inventories

Inventories are stated at the lower of cost (determined on a first in, first out basis) or market.

Property And Equipment

Property and equipment owned by the Company is carried at cost and depreciated using the straight-line method over three to eight years. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases. Expenditures for repairs and maintenance are charged to expense as incurred. Capital lease equipment is amortized over the life of the lease.

Field Support Spares

Field support spares are carried at cost and depreciated using the straight-line method over three years.

Goodwill And Other Intangibles

Goodwill represents the excess of purchase price over the fair value of net assets acquired and is amortized using the straight-line method over periods ranging from five to twenty years. Purchased technology and other identifiable intangible assets are carried at cost and amortized using the straight-line method over periods ranging from two to seven years.

Impairment of Long-Lived Assets

The recoverability of long-lived assets is assessed whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable through future undiscounted cash flow.

Allowance For Returns And Credit Losses

An allowance is made for potential returns and uncollectible accounts based on current and historical experience. The allowance for returns and credit losses at January 31, 2001, December 31, 1999 and 1998 was $2,383,000, $959,000 and $1,225,000, respectively.

Engineering And Development

The Company has expensed all engineering and development costs to date.

Foreign Currency

The financial statements of the Company's international subsidiaries have been translated into U.S. dollars. Assets and liabilities are translated into U.S. dollars at year-end exchange rates, while equity accounts are translated at historical rates. Income and expenses are translated at the average exchange rates during the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity.

The Company is exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and the assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies. As of January 31, 2001, the Company has hedged a portion of its risk by purchasing forward exchange contracts for 900,000 British pounds sterling that settle at various times through April 2001. Gains and losses from transactions denominated in foreign currencies and forward exchange contracts are included in net income (loss).

The Company recognized foreign currency transaction gains in fiscal 2000 and 1998 of $7,000 and $110,000, respectively. The Company recognized a foreign currency transaction loss in fiscal 1999 of $196,000. Foreign currency transaction gains and losses in the one month transition period ended January 31, 2000 were not significant.

Income Taxes

Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Stock Compensation Plans

The Company accounts for its stock based compensation awards in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB No. 25) and provides the footnote disclosures required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" (SFAS No. 123).

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Use Of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

Net Income (Loss) Per Share

Basic net income per share is computed based on the weighted average number of common shares outstanding, while diluted net income per share is computed based on the weighted average number of common shares outstanding plus potential dilutive shares of common stock. Potential dilutive shares of common stock include stock options which have been granted to employees and directors and awards under the employee stock purchase plan. Net loss per basic and diluted share is based on the weighted average number of common shares outstanding. Potential dilutive shares of common stock have been excluded from the computation of net loss per share due to their anti-dilutive effect.

Comprehensive Income

Comprehensive income consists of the Company's net income (loss) and foreign currency translation adjustment and is presented in the consolidated statement of shareholders' equity and comprehensive income.

New Accounting Pronouncements

Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), effective for us on February 1, 2001, establishes new standards for recognizing all derivatives as either assets or liabilities and measuring those instruments at fair value. SFAS No. 133 did not have a material impact on our financial position or results of operations.

(2) Components of Selected Balance Sheet Accounts

	January 31, 2001	December 31, 1999
Inventories:		
Components and subassemblies	$15,218	$ 8,661
Work in process	2,813	3,109
Finished goods	4,416	2,655
	$22,447	$14,425
Property and equipment:		
Machinery and equipment	$35,567	$25,415
Office and data processing equipment	22,764	18,761
Furniture and fixtures	3,197	2,221
Leasehold improvements	1,856	2,264
	63,384	48,661
Less accumulated depreciation and amortization	38,169	31,132
	$25,215	$17,529
Field support spares:		
Field support spares	$19,934	$16,311
Less accumulated depreciation	15,488	12,432
	$ 4,446	$ 3,879
Goodwill and other intangibles:		
Purchased technology	$ 2,040	$ 1,665
Goodwill	866	866
	2,906	2,531
Less accumulated amortization	1,706	1,309
	$ 1,200	$ 1,222
Accrued liabilities:		
Compensation	$ 8,986	$ 5,949
Income taxes	2,450	1,049
Abandoned facility	—	1,331
Product warranty	1,629	740
Other	2,715	941
	$15,780	$10,010

(3) Marketable Securities

The Company's investments in marketable securities are summarized as follows:

	January 31, 2001	December 31, 1999
Available-for-Sale:		
Bank certificates of deposit	$ 29,519	$ 971
U.S. government and agency securities	10,866	—
Corporate debt securities	69,732	9,348
	110,117	10,319
Trading:		
Standard & Poors 500 stock price index fund	514	392
NASDAQ 100 tracking stock	402	—
	$111,033	$10,711

The amount of gross unrealized gains and losses with respect to investments in available-for-sale securities at January 31, 2001 and December 31, 1999 was not significant. The Company realized no significant gains or losses with respect to available-for-sale securities during fiscal 2000, 1999, 1998 or the one month transition period ended January 31, 2000. Proceeds from the sale of available-for-sale securities in fiscal 2000, 1999 and 1998 were $1,204,000, $984,000 and $8,093,000, respectively. There were no sales of available-for-sale securities during the one month transition period ended January 31, 2000. At January 31, 2001, the Company's investments in available-for-sale securities have contractual maturities of three years or less.

The Company's trading securities consist of a mutual fund investment that seeks to provide a return corresponding to the Standard & Poors 500 stock price index and a NASDAQ 100 tracking stock. The Company intends to use any gain or loss from these investments to fund the investment gains or losses owed to participants under the Company's executive deferred compensation plan. The amount of unrealized holding gains (losses) with respect to trading securities included in net income (loss) for fiscal 2000, 1999, 1998 and the one month transition period ended January 31, 2000 was $(168,000), $112,000, $0 and $(11,995), respectively.

On February 2, 2001, the Company received 273,542 shares of WebMethods, Inc. common stock in connection with the sale of Intelliframe (see note 4 to the consolidated financial statements). The common stock of WebMethods, Inc. has experienced a significant decline in value since February 2, 2001. We will not record a loss in our statement of operations for the decline in value of the WebMethods stock until such time as the stock is sold, or the decline in value is determined to be other than temporary.

(4) Discontinued Operations

The Company has determined that it will divest its wholly owned subsidiary Propelis Software, Inc. formerly known as the Enterprise Integration Solutions Division. Accordingly, Propelis Software, Inc. has been accounted for as a discontinued operation in the accompanying financial statements. Propelis Software, Inc. develops and sells EAI software that automates the integration of computer software applications, and business workflow processes, as well as our traditional server gateways and tools, which enable multiple desktop computers and mainframe terminals to communicate with one another. Summary financial information for the discontinued operations was as follows:

Condensed Consolidated Statements of Operations of Discontinued Operations:

	Year Ended January 31, 2001	Years Ended December 31, 1999	Years Ended December 31, 1998	Month Ended January 31, 2000
Revenue	$16,132	$25,704	$30,514	$ 472
Income (loss) before income taxes	$(6,174)	$ 498	$ 2,550	$(1,510)
Provision (benefit) for income taxes	(2,039)	169	1,180	(498)
Net income (loss) from discontinued operations	$(4,135)	$ 329	$ 1,370	$(1,012)

Certain general and administrative, facility and information technology infrastructure costs that had previously been allocated to and reported in the operating results of Propelis Software, Inc. have been reallocated to continuing operations.

Condensed Consolidated Statements of Net Assets of Discontinued Operations:

	January 31, 2001	December 31, 1999
Receivables, net	$4,419	$7,330
Other current assets	631	1,775
Goodwill and other intangibles, net	1,497	2,205
Other long-term assets	1,303	2,440
Total assets	7,850	13,750
Debt	—	1,000
All other liabilities	2,420	3,016
Net assets of discontinued operations	$5,430	$9,734

IntelliFrame — Discontinued Operations

Effective December 3, 1998, the Company acquired all of the outstanding stock of IntelliFrame Corporation (IntelliFrame), a start-up software and services company which develops technology for legacy systems integration with client/server and Internet technologies. The purchase price of $2,000,000 was paid in two installments of $1,000,000 each in January 1999 and 2000. The acquisition was accounted for as a purchase and the consolidated financial statements of the Company include, as part of discontinued operations, the results of IntelliFrame since December 3, 1998. The purchase price was allocated to the fair value of the assets and liabilities acquired as follows:

Net tangible assets	$ 148
Identifiable intangibles and goodwill	1,295
In-process research and development	927
Deferred tax liability	(370)
Cash paid	$2,000

On February 2, 2001 the Company sold all of the outstanding stock of IntelliFame Corporation, including the technology underlying the Company's Propelis BPm™ product, to WebMethods, Inc. for

$8.8 million in cash and 273,542 shares of WebMethods common stock. The stock received from WebMethods, Inc. was valued at $17.0 million, which reflects a discount from its publicly reported trading price due to the restrictions on when the stock can be sold. The Company retained a license, subject to certain restrictions, to the Propelis BPm™ product, its name and the customers. In connection with this transaction, the Company paid $3.0 million to two employees, who were former shareholders of IntelliFrame, to satisfy all obligations to make further bonus payments under their employment agreements. In the first quarter of fiscal 2001, the Company expects to recognize an after tax gain of approximately $12.5 million from the sale of Intelliframe in the discontinued operations section of its statement of operations. Since February 2, 2001, WebMethods stock has experienced a significant decline in market value. We will not record a loss in our statement of operations for this decline in market value until such time as the stock is sold, or the decline in value is determined to be other than temporary.

Integration Activities — Discontinued Operations

In October of 1997, the Company acquired substantially all of the assets and assumed certain liabilities of the Internet Solutions Division of Apertus Technologies Incorporated (Apertus), a provider of Internet-to-Mainframe connectivity products and web access to legacy applications. Subsequent to the acquisition of Apertus, the Company decided to consolidate certain operations and recorded a charge of $2,184,000 for costs incurred to integrate existing businesses, including accruals for severance, facility closures and infrastructure integration. During the three months ended December 31, 1999, the Company determined that it would not complete a previously planned consolidation of facilities in the United Kingdom. As a result, the remaining accrual for integration activities of $430,000 was reversed and included in results from discontinued operations in the accompanying 1999 consolidated statement of operations.

In December 1997, the Company sold the assets and technologies relating to the vision line of products acquired from Apertus for $2,000,000 in cash, plus additional payments ranging from $1,500,000 to $2,000,000, depending upon the vision product line achieving a defined future revenue target. The Company did not recognize any gain or loss upon receipt of the initial $2,000,000 cash payment. During the years ended January 31, 2001 and December 31, 1999, the Company received additional payments from the sale of the vision product line of $1,210,000 and $667,000, respectively, which were recognized as income and included in results from discontinued operations. There are no additional payments to be received from the sale of the vision product line.

(5) Leases

The Company leases all office and manufacturing space and certain equipment under noncancelable capital and operating leases. At January 31, 2001 and December 31, 1999, leased capital assets included in property and equipment were as follows:

	January 31, 2001	December 31, 1999
Property and equipment:		
Office and data processing equipment	$4,388	$3,027
Less accumulated amortization	842	1,098
	$3,546	$1,929

Future minimum lease payments, excluding executory costs such as real estate taxes, insurance and maintenance expense, by year and in the aggregate are as follows:

	Minimum Lease Commitments	
	Capital	Operating
Year Ending January 31		
2002	$1,682	$ 4,879
2003	1,479	3,295
2004	629	2,680
2005	—	2,345
2006	—	2,345
Thereafter	—	9,621
Total minimum lease payments	3,790	25,165
Less minimum sublease income	—	826
Net minimum lease payments	3,790	$24,339
Less amounts representing interest at rates ranging from 8.89% to 10.69%	417	
Present value of minimum capital lease payments	3,373	
Less current installments	1,421	
Obligations under capital lease, less current installments	$1,952	

Rent expense under noncancelable operating leases, exclusive of executory costs, for fiscal 2000, 1999, 1998 and the one month transition period ended January 31, 2000 was $5,315,000, $3,970,000, $3,122,000 and $430,888, respectively. The Company recently moved into a new leased facility for its principal office and manufacturing operations. During the year ended December 31, 1999, the Company recognized a $1,331,000 charge for the future costs associated with a facility that was abandoned prior to expiration of the lease term. During the year ended January 31, 2001, the Company reversed $287,000 representing the unused portion of the accrual for the abandoned facility.

(6) Shareholders' Equity

Common Stock Repurchase

On March 10, 1997 the Company's board of directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock. During fiscal 1997 and 1998, the Company repurchased 1,799,900 shares of its common stock for $8,446,000 pursuant to this authorization. No shares have been repurchased since fiscal 1998.

Rights Plan

On July 24, 1998 the Company's board of directors adopted a shareholders rights plan pursuant to which rights were distributed as a dividend at the rate of one preferred share purchase right for each outstanding share of common stock of the Company. The rights will expire on July 23, 2008 unless extended, earlier redeemed or exchanged by the Company.

Stock Options And Restricted Stock

The Company maintains stock option and restricted stock plans (the Plans) which provide for the grant of stock options, restricted stock and stock based awards to officers, other employees, consultants, and independent contractors as determined by the compensation committee of the board of directors. A maximum of 8,830,000 shares of common stock were issuable under the terms of the Plans as of January 31, 2001, of which no more than 930,000 shares may be issued as restricted stock or other stock based awards. As of January 31, 2001, there were 906,000 shares of common stock available for future grants under these plans.

Restricted stock issued under the Plans is recorded at fair market value on the date of grant and generally vests over a two to four year period. Vesting for some grants may be accelerated if certain performance criteria are achieved. Compensation expense is recognized over the applicable vesting period. During fiscal 2000, 1999, 1998 and the one month transition period ended January 31, 2000, the Company issued 61,100, 90,250, 81,000 and 3,000, restricted shares, respectively, having an aggregate weighted fair market value per share of $17.43, $16.25, $4.81, and $17.44, respectively. Compensation expense recognized for restricted shares in fiscal 2000, 1999, 1998 and the one month transition period ended January 31, 2000 was $501,000, $316,000, $81,000 and $49,000, respectively.

All stock options granted under the Plans have an exercise price equal to fair market value on the date of grant, vest and become exercisable over individually defined periods, generally four years, and expire ten years from the date of grant. During fiscal 1999, stock options for 800,000 shares were granted at an exercise price of $21.88 and vest after six years. The options did provide for acceleration of vesting upon certain increases in the Company's stock price. In March of 2001, the vesting for these options was changed to ratably over a four-year period from the original date of grant. As of January 31, 2001, 25% of these options were vested.

A summary of the status of the Company's outstanding stock options and related changes for fiscal 2000, 1999, 1998 and the one month transition period ended January 31, 2000 is presented below:

	Year Ended January 31,		Years Ended December 31,				Month Ended January 31,	
	2001		1999		1998		2000	
Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	4,798	$10.02	4,972	$ 5.63	4,321	$5.42	4,678	$ 9.78
Granted	1,552	18.77	1,689	18.40	1,269	6.08	165	15.29
Exercised	(1,123)	5.93	(1,540)	5.54	(219)	4.66	(21)	4.89
Canceled	(572)	13.92	(443)	10.79	(399)	5.33	(24)	8.69
Outstanding at end of period	4,655	$13.45	4,678	$ 9.78	4,972	$5.63	4,798	$10.02
Exercisable at end of period	1,633	$ 8.08	1,901	$ 6.31	2,388	$5.71	1,870	$ 6.39
Weighted-average fair value of grants during the period		$13.56		$12.68		$4.48		$12.82

The following table summarizes information about stock options outstanding at January 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 3.50 – \$ 4.99	746	6.4	\$ 4.45	424	\$ 4.36
\$ 5.00 – \$ 7.99	912	5.1	\$ 6.01	743	\$ 6.00
\$ 8.00 – \$14.99	857	7.9	\$12.69	316	\$12.07
\$15.00 – \$19.99	1,032	8.4	\$17.53	32	\$15.98
\$20.00 – \$33.88	1,108	8.6	\$22.41	118	\$21.65
	4,655			1,633	

Propelis Software, Inc. (formerly RealLegacy.com, Inc.) Stock Options

We have issued options for the purchase of approximately 2.9 million shares of common stock in Propelis Software, Inc., our wholly owned subsidiary including our EAI business, to our directors and the employees and officers of Propelis Software, Inc. The options have an exercise price of \$2.00 per share equal to their estimated fair market value on the date of grant, and have individually defined terms and vesting periods.

Employee Stock Purchase Plan

The 1992 Employee Stock Purchase Plan (the Purchase Plan) allows eligible employees an opportunity to purchase an aggregate of 1,100,000 shares of the Company's common stock at a price per share equal to 85% of the lesser of the fair market value of the Company's common stock at the beginning or the end of each six-month purchase period. Under the terms of the Purchase Plan, no participant may acquire more than 5,000 shares of the Company's common stock or more than \$5,000 in aggregate fair market value of common stock (as defined) during any six-month purchase period. Common shares sold to employees under the Purchase Plan in fiscal 2000, 1999 and 1998 were 102,920, 86,972 and 153,163, respectively. No shares were sold to employees under the Purchase Plan in the one month transition period ended January 31, 2000.

The fair value of each purchase right granted in fiscal 2000, 1999 and 1998 was \$3.72, \$6.38 and \$1.57, respectively.

Stock Compensation

The Company has elected to continue to account for its plans in accordance with APB No. 25. Accordingly, no compensation cost related to stock option grants or shares sold to employees under the Employee Stock Purchase Plan has been recognized in the Company's financial statements. Had compensation cost for the Company's stock-based compensation plans been recognized consistent with the fair value method of SFAS No. 123, the Company's net income (loss) and net income (loss) per basic and diluted share would have been reduced to the pro forma amounts indicated below:

	Year Ended January 31, 2001	Years Ended December 31, 1999	Years Ended December 31, 1998	Month Ended January 31, 2000
Net income (loss):				
As reported	$11,994	$4,655	$4,729	$(3,625)
Pro forma	$ 5,626	$ (795)	$2,580	$(4,032)
Net income (loss) per share:				
As reported				
Basic	$ .47	$ .20	$ .21	$ (.15)
Diluted	$ .43	$ .18	$ .21	$ (.15)
Pro forma				
Basic	$ .22	$ (.03)	$ .12	$ (.17)
Diluted	$ .20	$ (.03)	$ .11	$ (.17)

In determining the compensation cost of stock option grants and shares sold to employees under the employee stock purchase plan, as specified by SFAS No. 123, the fair value of each award has been estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used in these calculations are summarized below:

	Year Ended January 31, 2001	Years Ended December 31, 1999	Years Ended December 31, 1998	Month Ended January 31, 2000
Risk free interest rate	5.90%	5.64%	5.26%	6.66%
Expected life	5.33	5.23	8.41	4.22
Expected volatility	85.06%	79.66%	67.50%	80.61%

(7) Net Income (Loss) Per Share

The components of net income (loss) per basic and diluted share are as follows:

	Net Income (loss)	Weighted Average Shares Outstanding	Per Share Amount
Year Ended January 31, 2001			
Basic	$11,994	25,383	$ .47
Dilutive effect of employee stock purchase awards and options	—	2,430	(.04)
Diluted	$11,994	27,813	$ .43
Years Ended December 31,			
1999:			
Basic	$ 4,655	23,137	$ .20
Dilutive effect of employee stock purchase awards and options	—	2,681	(.02)
Diluted	$ 4,655	25,818	$ .18
1998:			
Basic	$ 4,729	22,095	$ .21
Dilutive effect of employee stock purchase awards and options	—	477	—
Diluted	$ 4,729	22,572	$ .21
Month Ended January 31, 2000			
Basic	$(3,625)	23,815	$(.15)
Dilutive effect of employee stock purchase awards and options	—	—	—
Diluted	$(3,625)	23,815	$(.15)

(8) Income Taxes

The components of income from continuing operations before income taxes and income tax expense (benefit) for each of the years in the three-year period ended January 31, 2001 and the one month transition period ended January 31, 2000 consists of the following:

	Year Ended January 31, 2001	Years Ended December 31, 1999	1998	Month Ended January 31, 2000
Income (loss) from continuing operations before Income taxes:				
U.S.	$19,595	$ 6,356	$4,251	$(3,511)
Foreign	4,481	199	838	(389)
Total	$24,076	$ 6,555	$5,089	$(3,900)
Income tax provision:				
Current:				
U.S.	$ 5,180	$ 3,356	$ 693	$ 52
Foreign	1,348	60	277	—
State	1,027	749	254	11
Total current	7,555	4,165	1,224	63
Deferred:				
U.S.	458	(1,525)	453	(1,133)
State	(66)	(411)	53	(217)
Total deferred	392	(1,936)	506	(1,350)
Total income tax expense (benefit)	$ 7,947	$ 2,229	$1,730	$(1,287)

The reconciliation of the statutory federal tax rate and the effective tax rate for each of the years in the three-year period ended January 31, 2001 and the one-month transition ended January 31, 2000 is as follows:

	Year Ended January 31, 2001	Years Ended December 31, 1999	1998	Month Ended January 31, 2000
Statutory tax rate	34.0%	34.0%	34.0%	34.0%
Increase (decrease) in taxes resulting from:				
State taxes, net of federal tax benefit	2.6	3.4	4.0	3.3
Foreign sales corporation	(1.9)	(5.3)	(6.3)	—
Meals and entertainment	.4	1.1	1.2	(.1)
Other	(2.1)	.8	1.1	(4.2)
Total	33.0%	34.0%	34.0%	33.0%

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and (liabilities) as of January 31, 2001 and December 31, 1999 was as follows:

	January 31, 2001	December 31, 1999
Deferred tax assets:		
Inventory	$ 2,725	$1,556
Accrued compensation	1,026	847
Property and equipment	—	869
Reserves for bad debts and sales returns	694	135
Foreign net operating loss carryforwards	410	410
Federal and state tax credits	2,130	1,083
Federal and state net operating loss carryforwards	4,268	118
Abandoned facility	—	512
Other	714	648
Total gross deferred tax assets	11,967	6,178
Valuation allowance	(410)	(410)
Net deferred tax assets	11,557	5,768
Deferred tax liabilities:		
Property and equipment	(343)	—
Other	(385)	(283)
Total gross deferred tax liabilities	(728)	(283)
Net deferred tax assets	$10,829	$5,485

The Company recorded a valuation allowance at January 31, 2001 and December 31, 1999 of $410,000 for the tax benefits associated with certain losses incurred from foreign operations. At January 31, 2001, the Company had net operating loss and credit carryforwards available for federal tax purposes of approximately $10,618,000 and $1,138,000, respectively, which will expire during the years 2001 through 2019.

The Company has assessed its taxable earnings history and prospective future taxable income. Based on this assessment, management has determined that it is more likely than not that its net deferred tax assets will be realized in future periods. The Company may be required to provide a valuation allowance for this asset in the future if it does not generate sufficient taxable income as planned.

(9) Annual Bonus Plan

The Company's Annual Bonus Plan provides a formula for determination of cash bonus payments to eligible employees based on a defined percentage of a participant's qualifying base compensation multiplied by the Company's annual bonus plan factor. The annual bonus plan factor is based on a chart which outlines payout percentages for achievement of defined levels of revenue and operating profit as a percentage of revenue.

The annual bonus expense for fiscal 2000, 1999, and 1998 was $2,035,000, $420,000 and $1,673,000, respectively. There was no bonus for the one month transition period ended January 31, 2000.

(10) 401(k) and Deferred Compensation Plans

The Company has a 401(k) salary savings plan which covers substantially all of its employees. The Company matches 100% of a participant's annual plan contributions up to an annual maximum per participant of $1,500 which vests over a four year period.

The Company has also established an executive deferred compensation plan for selected key employees which allows participants to defer a substantial portion of their compensation each year. The Company matches 20% of a participant's annual plan contributions up to an annual maximum per participant of $10,000. Matching contributions vest over a four year period from the later of July 1, 1997 or the participant's date of hire. In addition, the Company provides participants with an annual earnings credit based on the investment indexes selected by the participant prior to the start of each plan year.

The Company's expense under the 401(k) and deferred compensation plans for fiscal 2000, 1999, 1998 and the one month transition period ended January 31, 2000 was $1,132,000, $470,000, $570,000, and $329,000, respectively.

(11) Segment Information

The Company operates in one reportable segment, which provides high-performance storage networking solutions and services. The Company previously accounted for Propelis Software, Inc. as a reportable segment. The Company no longer provides segment information for this business because it has been accounted for as a discontinued operation.

Information with respect to the Company's foreign operations is summarized as follows:

	Year Ended January 31, 2001	Years Ending December 31, 1999	Years Ending December 31, 1998	Month Ended January 31, 2000
Revenue:				
United States	$123,717	$ 82,494	$ 69,655	$ 3,620
United Kingdom	16,554	13,402	9,596	490
France	5,213	4,348	5,479	86
Other	30,622	25,745	18,291	146
Total	$176,106	$125,989	$103,021	$ 4,342
Long-Lived Assets (end of period):				
United States	$ 29,678	$ 21,464	$ 18,454	$21,497
United Kingdom	856	901	1,049	918
Other	327	265	570	268
Total	$ 30,861	$ 22,630	$ 20,073	$22,683

Revenue has been attributed to the country where the end-user customer is located.

No single customer accounted for more than 10% of the Company's total revenue in fiscal 2000, 1999 or 1998. For the one month transition period ended January 31, 2000, sales of DXE product and service to StorageTek accounted for 22% of total revenue.

(12) Noncash Financing and Investing Activities and Supplemental Cash Flow Information

Cash payments for interest expense in fiscal 2000, 1999, 1998 and the one-month transition period ended January 31, 2000 were $338,000, $222,000, $79,000 and $6,000, respectively.

Cash payments for income taxes, net of refunds received, in fiscal 2000, 1999 and 1998 were $3,286,000, $2,116,000 and $331,000, respectively. There were no cash payments for income taxes or refunds received during the one month transition period ended January 31, 2000.

During fiscal 2000, 1999, 1998 and the one-month transition period ending January 31, 2000, the Company entered into capital lease obligations for equipment valued at $1,849,000, $653,000, $1,441,000 and $307,000, respectively.

During fiscal 2000, deferred tax assets increased by $5,736,000 as a result of the tax benefit from employee stock transactions which could not be currently utilized.

(13) Disclosures about Fair Value of Financial Instruments

The carrying amount for cash and cash equivalents, marketable securities, accounts receivable and long-term obligations approximates fair value because of the short maturity of those instruments.

(14) Subsequent Event (Unaudited)

On April 3, 2001 the Company acquired all of the outstanding stock of Articulent Inc., a privately held, leading provider of Storage Management Services for $12 million in cash, plus assumption of approximately $24 million of liabilities and the acquisition of approximately $19 million of tangible assets. The agreement includes a $10 million incentive payout based upon meeting certain revenue and earnings milestones over the next twelve months.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Computer Network Technology Corporation:

We have audited the accompanying consolidated balance sheets of Computer Network Technology Corporation and subsidiaries as of January 31, 2001 and December 31, 1999, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the year ended January 31, 2001, each of the years in the two-year period ended December 31, 1999, and the one month transition period ended January 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Computer Network Technology Corporation and subsidiaries as of January 31, 2001 and December 31, 1999, and the results of their operations and their cash flows for the year ended January 31, 2001, each of the years in the two-year period ended December 31, 1999, and the one month transition period ended January 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Minneapolis, Minnesota
February 20, 2001, except
for note 14, as to which
the date is April 3, 2001

QUARTERLY FINANCIAL DATA
(unaudited)

	Years Ended January 31, 2001 and December 31, 1999			
	First Quarter(3)	Second Quarter	Third Quarter(4)	Fourth Quarter(5)
	(in thousands, except per share data)			
2000(1)(2)				
Revenue	$38,607	$44,341	$46,198	$46,960
Gross profit	20,332	24,091	24,206	24,296
Income from operations	2,887	5,701	6,516	5,820
Loss from discontinued operations, net of tax	(116)	(1,903)	(1,150)	(966)
Net income	1,830	2,053	3,705	4,406
Net income per share:				
Basic	.08	.09	.15	.15
Diluted	.07	.08	.13	.14
1999(2)				
Revenue	$29,245	$30,492	$34,079	$32,173
Gross profit	16,255	17,254	19,321	14,950
Income (loss) from operations	1,999	1,967	3,820	(1,341)
Income (loss) from discontinued operations, net of tax	1,405	532	162	(1,770)
Net income (loss)	2,697	1,786	2,749	(2,577)
Net income (loss) per share:				
Basic	.12	.08	.12	(.11)
Diluted	.11	.07	.11	(.11)

(1) On January 12, 2000, we changed our fiscal year end to January 31, rather than December 31.

(2) Our board of directors has determined to divest Propelis Software, Inc. formerly known as our Enterprise Integration Solutions Division to focus all of our resources on our storage networking products and services. Accordingly, the financial information for Propelis Software, Inc. has been accounted for as discontinued operations.

(3) Discontinued operations in the first quarter of 2000 and 1999 include other nonrecurring income of $1.2 million and $667,000, or $.03 and $.02 per share after tax, due to recognition of payments received in connection with the sale of our vision product line.

(4) Continuing operations for the third quarter of 2000 includes a reversal of the unused balance of a 1999 fourth quarter accrual for an abandoned facility. The amount of the reversal was $287,000.

(5) Continuing operations for the 1999 fourth quarter includes special charges of $1.4 million for the write-off of non-storage networking related products and $1.3 million for an abandoned facility. Discontinued operations includes the reversal of the remaining integration accrual of $430,000 relating to the acquisition of the Internet Solutions Division of Apertus Technologies, Inc.

Item 9. Changes in and Disagreements with Accountants and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers

The information set forth under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 28, 2001, to be filed with the Securities and Exchange Commission (the "Commission") on or before May 29, 2001, is incorporated herein by reference. For information concerning the executives officers, see Item 4A of this Annual Report on Form 10K.

Item 11. Executive Compensation

The information set forth under the captions "Summary Compensation Table," "Option Tables," "Employment Agreements," "Election of Directors — Compensation of Directors," "Internal Revenue Code Section 162(m)" and "Comparative Stock Price Performance" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 28, 2001, to be filed with the Commission on or before May 29, 2001, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 28, 2001, to be filed with the Commission on or before May 29, 2001, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

None.

PART IV

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

(a) 1. Consolidated Financial Statements and Schedules of Registrant

Consolidated Statements of Operations for the Years Ended January 31, 2001, December 31, 1999 and 1998, and the one month transition period ended January 31, 2000.

Consolidated Balance Sheets as of January 31, 2001 and December 31, 1999

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the Years Ended January 31, 2001, December 31, 1999 and 1998, and the one month transition period ended January 31, 2000.

Consolidated Statements of Cash Flows for the Years Ended January 31, 2001, December 31, 1999 and 1998, and the one month transition period ended January 31, 2000.

Notes to Consolidated Financial Statements

Independent Auditors' Report

(a) 2. Consolidated Financial Statement Schedule of Registrant

Independent Auditors' Report on Consolidated Financial Statement Schedule

Schedule II: Valuation and Qualifying Accounts for the Years Ended January 31, 2001, December 31, 1999 and 1998, and the one month transition period ended January 31, 2000.

All other schedules are omitted as the required information is inapplicable or is presented in the consolidated financial statements or related notes thereto.

Schedule II

COMPUTER NETWORK TECHNOLOGY CORPORATION

Valuation and Qualifying Accounts

Years ended January 31, 2001, December 31, 1999 and 1998 and the One Month Transition period ended January 31, 2000 (in thousands)

Description	Balance at Beginning of period	Additions: Charged to costs & expenses	Additions: Charged to other account	Deductions	Balance at end of period
Year ended January 31, 2001					
Allowance for doubtful accounts and sales returns	$1,128	1,600	—	(345)	$2,383
One month period ended January 31, 2000					
Allowance for doubtful accounts and sales returns	$ 959	169	—	—	$1,128
Year ended December 31, 1999					
Allowance for doubtful accounts and sales returns	$1,225	519	—	(785)	$ 959
Year ended December 31, 1998					
Allowance for doubtful accounts and sales returns	$2,979	690	—	(2,444)	$1,225

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT SCHEDULE

The Board of Directors and Shareholders
Computer Network Technology Corporation:

Under the date of February 20, 2001, except for note 14, as to which the date is April 3, 2001 we reported on the consolidated balance sheets of Computer Network Technology Corporation and subsidiaries as of January 31, 2001 and December 31, 1999, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the year ended January 31, 2001, each of the years in the two-year period ended December 31, 1999, and the one month transition period ended January 31, 2000 as contained in the fiscal 2000 annual report on Form 10-K. These consolidated financial statements and our report thereon are included in the annual report on Form 10-K fiscal 2000. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Minneapolis, Minnesota
February 20, 2001

(a) 3. Exhibits

The Company undertakes to furnish to any shareholder so requesting a copy of any of the following exhibits upon payment to the Company of the reasonable costs incurred by the Company in furnishing any such exhibit.

Exhibit	Description
3A.	Second Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibits 3(i)-1 and 3(i)-2 to current report on Form 8-K dated May 25, 1999.)
3B.	Articles of Amendment of the Second Restated Articles of the Company. (Incorporated by reference to Exhibit 3(i)-1 to current report on Form 8-K dated May 25, 1999.)
3C.	By-laws of the Company. (Incorporated by reference to Exhibit 3(ii)-1 to current report on Form 8-K dated May 25, 1999.)
4.1	Rights Agreement between the Company and Chase Mellon Shareholder Services, L.L.C., as Rights Agent including the form of Rights Certificate and the Summary of Rights to Purchase Preferred Shares. (Incorporated by reference to Exhibit 1 to Form 8-A dated July 29, 1998 and Exhibit 1 to Form 8-A/A dated November 27, 2000.)
4.2	First Amendment of Rights Agreement dated November 21, 2000. (Incorporated by Reference to Exhibit 1 to Form 8/8 dated November 27, 2000.)
4.3	First Amendment of Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock. ($.01 Par Value Per Share) of Computer Network Technology Corporation (Incorporated by reference to Exhibit 2 to Form 8-A/A dated November 27, 2000.)
4.4	Form of Common Stock Certificate. (Incorporated by reference to Exhibit 4.2 to Form S-3 Registration Statement No. 333-80841.)
10A.	Amended 1992 Stock Award Plan. (Incorporated by reference to Exhibit 99 Form S-8 Registration Statement No. 333-80791.)(1)
10B.	Amended and Restated 1999 Non-Qualified Stock Award Plan.(2)
10C.	March 10, 1994 Incentive Stock Option Agreements. (Incorporated by reference to Exhibit 28.2 Form S-8 Registration Statement No. 33-83266.)(1)
10D.	March 10, 1994 Non-Qualified Stock Option Agreements. (Incorporated by reference to Exhibit 28.3 Form S-8 Registration Statement No. 33-83266.)(1)
10E.	Building Lease by and between Opus Northwest, L.L.C., and Computer Network Technology Corporation. (Incorporated by reference to Exhibit 10A Form 10Q for the quarterly period ended September 30, 1998.)
10F.	Employment Agreement by and between the Company and Thomas G. Hudson as amended. (Incorporated by reference to Exhibit 10Z Form 10-Q for the quarterly period ended June 30, 1996.)(1)
10G.	Description of CNT Annual Bonus Plan.(2)
10H.	Employment Agreement by and between the Company and Mark Knittel. (Incorporated by reference to Exhibit 10AA Form 10-K for the year ended December 31, 1997.)(1)
10I.	Amendment to CNT Executive Deferred Compensation Plan.(2)
10J.	Employment/Non-Compete Agreement by and between the Company and Nick V. Ganio. (Incorporated by reference to Exhibit 10Q to Form 10-K for the Year Ended December 31, 1998.)(1)
10K.	1997 Restricted Stock Plan. (Incorporated by reference to Exhibit 99 to Form S-8 Registration Statement No. 333-59951.)(1)
10L.	Form of Non-Qualified Stock Option Agreement for Propelis Software, Inc. (formerly RealLegacy.com, Inc.) 2000 Key Employee Stock Award Plan (Incorporated by reference to Form 10-Q for the quarterly period ended April 30, 2000.)(1)

Exhibit	Description
10M.	Form of Non-Qualified Stock Option Agreement for Propelis Software, Inc. (formerly RealLegacy.com, Inc.) 2000 Director and Officer Stock Award Plan (Incorporated by reference to Exhibit 10B to Form 10-Q for the quarterly period ended April 30, 2000.) (1)
10N.	Propelis Software, Inc. (formerly RealLegacy.com, Inc.) 2000 Key Employee Stock Award Plan (Incorporated by reference to Exhibit 10C to Form 10-Q for the quarterly period ended April 30, 2000). (1)
10O.	Propelis Software, Inc. (formerly RealLegacy.com, Inc.) Director And Officer Stock Award Plan (Incorporated by reference to Appendix A to definitive proxy statement dated April 13, 2000.) (1)
10P.	Articulent One-Time Bonus Plan (Incorporated by reference to Exhibit 99.2 to Form 8-K dated April 3, 2001.) (1)
10Q	Amended 1992 Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 99 Form S-8 Registration Statement No. 333-80793.) (1)
10R.	Amendment to Amended 1992 Employee Stock Purchase Plan. (1) (2)
21.	Subsidiaries of the Registrant. (2)
23.	Independent Auditors' Consent. (2)
99A.	Cautionary Statements. (2)
99B.	Calculation of Additional Purchase Price to be Paid in Connection with Acquisition of Articulent, Inc. (Incorporated by reference to Exhibit 99.1 to Form 8-K dated April 3, 2001).

(1) Management contracts or compensatory plans or arrangements with the Company.

(2) Filed herewith.

(b) Reports on Form 8-K

Form 8K regarding change in rights plan during November was filed during the quarterly period ended January 31, 2001.

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.

COMPUTER NETWORK TECHNOLOGY CORPORATION

Dated: April 25, 2001

By: /s/ THOMAS G. HUDSON

Thomas G. Hudson, President and Chief Executive Officer (Principal Executive Officer)

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.

/s/ THOMAS G. HUDSON Thomas G. Hudson	President and Chief Executive Officer (Principal Executive Officer) and Director	April 25, 2001
/s/ GREGORY T. BARNUM Gregory T. Barnum	Vice President of Finance, Chief Financial Officer and Secretary (Principal Financial Officer)	April 25, 2001
/s/ JEFFREY A. BERTELSEN Jeffrey A. Bertelsen	Corporate Controller and Treasurer (Principal Accounting Officer)	April 25, 2001
/s/ PATRICK W. GROSS Patrick W. Gross	Director	April 25, 2001
/s/ ERWIN A. KELEN Erwin A. Kelen	Director	April 25, 2001
/s/ LAWRENCE PERLMAN Lawrence Perlman	Director	April 25, 2001
/s/ JOHN A. ROLLWAGEN John A. Rollwagen	Director	April 25, 2001

INDEX TO EXHIBITS

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(1) Management contracts or compensatory plans or arrangements with the Company.

(2) Filed herewith.

CNT Annual Report

2001

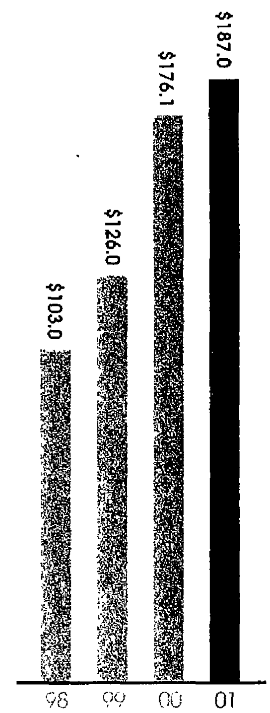
Information access. Always on with CNT.

CNT is the global specialist in storage networking solutions. For nearly 20 years, businesses around the world have depended on us to improve the way they protect, move, share and manage their business-critical information assets.

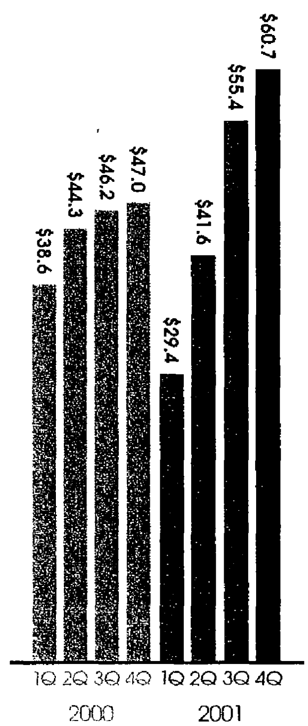
We help our clients—from Fortune 500 corporations to Global 2000 businesses—realize a quicker return on their storage network investments through solutions that help speed deployment and technology that lets them leverage existing skills and architecture to implement new storage applications.

A global company based in Minneapolis, Minnesota, CNT has more than 750 employees, four international operating subsidiaries, over 20 international distributors, and customers in 30 countries. CNT is listed on the Nasdaq National Market System under the symbol CMNT.

CNT Revenue
(in millions)



Revenue by Quarter
(in millions)



Cash and Marketable Securities
(in millions)

CNT Strategic Partners

EMC
Hewlett-Packard
IBM/Tivoli
Compaq
Brocade
McData
Veritas
StorageTek
Hitachi Data Systems

Select CNT Customers

AXA Financial
Barclays
Best Buy
Cap Gemini
IBM
The Los Angeles Department of Water and Power
Nasdaq
Ohio Savings Bank
U.S. Bancorp
The U.S. Department of Defense
Verizon
Wal-Mart

(in thousands, except per share data)	**2001**	2000	1999	1998
Total revenue	**$187,023**	$176,106	$125,989	$103,021
Earnings (loss) from continuing operations	**(11,928)**	16,129	4,326	3,359
Diluted earnings (loss) per share from continuing operations	**($0.40)**	$0.58	$0.17	$0.15
Total assets	**269,738**	268,623	110,654	87,596
Shareholders' equity	**216,643**	213,102	78,472	60,558
Operating margin	**-6.7%**	11.9%	5.1%	4.5%

To Our Shareholders:

2001 was a year unlike any other. Economic and world events altered our lives, our nation and the collective business climate. From a business perspective, we were reminded of one thing: prepare for the unexpected.

For corporations, that means ensuring that information is available anywhere, at anytime, under any circumstance. At CNT, that has been our mission for more than 20 years. We understand that in addition to people, a company's most important asset is its information. Without accurate, timely, complete and accessible information that is secure and available, you don't have a business.

Our focus is to provide information access, always on. We do this by designing, implementing and managing networking solutions that give our

Cost-effective business continuance, disaster recovery and storage architecture solutions are CNT's areas of expertise. Our ability to serve as a resource for disaster recovery and business continuance solutions took on special importance following the tragic events of September 11th. In the wake of the attacks and subsequent loss of power, CNT solutions continued to operate uninterrupted, routing data to remote facilities on behalf of customers located in and around the World Trade Center.

CNT was affected early in 2001 by the economic downturn. However, while many companies continue to be hurt by the business slowdown, our immediate actions and clear focus on our core business ensured that we were well positioned to make the most of the heightened interest in storage, and we finished the year strong. We

More important, CNT delivered on three important financial fronts in 2001: revenue growth, return to profitability and positive cash flow by year end.

Additionally, we achieved a number of highlights in fiscal 2001. We:

- Established an industry leadership position in IP storage networking
- Enhanced our storage services offering by acquiring Articulent
- Unveiled our new UltraNet Edge Storage Router product, which drove significant fiscal third and fourth quarter revenue growth
- Implemented a number of large-scale storage solutions for key customers
- Recently completed a convertible note offering to fund future growth initiatives
- Fully divested our non-storage

Financial Performance

For fiscal 2001, CNT achieved record revenues of $187 million, an increase of 6 percent from $176.1 million in fiscal 2000. Excluding special charges, the company reported a net loss from continuing operations of $2.5 million, or $.08 per diluted share, versus net income from continuing operations of $15.9 million, or $.57 per share, for the prior-year period. Results for the year include Articulent revenue and expenses since its acquisition in April 2001.

CNT's storage networking products and support services generated revenues of $136.9 million in fiscal 2001, down from $163.5 million in the year-ago period. The company's storage solutions group, consisting of third-party product reselling, consulting, integration and managed services businesses, generated $50.2 million in revenue for the year, up 297 percent from $12.6 million in the year-ago period.

The sale of Propelis Software Inc., a discontinued operation, to WebMethods and Jacada Ltd. in Feburary and August 2001, respectively, yielded $31.9 million in proceeds.

In February 2002, CNT raised more than $121 million through a private placement of convertible subordinated notes. These proceeds will allow CNT to fund future growth initiatives and pursue complementary product and business acquisitions. As of February 20, 2002, CNT had more than $239 million in cash and marketable securities

Storage Networking Solutions Highlights

Every day, corporations are faced with the challenge of storing and retrieving massive amounts of information in large-scale storage devices. Increasingly, firms are realizing that fast, secure and reliable access to information and the ability to efficiently and cost-effectively manage that information are as important as the storage itself. In 2001, CNT unveiled the UltraNet Edge Storage Router product, which provides enterprise-wide access to information and helps companies manage their storage infrastructure for maximum performance and efficiency.

We designed the UltraNet Edge Storage Router to help reduce the total cost of ownership of storage networking by leveraging the lower-cost bandwidth offered by IP networks and the performance improvements provided by Fibre Channel. IP networks can lower communications costs by 50 to 90 percent; Fibre Channel speed can deliver information five to 10 times faster than older methods. As a component of CNT's storage solutions, the UltraNet Edge Storage Router supports today's high-speed networking architectures. The leading storage vendors including Brocade, Compaq, EMC and Hewlett-Packard, have certified the UltraNet Edge Storage Router.

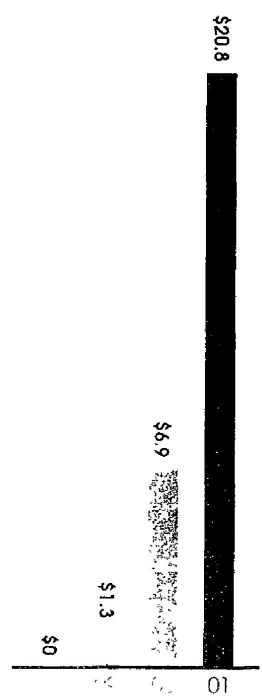
The UltraNet Edge Storage Router joins CNT's UltraNet Storage Director as part of our UltraNet family of products that support cost-effective IP storage architectures. The UltraNet Storage Director works at the core of storage infrastructures to create a high-performance, scalable solution that integrates legacy technology with high-speed network technology.

On the consulting and integration side of our business, we successfully implemented many end-to-end storage solutions including one for consumer electronics giant Best Buy Co. The solution, which included a large-scale storage area network (SAN), prepared Best Buy's IT infrastructure for a planned expansion and the relocation of the firm's headquarters. It improved efficiencies by reducing daily backup times by more than 75 percent.

In addition, we implemented a storage networking and disaster recovery solution for Ohio Savings Bank (OSB), one of the nation's 20 largest mortgage lenders, to support its business-critical operations database. OSB needed a fast, reliable connection to send data between its downtown Cleveland headquarters and data center located in Wickliffe, Ohio. With our UltraNet Edge Storage Router, we

CNT IP Sales

Subset of Storage Networking Business (in millions)



connected OSB's Fibre Channel networks together, creating a cost-effective and highly reliable disaster recovery solution.

We also completed a cost-effective disaster recovery solution for the City of Los Angeles Department of Water and Power. The CNT solution improved data integrity, increased system efficiency and decreased the time employees spent maintaining backup tapes.

Company Milestones

With the sale of Propelis, CNT completed its transition to a company exclusively focused on information networking. Developing storage solutions requires the fusion of leading hardware and software with premier networking services. In April 2001, we enhanced our offering by acquiring Articulent, a privately held, leading provider of storage services based in Hopkinton, Massachusetts. The acquisition further strengthens CNT's storage services organization, which now has 300 sales and services professionals in the field, and provides companies with the expertise to manage information enterprise-wide.

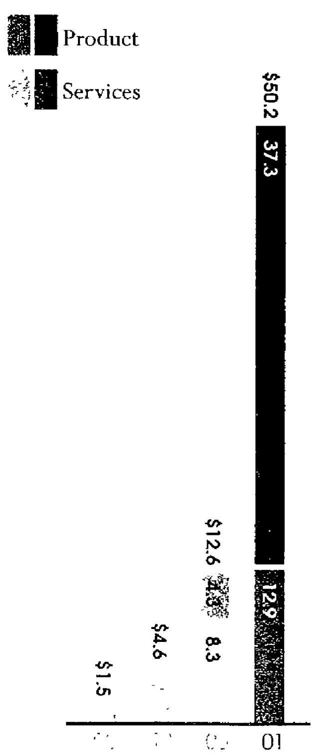
We also made significant enhancements to our support services. Unlike the myriad of start-up companies attempting to enter the storage networking market, CNT boasts a renowned support infrastructure. This enables our customers to get not only fail-safe network designs but faster problem diagnosis and resolution worldwide. With CNT, customer resources are freed up for other critical initiatives, and the reliability and availability of their networks are maximized.

Even with a challenging economic environment, CNT continued to expand revenues during the year. We have grown from $82.1 million in revenue in 1996 to $187 million in revenue in fiscal 2001. In recognition of our continued growth, Fortune Small Business magazine named CNT one of "America's 100 Fastest-Growing Small Companies."

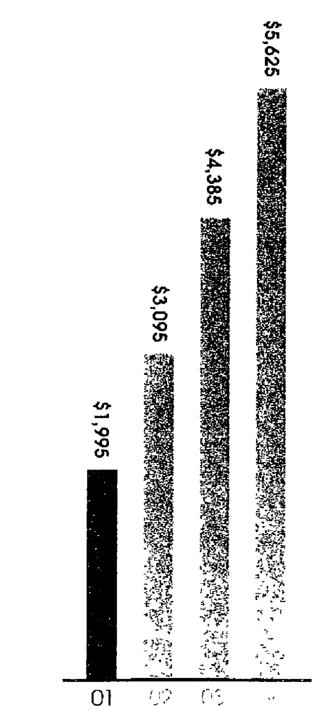
In addition, CNT, listed on the Nasdaq National Market System, was selected to open the Nasdaq market in January 2002. CNT was founded in 1983, and since that time, we have grown to over $187 million in revenues, employing more than 750 people globally.

CNT Storage Networking Business
(in millions)

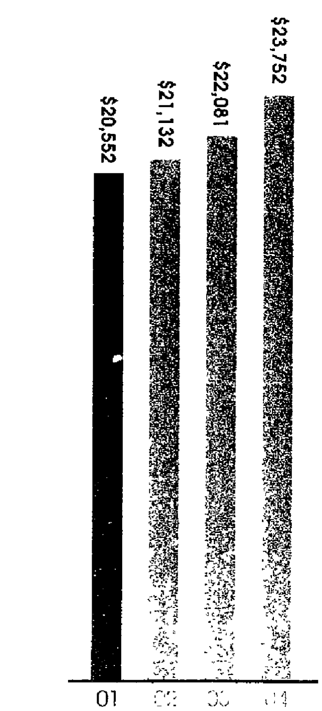
CNT Solutions Business
(in millions)



Storage Networking Industry Forecast*
(in millions)



Storage Services Industry Forecast*
(in millions)



*IDC 2001 *Worldwide DiskStorage Systems Forecast and Analysis*

Outlook

Without doubt, the volume of electronic information is rapidly increasing. Even in a down economy, storage area network (SAN) revenues have been the fastest growing segment of the overall storage market. Demand for information storage solutions will continue to mount as organizations create more data and increase the use of data-intensive applications such as data warehousing, continuous net settlement of financial transactions, e-mail, enterprise resource planning and customer relationship management. Analysts predict that total storage spending will increase more than 60 percent by 2004*. CNT offers proven information storage solutions that help businesses cost-effectively manage and leverage their information, and maximize their existing resources and IT investments.

Our goals in 2002 are to:

- Continue to lead the storage networking architecture and infrastructure market with new products, services and comprehensive solutions
- Further enhance our business continuance and disaster recovery expertise as we explore areas of opportunity such as Network Managed Services
- Explore acquisition opportunities with companies focused on networking products, services and information management to further expand the portfolio of our solutions
- Uphold our passion for service by delivering quality information networking solutions that drive superior business results

Our sector of IT has shown signs of improving. Although we have not yet returned to robust levels of growth, our pipeline of opportunities is strong, and our goal is to continue to grow CNT by 25 percent year-over-year. We have a strong balance sheet and cash position that will enable us to fund future growth initiatives. While there remains some economic uncertainty and continued technology change, we are confident in the strength of the storage networking solutions and CNT's innovation and expertise.

At CNT, we are the information networking experts. We have the knowledge, experience, products and relationships with leading storage vendors and communications carriers to deliver significant long-term growth.

We are more focused now than ever. We have repositioned the company in a market segment that is easily 10-times larger and faster growing. As a trusted business partner, we are positioned to seek more of our customers' spending in information networking. CNT is indeed stepping out and providing the world with information access.

I would like to thank our shareholders and customers for their continuing support, and our strong management team and employees for their continuing dedication and hard work.

Sincerely,

Thomas G. Hudson
President, Chief Executive Officer
and Chairman of the Board

April 16, 2002

Team CNT — On the Go and Stepping Out!

Kevin Hansen Senior Director of Human Resources

Julie Quintal VP of Quality and Business Process

Paul Martin VP of Engineering Operations

Jeff Bertelsen Corporate Controller and Treasurer

David Barton VP of Northeast Field Operations

Rob Beyer VP of Global Services

Ernie Parsons VP Strategy and Business Development Solutions

Bill Collette CTO and VP of Advanced Technology

Jim Morin VP of Strategic Planning

Nick Ganio Group VP of Worldwide Sales, Marketing and Services

Tom Hudson President, CEO and Chairman of the Board

Greg Barnum CFO, VP of Finance and Corporate Secretary

Mark Knittel Group VP of Worldwide Product Operations

Barbara Schmit CIO

*Aberdeen group, February 2002

Corporate Headquarters

Minneapolis, MN

Subsidiaries

Caringbah, Australia
Paris, France
Dietzenbach, Germany
Langley, UK

Integration Solution Center

Minneapolis, MN
Hopkinton, MA

24x7 Call Centers

Minneapolis, MN
Hopkinton, MA
Langley, UK

Branch Offices

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San Franscisco, CA
Meridan, CT
Denver, CO
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Atlanta, GA
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Rockville, MD
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Madrid, Spain
Stockholm, Sweden
Versoix, Switzerland
Taipei, Taiwan R.O.C.
Bangkok, Thailand
Istanbul, Turkey
Dubai, United Arab Emirates
Caracas, Venezuela

Principal Outside Counsel

Leonard, Street and Deinard
Professional Association
Minneapolis Minnesota

Independent Auditors

KPMG LLP
Minneapolis, Minnesota

Transfer Agent

Shareholder inquiries relating to shareholder records, stock transfer, change of ownership or change of address should be directed to the company's transfer agent:

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
(888) 213-0965
www.mellon-investor.com

Form 10-K

A copy of our annual report on Form 10-K, filed with the Securities and Exchange Commission, will be furnished free of charge to any CNT shareholder upon request to:

Investor Relations
CNT
6000 Nathan Lane North
Minneapolis, MN 55442
USA

(763) 268-6111
investor_relations@cnt.com

View at www.cnt.com

Investor Inquiries

Shareholders, securities analysts, portfolio managers and others in the investment community seeking information about CNT should contact Investor Relations at (763) 268-6111 or by e-mail at:
investor_relations@cnt.com.

Annual Meeting

Shareholders, employees and friends are invited to attend:

CNT's annual meeting on Tuesday, June 25, 2002, at 10:00 a.m. at CNT's Corporate Headquarters in the Minneapolis suburb of Plymouth, Minnesota.

Corporate Location

CNT
6000 Nathan Lane North
Minneapolis, Minnesota, 55442
USA
Tel: 763-268-6000
Fax: 763-268-6800

Board of Directors

Thomas G. Hudson
Chairman of the Board

Patrick W. Gross
Founder and Chairman, Executive Committee American Management Systems, Inc.

Erwin A. Kelen
Investor/Business Advisor Quatris Fund

Lawrence A. McLernon
Executive Vice President of Dynegy Inc. and Chairman and CEO of Dynegy Global Communications

John A. Rollwagen
Investor/Business Advisor Quatris Fund

Management

Thomas G. Hudson
President, Chief Executive Officer and Chairman of the Board

Gregory T. Barnum
Chief Financial Officer, Vice President of Finance and Corporate Secretary

David B. Barton
Vice President of Northeast Field Operations

Jeffrey A. Bertelsen
Corporate Controller and Treasurer

Robert R. Beyer
Vice President of Global Services

William C. Collette
Chief Technology Officer and Vice President of Advanced Technology

Nick V. Ganio
Group Vice President of Worldwide Sales, Marketing and Services

Kevin J. Hansen
Senior Director of Human Resources

Mark R. Knittel
Group Vice President of Worldwide Product Operations

Paul J. Martin
Vice President of Engineering Operations

James I. Morin
Vice President of Strategic Planning

Ernest J. Parsons
Vice President Strategy and Business Development Solutions

Julie C. Quintal
Vice President of Quality and Business Process

Barbara L. Schmit
Chief Information Officer

CNT® www.cnt.com

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

**For the fiscal year ended January 31, 2002
Commission file number: 0-13994**

COMPUTER NETWORK TECHNOLOGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Minnesota	**41-1356476**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
6000 Nathan Lane North, Plymouth, Minnesota	**55442**
(Address of Principal Executive Offices)	(Zip Code)

(763) 268-6000
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock $.01 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 that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes √ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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 Common Stock held by non-affiliates of the Registrant as of April 1, 2002 was approximately $425,701,000 based on a closing price of $14.15 per share as reported by the Nasdaq National Market on such date.

As of April 1, 2002 Registrant had 30,439,243 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Computer Network Technology Corporation's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 25, 2002 are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

BUSINESS

Overview

We are a leading provider of end-to-end storage solutions, including hardware and software products, related consulting and integration services, and managed services in the growing storage networking market. We focus primarily on helping our customers design, develop, deploy and manage storage networks, including storage area networks, or SANs, a high speed network within a business' existing computer system that allows the business to manage its data storage needs with greater efficiency and less disruption to its overall network. We design, manufacture, market and support a wide range of solutions for critical storage networking applications such as remote data replication, or the real-time backup of data to remotely located disks, and remote tape vaulting, or the backup of data to remotely archived tapes. We also supply storage systems, Fibre Channel switches, telecommunications capacity and storage application software. Our revenues were $187.0 million, $176.1 million and $126.0 million for the years ended January 31, 2002 and 2001 and December 31, 1999, respectively.

Our storage networking solutions enable businesses to cost-effectively design, implement, monitor and manage their storage requirements, connect geographically dispersed storage networks, provide continuous availability to greater amounts of data and protect increasing amounts of data more efficiently. We market our storage networking products and services directly to customers through our sales force and worldwide distributors. We also have strategic marketing and supply relationships with leading storage, telecommunications and fibre switching companies, including Brocade, Compaq, Dynegy Connect, EMC, Hewlett-Packard, Hitachi Data Systems, IBM, McDATA, StorageTek and Veritas.

We were the first to develop, and remain a leading provider of, the following storage networking solutions:

- *Storage networking over WANs.* Our solutions for storage networking over wide area networks, or WANs, enable businesses to manage and protect data across remote locations, in real time if necessary, through applications such as remote data replication and remote tape vaulting. WANs are networks dispersed over long distances that communicate by traditional copper or fiber optic third-party telecommunication lines.

- *Fibre Channel-based storage networking over WANs.* In October 1999, we introduced our first Fibre Channel-based storage networking over WAN product. Fibre Channel is a recently developed technology that dramatically improves the speed of data input and output, or I/O, between existing storage devices and the ability to connect additional devices to storage networks. We believe our Fibre Channel-based storage networking over WAN products offer significant growth prospects. These products uniquely address constraints in distance, connectivity and data transmission speeds inherent in the Fibre Channel standard. We believe Fibre Channel technology combined with our products and services will enable businesses to efficiently consolidate, cluster and share data from multiple storage devices on storage networks.

- *Storage networks over IP-based networks.* In February 2000, we introduced the first products to allow storage networking applications, such as remote data replication, to be deployed over private networks that are based on Internet protocol, or IP, the standard method for data transmission over the Internet. In May 2001, we announced the first implementation of data mirroring that combined Fibre Channel over IP. Our products were the first to extend the Fibre Channel, SCSI and ESCON standards to IP-based networks. SCSI and ESCON are older, widely used standards for communicating between computers. These products uniquely enable businesses that use virtual private IP-based networks, or VPNs, to build storage networking over WAN applications.

Following these technological firsts, we expanded our solutions offering with the acquisition of Articulent Inc., a storage solutions provider in the Northeast United States. Our expanded solutions offering includes consulting, integration, monitoring and management services that allow our customers to rapidly design, implement and manage complex storage environments. As a result, we are able to capture more of our customers' spending dollars on storage solutions.

Our storage networking solutions operate across most business computing environments, including open systems and mainframes. Open systems are server-based systems that are easy to scale, or expand, and that use hardware and software standards not proprietary to any vendor. Mainframes are computer systems with high processing power that have historically been used by large businesses for storing and processing large amounts of data. Compared to available alternatives, we believe our storage networking products offer greater ability to connect various applications and heterogeneous environments using different interfaces, protocols and standards, and to connect and link devices in storage networks transparently, meaning with little or no alteration of other vendors' hardware or software products.

We believe our solutions that enable storage networking applications over IP-based networks will benefit existing customers and attract new customers, including mid-sized businesses. These solutions extend the "bandwidth on demand" advantages of IP-based networks to storage applications and allow customers to access telecommunications capacity only as needed through a VPN connection, as opposed to leasing expensive dedicated lines. By deploying storage networks over IP-based networks, companies can leverage their existing bandwidth, and can rely on their existing IP network knowledge. We believe that these cost savings, along with the generally expected decreasing costs of telecommunications capacity, will create high-growth opportunities for us in remote data replication, remote tape vaulting and other storage networking applications we enable.

We currently operate through two divisions, the Networking Solutions Division and the Storage Solutions Division. We market our storage networking product solutions through our Networking Solutions Division. Our storage networking products consist primarily of our UltraNet® family of products, that connect storage devices. Our Networking Solutions Division also markets our established channel networking products, which enable mainframe computers to transmit data over unlimited distances and provides our support services. Our Storage Solutions Division, which includes the business we acquired from Articulent in April 2001, helps our customers design, deploy and manage enterprise storage solutions by supplying products and expertise for implementing storage applications. The Storage Solutions Division includes consulting and integration services for disaster recovery, business continuance, storage infrastructure and network performance. We also offer integration services for data replication, enterprise back-up and restore, SAN implementation and network performance monitoring.

Our Market Opportunities

We believe several forces will continue to drive the demand for our storage networking products and services:

- The volume of enterprise data is increasing significantly due to the proliferation of Web-based content, digital media, e-mail, supply chain management, customer relations management and other data-driven business applications. As a result, the demand for storage capacity continues to grow.

- Actual and expected declines in telecommunications costs and the introduction of cost-effective technologies such as Fibre Channel switching and fiber optic transmission capabilities will make remote data replication and remote tape backup applications more financially attractive for our customers. We also believe the total cost of ownership for storage may be increasing, due to labor, management and other costs required to implement shared storage across the enterprise. The decrease in telecommunications costs, coupled with an overall increase in the cost of ownership, contributes to a trend of consolidating and connecting storage across many servers and many locations, which drives demand for our products and services.

- Storage networking applications over IP-based networks will further expand the type and amount of data our customers will backup and replicate to remote locations. This will also make these applications more affordable for customers with fewer storage requirements.

- The increased complexities of storage applications, such as interoperability, storage effectiveness, and business efficiency issues, results in customers requiring storage integration and implementation expertise. We believe our services permit customers to effectively solve these issues, driving demand for our products and services and increasing our revenues.
- Customers require that their business critical applications have effective disaster recovery solutions. The events of September 11, 2001 demonstrate the need for and functionality of our products and services. Our customers had 40 systems located in lower Manhattan that were significantly impacted. In response, our products instantaneously began routing data to remote facilities on behalf of customers located in and around the World Trade Center. We believe all products worked as designed, without material loss of data by any customer.

As a result of the foregoing and other factors, International Data Corporation, or IDC, estimates that the worldwide revenue for network-attached disk storage systems will grow from $25.5 billion in 2001 to $27.8 billion in 2004, a compound annual growth rate of 3.1%. Another indication of demand for our storage networking solutions is the growth of the Fibre Channel market. IDC estimates the revenue for Fibre Channel hubs and switches will grow from $2.0 billion in 2001 to $5.6 billion in 2004, which reflects a compound annual growth rate of 41.7%. IDC estimates the demand for storage consulting and support services will grow from $20.6 billion in 2001 to $23.8 billion in 2004, a compound annual growth rate of 5.0%. IDC estimates that the worldwide revenue for storage management services will grow from $3.6 billion in 2001 to $4.6 billion in 2005, a compound annual growth rate of 6.6%. It is notable however, that we are in the midst of a current economic slowdown affecting most technology sectors and communications in particular. During 2001, IDC estimates worldwide industry sales of disk storage systems declined 18.2% from $31.2 billion in 2000 to $25.5 billion in 2001. We are uncertain of the depth and duration of this slowdown. However, we believe the need for storage networking solutions is significant and will continue to increase over the long term.

Selected Recent Developments

In February 2002, we sold $125 million of 3% convertible subordinated notes due February 2007, raising net proceeds of $121 million. The notes are convertible into our common stock at a price of $19.17 per share. We may redeem the notes upon payment of the outstanding principal balance, accrued interest and a make whole premium if the closing price of our common stock exceeds 175% of the conversion price for at least 20 consecutive trading days within a period of 30 consecutive trading days ending on the trading day prior to the date we mail the redemption notice.

Storage Networking Overview

Storage Networking Industry Background

Growth in Enterprise Data

The volume of enterprise data is increasing due to the proliferation of Web-based content, digital media, e-mail, supply chain management, customer relations management and other data-driven business applications.

Limitations of Traditional Storage Products

The growth of the size and amount of data stored has presented organizations with significant data management challenges and increased storage related costs. As the volume of data stored, and the number of users that require access to the data continue to increase, storage systems and servers are burdened by an increased number of input/output, or I/O, transactions they must perform. However, traditional storage architecture has inherent speed, distance, capacity and performance constraints. For example, depending on the standards and protocols used, the following constraints may exist:

- bandwidth, or the data transmission rate, is generally fixed at 15, 40 or 80 megabytes per second;
- distance between devices is limited to 12 to 150 meters;

ivity is limited to 15 storage devices;

data management capability in SCSI devices places the burden for management tasks on rs, thereby degrading network performance;

rver to which the data storage device is connected fails, the data cannot be accessed; and

area network, or LAN performance can be significantly degraded while the LAN is being for storage backup applications.

of Storage Networking Services

networking is necessary for the effective use of large data-intensive applications such as source planning, customer relationship management, and digital media. Our current and ustomers have a growing need to access and protect the business critical data created by these ations. As a result, we expect increased demand for the purchase and installation of storage will drive demand for our products and demand for our consulting, integration, and vices for end-to-end storage solutions. As a result of the installation of these solutions, we will also be increased demand for support services.

and interoperability issues associated with storage networks, coupled with budgetary ause customers to struggle with the effective implementation of storage networking We believe this will cause many potential customers to look outside their organization for gh knowledge across a wide variety of proprietary technologies and standards, combining ise and networking knowledge, is not easily found in the marketplace. We anticipate as ours, with comprehensive expertise and skill sets in disaster recovery, business rage resource management, database, tuning, troubleshooting, switches, networking and s, will be able to fill in the void for these customers with consulting and integration services. stomers may also look to contract out the management of these storage networks as a result the design and implementation of these solutions.

ge Networking Solutions

networking solutions, consist of products and services that address the limitations of age architecture in the following ways:

networks over unlimited distance — Our products and services enable organizations to secure storage networks without any distance limitations. This allows the creation of storage king over WAN environments in such critical applications as remote data replication, se backup and recovery and remote tape vaulting.

any connectivity — Our products are protocol independent — they can connect devices that Fibre Channel, SCSI, ESCON, and bus and tag protocols. These devices can be connected and ked over telecommunications links including T1/E1, T3/E3 and ATM, or WAN protocols like bre Channel and fiber optics. We believe our products connect with substantially all storage ors.

ructure options — Our products enable the use of IP, ATM, Fibre Channel and fiber optics nded use of a storage network infrastructure. This supports the growing amounts of storage by applications like e-mail and increases due to user demands to access applications in a uous mode.

sed networking solutions — We enable remote data replication over IP-based networks using re provided by EMC, Compaq and Hewlett-Packard. Our solutions allow our customers to ize on inexpensive "bandwidth on demand" capabilities of IP-based networks and use IP capacity, especially at low traffic times of the day, and rely on existing IP network dge. We anticipate expanding storage networking application support with products from endors.

- *Consulting and integration services* — Our consulting and integration services help customers evaluate, analyze, design, install and manage storage networks. We strengthened our consulting, integration and managed services capacity with the acquisition of Articulent. We believe these value-added services assist customers in designing, integrating, implementing, and managing storage networks more effectively than they could on their own. Our integration services help customers deal with the complexity of implementing a storage network that is scalable and compatible with customer resources. These services bolster sales of our high margin UltraNet® products and allow us to capture more of our customers' spending. We offer bundled telecommunications access with our products and services to provide customers a complete end-to-end operating solution.

- *Managed services* — We offer outsourced storage management services that complement our current storage networking products on a 24x7x365 basis. Our network management service helps our customers monitor their UltraNet® products and third-party telecommunication lines and allows them to quickly respond to and resolve storage network issues. Our data migration services help our customers migrate large amounts of data from one data center or storage facility to another during consolidation or expansion of data centers. This is a turnkey service including personnel, equipment, software and support. We anticipate adding other outsourced services to monitor and manage complete end-to-end storage solutions for our customers and help drive demand for our storage networking products.

Our storage networking solutions are used for immediate, or real-time, backup and recovery, and support a technology known as remote data replication. Data replication avoids the serious threat to businesses posed by the loss of data between data system backups by simultaneously creating up-to-the-minute images of business-critical data on multiple backup storage disks. Our remote data replication technology permits the backups to be transmitted to a separate geographic location, thereby reducing the risk of natural and site-wide disasters. This technique also permits rapid recovery of data when needed, as it is not necessary to reload tapes.

We also enhance continuous business operations. Traditional LAN-based storage management requires manual handling and transportation of storage to an off-site location. While this ensures a physically-separated copy of valuable corporate data, it requires additional time and expense for handling and transportation. In addition, finding the right tape in a timely manner can be difficult. By bridging the storage network over the WAN, backups can be instantly made to remote locations on disk media, including by data replication, or on tape, known as electronic tape vaulting. This allows for more secure archiving and timely retrieval of the correct business critical data.

Our Storage Networking Strategy

We intend to build upon our position as a leading provider of storage networking solutions. Key elements of this strategy are as follows:

Extend Storage Networking Technology Leadership

We intend to extend our storage networking technology leadership by continuing to broaden our product and service offerings and by expanding our storage networking solutions into new markets. An example of this strategy is our recent introduction of our IP over Fibre Channel and IP over ATM WANs. Currently, our IP-based network solutions enable remote data replication, in conjunction with software products from Compaq, EMC, and Hewlett-Packard and remote tape vaulting over IP-based networks. We are currently developing solutions that will operate in conjunction with storage network applications of other storage networking vendors. In addition our network management service will enable us to use our expertise to assist our customers in keeping the data stored in their storage networks performing efficiently and continuously. We intend to build market share by continuing to focus on areas which make storage networks more useful and accessible, such as WAN applications, any-to-any connectivity, IP-based network and network performance solutions. To achieve leadership, we intend to capitalize on the remote data replication, enterprise backup and recovery, remote tape vaulting and network management capabilities of our products.

Expand Our Consulting and Integration Services

Our consulting and integration services help customers evaluate, analyze, design, install and manage storage networks. We strengthened our consulting, integration and managed services capacity with the acquisition of Articulent. We believe these value-added services assist customers in designing, integrating, implementing, and managing storage networks more effectively than they could on their own. Our integration services eliminate the complexity of implementing a storage network that is scalable and compatible with customer resources. These services bolster sales of our high margin UltraNet® products and allow us to capture more of our customers' spending. We offer bundled telecommunications access with our products and services to provide customers a complete end-to-end operating solution.

Grow Managed Services

We anticipate adding other outsourced services to monitor and manage complete end-to-end storage solutions for our customers and help drive demand for our storage networking products. An example of this is the recent introduction of our network management service that helps our customers monitor their UltraNet® products and third-party telecommunication lines and allows them to quickly respond to and resolve storage network issues. We plan to add management of additional storage resources to the services for problem resolution on the complete storage network.

Further Strengthen Relationships with Storage Networking Industry Leaders

We have established relationships with leaders in the storage networking market, including storage vendors, telecommunications providers, storage management software providers and Fibre Channel switch manufacturers. The parties with whom we have strategic relationships include companies such as Brocade, Compaq, Dynegy Connect, EMC, Hewlett-Packard, Hitachi Data Systems, IBM, McDATA, StorageTek and Veritas. We intend to strengthen our existing relationships and develop new relationships that enable us to offer complementary products and services. We believe our current and future strategic relationships will facilitate the integration of our products, thereby increasing our market share and reducing the length of our sales cycle.

Storage Networking Products

Our storage networking products include the UltraNet® family of storage products, and our channel networking product known as Channelink®.

UltraNet® Storage Director is a high performance switching product that operates at the center of the storage network. It enables storage networks to establish a direct connection between storage elements and servers and share data among diverse servers and storage systems, and networks that are local and geographically dispersed. The switch provides connectivity among SCSI, ESCON, bus and tag, Fibre Channel and WANs.

UltraNet® Edge Storage Router complements the UltraNet® Storage Director by meeting the needs of a broader market. It provides a new price and performance entry point for our core solutions which do not require high port-density and mixed platform support offered by the UltraNet® Storage Director. The UltraNet® Edge Storage Router is designed to reduce the total cost of ownership of enterprise-wide storage networking solutions by leveraging the lower-cost bandwidth offered by IP networks and the performance improvements provided by Fibre Channel.

Channelink® offers connectivity over unlimited distances for mainframes. Applications include remote printing and imaging and data center load balancing, which permits the operation of two or more data centers from one site.

Third party manufactured storage networking products supplied by us, that are designed and manufactured by others, include the following:

- storage systems;
- Fibre Channel switches;
- telecommunications capacity;
- fiber optical multiplexers;
- software; and
- servers.

Storage Networking Services

Our storage networking services help our clients design, deploy, monitor and manage end-to-end storage solutions. We believe these solutions allow our customers to better manage risk and reduce the cost of storage solutions in the enterprise. The acquisition of Articulent strengthened our service offerings and provided us access to Articulent's family of integrated storage services, including consulting, integration and managed services.

Consulting Services

Our consulting services analyze a company's storage needs, determine a storage networking solution to meet those needs, and assist in the development of a business case to justify the storage networking solution. With our consulting, we assist our customers in making their existing networks more flexible and easier to manage. Our consulting expertise is focused on business continuation, disaster recovery, storage infrastructure and network performance to assist information technology managers and corporate executives responsible for planning and funding resources in making sound data management and storage decisions.

Integration Services

Our integration services help companies implement storage networking solutions. These services include project planning, analyzing, designing and documenting a detailed network, installing storage components, integrating storage components, and testing the functionality of the implemented storage solution. Our storage networking products are at the core of our storage architecture implementations, and our long-standing relationships with well-known and successful storage equipment and software manufacturers place us at the forefront of storage management solutions. Our integration services focus on data replication, enterprise back-up and restore, SAN implementation and network management.

Managed Services

Our managed services include a network management service. We monitor our customers' UltraNet® products and telecommunications networks 24x7x365. We believe this service allows our customers to optimize network performance, decreases the chance of downtime and reduces recovery time after failures. Our data migration services help our customers migrate large amounts of data from one data center or storage facility to another during consolidation or expansion of data centers.

Support Services

We offer standard maintenance contracts for our proprietary storage networking products. The contracts generally have a one-year term and provide for advance payment. Our products generally include a one-year limited warranty, and customers generally do not purchase maintenance contracts until the expiration of the warranty period. Customers are offered a variety of contracts to choose from to suit their particular needs. For instance, current options allow a customer to choose support 7 days a week, 24 hours per day, or 5 days per week, 11 hours a day. Other options offer the customer the choice to select air shipment or replacement parts, with the part being installed by the customer's staff, or on site support with spare parts and service being provided by a local parts distributor.

Strategic Storage Networking Relationships

Offering customers effective storage networking solutions requires integrating diverse components, including disk and tape storage devices, storage management software, network management products and Fibre Channel products. Our storage networking relationships include those with key storage vendors, storage management software providers and manufacturers of Fibre Channel and optical networking products. We market our storage networking products directly and through worldwide distributors. We have strategic marketing and supplier relationships with leading storage, telecommunications and fibre switching companies, including Brocade, Compaq, Dynegy Connect, EMC, Hewlett-Packard, Hitachi Data Systems, IBM, McDATA, Pandatel, StorageTek and Veritas. These relationships allow us to provide complete end-to-end storage solutions for our customers. Approximately 20% of our revenues during fiscal year ended January 31, 2002 were represented by products that we supplied on behalf of the parties with whom we have strategic relationships.

Sales and Marketing

We market storage networking products and services in the United States through a direct sales force. We have established representative offices in Canada, the United Kingdom, France, Germany, Australia, Japan, and the Netherlands. We also market these products and services in the United States and throughout the world through systems integrators and independent distributors.

We maintain our own marketing staff and direct sales force. On January 31, 2002, we had approximately 259 persons in our marketing and sales organization.

Customers

Our customers include:

Financial Services	Telecommunications	Information Outsourcing	Other
American Express	AT&T	Computer Sciences Corporation	Best Buy
Bank of America	British Telecommunications	Electronic Data Systems	Wal-Mart
Barclays	Sprint	IBM Global Services	EchoStar
JP Morgan	WorldCom		Boeing
Chase	France Telecom		Lockheed Martin
CitiGroup	Verizon		Mattel
Merrill Lynch			Target
Rabobank International			Merck
Fannie Mae			
Fidelity			
AXA			
Nasdaq			

Research and Development

The markets in which we operate are characterized by rapidly changing technology, new standards and changing customer requirements. Our long term success in these markets depends upon our continuing ability to develop advanced network hardware and software technologies.

To meet the future demands of our customers, we expect to:

- increase the compatibility of our products with the products made by others;
- emphasize the flexible and modular architecture of our products to permit the introduction of new and improved products within existing systems;

- continue to focus on providing sophisticated diagnostic support tools to help deliver high network availability and, in the event of failure, rapid return to service; and
- develop new products based on customer feedback and market trends.

Research and development expenses were 13% of total revenue for the years ended January 31, 2002 and 2001 and 15% of total revenue for the year ended December 31, 1999. We intend to continue to apply a significant portion of resources to product enhancements and new product development for the foreseeable future. We cannot assure you that our research and development activities will be successful.

Manufacturing and Suppliers

In-house manufacturing activities for our products primarily involve quality assurance testing of subassemblies and final system assembly, integration and quality assurance testing. We became ISO 9001 certified in 1999 and have been ISO 9002 certified since 1993.

We manufacture our products based on forecasted orders. Forecasting orders is difficult as most shipments occur at the end of each quarter. Our customers generally place orders for immediate delivery, not in advance of need. Customers may generally cancel or reschedule orders without penalties. Accordingly, we believe that backlog is generally not meaningful for purposes of predicting our revenue for any fiscal period.

We manufacture our UltraNet® and Channelink® products from subassemblies, parts and components, such as integrated circuits, printed circuit boards, power supplies and metal parts, manufactured by others. Some items manufactured by suppliers are made to our specific design criteria.

At January 31, 2002, we held $4.0 million of net inventory for parts that our vendors no longer manufacture. Products in which those parts are included accounted for $85.5 million in revenue during the year ended January 31, 2002. We expect that this inventory will be used in the ordinary course of our business over the next five years. Relevant parts will have to be redesigned after the inventory is used.

We believe that we currently have adequate supply channels. Components and subassemblies used in our products and systems are generally available from a number of different suppliers. However, certain components in our other products are purchased from a limited number of sources. We do not anticipate any difficulty in obtaining an adequate supply of such products and required components. An interruption in our existing supplier relationships or delays by some suppliers, however, could result in production delays and harm our results of operations.

Competition

Our products are sold in markets where other market participants have significantly greater revenues and internationally known brand names. Many of those market participants do not currently sell products similar to ours. However, such market participants may do so in the future, and new products we develop may compete with products sold by well-known market participants. Our competitors in channel networking and storage networking include storage system vendors and others including Crossroads, Gadzoox Networks, Inrange, McDATA, Nishan Systems, QLogic, SAN Valley, SANcastle, StorageTek and Vixel. In addition, Cisco acquired NuSpeed, a developer of an IP-based network product with functionality similar to our product offerings. Our Storage Solutions Division has numerous competitors, including consulting and integration services offered by storage vendors.

The markets in which we operate are characterized by rapidly changing technology and evolving industry standards, resulting in rapid product obsolescence and frequent product and feature introductions and improvements. We compete with several companies that have greater engineering and development resources, marketing resources, financial resources, manufacturing capability, customer support resources and name recognition. As a result, our competitors may have greater credibility with existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours, which would allow them to respond more quickly than we can to new or emerging technologies and changes in customer requirements. These competitive pressures may materially harm our business.

The competitive environments of markets in which our storage networking solutions are sold are continuing to develop rapidly. We are not in a position to prepare long range plans in response to unknown competitive pressures. As these markets grow, we anticipate other companies will enter with competing products. In addition, our customers and business relationships may develop and introduce competing products. We anticipate the markets will be highly competitive.

The declining sales of channel networking products present unique competitive pressures. We anticipate pricing pressures may increase in these markets. Consolidation of competing vendors of these products could also have negative consequences.

The principal competitive factors affecting our products include customer service, flexibility, price, performance, reliability, ease of use and functionality. In many situations, the potential customer has an installed base of a competitor's products, which can be difficult to dislodge. IBM, Microsoft and others can significantly influence customers and control technology in our markets. However, we believe our direct sales force, storage networking expert consultants and support services personnel offer us a substantial advantage over new competitors, because these newer competitors do not have the knowledge of storage networking design and support and any-to-any connectivity necessary to sell competing products and services.

Intellectual Property Rights

We rely on a combination of trade secret, copyright, patent and trademark laws, nondisclosure agreements and technical measures to establish and protect our intellectual property rights. That protection may not preclude competitors from developing products with features similar to our products.

We currently own three patents and have nine patent applications filed or in the process of being filed in the United States with respect to our continuing operations. Our pending patent applications, however, may not be issued. We have not applied for patent protection in any foreign countries. Not all of our unique products and technology are patented. Our issued patents may not adequately protect our technology from infringement or prevent others from claiming that our technology infringes that of third parties. Failure to protect our intellectual property could materially harm our business. We believe that patent and copyright protection are less significant to our competitive position because of the rapid pace of technological change in the markets in which our products are sold and because of the effectiveness and quality of our support services, the knowledge, experience and ability of our employees and the frequency of our enhancements.

We rely upon a patent license agreement to manufacture our Channelink® and UltraNet® products that use ESCON. This license expires on December 31, 2004.

We have from time to time received, and may in the future receive, communications from third parties asserting that our products infringe on their patents. We believe that we possess or license all required proprietary rights to the technology included in our products and that our products, trademarks and other intellectual property rights do not infringe upon the proprietary rights of others. However, there can be no assurance that others will not claim a proprietary interest in all or a part of the technology we use or assert claims of infringement. Any such claim, regardless of its merits, could involve us in costly litigation and materially harm our business.

The existence of a large number of patents in the markets in which our products are sold, the rapid rate of issuance of new patents and short product development cycles means it is not economically practical to determine in advance whether a product infringes patent rights of others. We believe that, based upon industry practice, any necessary license or rights under such patents may be obtained on terms that would not materially harm our consolidated financial position or results of operations. However, there can be no assurance in this regard.

Employees

As of January 31, 2002, we had 792 full-time employees for both divisions. On that date, 160 full-time employees provided services to both divisions and are members of our administrative and manufacturing departments. On that date, our Networking Solutions Division had 498 employees and our Storage Solutions Division had 134 employees, which are in addition to those who provide services to both divisions. We consider our ability to attract and retain qualified employees and to motivate such employees to be essential to our future success. Competition for highly skilled personnel is particularly intense in the computer and data communications industry, and we cannot assure that we will continue to attract and retain qualified employees.

Discontinued Operations

Our discontinued operations, which we have historically referred to as our Enterprise Integration Solutions Division, developed and sold our enterprise application integration, or EAI, software that automated the integration of computer software applications and business workflow processes, as well as our traditional server gateways and tools, which enable multiple desktop computers and mainframe terminals to communicate with one another. We changed the name of our Enterprise Integration Solutions Division to Propelis Software, Inc. During 2001, we sold substantially all of the assets of our discontinued operations in a series of transactions. These transactions included the sale of our IntelliFrame subsidiary to webMethods, and the sale of other assets of Propelis subsidiary to Jacada Ltd. All outstanding options to purchase stock of Propelis Software, Inc. have been cancelled or have lapsed. The transactions allow us to focus all of our resources on our storage networking products and services.

Special Note Regarding Forward-Looking Statements

This Form 10-K contains "forward-looking statements" within the meaning of the securities laws. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical facts included or incorporated by reference in this Form 10-K, including the statements under "Business" and elsewhere in this Form 10-K regarding our strategy, future operations, financial position, estimated revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. When used herein, the words "will," "believe," "anticipate," "plan," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Form 10-K are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. Actual results may differ materially from those stated in these forward-looking statements due to a variety of factors, including those described in Exhibit 99 to this Form 10-K and from time to time in our filings with the U.S. Securities and Exchange Commission. All forward-looking statements speak only as of the date of this Form 10-K. Neither we nor any of the initial purchasers undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Item 2. Properties

Facilities and Properties

Our principal administrative, manufacturing, engineering and development functions are located in leased facilities in the Minneapolis, Minnesota suburb of Plymouth. In addition, we lease office space in England, France, Germany, Australia, Japan, and the Netherlands. We also lease space for sales offices for our direct sales staff and systems consultants in a number of locations throughout the United States and Canada. We believe our facilities are adequate to meet our current needs.

Item 3. Legal Proceedings

From time-to-time we are a party to various legal actions and receive threats of litigation. At this time, management does not believe any such litigation or threats will have a material impact on our financial position.

Item 4. Submission of Matters to a vote of Security Holders

None.

Item 4A. Executive Officers of the Company

Our executive officers are as follows:

Name	Position Served	Age
Thomas G. Hudson	Chairman of the Board, President and Chief Executive Officer	56
Gregory T. Barnum	Chief Financial Officer, Vice President of Finance and Corporate Secretary	47
Jeffrey A. Bertelsen	Corporate Controller and Treasurer	39
William C. Collette	Chief Technology Officer and Vice President of Advanced Technology	58
Nick V. Ganio	Group Vice President of Worldwide Sales, Marketing and Services	42
Mark R. Knittel	Group Vice President of Worldwide Product Operations	47

Thomas G. Hudson has served as President and Chief Executive Officer since June 1996, as a director since August 1996 and Chairman of the Board since May 1999. From 1993 to June 1996, Mr. Hudson served as Senior Vice President of McGraw Hill Companies, a leading information services provider, serving as General Manager of its F.W. Dodge Division, and as Senior Vice President, Corporate Development. From 1968 to 1993, Mr. Hudson served in a number of management positions at IBM Corporation, most recently as Vice President Services Sector Division. Mr. Hudson's IBM career included varied product development, marketing and strategic responsibilities for IBM's financial services customers and extensive international and large systems experience. Mr. Hudson is a graduate of the University of Notre Dame and New York University. Mr. Hudson attended the Harvard Advanced Management Program in 1990. Mr. Hudson also serves on the board of directors of Ciprico, Inc. and Lawson Software, Inc.

Gregory T. Barnum was appointed Vice President of Finance, Chief Financial Officer and Corporate Secretary in July 1997. From September 1992 to July 1997, Mr. Barnum served as Senior Vice President of Finance and Administration, Chief Financial Officer and Corporate Secretary at Tricord Systems, Inc., a manufacturer of enterprise servers. From May 1988 to September 1992, Mr. Barnum served as the Executive Vice President, Finance, Chief Financial Officer, Treasurer and Corporate Secretary for Cray Computer Corporation, a development stage company engaged in the design of supercomputers. Prior to that time, Mr. Barnum served in various accounting and financial management capacities for Cray Research, Inc., a manufacturer of supercomputers. Mr. Barnum is a graduate of the University of St. Thomas.

Jeffrey A. Bertelsen was appointed Corporate Controller and Treasurer in December 1996. Mr. Bertelsen served as our Controller from March 1995 to December 1996. From 1985 to March 1995, Mr. Bertelsen was employed by KPMG LLP, a public accounting firm, most recently as a Senior Audit Manager. Mr. Bertelsen is a graduate of the University of Minnesota.

William C. Collette was appointed Chief Technology Officer in December 1998 and Vice President of Advanced Technology in October 1999. Mr. Collette served as our Vice President of Engineering from December 1995 to October 1999, and as our Director of Future Software Development and as a Software Development Manager from June 1993 to December 1995. From 1990 to 1993, Mr. Collette was employed by SuperComputer Systems, Inc. as a Senior Software Engineer, where he worked with Steve Chen to design the networking for the SS1 Supercomputer. Mr. Collette holds a bachelors degree in business management from Metro State University.

Nick V. Ganio was appointed Group Vice President of Worldwide Sales, Marketing and Services in October 1999. From November 1998 to October 1999, Mr. Ganio served as Vice President of Worldwide Sales and also as Vice President of Direct Sales Worldwide from April 1998 to November 1998. From September 1996 to February 1998, Mr. Ganio served as Vice President of Worldwide Sales and Marketing for Xyplex, Inc. From March 1987 to September 1996, Mr. Ganio held various high-level positions with Digital Equipment Corporation, including Vice President of Operations in Japan, Vice President and General Manager of the Americas Networks Product business and Vice President and Executive Assistant to the Office of President. Mr. Ganio held various sales positions with IBM from May 1981 to February 1987. Mr. Ganio holds a bachelors degree, magna cum laude from Bernard Baruch College.

Mark R. Knittel was appointed Group Vice President of Worldwide Product Operations in October 1999. From May 1997 to October 1999, Mr. Knittel served as our Vice President of Marketing and also as our Vice President of Architecture and Business Development from March 1997 to May 1997. From July 1977 to March 1997, Mr. Knittel was employed with IBM where he held several executive development positions for both hardware and software networking products, as well as multiple strategy positions. Most recently, Mr. Knittel held the position of Director of Campus Product Marketing within the Network Hardware Division of IBM. Mr. Knittel has a masters degree in philosophy from the University of Chicago.

PART II

Item 5. Market for the Registrant's Securities and Related Shareholder Matters

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol "CMNT." The following table sets forth for the indicated periods the range of high and low per share sales prices for our common stock as reported on the Nasdaq National Market:

	Price Range of Common Stock	
	High	Low
Fiscal Year Ended December 31, 1999		
First Quarter	$17.56	$ 9.75
Second Quarter	30.63	13.00
Third Quarter	23.25	9.19
Fourth Quarter	27.63	7.38
Fiscal Year Ended January 31, 2001		
First Quarter	$27.00	$11.50
Second Quarter	19.88	11.56
Third Quarter	35.25	15.25
Fourth Quarter	40.00	18.69
Fiscal Year Ended January 31, 2002		
First Quarter	$29.88	$ 8.44
Second Quarter	12.59	7.80
Third Quarter	15.73	8.05
Fourth Quarter	24.90	14.10

As of April 1, 2002, there were approximately 1,000 shareholders of record. The Company estimates that approximately an additional 10,500 shareholders own stock held for their accounts at brokerage firms and financial institutions.

DIVIDEND POLICY

We have not paid any cash dividends since our inception, and we do not intend to pay any cash dividends in the future.

Item 6. Selected Consolidated Financial Information

	Years Ended January 31,		Years Ended December 31,		
	2002	2001	1999(1)	1998	1997
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Product sales	$129,276	$125,432	$ 89,248	$ 74,969	$56,127
Service fees	57,747	50,674	36,741	28,052	24,068
Total revenue	187,023	176,106	125,989	103,021	80,195
Cost of revenue	111,257	83,181	56,795	45,616	36,002
Cost of revenue — special charges	2,325(2)	—	1,414(4)	—	—
Total cost of revenue	113,582	83,181	58,209	45,616	36,002
Gross profit	73,441	92,925	67,780	57,405	44,193
Operating expenses:					
Sales and marketing	52,156	41,019	34,626	32,255	27,504
Engineering and development	23,452	22,572	18,456	14,236	12,384
General and administrative	9,311	8,697	6,922	6,252	4,944
Special charges	996(2)	(287)(3)	1,331(4)	—	—
Total operating expenses	85,915	72,001	61,335	52,743	44,832
Income (loss) from operations	(12,474)	20,924	6,445	4,662	(639)
Loss on sale and write down of webMethods stock	(10,283)(2)	—	—	—	—
Other income, net	5,537	3,152	110	427	1,400
Income (loss) from continuing operations before income taxes	(17,220)	24,076	6,555	5,089	761
Provision (benefit) for income taxes	(5,292)	7,947	2,229	1,730	312
Income (loss) from continuing operations	(11,928)	16,129	4,326	3,359	449
Income (loss) from discontinued operations, net of tax	8,222	(4,135)	329	1,370	(2,763)
Net income (loss)	$ (3,706)	$ 11,994	$ 4,655	$ 4,729	$(2,314)
Diluted income (loss) per share:					
Continuing operations	$ (.40)	$ .58	$ .17	$ .15	$ .02
Discontinued operations	$ .28	$ (.15)	$ .01	$ .06	$ (.12)
Net income (loss)	$ (.12)	$ .43	$ .18	$ .21	$ (.10)
Diluted shares	29,892	27,813	25,818	22,572	22,702
Other Financial Data(5):					
Ratio of earnings to fixed charges	—	12.41x	5.13x	5.55x	1.78x

	As of January 31,		As of December 31,		
	2002	2001	1999	1998	1997
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$118,014	$150,477	$ 26,895	$12,362	$10,824
Working capital	160,271	182,625	50,715	35,587	30,380
Total assets	269,738	268,623	110,654	87,596	78,950
Long-term obligations	708	1,952	1,780	1,816	701
Total shareholders' equity	216,643	213,102	78,472	60,558	55,607

(1) On January 12, 2000, we changed our fiscal year to end on January 31st, rather than December 31st.

(2) Includes special charges and other items recognized in the first quarter of fiscal 2001, including a $2.0 million write-down of inventory, a $325,000 write-off of our FileSpeed product, a $996,000 restructuring charge and a $10.3 million loss on the sale and write-down of webMethods common stock acquired from the disposition of a portion of our discontinued operations.

(3) Includes a reversal of the unused balance of a fiscal 1999 fourth quarter accrual for an abandoned facility of $287,000.

(4) Includes special charges in the fourth quarter of fiscal 1999 of $1.4 million for the write-off of non-SAN-related products and $1.3 million for an abandoned facility.

(5) For the fiscal year 2001, earnings were inadequate to cover fixed charges by $17.2 million. These ratios are calculated by dividing (a) income from continuing operations before income taxes and fixed charges by (b) fixed charges. Fixed charges include interest expense plus a portion of rental expense attributable to interest.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading provider of end-to-end storage solutions, including hardware and software products, related consulting and integration services, and managed services in the growing storage networking market. We focus primarily on helping our customers design, develop, deploy and manage storage networks, including storage area networks, or SANs, a high speed network within a business' existing computer system that allows the business to manage its data storage needs with greater efficiency and less disruption to its overall network. We design, manufacture, market and support a wide range of solutions for critical storage networking applications such as remote data replication, or the real-time backup of data to remotely located disks, and remote tape vaulting, or the backup of data to remotely archived tapes. We also supply storage systems, Fibre Channel switches, telecommunications capacity and storage application software.

Our storage networking solutions enable businesses to cost-effectively design, implement, monitor and manage their storage requirements, connect geographically dispersed storage networks, provide continuous availability to greater amounts of data and protect increasing amounts of data more efficiently. We market our storage networking products and services directly to customers through our sales force and worldwide distributors. We also have strategic marketing and supply relationships with leading storage, telecommunications and fibre switching companies, including Brocade, Compaq, Dynegy Connect, EMC, Hewlett-Packard, Hitachi Data Systems, IBM, McDATA, StorageTek and Veritas.

Economic conditions have caused our customers to reevaluate their capital spending plans, and to defer previously planned projects for information technology infrastructure. However, we believe the need for storage networking solutions is significant and will continue to increase.

Due to the slowdown in customer spending for information technology infrastructure, we took cost reduction actions in April 2001 that reduced our quarterly expense run rate, including:

- a 10 percent workforce reduction
- a wage freeze for all employees
- a 10 percent pay cut for executive management
- a 5 percent pay cut for selected other employees; and
- significant reductions in discretionary spending.

The reduction in demand for our products and services also resulted in the following charges in the first quarter of 2001:

- $2.0 million to write-down slow moving inventory
- $325,000 for the write-off of our FileSpeed product; and
- $996,000 for restructuring, principally severance.

During the fourth quarter of 1999, we recorded a $1.3 million charge for the future costs associated with a facility that was abandoned prior to the expiration of the lease term and a $1.4 million charge for the write-off of non-storage networking related products. We reversed the unused portion of the $1.3 million charge for the abandoned facility in the third quarter of 2000. The amount of the reversal was $287,000.

Sale and Write-down of webMethods Stock

During the first quarter of 2001, we sold 232,511 shares of webMethods stock received from the sale of IntelliFrame for approximately $6.2 million, resulting in a pre-tax loss of approximately $8.7 million. We also wrote-down the carrying value of the remaining 41,031 shares of webMethods stock that we still own, resulting in a pre-tax loss of approximately $1.5 million.

Acquisition of Articulent

On April 3, 2001 we acquired all of the outstanding stock of Articulent Inc., a privately held, leading provider of storage solutions and services for $12.4 million in cash, plus the assumption of approximately $24.4 million of liabilities and the acquisition of approximately $19.3 million of tangible assets. The agreement includes a $10.0 million incentive payout based upon meeting certain revenue and earnings milestones over the twelve-month period beginning May 1, 2001. At the present time, we do not anticipate that the revenue and earnings milestones required for the incentive payout will be achieved.

Discontinued Operations — Divestiture of Propelis Software, Inc.

Propelis Software, Inc., formerly known as our Enterprise Integration Solutions Division, developed and sold our enterprise application integration, or EAI, software that automates the integration of computer software applications and business workflow processes. In August 2000, we determined to divest Propelis Software, Inc. and focus on our core storage networking business. As a result, Propelis Software, Inc. has been accounted for as discontinued operations in the accompanying financial statements, meaning that the division's revenues and expenses are not shown and its net income (loss) for all periods are included under the "Discontinued Operations" caption in our statement of operations. During 2001, we sold substantially all of the assets of our discontinued operations in a series of transactions. These included the sale of our IntelliFrame subsidiary to webMethods and the sale of other assets to Jacada Ltd. All outstanding options to purchase stock of Propelis Software have been cancelled or have lapsed.

On February 2, 2001 we sold all of the outstanding stock of IntelliFrame Corporation, including the technology underlying our Propelis BPm™ product, to webMethods, Inc. for $8.8 million in cash and 273,542 shares of webMethods common stock. The stock received from webMethods, Inc. was valued at $17.1 million, which reflects a discount from its publicly reported trading price due to the initial restrictions placed on our ability to freely sell the stock. In connection with this transaction, we paid $3.0 million to two employees, who were former shareholders of IntelliFrame, to satisfy all obligations to make further bonus payments under their employment agreements. The sale resulted in an after tax gain of $12.6 million in the first quarter of 2001.

In the first quarter of 2001, we accrued $9.3 million for the estimated future operating losses of Propelis Software, Inc. through the potential date of divestiture, resulting in an after tax loss of $6.2 million.

On August 23, 2001 the Company sold substantially all of the remaining assets and liabilities of Propelis Software, Inc. to Jacada Ltd. for $6.0 million in cash, plus a warrant to purchase 350,000 ordinary shares of Jacada Ltd. stock at a price of $3.26 per share. The transaction resulted in an after tax gain of $1.8 million in the third quarter of 2001.

Convertible Debt Offering

In February 2002, we sold $125 million of 3% convertible subordinated notes due February 2007, raising net proceeds of $121 million. The notes are convertible into our common stock at a price of $19.17 per share. We may redeem the notes upon payment of the outstanding principal balance, accrued interest and a make whole premium if the closing price of our common stock exceeds 175% of the conversion price for at least 20 consecutive trading days within a period of 30 consecutive trading days ending on the trading day prior to the date we mail the redemption notice. We are required and intend to register 6.5 million shares within 180 days of the original issuance of the notes.

Change in Year End

On January 12, 2000, we changed our fiscal year end to January 31st, from December 31st. We believe the twelve months ended December 31, 1999 provide a meaningful comparison to the twelve months ended January 31, 2002 and 2001. There are no factors, seasonal or otherwise, that would impact the comparability of information or trends, if results for the twelve months ended January 31, 2000 were presented in lieu of results for the twelve months ended December 31, 1999. References in this Form 10-K to fiscal 2001 and 2000 represent the twelve months ended January 31, 2002 and 2001, respectively. References to fiscal year 1999 represent the twelve months ended December 31, 1999.

Accounting Policies

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, management applies judgment based on its understanding and analysis of the relevant circumstances. Note 1 to the consolidated financial statements provides a summary of the significant accounting policies followed in the preparation of the financial statements.

The Company's critical accounting policies include the following:

Revenue Recognition

Revenue is recognized upon shipment for product sales with standard configurations and product sales with other than standard configurations which have demonstrated performance in accordance with its customer's specifications prior to shipment provided that (a) evidence of an arrangement exists, (b) delivery has occurred, (c) the price to the customer is fixed and determinable, and (d) collectibility is assured. All other product sales are recognized when customer acceptance is received or the passage of the customer acceptance period. We accrue for warranty costs and sales returns at the time of shipment based on experience. In transactions that include multiple products and/or services, we allocate the sales value among each of the deliverables based on their relative fair values.

Service fees are recognized as revenue when earned, which is generally on a straight-line basis over the contracted service period or as the services are rendered. Deferred revenue primarily consists of the unearned portion of service agreements billed in advance to customers.

Valuation of Accounts Receivable

We review accounts receivable to determine which are doubtful of collection. In addition, we also make estimates of potential future product returns. In making the determination of the appropriate allowance for doubtful accounts and product returns, we consider specific accounts, changes in customer payment terms, historical write-offs and returns, changes in customer demand and relationships, concentrations of credit risk and customer credit worthiness. Changes in the credit worthiness of customers, general economic conditions and other factors may impact the level of future write-offs and product returns.

Valuation of Inventory

We review obsolescence to determine that inventory items deemed obsolete are appropriately reserved. In making the determination we consider our history of inventory write-offs, future sales of related products, and quantity of inventory at the balance sheet date assessed against our past usage rates and future expected usage rates. Changes in factors such as technology, customers demand, competitor product introductions and other matters could affect the level of inventory obsolescence in the future.

Valuation of Deferred Taxes

Significant management judgment is required in determining the provision for incomes taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. We are required to estimate our income taxes in each jurisdiction where we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as the depreciable life of fixed assets for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe recovery is unlikely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase the valuation allowance in a given period, we must increase tax expense within our statement of operations.

We have recorded a valuation allowance of $1.2 million at January 31, 2002 due to uncertainties related to our ability to utilize certain state and foreign tax credits and loss carryforwards. The valuation allowance is based on our estimates of taxable income by jurisdiction and the period over which our deferred tax assets are recoverable. In the event actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could materially impact our financial position and results of operations.

Valuation of Long-Lived and Intangible Assets and Goodwill

We assess the impairment of long-lived and intangible assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include significant under performance relative to expected operating results, changes in the manner of use of the acquired assets or the strategy of our overall business, negative industry or economic trends, significant decline in our stock price for a sustained period, and our market capitalization relative to our net book value.

When we determine that the carrying value of long-lived and intangibles assets and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on the projected discounted cash flow method using a discount rate commensurate with the risk inherent in our current business model. Net long-lived and intangible assets, and goodwill amounted to $44.7 million at January 31, 2002, and no asset impairments were identified as of that date.

We adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" effective February 1, 2002. As a result, we have ceased amortizing goodwill at February 1, 2002 of $15.0 million. In 2001, we recorded amortization expense related to this goodwill of $624,000 which will no longer be required in 2002. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter.

Upon completion of any impairment review, there can no be assurance that a material charge will not be required.

Results of Continuing Operations

The following table sets forth financial data for our continuing operations for the periods indicated as a percentage of total revenue except for gross profit, which is expressed as a percentage of the related revenue.

The segment operating information presented below is for illustrative purposes only and has been adjusted to eliminate the effects of special items and other charges recognized by our Networking Solutions Division during the first quarter of 2001, including a $2.0 million write-down of inventory, a $325,000 write-off of our FileSpeed product and a $996,000 restructuring charge. The segment operating information eliminates special charges recognized by our Networking Solutions Division in the fourth quarter of 1999, including $1.4 million for the write-off of non-SAN-related products and $1.3 million for an abandoned facility. It also eliminates the effect in the third quarter of 2000 of a $287,000 reversal of the unused portion of the accrual for the abandoned facility.

	Networking Solutions Division			Storage Solutions Division		
	2001	2000	1999	2001	2000	1999
Revenue:						
Product sales	67.2%	74.1%	73.5%	74.3%	34.0%	—%
Service fees	32.8	25.9	26.5	25.7	66.0	100.0
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0
Gross profit:						
Product sales	53.1	58.0	58.5	17.3	53.4	—
Service fees	48.9	45.5	45.0	(11.5)	13.5	54.2
Total gross profit	51.8	54.7	54.9	9.9	27.1	54.2
Operating expenses:						
Sales and marketing	32.4	22.8	28.5	15.7	29.3	—
Engineering and development	16.8	13.8	15.2	.9	—	—
General and administrative	6.1	5.3	5.7	2.0	—	—
Total operating expenses	55.3	41.9	49.4	18.6	29.3	—
Income (loss) from operations	(3.5)%	12.8%	5.5%	(8.7)%	(2.2)%	54.2%

Revenue

Years Ended January 31, 2002 and 2001

Networking Solutions

Our Networking Solutions Division generated revenue of $136.9 million in 2001, a decrease of 16%, from $163.5 million in 2000. Storage networking related product revenue decreased 16% in 2001 to $69.8 million from $83.5 million in 2000. Approximately $3.2 million of storage networking product revenue in 2001 resulted from the sale of our new UltraNet® Edge product, which started to ship in our third quarter ended October 31, 2001. Sales of channel extension product applications decreased 41% in 2001 to $22.2 million from $37.7 million in 2000. Our older channel extension products continue to be a profitable part of our business and a key application for many of our storage networking customers. We expect sales of channel extension products to continue for the foreseeable future but do not expect revenues to grow substantially. Revenue for our Networking Solutions Division was negatively impacted in 2001 as economic conditions caused our customers to reevaluate their capital spending plans, and to defer previously planned projects for information technology infrastructure.

During 2000, partner relationships with STK and Compaq generated significant product revenue. Sales of the DXE product to STK contributed $9.3 million of product revenue in 2000, compared to $1.5 million of product revenue in 2001. We discontinued the DXE/RDE product line in March 2001, and are transitioning the customer base to our UltraNet® products. An OEM agreement with Compaq contributed $5.7 million of product revenue in 2000. No revenue was generated from this OEM agreement in 2001.

Maintenance revenue increased 6% in 2001 to $44.8 million from $42.3 million in 2000. The increase in revenue is due to the growing installed base of customers using our networking products. The maintenance revenue growth rate slowed in 2001 compared to 2000 due to the decline in Networking product revenue in 2001. In addition, some customers elected not to re-new maintenance agreements in 2001 for our older Channelink® products.

Storage Solutions

Prior to our acquisition of Articulent in April 2001, our Storage Solutions Division consisted of our SAN products and storage networking design and implementation services. Revenue from our Storage Solutions Division increased in 2001 to $50.2 million, an increase of 297% from $12.6 million in 2000. The acquisition of Articulent in April 2001 significantly expanded our solution offerings and accounted for most of the increase.

Years Ended January 31, 2001 and December 31, 1999

Networking Solutions

Our Networking Solutions Division generated revenue of $163.5 million in 2000, an increase of 35%, from $121.4 million in 1999. Storage networking applications for both open systems and mainframes continued to drive new product revenue. Storage networking related product revenue increased 56% in 2000 to $83.5 million from $53.6 million in 1999. Sales of channel extension product applications increased 6% in 2000 to $37.7 million from $35.6 million in 1999.

During 2000, partner relationships with STK and Compaq generated significant product revenue. Sales of the DXE product to STK contributed $9.3 million of product revenue in 2000, while our OEM relationship with Compaq contributed $5.7 million of product revenue.

Maintenance revenue increased 32% in 2000 to $42.3 million from $32.2 million in 1999. The increase in revenue is due to the growing installed base of customers using our networking products.

Storage Solutions

Revenue from our SAN products and storage networking design and implementation services increased 176% in 2000 to $12.6 million from $4.6 million in 1999. The increase is due to greater customer demand for storage area networks and storage networking. These applications tend to be highly complex, and for these reasons, businesses often outsource their design and implementation to third parties. In addition, we were just starting to increase our investment in these service areas in 1999, resulting in additional revenue in 2000.

General

Revenue from the sale of products and services outside the United States decreased by 12% or $6.0 million in 2001 when compared to 2000, and increased by 20% or $8.9 million in 2000 when compared to 1999. We derived 25%, 30% and 35% of our revenue outside the United States in 2001, 2000 and 1999, respectively. The decrease in revenue generated outside the United States in 2001 is primarily attributable to the global economic slow-down and reduced spending on information technology by our customers. In addition, the Articulent business acquired in April 2001 is primarily focused in the United States and does not have a significant presence in international markets.

No single customer accounted for more than 10% of our revenue in 2001, 2000 or 1999. Price discounting had a small impact on revenue generated by our Networking Solutions business in 2001.

In 2001, approximately 30%, 7% and 17% of our product revenue was derived from businesses in the financial services, telecommunications and information outsourcing industries, respectively.

We primarily sell our storage networking products directly to end-user customers in connection with joint marketing activities with our business partners. For a new customer, the initial sales and design cycle, from first contact through shipment, can vary from 90 days to 12 months or more. We expect that this cycle will continue.

We expect continued quarter-to-quarter fluctuations in revenue in both domestic and international markets. The timing of sizable orders, because of their relative impact on total quarterly sales for both our Networking and Storage Solutions Divisions, may contribute to such fluctuations. The level of product sales reported by us in any given period will continue to be affected by the receipt and fulfillment of sizable new orders in both domestic and international markets.

Gross Profit Margin

Years Ended January 31, 2002 and January 31, 2001

Networking Solutions

Excluding the $2.0 million write-down of slow moving inventory and the $325,000 write-off of our FileSpeed product in the first quarter of 2001, gross profit margins from the sale of networking products were 53% in 2001 compared to 58% in 2000. The decline in gross margin percentage was due to the continued movement in sales mix toward our UltraNet® products which carry a lower margin than our older Channelink® products, and higher levels of sales discounts.

Gross service margins for our networking maintenance business improved in 2001 to 49% from 46% in 2000. The improvement was due to the steadily increasing base of customers contracting for maintenance services, the cost reduction actions that were taken in April 2001, and a change in third party maintenance and logistic suppliers in 2001 that also reduced our costs.

Storage Solutions

Gross profit margins from the sale of storage solutions products were 17% in 2001 compared to 53% in 2000. The decline in gross margin percentage was primarily due to an increase in the sale of lower margin third party products resulting from the acquisition of Articulent in April 2001. Historically, the product solutions offered by Articulent have generated gross margins in the 15% to 25% range.

Gross profit margins from storage solutions services were a negative 12% in 2001 compared to a positive 13% in 2000. The decline in gross margin percentage and negative gross margin in 2001 is due to the fixed cost structure of the services business and low levels of service revenue in 2001. The service costs for the solutions business, mainly people, tend to be fixed in nature. We expect to generate a gross profit from services in the future as business volumes pick up.

Years Ended January 31, 2001 and December 31, 1999

Networking Solutions

Gross profit margins from the sale of networking products were 58% in 2000, compared to 57% in 1999. Excluding a $1.4 million charge for the write-off of non-storage networking-related products, gross profit margins from the sale of products would have been 59% in 1999. The decrease in gross profit margins to 58% from 59% in 1999 was due to an increase in sales of our DXE product to STK, and our UltraNet® Gateway product to Compaq, both of which carry lower gross margins, but comparable operating margins, than our Channelink® and UltraNet® products sold through direct channels.

Gross profit margins for our networking maintenance business were 46% and 45% in 2000 and 1999, respectively. The improvement was due to the steadily increasing base of customers contracting for maintenance services.

Storage Solutions

Gross profit margins from the sale of storage solutions products were 53% in 2000. There were no storage solutions product sales in 1999, as we were just starting to invest in our storage solutions business and were not offering storage solution products.

Gross profit margins from our storage solution services were 13% in 2000 compared to 54% in 1999. The decline in gross profit margin in 2000 was due to our hiring additional technical and consulting personnel to expand our storage solutions service offerings and capabilities.

Operating Expenses

Years Ended January 31, 2002 and 2001

Networking Solutions

Sales and marketing expense increased 19% in 2001 to $44.3 million from $37.3 million in 2000. Since the beginning of 2001, we have increased our sales force by over 25% and have added additional sales management to increase revenue and grow our business.

Engineering and development expense increased 2% in 2001 to $23.0 million from $22.6 million in 2000. The increase was primarily due to continued development of our UltraNet® family of products, particularly the UltraNet® Edge product, which generated over $3.0 million of revenue since its introduction in the third quarter of 2001. This increase was partially offset by the cost reduction actions take in April 2001, including the workforce reduction, wage cuts and reductions in discretionary spending.

Storage Solutions

Sales, marketing, engineering and development expense increased 125% in 2001 to $8.3 million from $3.7 million in 2000. The increase was primarily due to the incremental costs associated with the acquisition of Articulent in April 2001, including wages for approximately 125 new employees and related costs such as travel, training and facilities.

General and Administrative

General and administrative expenses increased 7% in 2001 to $9.3 million from $8.7 million in 2000. The increase in expense is primarily due to the acquisition of Articulent, including additional costs for insurance and professional fees. In 2001, goodwill and intangible amortization associated with the Articulent acquisition totaled $594,000. In 2001, we had total goodwill amortization of $624,000 which we will not have in 2002 due to our adoption of the new accounting pronouncement related to goodwill.

Years Ending January 31, 2001 and December 31, 1999

Networking Solutions

Sales and marketing expense increased 8% in 2000 to $37.3 million from $34.6 million in 1999. The increase in expense resulted from higher commissions, wages, fringe benefits and travel associated with additional headcount required to generate the 36% increase in product revenue for 2000.

Engineering and development expense increased 22% in 2000 to $22.6 million from $18.5 million in 1999. The increase was primarily due to continued development of our UltraNet® family of products that provide customers with additional applications to satisfy their growing storage networking capabilities. During 2000, we announced storage networking over standard IP solutions, including tape, SCSI and Fibre Channel over IP to strengthen our presence in the IP solutions market. We made investments in additional employees to develop these new applications.

Storage Solutions

Sales and marketing expense associated with our Storage Solutions Division increased to $3.7 million in 2000 from nothing in 1999 when we were just starting to invest in our storage solutions business.

General and administrative

General and administrative expense increased 26% in 2000 to $8.7 million from $6.9 million in 1999. The increase was due to higher costs for wages, insurance and professional fees required to support the growth in our business.

Other

Years Ending January 31, 2002 and 2001 and December 31, 1999

Excluding the loss from the sale and write-down of webMethods stock, other income in 2001 and 2000 increased by $2.4 million and $3.0 million, respectively, when compared to the prior year due to an increase in interest income resulting from higher balances of cash and marketable securities available for investment partially offset by lower-yields. In October of 2000, we raised $110 million from a secondary stock offering. Pending use of the offering proceeds for general corporate purposes or complementary acquisitions, the funds have been invested in investment grade, interest-bearing securities. The proceeds from our recently completed convertible debt offering will be similarly invested until used for general working capital purposes including potential acquisitions.

Changes in interest expense in 2001, 2000 and 1999 are due to fluctuations in the balance of capital lease obligations. Interest expense is expected to increase by $1.1 million per quarter as a result of our recent sale of $125 million of 3% convertible subordinated notes due February 2007.

We recorded a provision for income taxes at an effective tax rate of 31% in 2001, and at an effective tax rate of 33% and 34% in 2000 and 1999, respectively. The fluctuations in our effective tax rate are primarily due to the large special charges recorded in 2001 and 1999, the amount of nondeductible foreign losses and fluctuations in the level of benefit from our foreign sales corporation. We also recorded an $830,000 valuation allowance in 2001 for certain state and foreign tax credits and loss carryforwards. Utilization of these benefits in future periods was determined to be unlikely. Based on an assessment of our taxable earnings history and prospective future taxable income, we have determined it to be more likely than not that our remaining net deferred tax asset will be realized in future periods. We may be required to provide a valuation allowance for this asset in the future if we do not generate sufficient taxable income as planned.

Liquidity and Capital Resources

We have historically financed our operations through the public and private sale of equity securities, bank borrowings under lines of credit, capital and operating equipment leases and cash generated by operations.

Cash, cash equivalents and marketable securities at January 31, 2002 totaled $118.0 million, a decrease of $32.5 million since January 31, 2001. Operations utilized $33.8 million of cash in 2001, primarily to fund our operating loss and discontinued operations in the first half of the year, and a $9.0 million increase in inventory resulting from lower than anticipated demand for our networking products and introduction of our new UltraNet® Edge product. Proceeds from the exercise of stock options and purchases of stock through our employee stock purchase plan provided cash in 2001 of $6.4 million. Uses of cash in 2001 included $12.4 million for the purchase of Articulent and purchases of property and equipment and field support spares totaling $11.0 million. We also used $787,000 of cash in 2001 to repurchase 90,000 shares of our common stock.

In February 2002, we sold $125 million of 3% convertible subordinated notes, raising net proceeds of $121 million. The proceeds from the offering will be used for general working capital purposes, including potential acquisitions.

Expenditures for capital equipment and field support spares have been, and will likely continue to be, a significant capital requirement. We believe that our current balances of cash, cash equivalents and marketable securities, when combined with anticipated cash flows from operations and proceeds from our recently completed convertible debenture offering will be adequate to fund our operating plans and meet our current anticipated aggregate capital requirements, at least through fiscal 2002.

In April 2001, our board of directors authorized the repurchase of up to $50.0 million of our common stock. As of January 31, 2002 we had repurchased 90,000 shares of our common stock for $787,000.

In March of 2001, our board of directors adopted an amendment to our 1999 Non-Qualified Stock Award Plan increasing the number of shares authorized for issuance from 1,730,000 to 3,230,000.

We believe that inflation has not had a material impact on our operations or liquidity to date.

Our future minimum contractual cash obligations at January 31, 2002, including open purchase orders incurred in the ordinary course of business, are as follows:

Cash Obligation	Total	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
Capital leases	$ 2.4 million	$ 1.7 million	$ 742,000	None	None
Operating leases	$27.1 million	$ 5.4 million	$9.2 million	$2.5 million	$10.0 million
Purchase orders	$13.8 million	$12.9 million	861,000	72,000	None

On February 20, 2002, we sold $125 million in aggregate principal amount of 3% convertible subordinated notes due February 2007. Holders of the notes may, in whole or part, convert the notes into shares of our common stock at a conversion price of approximately $19.17 per share (aggregate of approximately 6.5 million shares) at any time prior to maturity on February 15, 2007. We may redeem the notes in whole or part at any time if the closing price of our common stock has exceeded 175% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day prior to the date we mail the redemption notice. We are required to pay interest on February 15 and August 15 of each year, beginning on August 15, 2002. Debt issuance costs of $3.2 million are being amortized over a five year term using the straight line method, which approximates the effective interest rate method. The amortization of these debt issuance costs will accelerate upon early redemption of the notes. The net proceeds remain available for general working capital purposes, including potential acquisitions. Cash obligations related to this debt include annual interest payments of $3.8 million for the next five fiscal years starting 2002 and a principal payment of $125 million due February 2007.

Related Party Transactions

During 2001, we purchased $491,000 of bandwidth from Dynegy Connect, an entity wholly owned by Dynegy Global Communications. At January 31, 2002 we have commitments to purchase $1.2 million of additional bandwidth from Dynegy Connect through fiscal 2006. All of the bandwidth purchases were for re-sale at a profit. The bandwidth was purchased from Dynegy Connect because they offered us the best pricing. We have purchased bandwidth from competitors of Dynegy Connect when their pricing has been more attractive. Our board member, Lawrence McLernon, is chief executive officer of Dynegy Global Communications.

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. ("SFAS") 141, "Business Combinations," and SFAS 142, "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS 141 also specifies criteria that intangible assets must meet to be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives, arising from acquisitions occurring after June 30, 2001, no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS 142. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized in accordance with appropriate pre-SFAS 142 and 144 requirements until February 1, 2002. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

SFAS 144, issued in October 2001, supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," removing from its scope any reference to goodwill impairment and offering guidance on using cash flows to value long-lived assets. In addition, SFAS 144 supercedes the accounting and reporting provisions for the disposal of a business presented in Accounting Principles Board Opinion No. 30, "Reporting the Results of Unusual and Infrequently Occurring Events and Transactions," primarily by broadening the definition of a "discontinued operation" to include business components not considered business segments.

The Company adopted the provisions of SFAS 141 as of July 1, 2001 and SFAS 142, and SFAS 144 as of February 1, 2002.

Under transition provisions of SFAS 141 and SFAS 142, as of February 1, 2002, the Company must evaluate its existing intangible assets and goodwill that were acquired in a purchase business combination occurring before July 1, 2001, make any necessary reclassifications of intangible assets and goodwill to conform with the new criteria in SFAS 141 for recognition apart from goodwill, and conduct an impairment review of the carrying values of intangible assets and goodwill at that date. Also as of February 1, 2002, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by April 30, 2002. Also by April 30, 2002, any intangible asset identified as having an indefinite useful life must be tested for impairment in accordance with the provisions of SFAS 142, and any impairment loss as of February 1, 2002 recognized as the cumulative effect of a change in accounting principle in the first quarter of 2002.

In connection with the transitional goodwill impairment evaluation, SFAS 142 requires the Company to perform an assessment by July 31, 2002 to determine whether goodwill was impaired as of the date of adoption. Any transitional impairment loss will be measured as of February 1, 2002 and reflected as a first quarter 2002 cumulative effect of a change in accounting principle in the Company's statement of earnings as soon as practicable but not later than January 31, 2003.

The pro forma effect of cessation of goodwill amortization prescribed by SFAS 142 would have increased earnings from continuing operations by $624,000, or $0.02 per diluted common share for fiscal year 2001.

Because of the extensive effort needed to implement SFAS 141, SFAS 142 and SFAS 144, it is not practicable to reasonably estimate the impact of their implementation on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

Change in Fiscal Year

On January 12, 2000, we changed our fiscal year end to January 31st, rather than December 31st. Our summary January 2000 results are as follows: revenues $4.3 million; gross profit $1.3 million; operating expenses $5.3 million; net loss from continuing operations $2.6 million; net loss from discontinued operations $1.0 million; and net loss $3.6 million. We typically incur significant losses in the first month following the completion of a quarter because our revenue is significantly less than the average monthly revenues we generate in any quarterly or annual period.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We have no derivative financial instruments in our cash, cash equivalents and marketable securities. We mainly invest our cash and cash equivalents in investment grade, highly liquid investments, consisting of money market instruments, bank certificates of deposits and investments in commercial paper.

At January 31, 2002, our marketable securities include a $258,000 investment in a Standard & Poors 500 stock price index fund and a $290,000 investment in a NASDAQ 100 index tracking stock. These investments were purchased to directly offset any investment gains or losses owed to participants under our executive deferred compensation plan which has been established for selected key employees. We also own 41,031 shares of webMethods stock received from the sale of IntelliFrame.

We are exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and the assets and liabilities of our foreign subsidiaries, are denominated in foreign currencies, primarily French francs, the euro and British pounds sterling. As of January 31, 2002, we have hedged a portion of our risk by purchasing a forward exchange contract for 450,000 British pounds sterling that settles in February 2002.

Item 8. Consolidated Financial Statements and Supplementary Data

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	January 31, 2002	January 31, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 34,402	$ 39,444
Marketable securities	83,612	111,033
Receivables, net	53,962	43,613
Inventories	31,410	22,447
Net current assets of discontinued operations	—	5,430
Deferred tax asset	5,134	11,415
Other current assets	4,138	2,226
Total current assets	212,658	235,608
Property and equipment, net	25,604	25,215
Field support spares, net	4,562	4,446
Deferred tax asset	11,048	—
Goodwill and other intangibles, net	14,533	1,200
Other assets	1,333	2,154
	$269,738	$268,623
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 17,240	$ 20,293
Accrued liabilities	20,158	15,780
Deferred revenue	13,466	15,489
Current installments of obligations under capital lease	1,523	1,421
Total current liabilities	52,387	52,983
Deferred tax liability	—	586
Obligations under capital lease, less current installments	708	1,952
Total liabilities	53,095	55,521
Shareholders' equity:		
Undesignated preferred stock, authorized 965 shares; none issued and outstanding	—	—
Series A junior participating preferred stock, authorized 40 shares; none issued and outstanding	—	—
Common stock, $.01 par value; authorized 100,000 shares; issued and outstanding 30,383 at January 31, 2002, and 29,656 at January 31, 2001	304	297
Additional paid-in capital	202,996	195,910
Unearned compensation	(1,232)	(1,304)
Retained earnings	15,459	19,165
Accumulated other comprehensive income (loss)	(884)	(966)
Total shareholders' equity	216,643	213,102
	$269,738	$268,623

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years Ended January 31, 2002	Years Ended January 31, 2001	Year Ended December 31, 1999	Month Ended January 31, 2000
Revenue:				
Product sales	$129,276	$125,432	$ 89,248	$ 1,237
Service fees	57,747	50,674	36,741	3,105
Total revenue	187,023	176,106	125,989	4,342
Cost of revenue:				
Cost of product sales	76,254	52,873	38,411	894
Cost of service fees	37,328	30,308	19,798	2,148
Total cost of revenue	113,582	83,181	58,209	3,042
Gross profit	73,441	92,925	67,780	1,300
Operating expenses:				
Sales and marketing	52,156	41,019	34,626	2,643
Engineering and development	23,452	22,572	18,456	1,814
General and administrative	9,311	8,697	6,922	836
Abandoned facility	—	(287)	1,331	—
Restructuring charge	996	—	—	—
Total operating expenses	85,915	72,001	61,335	5,293
Income (loss) from operations	(12,474)	20,924	6,445	(3,993)
Other income (expense):				
Loss on sale and write-down of webMethods stock	(10,283)	—	—	—
Interest income	6,166	3,802	744	95
Interest expense	(285)	(338)	(264)	(6)
Other, net	(344)	(312)	(370)	4
Other income (expense), net	(4,746)	3,152	110	93
Income (loss) from continuing operations before income taxes	(17,220)	24,076	6,555	(3,900)
Provision (benefit) for income taxes	(5,292)	7,947	2,229	(1,287)
Income (loss) from continuing operations	(11,928)	16,129	4,326	(2,613)
Discontinued operations:				
Gain on disposition of discontinued operations, net of tax	8,222	—	—	—
Income (loss) from discontinued operations, net of tax	—	(4,135)	329	(1,012)
	8,222	(4,135)	329	(1,012)
Net income (loss)	$ (3,706)	$ 11,994	$ 4,655	$(3,625)
Basic income (loss) per share:				
Continuing operations	$ (.40)	$ .64	$ .19	$ (.11)
Discontinued operations	$ .28	$ (.16)	$ .01	$ (.04)
Net income (loss)	$ (.12)	$ .47	$ .20	$ (.15)
Shares	29,892	25,383	23,137	23,815
Diluted income (loss) per share:				
Continuing operations	$ (.40)	$ .58	$ .17	$ (.11)
Discontinued operations	$ .28	$ (.15)	$ .01	$ (.04)
Net income (loss)	$ (.12)	$ .43	$ .18	$ (.15)
Shares	29,892	27,813	25,818	23,815

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 1998	22,254	$223	$ 54,921	$ (355)	$ 6,141	$(372)	$ 60,558
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	1,538	15	9,354	(799)	—	—	8,570
Tax benefits from employee stock transactions	—	—	4,652	—	—	—	4,652
Compensation expense	—	—	—	316	—	—	316
Comprehensive income:							
Net income	—	—	—	—	4,655	—	4,655
Translation adjustment, net of tax effect of $0	—	—	—	—	—	(279)	(279)
Total comprehensive income	—	—	—	—	—	—	4,376
Balance, December 31, 1999	23,792	$238	$ 68,927	$ (838)	$10,796	$(651)	$ 78,472
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	49	—	507	(341)	—	—	166
Tax benefits from employee stock transactions	—	—	—	—	—	—	—
Compensation expense	—	—	—	49	—	—	49
Comprehensive income:							
Net loss	—	—	—	—	(3,625)	—	(3,625)
Translation adjustment, net of tax effect of $0	—	—	—	—	—	49	49
Total comprehensive loss	—	—	—	—	—	—	(3,576)
Balance, January 31, 2000	23,841	$238	$ 69,434	$(1,130)	$ 7,171	$(602)	$ 75,111
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	1,215	13	8,181	(675)	—	—	7,519
Shares issued pursuant to a secondary stock offering, net of offering costs	4,600	46	110,189	—	—	—	110,235
Tax benefits from employee stock transactions	—	—	8,106	—	—	—	8,106
Compensation expense	—	—	—	501	—	—	501
Comprehensive income:							
Net income	—	—	—	—	11,994	—	11,994
Translation adjustment, net of tax effect of $0	—	—	—	—	—	(364)	(364)
Total comprehensive income	—	—	—	—	—	—	11,630
Balance, January 31, 2001	29,656	$297	$195,910	$(1,304)	$19,165	$(966)	$213,102
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	817	8	6,894	(496)	—	—	6,406
Tax benefits from employee stock transactions	—	—	978	—	—	—	978
Repurchase of common stock	(90)	(1)	(786)	—	—	—	(787)
Compensation expense	—	—	—	568	—	—	568
Comprehensive income:							
Net loss	—	—	—	—	(3,706)	—	(3,706)
Unrealized gain on marketable securities, net of tax effect of $299						510	510
Translation adjustment, net of tax effect of $0	—	—	—	—	—	(428)	(428)
Total comprehensive loss	—	—	—	—	—	—	(3,624)
Balance, January 31, 2002	30,383	$304	$202,996	$(1,232)	$15,459	$(884)	$216,643

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended January 31, 2002	Years Ended January 31, 2001	Year Ended December 31, 1999	Month Ended January 31, 2000
Operating Activities:				
Net income (loss)	$ (3,706)	$ 11,994	$ 4,655	$(3,625)
Discontinued operations	(8,222)	4,135	(329)	1,012
Depreciation and amortization	15,127	11,812	9,083	652
Compensation expense	568	346	219	49
Loss on sale and write-down of webMethods stock	10,283	—	—	—
Change in deferred taxes	(1,268)	(5,344)	(1,936)	—
Changes in operating assets and liabilities, net of acquisition:				
Receivables	(40)	(14,833)	(5,872)	608
Inventories	(4,517)	(3,717)	3,489	(4,305)
Other current assets	(1,575)	(445)	(804)	(4)
Accounts payable	(21,879)	11,036	4,272	(2,151)
Accrued liabilities	(7,606)	17,754	2,563	(3,878)
Deferred revenue	(2,091)	5,569	2,636	2,045
Net cash provided by (used in) continuing operations	(24,926)	38,307	17,976	(9,597)
Net cash provided by (used in) discontinued operations	(8,830)	(1,490)	789	1,051
Cash provided by (used in) operating activities	(33,756)	36,817	18,765	(8,546)
Investing Activities:				
Additions to property and equipment	(8,198)	(14,329)	(8,262)	(542)
Additions to field support spares	(2,770)	(2,520)	(2,727)	(271)
Additions to purchased technology	—	(375)	—	—
Acquisition of Articulent, net of cash acquired	(11,145)	—	—	—
Net proceeds from the sale of IntelliFrame	5,800	—	—	—
Net proceeds from the sale of Propelis Software	6,000	—	—	—
Proceeds from the sale of webMethods stock	6,281	—	—	—
Purchase of marketable securities	(87,786)	(148,389)	(15,421)	—
Proceeds from marketable securities	115,717	45,998	5,286	2,070
Other assets	876	(1,967)	327	3
Discontinued operations — additions to long-term assets	—	(158)	(507)	(12)
Cash provided by (used in) investing activities	24,775	(121,740)	(21,304)	1,248
Financing Activities:				
Payments for repurchases of common stock	(787)	—	—	—
Proceeds from issuance of common stock	6,406	117,754	8,570	166
Repayments of obligations under capital leases	(1,421)	(1,187)	(327)	(65)
Discontinued operations — repayment of debt	—	—	(1,000)	(1,000)
Cash provided by (used in) financing activities	4,198	116,567	7,243	(899)
Effects of exchange rate changes	(259)	(174)	(306)	(13)
Net increase (decrease) in cash and cash equivalents	(5,042)	31,470	4,398	(8,210)
Cash and cash equivalents — beginning of period	39,444	7,974	11,786	16,184
Cash and cash equivalents — end of period	$ 34,402	$ 39,444	$ 16,184	$ 7,974

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2002, 2001 and December 31, 1999

(tabular amounts in thousands except per share data)

(1) Summary of Significant Accounting Policies

Description Of Business

Computer Network Technology Corporation is a leading provider of end-to-end storage solutions, related consulting and integration services, and managed services in the high-performance storage networking market.

Discontinued Operations

In 2001, the Company divested Propelis Software, Inc. formerly known as the Enterprise Integration Solutions Division. Accordingly, Propelis Software, Inc. has been accounted for as discontinued operation in the accompanying financial statements.

Change in Year End

On January 12, 2000, the Company changed its fiscal year end to January 31st, from December 31st. The Company believes that the twelve months ended December 31, 1999 provide a meaningful comparison to the twelve months ended January 31, 2002 and 2001. There are no factors, of which the Company is aware, seasonal or otherwise, that would impact the comparability of information or trends, if results for the twelve months ended January 31, 1999 were presented in lieu of results for the twelve months ended December 31, 1999. References in these footnotes to fiscal 2001 and 2000 represent the twelve months ended January 31, 2002 and 2001, respectively. References to fiscal 1999 represent the twelve months ended December 31, 1999.

Principles Of Consolidation

The accompanying consolidated financial statements include the accounts of Computer Network Technology Corporation and its subsidiaries (together, the Company). All significant intercompany balances and transactions are eliminated in consolidation.

Revenue Recognition

Revenue is recognized upon shipment for product sales with standard configurations and product sales with other than standard configurations which have demonstrated performance in accordance with customer specifications prior to shipment provided that (a) evidence of an arrangement exists, (b) delivery has occurred, (c) the price to the customer is fixed and determinable, and (d) collectibility is assured. All other product sales are recognized as revenue when customer acceptance is received or upon passage of the customer acceptance period. Warranty costs and sales returns are accrued at the time of shipment based on experience. In transactions that include multiple products and/or services, the sales value is allocated among each of the deliverables based on their relative fair values.

Service fees are recognized as revenue when earned, which is generally on a straight-line basis over the contracted service period or as the services are rendered. Deferred revenue primarily consists of the unearned portion of service agreements billed in advance to customers.

Valuation of Accounts Receivable

Accounts receivable are reviewed to determine which are doubtful of collection. Estimates are also made of potential future product returns. In making the determination of the appropriate allowance for doubtful accounts and product returns, the Company considers specific accounts, changes in customer payment terms, historical write-offs and returns, changes in customer demand and relationships, concentrations of credit risk and customer credit worthiness. The provision for doubtful accounts and product returns was $898,000, $1,600,000 and $519,000 in 2001, 2000 and 1999, respectively. The accounts receivable balances at January 31, 2002 and 2001 were $53,962,000 and $43,613,000, respectively, net of an allowance for doubtful accounts and sales returns of $1,848,000 and $2,383,000, respectively.

Valuation of Inventory

Inventories are stated at the lower of cost (determined on a first in, first out basis) or market. The Company reviews obsolescence to determine that inventory items deemed obsolete are appropriately reserved. In making the determination, consideration is given to the history of inventory write-offs, future sales of related products, and quantity of inventory at the balance sheet date assessed against past usage rates and future expected usage rates.

Valuation of Deferred Taxes

Significant management judgment is required in determining the provision for incomes taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. The Company is required to estimate income taxes in each jurisdiction where it operates. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as the depreciable life of fixed assets for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent recovery is believed unlikely, establishes a valuation allowance. The Company must increase tax expense within its statements of operations when a valuation allowance is established or increased in a given period.

The Company has recorded a valuation allowance of $1,240,000 at January 31, 2002 due to uncertainties related to its ability to utilize certain state and foreign tax credits and loss carryforwards. The valuation allowance is based on estimates of taxable income by jurisdiction and the period over which deferred tax assets are recoverable. The Company may need to establish an additional valuation allowance in future periods, which could materially impact its financial position and results of operations, should actual results differ from estimates or should estimates be adjusted in future periods.

Goodwill And Other Intangibles

Goodwill represents the excess of purchase price over the fair value of net assets acquired. In 2001, goodwill was amortized using the straight-line method over periods ranging from seventeen to twenty years. Other intangibles represent amounts assigned to intangible assets at the time of a purchase acquisition and includes purchased technology and customer lists. Such costs are amortized using the straight-line method over periods ranging from two to ten years.

Recorded amounts are regularly reviewed and recoverability assessed. The review considered factors such as whether the amortization of the goodwill and other intangible assets over its remaining life can be recovered through forecasted undiscounted cash flows.

Cash Equivalents

The Company considers investments in highly liquid debt securities having an initial maturity of three months or less to be cash equivalents.

Marketable Securities

Unrealized gains and losses on available-for-sale securities are excluded from earnings and are reflected as a separate component of shareholders' equity. Unrealized gains and losses on trading securities are included in earnings.

Property And Equipment

Property and equipment owned by the Company is carried at cost and depreciated using the straight-line method over three to eight years. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases. Expenditures for repairs and maintenance are charged to expense as incurred. Capital lease equipment is amortized over the life of the lease.

The carrying value of long-lived assets is reviewed whenever events or changes in circumstances such as market value, asset utilization, physical change, legal factors or other matters indicate that the carrying value may not be recoverable. When the review indicates that the carrying value of the asset or group of assets representing the lowest level of identifiable cash flows exceeds the sum of the expected future cash flows (undiscounted and without interest charges), an impairment loss is recognized. The amount of the impairment loss is the amount by which the carrying value exceeds the fair value of the impaired asset or group of assets.

Field Support Spares

Field support spares are carried at cost and depreciated using the straight-line method over three years.

Engineering And Development

The Company has expensed all engineering and development costs to date.

Foreign Currency

The financial statements of the Company's international subsidiaries have been translated into U.S. dollars. Assets and liabilities are translated into U.S. dollars at year-end exchange rates, while equity accounts are translated at historical rates. Income and expenses are translated at the average exchange rates during the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity.

The Company is exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and the assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies. As of January 31, 2002, the Company has hedged a portion of its risk by purchasing a forward exchange contract for 450,000 British pounds sterling that settles in February 2002. Gains and losses from transactions denominated in foreign currencies and forward exchange contracts are included in net income (loss).

The Company recognized foreign currency transaction gains in fiscal 2000 of $7,000. The Company recognized a foreign currency transaction loss in fiscal 2001 and 1999 of $106,000 and $196,000, respectively. Foreign currency transaction gains and losses in the one month transition period ended January 31, 2000 were not significant.

Stock Compensation Plans

The Company accounts for its stock based compensation awards in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB No. 25) and provides the footnote disclosures required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" (SFAS No. 123).

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Use Of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates that could significantly affect the results of operations or financial condition of the Company include the determination of the deferred tax asset, recoverability of goodwill, determination of deferred revenue, valuation of accounts receivable and valuation of inventory. Further discussion on these estimates can be found in related disclosures elsewhere in these notes to the consolidated financial statements.

Net Income (Loss) Per Share

Basic net income per share is computed based on the weighted average number of common shares outstanding, while diluted net income per share is computed based on the weighted average number of common shares outstanding plus potential dilutive shares of common stock. Potential dilutive shares of common stock include stock options which have been granted to employees and directors and awards under the employee stock purchase plan. Net loss per basic and diluted share is based on the weighted average number of common shares outstanding. Potential dilutive shares of common stock have been excluded from the computation of net loss per share due to their anti-dilutive effect.

Comprehensive Income (loss)

Comprehensive income (loss) consists of the Company's net income (loss), foreign currency translation adjustment and unrealized gains and losses from available-for-sale securities and is presented in the consolidated statement of shareholders' equity and comprehensive income (loss).

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. ("SFAS") 141, "Business Combinations," and SFAS 142, "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS 141 also specifies criteria that intangible assets must meet to be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives, arising from acquisitions occurring after June 30, 2001, no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS 142. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized in accordance with appropriate pre-SFAS 142 and 144 requirements until February 1, 2002. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

SFAS 144, issued in October 2001, supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," removing from its scope any reference to goodwill impairment and offering guidance on using cash flows to value long-lived assets. In addition, SFAS 144 supercedes the accounting and reporting provisions for the disposal of a business presented in Accounting Principles Board Opinion No. 30, "Reporting the Results of Unusual and Infrequently Occurring Events and Transactions," primarily by broadening the definition of a "discontinued operation" to include business components not considered business segments.

The Company adopted the provisions of SFAS 141 as of July 1, 2001 and SFAS 142, and SFAS 144 as of February 1, 2002.

Under transition provisions of SFAS 141 and SFAS 142, as of February 1, 2002, the Company must evaluate its existing intangible assets and goodwill that were acquired in a purchase business combination occurring before July 1, 2001, make any necessary reclassifications of intangible assets and goodwill to conform with the new criteria in SFAS 141 for recognition apart from goodwill, and conduct an impairment review of the carrying values of intangible assets and goodwill at that date. Also as of February 1, 2002, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by April 30, 2002. Also by April 30, 2002, any intangible asset identified as having an indefinite useful life must be tested for impairment in accordance with the provisions of SFAS 142, and any impairment loss as of February 1, 2002 recognized as the cumulative effect of a change in accounting principle in the first quarter of 2002.

In connection with the transitional goodwill impairment evaluation, SFAS 142 requires the Company to perform an assessment by July 31, 2002 to determine whether goodwill was impaired as of the date of adoption. Any transitional impairment loss will be measured as of February 1, 2002 and reflected as a first quarter 2002 cumulative effect of a change in accounting principle in the Company's statement of earnings as soon as practicable but not later than January 31, 2003.

The pro forma effect of cessation of goodwill amortization prescribed by SFAS 142 would have increased earnings from continuing operations by $624,000, or $0.02 per diluted common share for fiscal year 2001.

Because of the extensive effort needed to implement SFAS 141, SFAS 142 and SFAS 144, it is not practicable to reasonably estimate the impact of their implementation on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

(2) Components of Selected Balance Sheet Accounts

	January 31, 2002	January 31, 2001
Inventories:		
Components and subassemblies	$22,391	$15,218
Work in process	3,834	2,813
Finished goods	5,185	4,416
	$31,410	$22,447
Property and equipment:		
Land	$ 1,186	$ —
Machinery and equipment	43,161	35,567
Office and data processing equipment	21,388	22,764
Furniture and fixtures	3,895	3,197
Leasehold improvements	2,183	1,856
	71,813	63,384
Less accumulated depreciation and amortization	46,209	38,169
	$25,604	$25,215
Field support spares:		
Field support spares	$22,704	$19,934
Less accumulated depreciation	18,142	15,488
	$ 4,562	$ 4,446
Goodwill and other intangibles:		
Purchased technology	$ —	$ 2,040
Customer list	505	—
Goodwill	15,042	866
	15,547	2,906
Less accumulated amortization	1,014	1,706
	$14,533	$ 1,200
Accrued liabilities:		
Compensation	$10,323	$ 8,986
Income taxes	3,084	2,450
Product warranty	1,935	1,629
Other	4,816	2,715
	$20,158	$15,780

(3) Marketable Securities

The Company's investments in marketable securities are summarized as follows:

	January 31, 2002	January 31, 2001
Available-for-Sale:		
Bank certificates of deposit	$35,096	$ 29,519
U.S. government and agency securities	10,362	10,866
Corporate debt securities	36,538	69,732
Corporate equity securities	1,068	—
	83,064	110,117
Trading:		
Standard & Poors 500 stock price index fund	258	514
NASDAQ 100 tracking stock	290	402
	$83,612	$111,033

The amount of gross unrealized gains with respect to investments in available-for-sale securities at January 31, 2002 was $809,000. The amount of gross unrealized gains and losses with respect to investments in available-for-sale securities at January 31, 2001 and December 31, 1999 was not significant. The Company realized a loss of $8,747,000 in 2001 from the sale of 232,511 shares of webMethods stock received in connection with the sale of IntelliFrame in 2001 (see note 5 to the consolidated financial statements). Proceeds from the sale of available-for-sale securities in fiscal 2001, 2000 and 1999 were $47,723,000, $1,204,000 and $984,000, respectively. There were no sales of available-for-sale securities during the one month transition period ended January 31, 2000. At January 31, 2002, the Company's investments in available-for-sale securities have contractual maturities of three years or less.

An additional loss of $1,536,000 was realized in 2001 when the remaining 41,031 shares of webMethods stock received in connection with the sale of IntelliFrame experienced a decline in value that was determined to be other than temporary, resulting in a write-down of the shares. The Company realized no other significant gains or losses with respect to available-for-sale securities during fiscal 2001, 2000, 1999 or the one-month transition period ended January 31, 2000.

The Company's trading securities consist of a mutual fund investment that seeks to provide a return corresponding to the Standard & Poors 500 stock price index and a NASDAQ 100 tracking stock. The Company intends to use any gain or loss from these investments to fund the investment gains or losses allocated to participants under the Company's executive deferred compensation plan. The amount of unrealized holding gains (losses) with respect to trading securities included in net income (loss) for fiscal 2001, 2000, 1999 and the one month transition period ended January 31, 2000 was $(266,000), $(168,000), $112,000, and $(11,995), respectively.

(4) Acquisitions

On April 3, 2001 the Company acquired all of the outstanding stock of Articulent Inc., a privately held, leading provider of storage solutions and services for $12,360,000 in cash, plus the assumption of approximately $24,394,000 of liabilities and the acquisition of approximately $19,333,000 of tangible assets. The agreement includes a potential $10,000,000 incentive payout based upon meeting certain revenue and earnings milestones over the twelve months beginning May 1, 2001. The Company does not anticipate that the revenue and earnings milestones required for the incentive payout will be achieved. The acquisition was accounted for as a purchase and the consolidated financial statements of the Company include the results of Articulent since April 3, 2001. The purchase price was allocated to the fair value of the assets and liabilities acquired as follows:

Purchase Price:	
Cash paid	$12,360
Fair Value of Assets Acquired and Liabilities Assumed:	
Cash	$ 624
Accounts receivable	10,287
Inventory	4,446
Fixed assets	3,393
Customer list	505
Goodwill	13,809
Deferred taxes	3,107
Other assets	583
Accounts payable	(18,302)
Accrued expenses	(2,324)
Note payable	(3,768)
Total purchase consideration	$12,360

The following table presents the unaudited pro forma consolidated results of operations of the Company for the year ended January 31, 2002 and 2001 as if the acquisition of Articulent took place on February 1, 2001 and 2000, respectively:

	Pro Forma Year Ended January 31,	
	2002	2001
Total revenue	$194,740	$245,030
Net income (loss)	$ (5,772)	$ 2,454
Net income (loss) per share	$ (.19)	$ .09

The pro-forma results include amortization of the customer list and goodwill presented above. The unaudited pro-forma results are for comparative purposes only and do not necessarily reflect the results that would have been recorded had the acquisition occurred at the beginning of the period presented or the results which might occur in the future.

(5) Discontinued Operations

Propelis Software, Inc. formerly known as the Enterprise Integration Solutions Division, including IntelliFrame, developed and sold EAI software that automates the integration of computer software applications, and business workflow processes. In August 2000, the Company determined to divest Propelis Software, Inc. and focus on its core storage networking business. As a result, Propelis Software, Inc. has been accounted for as a discontinued operation in the accompanying financial statements.

On February 2, 2001 the Company sold all of the outstanding stock of IntelliFrame Corporation, including the technology underlying the Propelis BPm™ product, to webMethods, Inc. for $8,800,000 in cash and 273,542 shares of webMethods common stock. The stock received from webMethods, Inc. was valued at $17,058,000, which reflects a discount from its publicly reported trading price due to the initial restrictions placed on the Company's ability to freely sell the stock. In connection with this transaction, the Company paid $3,000,000 to two employees, who were former shareholders of IntelliFrame, to satisfy all obligations to make further bonus payments under their employment agreements. The sale resulted in an after tax gain of $12,620,000 in the first quarter of 2001.

In the first quarter of 2001, the Company accrued $9,250,000 for the estimated future operating losses of Propelis Software, Inc. through the potential date of divestiture, resulting in an after tax loss of $6,197,000.

In August 2001, the Company sold substantially all of the remaining assets and liabilities of Propelis Software, Inc. to Jacada Ltd. for $6,000,000 in cash, plus a warrant to purchase 350,000 ordinary shares of Jacada Ltd. stock at a price of $3.26 per share. The final sales price was subject to adjustment based on the closing balance sheet of Propelis. The transaction resulted in an after tax gain of $1,799,000 in the third quarter of 2001.

(6) Leases

The Company leases all office and manufacturing space and certain equipment under noncancelable capital and operating leases. At January 31, 2002 and 2001, leased capital assets included in property and equipment were as follows:

	January 31, 2002	January 31, 2001
Property and equipment:		
Office and data processing equipment	$4,836	$4,557
Less accumulated amortization	2,605	842
	$2,231	$3,715

Future minimum lease payments, excluding executory costs such as real estate taxes, insurance and maintenance expense, by year and in the aggregate are as follows:

	Minimum Lease Commitments Capital	Minimum Lease Commitments Operating
Year Ending January 31,		
2003	$1,667	$ 5,408
2004	742	3,775
2005	—	2,826
2006	—	2,572
2007	—	2,543
Thereafter	—	10,010
Total minimum lease payments	2,409	27,134
Less minimum sublease income	—	272
Net minimum lease payments	2,409	$26,862
Less amounts representing interest at rates ranging from 8.89% to 11.29%	178	
Present value of minimum capital lease payments	2,231	
Less current installments	1,523	
Obligations under capital lease, less current installments	$ 708	

Rent expense under noncancelable operating leases, exclusive of executory costs, for fiscal 2001, 2000, 1999 and the one month transition period ended January 31, 2000 was $5,857,000, $5,315,000, $3,970,000 and $430,888, respectively. During the year ended December 31, 1999, the Company recognized a $1,331,000 charge for the future costs associated with a facility that was abandoned prior to expiration of the lease term. During the year ended January 31, 2001, the Company reversed $287,000 representing the unused portion of the accrual for the abandoned facility.

(7) Shareholders' Equity

Common Stock Repurchase

In April 2001, the Company's board of directors authorized the repurchase of up to $50,000,000 of the Company's common stock. During 2001, the Company repurchased 90,000 shares of its common stock for $787,000 pursuant to this authorization.

Rights Plan

On July 24, 1998 the Company's board of directors adopted a shareholders rights plan pursuant to which rights were distributed as a dividend at the rate of one preferred share purchase right for each outstanding share of common stock of the Company. The rights will expire on July 23, 2008 unless extended, earlier redeemed or exchanged by the Company.

Stock Options And Restricted Stock

The Company maintains stock option and restricted stock plans (the Plans) which provide for the grant of stock options, restricted stock and stock based awards to officers, other employees, consultants, and independent contractors as determined by the compensation committee of the board of directors. A maximum of 11,780,000 shares of common stock were issuable under the terms of the Plans as of January 31, 2002, of which no more than 3,830,000 shares may be issued as restricted stock or other stock based awards. As of January 31, 2002, there were 2,299,000 shares of common stock available for future grants under these plans.

Restricted stock issued under the Plans is recorded at fair market value on the date of grant and generally vests over a two to four year period. Vesting for some grants may be accelerated if certain performance criteria are achieved. Compensation expense is recognized over the applicable vesting period. During fiscal 2001, 2000, 1999 and the one month transition period ended January 31, 2000, the Company issued 106,000, 61,100, 90,250 and 3,000 restricted shares, respectively, having an aggregate weighted fair market value per share of $10.63, $17.43, $16.25 and $17.44, respectively. Compensation expense recognized for restricted shares in fiscal 2001, 2000, 1999 and the one month transition period ended January 31, 2000 was $568,000, $346,000, $219,000 and $49,000, respectively.

All stock options granted under the Plans have an exercise price equal to fair market value on the date of grant, vest and become exercisable over individually defined periods, generally four years, and expire ten years from the date of grant. During fiscal 1999, stock options for 800,000 shares were granted at an exercise price of $21.88 and vest after six years. The options did provide for acceleration of vesting upon certain increases in the Company's stock price. In March of 2001, the vesting for these options was changed to ratably over a four-year period from the original date of grant. As of January 31, 2002, 50% of these options were vested.

A summary of the status of the Company's outstanding stock options and related changes for fiscal 2001, 2000, 1999 and the one month transition period ended January 31, 2000 is presented below:

	Years Ended January 31,				Year Ended December 31,		Month Ended January 31,	
	2002		2001		1999		2000	
Options	Shares	Weighted-Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	4,655	$13.45	4,798	$10.02	4,972	$ 5.63	4,678	$ 9.78
Granted	2,666	9.71	1,552	18.77	1,689	18.40	165	15.29
Exercised	(549)	7.61	(1,123)	5.93	(1,540)	5.54	(21)	4.89
Canceled	(1,019)	15.30	(572)	13.92	(443)	10.79	(24)	8.69
Outstanding at end of period	5,753	$11.99	4,655	$13.45	4,678	$ 9.78	4,798	$10.02
Exercisable at end of period	2,107	$11.01	1,633	$ 8.08	1,901	$ 6.31	1,870	$ 6.39
Weighted-average fair value of grants during the period		$ 7.26		$13.56		$12.68		$12.82

The following table summarizes information about stock options outstanding at January 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 3.50 – $ 4.99	598	5.4	$ 4.42	500	$ 4.37
$ 5.00 – $ 7.99	523	4.2	$ 6.05	499	$ 6.03
$ 8.00 – $14.99	3,020	8.7	$10.01	530	$11.22
$15.00 – $19.99	697	8.0	$17.64	171	$17.51
$20.00 – $32.75	915	7.6	$22.56	407	$22.24
	5,753			2,107	

Employee Stock Purchase Plan

The 1992 Employee Stock Purchase Plan (the Purchase Plan) allows eligible employees an opportunity to purchase an aggregate of 1,100,000 shares of the Company's common stock at a price per share equal to 85% of the lesser of the fair market value of the Company's common stock at the beginning or the end of each six-month purchase period. Under the terms of the Purchase Plan, no participant may acquire more than 5,000 shares of the Company's common stock or more than $5,000 in aggregate fair market value of common stock (as defined) during any six-month purchase period. Common shares sold to employees under the Purchase Plan in fiscal 2001, 2000 and 1999 were 163,705, 102,920 and 86,972, respectively. No shares were sold to employees under the Purchase Plan in the one month transition period ended January 31, 2000.

The fair value of each purchase right granted in fiscal 2001, 2000 and 1999 was $7.34, $3.72 and $6.38, respectively.

Stock Compensation

The Company has elected to continue to account for its plans in accordance with APB No. 25. Accordingly, no compensation cost related to stock option grants or shares sold to employees under the Employee Stock Purchase Plan has been recognized in the Company's financial statements. Had compensation cost for the Company's stock-based compensation plans been recognized consistent with the fair value method of SFAS No. 123, the Company's net income (loss) and net income (loss) per basic and diluted share would have been reduced to the pro forma amounts indicated below:

	Years Ended January 31, 2002	Years Ended January 31, 2001	Year Ended December 31, 1999	Month Ended January 31, 2000
Net income (loss):				
As reported	$ (3,706)	$11,994	$4,655	$(3,625)
Pro forma	$(10,815)	$ 5,626	$ (795)	$(4,032)
Net income (loss) per share:				
As reported				
Basic	$ (.12)	$ .47	$ .20	$ (.15)
Diluted	$ (.12)	$ .43	$ .18	$ (.15)
Pro forma				
Basic	$ (.36)	$ .22	$ (.03)	$ (.17)
Diluted	$ (.36)	$ .20	$ (.03)	$ (.17)

In determining the compensation cost of stock option grants and shares sold to employees under the employee stock purchase plan, as specified by SFAS No. 123, the fair value of each award has been estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used in these calculations are summarized below:

	Years Ended January 31, 2002	Years Ended January 31, 2001	Year Ended December 31, 1999	Month Ended January 31, 2000
Risk free interest rate	4.51%	5.90%	5.64%	6.66%
Expected life	5.73	5.33	5.23	4.22
Expected volatility	86.88%	85.06%	79.66%	80.61%

(8) Net Income (Loss) Per Share

The components of net income (loss) per basic and diluted share are as follows:

	Net Income (loss)	Weighted Average Shares Outstanding	Per Share Amount
Years Ended January 31,			
2002:			
Basic	$(3,706)	29,892	$(.12)
Dilutive effect of employee stock purchase awards and options	—	—	—
Diluted	$(3,706)	29,892	$(.12)
2001:			
Basic	$11,994	25,383	$ .47
Dilutive effect of employee stock purchase awards and options	—	2,430	(.04)
Diluted	$11,994	27,813	$ .43
Year Ended December 31, 1999			
Basic	$ 4,655	23,137	$ .20
Dilutive effect of employee stock purchase awards and options	—	2,681	(.02)
Diluted	$ 4,655	25,818	$ .18
Month Ended January 31, 2000			
Basic	$(3,625)	23,815	$(.15)
Dilutive effect of employee stock purchase awards and options	—	—	—
Diluted	$(3,625)	23,815	$(.15)

The total weighted average number of common stock equivalents excluded from the calculation of potentially dilutive securities due to the inclusion of such securities in a calculation of net loss per share would have been anti-dilutive for the year ended January 31, 2002 and the one month transition period ended January 31, 2000 were 1,292,016 and 2,029,084, respectively.

(9) Income Taxes

The components of income from continuing operations before income taxes and income tax expense (benefit) for each of the years in the three-year period ended January 31, 2002 and the one month transition period ended January 31, 2000 consists of the following:

	Years Ended January 31, 2002	Years Ended January 31, 2001	Year Ended December 31, 1999	Month Ended January 31, 2000
Income (loss) from continuing operations before income taxes:				
U.S	$(17,756)	$19,595	$ 6,356	$(3,511)
Foreign	536	4,481	199	(389)
Total	$(17,220)	$24,076	$ 6,555	$(3,900)
Income tax provision:				
Current:				
U.S	$ —	$ 5,180	$ 3,356	$ 52
Foreign	284	1,348	60	—
State	—	1,027	749	11
Total current	284	7,555	4,165	63
Deferred:				
U.S	(5,198)	458	(1,525)	(1,133)
State	(378)	(66)	(411)	(217)
Total deferred	(5,576)	392	(1,936)	(1,350)
Total income tax expense (benefit)	$ (5,292)	$ 7,947	$ 2,229	$(1,287)

The reconciliation of the statutory federal tax rate and the effective tax rate for each of the years in the three-year period ended January 31, 2002 and the one-month transition ended January 31, 2000 is as follows:

	Years Ended January 31, 2002	Years Ended January 31, 2001	Year Ended December 31, 1999	Month Ended January 31, 2000
Statutory tax rate	34.0%	34.0%	34.0%	34.0%
Increase (decrease) in taxes resulting from:				
State taxes, net of federal tax benefit	3.3	2.6	3.4	3.3
Extraterritorial income and foreign sales corporation	.5	(1.9)	(5.3)	—
Meals and entertainment	(.6)	.4	1.1	(.1)
Valuation allowance	(4.8)	—	—	—
Other	(1.7)	(2.1)	.8	(4.2)
Total	30.7%	33.0%	34.0%	33.0%

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and (liabilities) as of January 31, 2002 and 2001 were as follows:

	Years Ended January 31, 2002	Years Ended January 31, 2001
Deferred tax assets:		
Inventory	$ 4,658	$ 2,725
Accrued compensation	1,145	1,026
Reserves for bad debts and sales returns	636	694
Foreign net operating loss carryforwards	410	410
Federal and state tax credits	1,265	2,130
Federal and state net operating loss carryforwards	7,895	4,268
Write down of webMethods stock	1,071	—
Other	900	714
Total gross deferred tax assets	17,980	11,967
Valuation allowance	(1,240)	(410)
Net deferred tax assets	16,740	11,557
Deferred tax liabilities:		
Property and equipment	(109)	(343)
Other	(449)	(385)
Total gross deferred tax liabilities	(558)	(728)
Net deferred tax assets	$16,182	$10,829

The Company recorded a valuation allowance at January 31, 2002 and 2001 of $1,240,000 and $410,000, respectively. The valuation allowance at January 31, 2001 was related to certain foreign net operating loss carryforwards. The valuation allowance was increased by $830,000 in 2001 for the tax benefits associated with certain foreign and state tax credits and state net operating loss carryforwards. Utilization of these tax benefits in future periods was determined to be unlikely. At January 31, 2002, the Company had net operating loss and credit carryforwards available for federal tax purposes of approximately $19,986,000 and $909,000, respectively, which will expire between the years 2019 and 2022.

The Company has assessed its taxable earnings history and prospective future taxable income. Based on this assessment, management has determined that it is more likely than not that its remaining net deferred tax assets will be realized in future periods. The Company may be required to provide a valuation allowance for this asset in the future if it does not generate sufficient taxable income as planned.

(10) Annual Bonus Plan

The Company's Annual Bonus Plan provides a formula for determination of cash bonus payments to eligible employees based on a defined percentage of a participant's qualifying base compensation multiplied by the Company's annual bonus plan factor. The annual bonus plan factor is based on a chart which outlines payout percentages for achievement of defined levels of revenue and operating profit as a percentage of revenue.

The annual bonus expense for fiscal 2001, 2000, and 1999 was $1,134,000, $2,035,000 and $420,000, respectively. There was no bonus for the one month transition period ended January 31, 2000.

(11) 401(k) and Deferred Compensation Plans

The Company has a 401(k) salary savings plan which covers substantially all of its employees. The Company matches 100% of a participant's annual plan contributions up to an annual maximum per participant of $2,500 which vests over a four year period from the participant's date of hire.

The Company has also established an executive deferred compensation plan for selected key employees which allows participants to defer a substantial portion of their compensation each year. The Company matches 20% of a participant's annual plan contributions up to an annual maximum per participant of $10,000. Matching contributions vest over a four year period from the later of July 1, 1997 or the participant's date of hire. In addition, the Company provides participants with an annual earnings credit based on the investment indexes selected by the participant prior to the start of each plan year.

The Company's expense under the 401(k) and deferred compensation plans for fiscal 2001, 2000, 1999 and the one month transition period ended January 31, 2000 was $1,969,000, $1,132,000, $470,000 and $329,000, respectively.

(12) Segment Information

The Company has two reportable segments consisting of its Networking Solutions business unit and Storage Solutions business unit. The Networking Solutions business unit consists of our storage and channel networking products and related services. The Storage Solutions business consists of our storage networking design and implementation services and the storage management business we acquired from Articulent in April of 2001. The Company's two reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different market strategies. The Company evaluates performance based on operating profit or loss before special charges and income taxes.

Reportable Segment Information:

	Years Ending January 31, 2002	Years Ending January 31, 2001	Year Ended December 31, 1999	Month Ended January 31, 2000
Revenue:				
Networking Solutions	$136,866	$163,468	$121,410	$ 4,278
Storage Solutions	50,157	12,638	4,579	64
Total	$187,023	$176,106	$125,989	$ 4,342
Income (Loss) from Operations:				
Networking Solutions	$ (4,773)	$ 20,914	$ 6,706	$ (3,804)
Storage Solutions	(4,380)	(277)	2,484	(189)
Special charges	(3,321)	287	(2,745)	—
Total	$(12,474)	$ 20,924	$ 6,445	$ (3,993)
Depreciation and amortization:				
Networking Solutions	$ 13,246	$ 11,755	$ 9,070	$ 645
Storage Solutions	1,881	57	13	7
Total	$ 15,127	$ 11,812	$ 9,083	$ 652

	Years Ending January 31, 2002	Years Ending January 31, 2001	Year Ended December 31, 1999	Month Ended January 31, 2000
Expenditures for long-lived assets:				
Networking Solutions	$ 9,865	$ 17,023	$ 10,930	$ 798
Storage Solutions	1,103	201	59	15
Total	$ 10,968	$ 17,224	$ 10,989	$ 813
Total assets (end of period):				
Networking Solutions	$235,776	$264,868	$109,444	$105,301
Storage Solutions	33,962	3,755	1,210	1,212
Total	$269,738	$268,623	$110,654	$106,513
Foreign Operations Information:				
Revenue:				
United States	$140,667	$123,717	$ 82,494	$ 3,620
United Kingdom	17,245	16,554	13,402	490
France	6,327	5,213	4,348	86
Other	22,784	30,622	25,745	146
Total	$187,023	$176,106	$125,989	$ 4,342
Long-lived assets (end of period):				
United States	$ 43,897	$ 29,678	$ 21,464	$ 21,497
United Kingdom	693	856	901	918
Other	109	327	265	268
Total	$ 44,699	$ 30,861	$ 22,630	$ 22,683

Revenue has been attributed to the country where the end-user customer is located.

No single customer accounted for more than 10% of the Company's total revenue in fiscal 2001, 2000 or 1999. For the one month transition period ended January 31, 2000, sales of DXE product and service to StorageTek for our Networking Solutions segment accounted for 22% of total revenue.

(13) Noncash Financing and Investing Activities and Supplemental Cash Flow Information

Cash payments for interest expense in fiscal 2001, 2000, 1999 and the one month transition period ended January 31, 2000 were $285,000, $338,000, $222,000 and $6,000, respectively.

Cash payments for income taxes, net of refunds received, in fiscal 2001, 2000 and 1999 were $17,000, $3,286,000 and $2,116,000, respectively. There were no cash payments for income taxes or refunds received during the one month transition period ended January 31, 2000.

During fiscal 2001, 2000, 1999 and the one month transition period ending January 31, 2000, the Company entered into capital lease obligations for equipment valued at $279,000, $1,849,000, $653,000 and $307,000, respectively.

During fiscal 2001 and 2000, deferred tax assets increased by $994,000 and $5,736,000, respectively, as a result of the tax benefit from employee stock transactions which could not be currently utilized.

(14) Disclosures about Fair Value of Financial Instruments

The carrying amount for cash and cash equivalents, accounts receivable and long-term obligations approximates fair value because of the short maturity of those instruments. Marketable securities are recorded at market value at January 31, 2002.

(15) Related Party Transactions

During 2001, the Company purchased $491,000 of bandwidth from Dynegy Connect, an entity wholly owned by Dynegy Global Communications. At January 31, 2002 the Company has commitments to purchase $1.2 million of additional bandwidth from Dynegy Connect through fiscal 2006. All of the bandwidth purchases were for re-sale under specific agreements to customers at a profit. The bandwidth was purchased from Dynegy Connect because they offered the best pricing. The Company has purchased bandwidth from competitors of Dynegy Connect when their pricing has been more attractive. The Company's board member, Lawrence McLernon, is chief executive officer of Dynegy Global Communications.

(16) Subsequent Event

In February 2002, the Company sold $125 million of 3% convertible subordinated notes due February 2007, raising net proceeds of $121 million. The notes are convertible into our common stock at a price of $19.17 per share. The Company may redeem the notes upon payment of the outstanding principal balance, accrued interest and a make whole premium if the closing price of the Company common stock exceeds 175% of the conversion price for at least 20 consecutive trading days within a period of 30 consecutive trading days ending on the trading day prior to the date we mail the redemption notice.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Computer Network Technology Corporation:

We have audited the accompanying consolidated balance sheets of Computer Network Technology Corporation and subsidiaries as of January 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the years ended January 31, 2002 and 2001, the year ended December 31, 1999, and the one month transition period ended January 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Computer Network Technology Corporation and subsidiaries as of January 31, 2002 and 2001, and the results of their operations and their cash flows for the years ended January 31, 2002 and 2001, the year ended December 31, 1999, and the one month transition period ended January 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Minneapolis, Minnesota
February 25, 2002

QUARTERLY FINANCIAL DATA
(unaudited)

	Years Ended January 31, 2002 and 2001			
	First Quarter(2)	Second Quarter	Third Quarter(3)	Fourth Quarter
	(in thousands, except per share data)			
2001(1)				
Revenue	$ 29,413	$41,583	$55,362	$60,665
Gross profit	10,465	16,560	22,027	24,389
Income (loss) from operations	(10,478)	(2,597)	(326)	927
Income from discontinued operations, net of tax	6,423	—	1,799	—
Net income (loss)	(6,555)	(821)	2,398	1,272
Net income (loss) per share:				
Basic	(.22)	(.03)	.08	.04
Diluted	(.22)	(.03)	.08	.04
2000(1)				
Revenue	$ 38,607	$44,341	$46,198	$46,960
Gross profit	20,332	24,091	24,206	24,296
Income from operations	2,887	5,701	6,516	5,820
Loss from discontinued operations, net of tax	(116)	(1,903)	(1,150)	(966)
Net income	1,830	2,053	3,705	4,406
Net income per share:				
Basic	.08	.09	.15	.15
Diluted	.07	.08	.13	.14

(1) We divested Propelis Software, Inc. formerly known as our Enterprise Integration Solutions Division to focus all of our resources on our core storage networking business. Accordingly, the financial information for Propelis Software, Inc. has been accounted for as discontinued operations.

(2) Continuing operations for the first quarter of fiscal 2001 includes a $2.0 million write down of inventory, a $325,000 write-off of our FileSpeed product and a $1.0 million restructuring charge. Continuing operations also includes a loss on the sale and write-down of webMethods stock of $10.3 million. Discontinued operations for the first quarter of fiscal 2001 includes a provision of $6.2 million, net of tax, to accrue for the estimated future operating losses of Propelis Software, Inc. through the expected date of divestiture. Discontinued operations for the first quarter of 2001 includes an after tax gain of $12.6 million resulting from the sale of IntelliFrame.

(3) Continuing operations for the third quarter of fiscal 2000 includes a reversal of the unused balance of a 1999 fourth quarter accrual for an abandoned facility. The amount of the reversal was $287,000. Discontinued operations for the third quarter of fiscal 2001 includes an after tax gain of $1.8 million from the sale of substantially all of the remaining assets and liabilities of Propelis Software, Inc. to Jacada Ltd.

Item 9. Changes in and Disagreements with Accountants and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers

The information set forth under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 25, 2002, to be filed with the Securities and Exchange Commission (the "Commission") on or before May 26, 2002, is incorporated herein by reference. For information concerning the executives officers, see Item 4A of this Annual Report on Form 10K.

Item 11. Executive Compensation

The information set forth under the captions "Summary Compensation Table," "Option Tables," "Employment Agreements," "Election of Directors — Compensation of Directors," "Internal Revenue Code Section 162(m)" and "Comparative Stock Price Performance" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 25, 2002, to be filed with the Commission on or before May 26, 2002, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 25, 2002, to be filed with the Commission on or before May 26, 2002, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

During 2001, we purchased $491,000 of bandwidth from Dynegy Connect, an entity wholly owned by Dynegy Global Communications. At January 31, 2002 we have commitments to purchase $1.2 million of additional bandwidth from Dynegy Connect through fiscal 2006. All of the bandwidth purchases were for re-sale under specific agreements to customers at a profit. The bandwidth was purchased from Dynegy Connect because they offered us the best pricing. We have purchased bandwidth from competitors of Dynegy Connect when their pricing has been more attractive. Our board member, Lawrence McLernon, is chief executive officer of Dynegy Global Communications.

PART IV

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

(a) 1. Consolidated Financial Statements and Schedules of Registrant

Consolidated Statements of Operations for the Years Ended January 31, 2002 and 2001, December 31, 1999, and the one month transition period ended January 31, 2000.

Consolidated Balance Sheets as of January 31, 2002 and 2001.

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) for the Years Ended January 31, 2002 and 2001, December 31, 1999, and the one month transition period ended January 31, 2000.

Consolidated Statements of Cash Flows for the Years Ended January 31, 2002 and 2001, December 31, 1999, and the one month transition period ended January 31, 2000.

Notes to Consolidated Financial Statements

Independent Auditors' Report

(a) 2. Consolidated Financial Statement Schedule of Registrant

Independent Auditors' Report on Consolidated Financial Statement Schedule

Schedule II: Valuation and Qualifying Accounts for the Years Ended January 31, 2002 and 2001, December 31, 1999 and the one month transition period ended January 31, 2000.

All other schedules are omitted as the required information is inapplicable or is presented in the consolidated financial statements or related notes thereto.

Schedule II

COMPUTER NETWORK TECHNOLOGY CORPORATION

Valuation and Qualifying Accounts

Years ended January 31, 2002, 2001 and December 31, 1999 and the One Month Transition period ended January 31, 2000 (in thousands)

Description	Balance at beginning of period	Additions: Charged to costs & expenses	Additions: Charged to other account	Deductions	Balance at end of period
Year ended January 31, 2002					
Allowance for doubtful accounts and sales returns	$2,383	898	—	(1,433)	$1,848
Year ended January 31, 2001					
Allowance for doubtful accounts and sales returns	$1,128	1,600	—	(345)	$2,383
One month period ended January 31, 2000					
Allowance for doubtful accounts and sales returns	$ 959	169	—	—	$1,128
Year ended December 31, 1999					
Allowance for doubtful accounts and sales returns	$1,225	519	—	(785)	$ 959

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT SCHEDULE

The Board of Directors and Shareholders
Computer Network Technology Corporation:

Under the date of February 25, 2002, we reported on the consolidated balance sheets of Computer Network Technology Corporation and subsidiaries as of January 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the years ended January 31, 2002 and 2001, the year ended December 31, 1999, and the one month transition period ended January 31, 2000 as contained in the fiscal 2001 annual report on Form 10-K. These consolidated financial statements and our report thereon are included in the annual report on Form 10-K for fiscal 2001. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Minneapolis, Minnesota
February 25, 2002

(a) 3. **Exhibits**

The Company undertakes to furnish to any shareholder so requesting a copy of any of the following exhibits upon payment to the Company of the reasonable costs incurred by the Company in furnishing any such exhibit.

Exhibit	Description
2.	Purchase Agreement as of April 3, 2001 between Computer Network Technology Corporation and Ernest J. Parsons (Articulent, Inc.).(2)
3.1	Second Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibits 3(i)-1 and 3(i)-2 to current report on Form 8-K dated May 25, 1999.)
3.2	Articles of Amendment of the Second Restated Articles of the Company. (Incorporated by reference to Exhibit 3(i)-1 to current report on Form 8-K dated May 25, 1999.)
3.3	By-laws of the Company. (Incorporated by reference to Exhibit 3(ii)-1 to current report on Form 8-K dated May 25, 1999.)
4.1	Rights Agreement between the Company and Chase Mellon Shareholder Services, L.L.C., as Rights Agent including the form of Rights Certificate and the Summary of Rights to Purchase Preferred Shares. (Incorporated by reference to Exhibit 1 to Form 8-A dated July 29, 1998 and Exhibit 1 to Form 8-A/A dated November 27, 2000.)
4.2	First Amendment of Rights Agreement dated November 21, 2000. (Incorporated by Reference to Exhibit 1 to Form 8-A/A dated November 27, 2000.)
4.3	First Amendment of Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock. ($.01 Par Value Per Share) of Computer Network Technology Corporation (Incorporated by reference to Exhibit 2 to Form 8-A/A dated November 27, 2000.)
4.4	Form of Common Stock Certificate. (Incorporated by reference to Exhibit 4.2 to Form S-3 Registration Statement No. 333-80841.)
4.5	Registration Rights Agreement, dated as of February 20, 2002, among Bear, Sterns & Co. Inc., SG Cowan Securities Corporation and Soundview Technology Corporation(2)
4.6	Indenture, dated as of February 20, 2002, between the Company and U.S. Bank National Association, as Trustee(2)
4.7	Form of Note (included in Exhibit 4.6)(2)
10.1	Amended 1992 Stock Award Plan.(1)(2)
10.2	Amended and Restated 1999 Non-Qualified Stock Award Plan.(2)
10.3	March 10, 1994 Incentive Stock Option Agreements. (Incorporated by reference to Exhibit 28.2 Form S-8 Registration Statement No. 33-83266.)(1)
10.4	March 10, 1994 Non-Qualified Stock Option Agreements. (Incorporated by reference to Exhibit 28.3 Form S-8 Registration Statement No. 33-83266.)(1)
10.5	Building Lease by and between Opus Northwest, L.L.C., and Computer Network Technology Corporation. (Incorporated by reference to Exhibit 10A Form 10Q for the quarterly period ended September 30, 1998.)
10.6	Employment Agreement by and between the Company and Thomas G. Hudson as amended. (Incorporated by reference to Exhibit 10Z Form 10-Q for the quarterly period ended June 30, 1996.)(1)
10.7	CNT's 2002 Annual Bonus Plan.(1)(2)
10.8	Employment Agreement by and between the Company and Mark Knittel. (Incorporated by reference to Exhibit 10AA Form 10-K for the year ended December 31, 1997.)(1)

Exhibit	Description
10.9	Amendment to CNT Executive Deferred Compensation Plan. (Incorporated by reference to Exhibit 10I Form 10-K for the year ended January 31, 2001.) (1)
10.10	Employment/Non-Compete Agreement by and between the Company and Nick V. Ganio. (Incorporated by reference to Exhibit 10Q to Form 10-K for the Year Ended December 31, 1998.) (1)
10.11	1997 Restricted Stock Plan. (1) (2)
10.12	Articulent One-Time Bonus Plan (Incorporated by reference to Exhibit 99.2 to Form 8-K dated April 3, 2001.) (1)
10.13	Amended and Restated 1992 Employee Stock Purchase Plan (1) (2)
10.14	2002 Stock Award Plan (1) (2)
12.	Ratio of Earnings to Fixed Charges (2)
21.	Subsidiaries of the Registrant. (2)
23.	Independent Auditors' Consent. (2)
99.1	Cautionary Statements. (2)
99.2	Calculation of Additional Purchase Price to be Paid in Connection with Acquisition of Articulent, Inc. (Incorporated by reference to Exhibit 99.1 to Form 8-K dated April 3, 2001).

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(1) Management contracts or compensatory plans or arrangements with the Company.

(2) Filed herewith.

(b) Reports on Form 8-K

No filings were made on Form 8-K during the quarterly period ended January 31, 2002.

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.

COMPUTER NETWORK TECHNOLOGY CORPORATION

Dated: April 12, 2002

By: /s/ THOMAS G. HUDSON

Thomas G. Hudson, President and
Chief Executive Officer
(Principal Executive Officer)

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.

/s/ THOMAS G. HUDSON Thomas G. Hudson	President and Chief Executive Officer (Principal Executive Officer) and Director	April 24, 2002
/s/ GREGORY T. BARNUM Gregory T. Barnum	Vice President of Finance, Chief Financial Officer and Secretary (Principal Financial Officer)	April 24, 2002
/s/ JEFFREY A. BERTELSEN Jeffrey A. Bertelsen	Corporate Controller and Treasurer (Principal Accounting Officer)	April 24, 2002
/s/ PATRICK W. GROSS Patrick W. Gross	Director	April 24, 2002
/s/ ERWIN A. KELEN Erwin A. Kelen	Director	April 24, 2002
/s/ LAWRENCE MCLERNON Lawrence McLernon	Director	April 24, 2002
/s/ JOHN A. ROLLWAGEN John A. Rollwagen	Director	April 24, 2002

INDEX TO EXHIBITS

Exhibit	Description
2.	Purchase Agreement as of April 3, 2001 between Computer Network Technology Corporation and Ernest J. Parsons (Articulent, Inc.).(2)
3.1	Second Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibits 3(i)-1 and 3(i)-2 to current report on Form 8-K dated May 25, 1999.)
3.2	Articles of Amendment of the Second Restated Articles of the Company. (Incorporated by reference to Exhibit 3(i)-1 to current report on Form 8-K dated May 25, 1999.)
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(2) Filed herewith.

CNT Annual Report | 2002

CNT®

To Our Shareholders:

2002 was a challenging year. Business-to-business spending hit a 50-year low. Economic uncertainty drove the financial markets down, and many companies responded by freezing capital expenditures. Network industry sales fell 18 percent compared to 2001; storage industry revenues fell three percent.

On a positive note, CNT's financial performance, while not satisfactory, stood in sharp contrast despite the tough economic climate. Total CNT revenues were up 13 percent over 2001, making 2002 our fifth consecutive year of top line revenue growth. In fact, CNT finished the year with the biggest backlog of business and the largest managed services revenue stream ever. In recognition of our growth, CNT was named to the Network World 200 list of top networking companies based on overall revenue.

CNT grew Storage Area Networking (SAN) revenue 16 percent, while the industry overall experienced only a nine percent increase in SAN revenue during 2002. Storage services sales grew only four percent industry-wide, but CNT realized a 77 percent increase in revenue from storage services. Where IP sales grew 35 percent in the industry overall, CNT's IP revenue grew 90 percent.

When you reflect on the economic struggles of this past year, especially for the information technology industry, CNT's successes become even more impressive. CNT is extremely proud of this record revenue and of the team that delivered this growth. You may conclude, as I have, that CNT is a company in the right space at the right time with the right strategy.

CNT continued to grow as a total solutions provider with a broader portfolio of offerings that extend our reach in our customers' environments. As we provide our customers with more and more solutions that combine business continuity with business efficiency, we strengthen our relationship as a valued business partner to our customers. Revenue from our storage consulting services grew every quarter in 2002. Our managed services revenue also grew every quarter, including our largest managed services contract to date in the fourth quarter.

Partnerships with other industry-leading companies in the storage, networking, and services industries enhanced our ability to deliver comprehensive solutions to our customers. We reinforced alliances with IBM, EMC, Hitachi Data Systems, Strohl Systems, and StorageTek to leverage their strengths for our solutions and to increase our share of their solution sales.

During 2002 we implemented a cost-effective disaster recovery solution for Ohio Savings Bank, one of the nation's 10 largest mortgage lenders, that requires 99.999 percent uptime, or '5 nines' reliability.

To meet its business requirements, Ohio Savings Bank implemented a CNT mirroring solution. Our UltraNet Edge Storage Router was used to connect storage networks over IP for a highly reliable disaster recovery solution. The organization received a fully redundant network, configured for zero data loss. The solution met our customer's needs as well as their budgetary requirements. And the architecture will support corporate growth and change far into the future.

Donald Janosik, network services team lead, Ohio Savings Bank, commented: "In the lending and finance industry, downtime is not an option. In the event that one center fails, we now have the capability to access the same data in the second center to maintain 'business as usual' without anyone even knowing that the change took place. It makes my job a lot easier knowing that my customers' data is safe at all times."

The year was marked by the introduction of new innovative CNT products and services and the growth of existing offerings. Some highlights from 2002 include:

- Announced the industry's first successful tape pipelining over IP capabilities
- Launched Network Management Service (NMS) to remotely monitor customer networks and proactively prevent downtime
- Introduced new, proprietary tools including HealthChecks and Assessments for storage and IP networks
- Expanded our Business Continuity consulting practice
- Grew sales of the UltraNet® Edge Storage Router from $3.2 M in 2001 to $13.2 M as the product continued to gain acceptance
- Acquired BI-Tech, a leading independent storage solutions provider in Europe
- Acquired over 200 new customers and built stronger relationships with our existing customers

As we delivered business efficiency solutions to our customers, we increased efficiency within CNT. We integrated our networking and solutions sales, support, and service functions to better reflect our complete capabilities. We made key organizational changes designed to streamline our sales organization and our approach to service delivery that will result in increased sales opportunities and improved customer satisfaction. We reduced our worldwide workforce by ten percent and increased our revenue per employee to the highest level ever.

CNT exited 2002 with a solid and improving balance sheet and a strong, new sales management team in place. We enter 2003 with a company-wide commitment to cost-containment, efficiency, and growing profitability.

Our goals for 2003 are to:

- Continue to improve customer satisfaction by offering solutions that meet their technology objectives as well as their business and financial requirements
- Grow profitability by selling the complete CNT portfolio—products, solutions, and services
- Expand the suite of UltraNet products
- Enhance and expand service offerings
- Enter into new joint development partnerships
- Mine the existing customer base for new sales as technologies and solutions evolve
- Add telecom sales to our solutions to help customers manage their total cost of ownership

CNT is poised to extend its competitive lead in 2003, even though the outlook is uncertain for many businesses.

Risk averse customers are turning away from start-up suppliers and toward established partners with proven track records and strong balance sheets. Government guidelines and regulatory requirements are placing pressure on companies in several industries to begin or increase spending on business continuity and disaster recovery. Reduced workforces, high equipment costs, and escalating maintenance costs are driving a return to consolidated data sites. For customers facing any of these issues, CNT is the answer.

CNT has participated in the networking and storage industries since their beginnings. With nearly two decades in operation, we have accumulated experience and built our portfolio of offerings. As our industries moved into the mainstream, the technologies, interconnectivity, and interoperability on which they are based have become more rather than less complex. Now, more than ever, customers need CNT's expertise and innovative solutions. We are the storage networking experts.

On April 7, 2003, CNT announced its intention to acquire Inrange Technologies Corporation. This strategic acquisition is expected to significantly broaden and strengthen CNT's portfolio of storage networking products, solutions and services, expand our customer base, and provide us with significant scale and cost reduction opportunities. While the transaction is subject to regulatory approval, it is expected to close in the second quarter of 2003, and when complete, will make CNT larger and one of the world's best providers of complete storage networking products, solutions and services.

As we head into our 20th anniversary, we are cautiously optimistic about the years ahead and steadfast in our commitment to grow revenues and profits. I would like to thank our shareholders and customers for their ongoing support and our management team and employees for their dedication and continued focus on delivering customer value.

Sincerely,

Thomas G Hudson

Thomas G. Hudson
President, Chief Executive Officer and
Chairman of the Board

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

FORM 10-K

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

For the fiscal year ended January 31, 2003
Commission file number: 0-13994

COMPUTER NETWORK TECHNOLOGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Minnesota (State or Other Jurisdiction of Incorporation or Organization)	**41-1356476** (I.R.S. Employer Identification No.)
6000 Nathan Lane North, Plymouth, Minnesota (Address of Principal Executive Offices)	**55442** (Zip Code)

(763) 268-6000
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock $.01 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 that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes √ No ___

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes √ No ___

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $146,001,470.

As of April 1, 2003 Registrant had 26,970,165 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Computer Network Technology Corporation's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 25, 2003 are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

BUSINESS

Overview

We are a leading provider of end-to-end storage solutions, including hardware and software products, related consulting and integration services, and managed services in the growing storage networking market. We focus primarily on helping our customers design, develop, deploy and manage storage networks, including storage area networks, or SANs, a high speed network within a business' existing computer system that allows the business to manage its data storage needs with greater efficiency and less disruption to its overall network. We design, manufacture, market and support a wide range of solutions for critical storage networking applications such as remote data replication, or the real-time backup of data to remotely located disks, and remote tape vaulting, or the backup of data to remotely archived tapes. We also supply storage systems, Fibre Channel switches, telecommunications capacity and storage application software. Our revenues were $211.5 million, $187.0 million and $176.1 million for the years ended January 31, 2003, 2002 and 2001, respectively.

Our storage networking solutions enable businesses to cost-effectively design, implement, monitor and manage their storage requirements, connect geographically dispersed storage networks, provide continuous availability to greater amounts of data and protect increasing amounts of data more efficiently. We market our storage networking products and services directly to customers through our sales force and worldwide distributors. We also have strategic marketing and supply relationships with leading storage, telecommunications and fibre switching companies, including Brocade, EMC, Hewlett-Packard, Hitachi Data Systems, IBM, McDATA, StorageTek, Dell Computer Corporation and Veritas.

We were the first to develop, and remain a leading provider of, the following storage networking solutions:

- *Storage networking over WANs.* Our solutions for storage networking over wide area networks, or WANs, enable businesses to manage and protect data across remote locations, in real time if necessary, through applications such as remote data replication and remote tape vaulting. WANs are networks dispersed over long distances that communicate by traditional copper or fiber optic third-party telecommunication lines.

- *Fibre Channel-based storage networking over WANs.* In October 1999, we introduced our first Fibre Channel-based storage networking over WAN product. Fibre Channel is a technology that dramatically improves the speed of data input and output, or I/O, between existing storage devices and the ability to connect additional devices to storage networks. We believe our Fibre Channel-based storage networking over WAN products offer significant growth prospects. These products uniquely address constraints in distance, connectivity and data transmission speeds inherent in the Fibre Channel standard. We believe Fibre Channel technology combined with our products and services will enable businesses to efficiently consolidate, cluster and share data from multiple storage devices on storage networks.

- *Storage networks over IP-based networks.* In February 2000, we introduced the first products to allow storage networking applications, such as remote data replication, to be deployed over private networks that are based on Internet protocol, or IP, the standard method for data transmission over the Internet. In May 2001, we announced the first implementation of data mirroring that combined Fibre Channel over IP. Our products were the first to extend the Fibre Channel, SCSI and ESCON standards to IP-based networks. SCSI and ESCON are older, widely used standards for communicating between computers and IP refers to internet protocol. These products uniquely enable businesses that use virtual private IP-based networks, or VPNs, to build storage networking over WAN applications. In October 2002, we announced the first remote tape backup/recovery solution for open systems environments to operate over thousands of miles utilizing IP networks.

Following these technological firsts, we expanded our solutions offerings with the acquisition of Articulent Inc. in April 2001, a storage solutions provider in the Northeast United States, and the acquisition of Business Impact Technology Solutions Limited (BI-Tech) in June 2002, a storage solutions provider in the United Kingdom. Our expanded solutions offerings include consulting, integration, monitoring, and management services that allow our customers to rapidly design, implement and manage complex storage environments. As a result, we are able to capture more of our customers' spending dollars on storage solutions.

Our storage networking solutions operate across most business computing environments, including open systems and mainframes. Open systems are server-based systems that are easy to scale, or expand, and use hardware and software standards not proprietary to any vendor. Mainframes are computer systems with high processing power that have historically been used by large businesses for storing and processing large amounts of data. Compared to available alternatives, we believe our storage networking products offer greater ability to connect various applications and heterogeneous environments using different interfaces, protocols and standards, and to connect and link devices in storage networks transparently, meaning with little or no alteration of other vendors' hardware or software products.

We believe our solutions that enable storage networking applications over IP-based networks will benefit existing customers and attract new customers, including mid-sized businesses. These solutions extend the "bandwidth on demand" advantages of IP-based networks to storage applications and allow customers to access telecommunications capacity only as needed through a virtual private network, or VPN, connection, as opposed to leasing expensive dedicated lines. By deploying storage networks over IP-based networks, companies can leverage their existing bandwidth, and can rely on their existing IP network knowledge. We believe that these cost savings, along with the generally expected decreasing costs of telecommunications capacity, will create high-growth opportunities for us in remote data replication, remote tape vaulting and other storage networking applications we enable.

Our storage networking products consist primarily of our UltraNet® family of products, that connect storage devices. We also market our established channel networking products, which enable mainframe computers to transmit data over unlimited distances and provide our support services. Our storage solutions sales, which includes the business we acquired from Articulent in April 2001 and BI-Tech in June 2002, helps our customers design, deploy and manage enterprise storage solutions by supplying products and expertise for implementing storage applications. The storage solutions sale includes consulting and integration services for disaster recovery, business continuance, storage infrastructure and network performance. We also offer integration services for data replication, enterprise back-up and restore, SAN implementation and network performance monitoring.

Our Market Opportunities

We believe several forces will continue to drive the demand for our storage networking products and services:

- The volume of enterprise data is expected to increase significantly due to the proliferation of Web-based content, digital media, e-mail, supply chain management, customer relations management and other data-driven business applications. As a result, the demand for storage capacity continues to grow.

- Actual and expected declines in telecommunications costs and the introduction of cost-effective technologies such as Fibre Channel switching and fiber optic transmission capabilities will make remote data replication and remote tape backup applications more financially attractive for our customers. The decrease in telecommunications costs, coupled with an overall increase in the cost of ownership, contributes to a trend of consolidating and connecting storage across many servers and many locations, which drives demand for our products and services.

- Storage networking applications over IP-based networks will further expand the type and amount of data our customers will backup and replicate to remote locations. This will also make these applications more affordable for customers with fewer storage requirements.

- The increased complexities of storage applications, such as interoperability, storage effectiveness, and business efficiency issues, results in customers requiring storage integration and implementation expertise. We believe our services permit customers to effectively solve these issues, driving demand for our products and services and increasing our revenues.

- Customers require that their business critical applications have effective disaster recovery solutions. The events of September 11, 2001 demonstrate the need for and functionality of our products and services. Our customers had 40 systems located in lower Manhattan that were significantly impacted. Because our products were routing data to remote facilities on behalf of customers located in and around the World Trade Center, we believe all products worked as designed, resulting in no material loss of data by any customer.

As a result of the foregoing and other factors, International Data Corporation, or IDC, estimates that the worldwide revenue for SAN-attached disk storage systems will grow from $5.9 billion in 2002 to $9.1 billion in 2006, a compound annual growth rate of 12%. Another indication of demand for our storage networking solutions is the growth of the Fibre Channel industry. IDC estimates the revenue for Fibre Channel hubs, switches and directors will grow from $1.5 billion in 2002 to $2.4 billion in 2007, which reflects a compound annual growth rate of 10%. IDC estimates the demand for storage consulting and support services will grow from $1.6 billion in 2002 to $2.1 billion in 2006, a compound annual growth rate of 6%. IDC estimates that North America revenue for storage services will grow from $12.6 billion in 2002 to $17.1 billion in 2006, a compound annual growth rate of 7%. It is notable however, that we are in the midst of a current economic slowdown affecting most technology sectors and communications in particular. During 2002, IDC estimates worldwide industry sales of disk storage systems declined $4.1 billion from $17.4 billion in 2001 to $13.3 billion in 2002. We are uncertain of the depth and duration of this slowdown. However, we believe the need for storage networking solutions is significant and will continue to increase over the long term. For example, Terabytes installed grew 35% in 2002, even though the pricing declined from 2001 to 2002.

Selected Recent Developments

On April 6, 2003, we entered into an agreement where our wholly owned subsidiary will acquire all of the shares of Inrange Technologies Corporation that are owned by SPX Corporation. The shares acquired will constitute approximately 91% of the issued and outstanding shares of Inrange for a purchase price of $2.3132 per share and $173 million in the aggregate. Pursuant to the agreement, immediately following the acquisition, the subsidiary will be merged into Inrange, and the remaining capital stock owned by other Inrange shareholders will be converted into the right to receive $2.3132 per share in cash, resulting in a total payment of approximately $190 million for both the stock purchase and the merger. Consummation of these transactions is subject to significant conditions, including filing and expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Although we believe we have adequate resources there may be certain circumstances resulting from the completion of this transaction, which could impair our liquidity. In addition, if this transaction is completed, we will be subject to increased competition and other risks. See "Liquidity and Capital Resources" on page 29, "Competition" on page 10 and risk factors within Exhibit 99.1 for further discussion regarding the Inrange transaction.

Upon completion of the acquisition, we will be one of the world's largest providers of complete storage networking products, solutions and services, with 2002 pro forma annual revenues of approximately $435 million and global leadership positions in Fibre Channel and wide area network switching, and operations worldwide. The acquisition significantly broadens and strengthens our portfolio of storage and networking products and solutions, expands our customer base, and provides us with significant scale and cost reduction opportunities.

On January 30, 2003, we announced a number of actions to streamline our business, enhance customer service, and improve future profitability. We completed the integration of our networking and solutions sales, support and service functions. The integration allows us to execute our strategy for continued growth and enhanced customer service. Over the last several years, our products have been designed and built to be extremely reliable and easy to service, resulting in improved efficiencies within our service organization, and a reduction in the number of employees needed to provide world-class support. We continue to see excellent acceptance of our Fibre Channel IP product, the UltraNet® Edge. The UltraNet® Edge provides enterprise wide access to information and helps companies manage their storage infrastructure for maximum performance and efficiency. Because of the Edge product, the need for future upgrades to our legacy products is reduced. We expect to extend our competitive lead in fiscal 2003 via the introduction of new products within the UltraNet® family, and several new joint development arrangements with other leaders in the storage networking industry. These actions allowed us to reduce our worldwide workforce by 80 people or about 10%. While difficult, the reduction in workforce was necessary to improve future efficiency and profitability.

In June 2002, we acquired all of the outstanding stock of BI-Tech, a leading provider of storage management solutions and services, for $12 million in cash, plus the assumption of approximately $3.6 million of liabilities and the acquisition of approximately $8.7 million of tangible assets. The accompanying financial statements include the results of BI-Tech since June 24, 2002. The purchase agreement requires that we pay at our option, in the form of a note payable or in our stock to the former stockholders, and in cash to the BI-Tech employees, additional consideration based on achievement of certain earnings for each of the next two years starting July 1, 2002. The portion payable to the former stockholders will be recorded as goodwill. The portion payable to BI-Tech employees will be recorded as compensation expense. Through January 31, 2003, additional consideration of $3.6 million and $744,000 was added to goodwill and compensation expense, respectively, and a corresponding liability was recorded.

In February 2002, we sold $125 million of 3% convertible subordinated notes due February 2007, raising net proceeds of $121 million. The notes are convertible into our common stock at a price of $19.17 per share. We may redeem the notes upon payment of the outstanding principal balance, accrued interest and a make whole payment, if the closing price of our common stock exceeds 175% of the conversion price for at least 20 consecutive trading days, within a period of 30 consecutive trading days, ending on the trading day prior to the date we mail the redemption notice. The make whole payment represents additional interest payments that would be made if the notes were not redeemed prior to the due date. On August 15, 2002 a registration statement for the resale of the notes and the 6.5 million shares of common stock issuable upon conversion of the notes became effective.

Storage Networking Overview

Storage Networking Industry Background

Growth in Enterprise Data

The volume of enterprise data is increasing due to the proliferation of Web-based content, digital media, e-mail, supply chain management, customer relations management and other data-driven business applications.

Limitations of Traditional Storage Products

The growth of the size and amount of data stored has presented organizations with significant data management challenges and increased storage related costs. As the volume of data stored, and the number of users that require access to the data continue to increase, storage systems and servers are burdened by an increased number of input/output, or I/O, transactions they must perform. However, traditional storage architecture has inherent speed, distance, capacity and performance constraints. For example, depending on the standards and protocols used, the following constraints may exist:

- bandwidth, or the data transmission rate, is generally fixed at 15, 40 or 80 megabytes per second;
- distance between devices is limited to 12 to 150 meters;
- connectivity is limited to 15 storage devices;
- lack of data management capability in SCSI devices places the burden for management tasks on servers, thereby degrading network performance;
- if the server to which the data storage device is connected fails, the data cannot be accessed; and
- local area network, or LAN performance can be significantly degraded while the LAN is being used for storage backup applications.

Advent of Storage Networking Services

Storage networking is necessary for the effective use of large data-intensive applications such as enterprise resource planning, customer relationship management, and digital media. Our current and potential customers have a growing need to access and protect the business critical data created by these types of applications. As a result, we expect increased demand for the purchase and installation of storage networks, which will drive demand for our products and demand for our consulting, integration, and managed services for end-to-end storage solutions. As a result of the installation of these solutions, we expect there will also be increased demand for support services.

Complexity and interoperability issues associated with storage networks, coupled with budgetary constraints, cause customers to struggle with the effective implementation of storage networking environments. We believe this will cause many potential customers to look outside their organization for help. Thorough knowledge across a wide variety of proprietary technologies and standards, combining storage expertise and networking knowledge, is not easily found in the marketplace. We anticipate companies such as ours, with comprehensive expertise and skill sets in disaster recovery, business continuity, storage resource management, database, tuning, troubleshooting, switches, networking and storage arrays, will be able to fill in the void for these customers with consulting and integration services. We believe customers may also look to contract out the management of these storage networks as a result of outsourcing the design and implementation of these solutions.

Our Storage Networking Solutions

Our storage networking solutions, consist of products and services that address the limitations of traditional storage architecture in the following ways:

- *Storage networks over unlimited distance* — Our products and services enable organizations to create secure storage networks without any distance limitations. This allows the creation of storage networking over WAN environments in such critical applications as remote data replication, enterprise backup and recovery and remote tape vaulting.
- *Any-to-any connectivity* — Our products are protocol independent — they can connect devices that use Fibre Channel, SCSI, ESCON, and bus and tag protocols. These devices can be connected and extended over telecommunications links including T1/E1, T3/E3 and ATM (OC3, OC12), packet over sonet, or WAN protocols like IP, Fibre Channel and fiber optics. We believe our products connect with substantially all storage vendors.
- *Infrastructure options* — Our products enable the use of IP, ATM, Fibre Channel and fiber optics for expanded use of a storage network infrastructure. This supports the growing amounts of storage created by applications like e-mail and increases due to user demands to access applications in a continuous mode.

- *IP-based networking solutions* — We enable remote data replication over IP-based networks using software provided by EMC, IBM, Hitachi and Hewlett-Packard. Our solutions allow our customers to capitalize on inexpensive "bandwidth on demand" capabilities of IP-based networks and use existing IP capacity, especially at low traffic times of the day, and rely on existing IP network knowledge. We anticipate expanding storage networking application support with products from other vendors.

- *Consulting and integration services* — Our consulting and integration services help customers evaluate, analyze, design, install and manage storage networks. We strengthened our consulting, integration and managed services capacity with the acquisition of Articulent in 2001 and BI-Tech in June 2002. We believe these value-added services assist customers in designing, integrating, implementing, and managing storage networks more effectively than they could on their own. Our integration services help customers deal with the complexity of implementing a storage network that is scalable and compatible with customer resources. These services bolster sales of our high margin UltraNet® products and allow us to capture more of our customers' spending. We offer bundled telecommunications access with our products and services to provide customers a complete end-to-end operating solution.

- *Managed services* — We offer outsourced storage management services that complement our current storage networking products on a 24x7x365 basis. Our network management service helps our customers monitor their UltraNet® products, third party manufactured products, and third-party telecommunication lines and allows them to quickly respond to and resolve storage network issues. Our data migration services help our customers migrate large amounts of data from one data center or storage facility to another during consolidation or expansion of data centers. This is a turnkey service including personnel, equipment, software and support. We anticipate adding other outsourced services to monitor and manage complete end-to-end storage solutions for our customers and help drive demand for our storage networking products.

Our storage networking solutions are used for immediate, or real-time, backup and recovery, and support a technology known as remote data replication. Data replication avoids the serious threat to businesses posed by the loss of data between data system backups by simultaneously creating up-to-the-minute images of business-critical data on multiple backup storage disks. Tape back-up over long distances, or tape pipelining, using our UltraNet® Edge Storage Router dramatically improves the performance of remote tape backup, making it a viable solution for business continuity and disaster recovery. Our remote data replication technology permits the backups to be transmitted to a separate geographic location, thereby reducing the risk of natural and site-wide disasters. This technique also permits rapid recovery of data when needed.

We also enhance continuous business operations. Traditional LAN-based storage management requires manual handling and transportation of storage to an off-site location. While this ensures a physically-separated copy of valuable corporate data, it requires additional time and expense for handling and transportation. By bridging the storage network over the WAN, backups can be instantly made to remote locations on disk media, including by data replication, or on tape, known as electronic tape vaulting. This allows for more secure archiving and timely retrieval of the correct business critical data.

Our Storage Networking Strategy

We intend to build upon our position as a leading provider of storage networking solutions. Key elements of this strategy are as follows:

Extend Storage Networking Technology Leadership

We intend to extend our storage networking technology leadership by continuing to broaden our product and service offerings and by expanding our storage networking solutions into new markets. An example of this strategy is our recent introduction of our IP over Fibre Channel, IP over ATM WANs and IP tape pipelining. Currently, our IP-based network solutions enable remote data replication, in conjunction with software products from EMC, IBM, Hitachi and Hewlett-Packard and remote tape vaulting over IP-based networks. Our network management service will enable us to use our expertise to assist our customers in keeping the data stored in their storage networks performing efficiently and continuously. We intend to build market share by continuing to focus on areas that make storage networks more useful and accessible, such as WAN applications, any-to-any connectivity, IP-based network and network performance solutions. To achieve leadership, we intend to capitalize on the remote data replication, enterprise backup and recovery, remote tape vaulting and network management capabilities of our products.

Expand Our Consulting and Integration Services

Our consulting and integration services help customers evaluate, analyze, design, install and manage storage networks. We strengthened our consulting, integration and managed services capability with the acquisition of Articulent in April 2001 and BI-Tech in June 2002. We believe these value-added services assist customers in designing, integrating, implementing, and managing storage networks more effectively than they could on their own. Our integration services eliminate the complexity of implementing a storage network that is scalable and compatible with customer resources. These services bolster sales of our high margin UltraNet® products and allow us to capture more of our customers' spending. We offer bundled telecommunications access with our products and services to provide customers a complete end-to-end operating solution.

Grow Managed Services

We anticipate adding other outsourced services to monitor and manage complete end-to-end storage solutions for our customers and help drive demand for our storage networking products. An example of this is the recent introduction of our network management service that helps our customers monitor their UltraNet® products, third party manufactured products, and third-party telecommunication lines and allows them to quickly respond to and resolve storage network issues. We plan to add management of additional storage resources to the services for problem resolution on the complete storage network.

Further Strengthen Relationships with Storage Networking Industry Leaders

We have established relationships with leaders in the storage networking market, including storage vendors, telecommunications providers, storage management software providers and Fibre Channel switch manufacturers. The parties with whom we have strategic relationships include companies such as Brocade, EMC, Hewlett-Packard, Hitachi Data Systems, IBM, McDATA, StorageTek, Dell Computer Corporation and Veritas. We intend to strengthen our existing relationships and develop new relationships that enable us to offer complementary products and services. We believe our current and future strategic relationships will facilitate the integration of our products, thereby increasing our market share and reducing the length of our sales cycle.

Our Storage Networking Products

Our storage networking products include the UltraNet® family of storage products, and our channel networking product known as Channelink®.

UltraNet® Storage Director is a high performance switching product that operates at the center of the storage network. It enables storage networks to establish a direct connection between storage elements and servers and share data among diverse servers and storage systems, and networks that are local and geographically dispersed. The switch provides connectivity among SCSI, ESCON, bus and tag, Fibre Channel and WANs.

UltraNet® Edge Storage Router complements the UltraNet® Storage Director by meeting the needs of a broader market. It provides a new price and performance entry point for our core solutions, which do not require high port-density and mixed platform support offered by the UltraNet® Storage Director. The UltraNet® Edge Storage Router is designed to reduce the total cost of ownership of enterprise-wide storage networking solutions by leveraging the lower-cost bandwidth offered by IP networks and the performance improvements provided by Fibre Channel.

Channelink® offers connectivity over unlimited distances for mainframes. Applications include remote printing and imaging and data center load balancing, which permits the operation of two or more data centers from one site.

Third party manufactured storage networking products supplied by us that are designed and manufactured by others, include the following:

- storage systems;
- Fibre Channel switches;
- telecommunications capacity;
- fiber optical multiplexers;
- software; and
- servers.

Our Storage Networking Services

Our storage networking services help our clients design, deploy, monitor and manage end-to-end storage solutions. We believe these solutions allow our customers to better manage risk and reduce the cost of storage solutions in the enterprise. The acquisitions of Articulent and BI-Tech strengthened our service offerings, and provided us access to a family of integrated storage services, including consulting, integration and managed services.

Consulting Services

Our consulting services analyze a company's storage needs, determine a storage networking solution to meet those needs, and assist in the development of a business case to justify the storage networking solution. With our consulting, we assist our customers in making their existing networks more flexible and easier to manage. Our consulting expertise is focused on business continuation, disaster recovery, storage infrastructure and network performance to assist information technology managers and corporate executives responsible for planning and funding resources in making sound data management and storage decisions.

Integration Services

Our integration services help companies implement storage networking solutions. These services include project planning, analyzing, designing and documenting a detailed network, installing storage components, integrating storage components, and testing the functionality of the implemented storage solution. Our storage networking products are at the core of our storage architecture implementations, and our long-standing relationships with well-known and successful storage equipment and software manufacturers place us at the forefront of storage management solutions. Our integration services focus on data replication, enterprise back-up and restore, SAN implementation and network management.

Managed Services and Telecommunications

Our managed services include a network management service. We monitor our customers' UltraNet® products, third party manufactured products and telecommunications networks 24x7x365. We believe this service allows our customers to optimize network performance, decreases the chance of downtime and reduces recovery time after failures. Our data migration services help our customers migrate large amounts of data from one data center or storage facility to another during consolidation or expansion of data centers. We also offer telecommunications services to our customers.

Support Services

We offer standard maintenance contracts for our proprietary storage networking products. The contracts generally have a one-year term and provide for advance payment. Our products generally include a one-year limited warranty. Customers purchasing our UltraNet® Director product generally purchase maintenance contracts to supplement their one-year limited warranty. Customers are offered a variety of contracts to choose from to suit their particular needs. For instance, current options allow a customer to choose support 7 days a week, 24 hours per day, or 5 days per week, 11 hours a day. Other options offer the customer the choice to select air shipment or replacement parts, with the part being installed by the customer's staff, or on site support with spare parts and service being provided by a local parts distributor.

Strategic Storage Networking Relationships

Offering customers effective storage networking solutions requires integrating diverse components, including disk and tape storage devices, storage management software, network management products and Fibre Channel products. Our storage networking relationships include those with key storage vendors, storage management software providers and manufacturers of Fibre Channel and optical networking products. We market our storage networking products directly and through worldwide distributors. We have strategic marketing and supplier relationships with leading storage, telecommunications and fibre switching companies, including Brocade, EMC, Hewlett-Packard, Hitachi Data Systems, IBM, McDATA, StorageTek, Dell Computer Corporation and Veritas. These relationships allow us to provide complete end-to-end storage solutions for our customers. Approximately 34% of our revenues during fiscal year ended January 31, 2003 were represented by products that we supplied on behalf of the parties with whom we have strategic relationships.

Sales and Marketing

We market storage networking products and services in the United States through a direct sales force. We have established representative offices in Canada, the United Kingdom, France, Germany, Australia, Japan, and the Netherlands. We also market these products and services in the United States and throughout the world through systems integrators and independent distributors. We use an exclusive independent consultant to market telecommunications services.

We maintain our own marketing staff and direct sales force. As of January 31, 2003, we had approximately 213 persons in our marketing and sales organization.

Customers

Our customers include:

Financial Services	Telecommunications	Information Outsourcing	Other
American Express	AT&T	Computer Sciences Corporation	Best Buy
Bank of America	British Telecommunications	Electronic Data Systems	Wal-Mart
Barclays	Sprint	IBM Global Services	EchoStar
JP Morgan	France Telecom	Sungard	Boeing
Chase	Verizon		Lockheed Martin
CitiGroup			Mattel
Merrill Lynch			Target
Rabobank International			Merck
Fannie Mae			
Fidelity			
AXA			
Nasdaq			

IBM and its affiliates accounted for 10% of our revenue for fiscal 2002.

Research and Development

The markets in which we operate are characterized by rapidly changing technology, new standards and changing customer requirements. Our long term success in these markets depends upon our continuing ability to develop advanced network hardware and software technologies.

To meet the future demands of our customers, we expect to:

- increase the compatibility of our products with the products made by others;
- emphasize the flexible and modular architecture of our products to permit the introduction of new and improved products within existing systems;
- continue to focus on providing sophisticated diagnostic support tools to help deliver high network availability and, in the event of failure, rapid return to service; and
- develop new products based on customer feedback and market trends.

Research and development expenses were 13% of total revenue each year during the three-year period ended January 31, 2003. We intend to continue to apply a significant portion of our resources to product enhancements and new product development for the foreseeable future. We cannot assure you that our research and development activities will be successful.

Manufacturing and Suppliers

In-house manufacturing activities for our products primarily involve quality assurance testing of subassemblies and final system assembly, integration and quality assurance testing. We became ISO 9002 certified in 1993. In fiscal 2002, we achieved certification under the ISO 2000 standard.

We manufacture our products based on forecasted orders. Forecasting orders is difficult as most shipments occur at the end of each quarter. Our customers generally place orders for immediate delivery, not in advance of need. Customers may generally cancel or reschedule orders without penalties. At January 31, 2003 we had a backlog of $13.7 million. We believe approximately $8.7 million of our backlog will be recognized as revenue during the next 12 months in fiscal 2003. At January 31, 2002 backlog was not meaningful.

We manufacture our UltraNet® and Channelink® products from subassemblies, parts and components, such as integrated circuits, printed circuit boards, power supplies and metal parts, manufactured by others. Some items manufactured by suppliers are made to our specific design criteria.

At January 31, 2003, we held $1.4 million of net inventory for parts that our vendors no longer manufacture. Products in which those parts are included accounted for $68.6 million in revenue during the year ended January 31, 2003. We expect that this inventory will be used in the ordinary course of our business over the next five years. Relevant parts will have to be redesigned after the inventory is used.

We believe that we currently have adequate supply channels. Components and subassemblies used in our products and systems are generally available from a number of different suppliers. However, certain components in our other products are purchased from a limited number of sources. We do not anticipate any difficulty in obtaining an adequate supply of such products and required components. An interruption in our existing supplier relationships or delays by some suppliers, however, could result in production delays and harm our results of operations.

Competition

Computer storage is a very large, multi billion dollar, multi-faceted, industry that has spawned the need for a diverse set of products, services and management solutions to address the needs of the large enterprise.

This market has a diverse set of needs, often dictated by the total cost of ownership, that include high availability, archive, large scale, high volume growth, flexibility, heterogeneous and interoperability requirements for a spectrum of solutions for the enterprise. Data movement and replication (mirroring)are two key applications that every customer must use a spectrum of products and services to get the job done. Customers have varying degrees of needs based upon: the peculiar requirements for various vendor and technology platforms; capacity; performance; access; back up and recovery time for the application user, for auditors and regulators; and risk and cost management for the entire enterprise. These needs have a further communications and distance dimension in their requirement to be local (same building) to each other, on a campus, across the city, across the country or even internationally interconnected. These needs often need to be satisfied across a diverse set of communications capabilities, including low and high speed lines from T1 to OC48+, to diverse protocols from point to point, ATM and IP, to free space optics and wireless, as well as the availability of dark fiber or wave length services.

Finally, customers often use existing technologies (including multi-generations of products) and methods that must be compared and integrated for total enterprise storage management. These data movement solutions would include: manual truck and archive storage, server based software for data movement and replication, LAN, SAN, MAN and WAN fabric switching products and technologies, wave division multiplexing, or WDM, products and technologies, and services across an array of providers both in house and outsourced to the customer.

CNT believes it has positioned itself to be a leading competitor of storage networking products and services, particularly in providing customers and service providers a wide range of integrated storage networking solutions, from us and others, that address high performance, guaranteed data reliability, large scale storage handling that addresses the above requirements for the global 2000 customers. Our key assets include not only our patents, engineering technologies and products, but our 7x24 services, our professional consulting and our 20 years of diverse implementations experience in networking our clients most mission critical information.

Our products are sold in markets where other market participants have significantly greater revenues and internationally known brand names. Many of those market participants do not currently sell products identical to ours today, but address customer needs from one vantage point or another, usually evolving as they and general customer requirements mature. However, such market participants may do so in the future, and new products we develop may compete with products sold by well-known market participants. Our competitors in channel networking and storage networking include storage system vendors and others including Akara, Inrange, Nishan Systems, SAN Valley, Sanera, Maxxan and SANcastle. In addition, Cisco has acquired technology (Andiamo and NuSpeed) with functionality similar to our product offerings. Also, EMC and Network Appliance recently announced a WAN capability for storage networking that may compete with our products. IBM and others continue to push the distance, performance and price performance capabilities of channels using FICON and GDPS technologies. In addition, other fiber channel switch and director companies are all stating that they will be providing similar long distance IP based connectivity features with an integrated card. Software vendors, Veritas, Legato and Tivoli/IBM offer data movement and replication capabilities today at lower speeds and/or shorter distances. New software start ups, such as CommVault and others offer means for storage management. Our storage solutions services have numerous competitors, including consulting and integration services offered by storage vendors, telephone companies, dense wave division multiplexor technology providers and service providers. Specialist firms have begun with large amounts of invested capital to assist large enterprises in the challenge of large scale storage management for the enterprise, including Storage Networks, Inc, Giant Loop and MSI. In addition, nearly every major storage vendor, including EMC, IBM, HP, Sun, Hitachi, provide various capabilities in full service offerings for the design, implementation and operation of storage infrastructures.

The markets in which we operate are characterized by rapidly changing technology and evolving industry standards, resulting in rapid product obsolescence and frequent product and feature introductions and improvements. We compete with several companies that have greater engineering and development resources, marketing resources, financial resources, manufacturing capability, customer support resources and name recognition. As a result, our competitors may have greater credibility with existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours, which would allow them to respond more quickly than we can to new or emerging technologies and changes in customer requirements. These competitive pressures may materially harm our business.

The competitive environments of markets in which our storage networking solutions are sold are continuing to develop rapidly. We are not in a position to prepare long-range plans in response to unknown competitive pressures. As these markets grow, we anticipate other companies will enter with competing products. In addition, our customers and business relationships may develop and introduce competing products. We anticipate the markets will be highly competitive.

The declining sales of channel networking products present unique competitive pressures. We anticipate pricing pressures may increase in these markets. Consolidation of competing vendors of these products could also have negative consequences.

The principal competitive factors affecting our products include total cost of ownership, customer service, flexibility, price, performance, reliability, ease of use, bundling of features and capabilities and functionality. In many situations, the potential customer has an installed base of a competitor's products, which can be difficult to dislodge. IBM, Cisco, Nortel, Lucent Microsoft and others can significantly influence customers and control technology in our markets. However, we believe our direct sales force, storage networking expert consultants and support services personnel offer us a substantial advantage over new competitors, because these newer competitors do not have the knowledge of storage networking design and support and any-to-any connectivity necessary to sell competing products and services.

On April 6, 2003 we entered into an agreement to acquire Inrange for $190 million in cash. We believe Inrange's flagship product, the FC/9000, is the most scalable SAN based director class Fibre Channel director switch available for storage area networking. The FC/9000 provides a platform from which enterprises can build storage networks that can be used in systems where reliability and continuous availability are critical,with an ability for customers to upgrade and scale to 256 ports without disrupting existing systems. While the Fibre Channel switching market has yet to develop fully, we believe that the market for the products manufactured by us upon closing of the Inrange transaction will be highly competitive, continually evolving and subject to rapid technology change. Upon consummation of the transaction, we will compete against Brocade Communications Systems, McData Corporation, Cisco Systems, Inc., and Qlogic Corporation with respect to Fibre Channel switches. As the market for storage area network products grows, the products we acquire in the Inrange transaction may face competition from traditional networking companies and other manufacturers of networking equipment who may enter the storage area network market with their own switching products as well as several privately funded start-up companies who have products currently under development.

Intellectual Property Rights

We rely on a combination of trade secret, copyright, patent and trademark laws, nondisclosure agreements and technical measures to establish and protect our intellectual property rights. That protection may not preclude competitors from developing products with features similar to our products.

We currently own 3 patents and have 10 patent applications filed or in the process of being filed in the United States with respect to our continuing operations. Our pending patent applications, however, may not be issued. We have not applied for patent protection in any foreign countries. Not all of our unique products and technology are patented. Our issued patents may not adequately protect our technology from infringement or prevent others from claiming that our technology infringes that of third parties. Failure to protect our intellectual property could materially harm our business. We believe that patent and copyright protection are less significant to our competitive position because of the rapid pace of technological change in the markets in which our products are sold and because of the effectiveness and quality of our support services, the knowledge, experience and ability of our employees and the frequency of our enhancements.

We rely upon a patent license agreement to manufacture our Channelink® and UltraNet® products that use ESCON. This license expires on December 31, 2004.

We have from time to time received, and may in the future receive, communications from third parties asserting that our products infringe on their patents. We believe that we possess or license all required proprietary rights to the technology included in our products and that our products, trademarks and other intellectual property rights do not infringe upon the proprietary rights of others. However, there can be no assurance that others will not claim a proprietary interest in all or a part of the technology we use or assert claims of infringement. Any such claim, regardless of its merits, could involve us in costly litigation and materially harm our business.

The existence of a large number of patents in the markets in which our products are sold, the rapid rate of issuance of new patents and short product development cycles means it is not economically practical to determine in advance whether a product infringes patent rights of others. We believe that, based upon industry practice, any necessary license or rights under such patents may be obtained on terms that would not materially harm our consolidated financial position or results of operations. However, there can be no assurance in this regard.

Employees

As of January 31, 2003, we had 692 full-time employees. We consider our ability to attract and retain qualified employees and to motivate such employees to be essential to our future success. Competition for highly skilled personnel is particularly intense in the computer and data communications industry, and we cannot assure that we will continue to attract and retain qualified employees.

Discontinued Operations

Our discontinued operations, which we have historically referred to as our Enterprise Integration Solutions Division, developed and sold our enterprise application integration, or EAI, software that automated the integration of computer software applications and business workflow processes, as well as our traditional server gateways and tools, which enable multiple desktop computers and mainframe terminals to communicate with one another. We changed the name of our Enterprise Integration Solutions Division to Propelis Software, Inc. During fiscal 2001, we sold substantially all of the assets of our discontinued operations in a series of transactions. These transactions included the sale of our IntelliFrame subsidiary to webMethods, and the sale of other assets of our Propelis subsidiary to Jacada Ltd. All outstanding options to purchase stock of Propelis Software, Inc. have been cancelled or have lapsed. The transactions allow us to focus all of our resources on our storage networking products and services.

Website Access to Reports

The company's website is located at *www.cnt.com.* The "Financial" link at this website provides, free of charge, access to the company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all related amendments as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

Special Note Regarding Forward-Looking Statements

This Form 10-K contains "forward-looking statements" within the meaning of the securities laws. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical facts included or incorporated by reference in this Form 10-K, including the statements under "Business" and elsewhere in this Form 10-K regarding our strategy, future operations, financial position, estimated revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. When used herein, the words "will," "believe," "anticipate," "plan," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Form 10-K are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. Actual results may differ materially from those stated in these forward-looking statements due to a variety of factors, including those described in Exhibit 99.1 to this Form 10-K and from time to time in our filings with the U.S. SEC. All forward-looking statements speak only as of the date of this Form 10-K. We assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are only predictions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The cautionary statements qualify all forward-looking statements, whether attributable to us, or persons acting on our behalf.

Item 2. Properties

Our principal administrative, manufacturing, engineering and development functions are located in leased facilities in the Minneapolis, Minnesota suburb of Plymouth. In addition, we lease office space in England, France, Germany, Japan, and the Netherlands. We also lease space for sales offices for our direct sales staff and systems consultants in a number of locations throughout the United States and Canada. We believe our facilities are adequate to meet our current needs.

Item 3. Legal Proceedings

From time-to-time we are a party to various legal actions and receive threats of litigation. At this time, management does not believe any such litigation or threats will have a material impact on our financial position.

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

None.

Item 4A. Executive Officers of the Company

Our executive officers are as follows:

Name	Position Served	Age
Thomas G. Hudson	Chairman of the Board, President and Chief Executive Officer	57
Gregory T. Barnum	Chief Financial Officer, Vice President of Finance and Corporate Secretary	48
Jeffrey A. Bertelsen	Corporate Controller and Treasurer	40
William C. Collette	Chief Technology Officer and Vice President of Advanced Technology	59
James A. Fanella	Executive Vice-President Worldwide Sales and Services	45
Mark R. Knittel	Group Vice President of Worldwide Product Operations	48

Thomas G. Hudson has served as our President and as our Chief Executive Officer since June 1996, as a director since August 1996 and as our Chairman of the Board since May 1999. From 1993 to June 1996, Mr. Hudson served as Senior Vice President of McGraw Hill Companies, a leading information services provider, serving also as General Manager of its F.W. Dodge Division, and as Senior Vice President, Corporate Development. From 1968 to 1993, Mr. Hudson served in a number of management positions at IBM Corporation, most recently as Vice President Services Sector Division. Mr. Hudson's IBM career included varied product development, marketing and strategic responsibilities for IBM's financial services customers and extensive international and large systems experience. Mr. Hudson is a graduate of the University of Notre Dame and New York University. Mr. Hudson attended the Harvard Advanced Management Program in 1990. Mr. Hudson also serves on the board of directors of Ciprico, Inc., Lawson Software, Inc., and PLATO Learning, Inc., all of which are public companies.

Gregory T. Barnum was appointed Vice President of Finance, Chief Financial Officer and Corporate Secretary in July 1997. From September 1992 to July 1997, Mr. Barnum served as Senior Vice President of Finance and Administration, Chief Financial Officer and Corporate Secretary at Tricord Systems, Inc., a manufacturer of enterprise servers. From May 1988 to September 1992, Mr. Barnum served as the

Executive Vice President, Finance, Chief Financial Officer, Treasurer and Corporate Secretary for Cray Computer Corporation, a development stage company engaged in the design of supercomputers. Prior to that time, Mr. Barnum served in various accounting and financial management capacities for Cray Research, Inc., a manufacturer of supercomputers. Mr. Barnum is a graduate of the University of St. Thomas.

Jeffrey A. Bertelsen was appointed Corporate Controller and Treasurer in December 1996. Mr. Bertelsen served as our Controller from March 1995 to December 1996. From 1985 to March 1995, Mr. Bertelsen was employed by KPMG LLP, a public accounting firm, most recently as a Senior Audit Manager. Mr. Bertelsen is a graduate of the University of Minnesota.

William C. Collette was appointed Chief Technology Officer in December 1998 and Vice President of Advanced Technology in October 1999. Mr. Collette served as our Vice President of Engineering from December 1995 to October 1999, and as our Director of Future Software Development and as a Software Development Manager from June 1993 to December 1995. From 1990 to 1993, Mr. Collette was employed by SuperComputer Systems, Inc. as a Senior Software Engineer, where he worked with Steve Chen to design the networking for the SS1 Supercomputer. Mr. Collette holds a bachelors degree in business management from Metro State University.

James A. Fanella was appointed Executive Vice-President Worldwide Sales and Services in February 2003. From August 2001 to November 2002, Mr. Fanella served as Senior Vice President, Yahoo! Enterprise Solutions (YES). From September 2000 to July 2001, Mr. Fanella served as Vice President, Global Services for Commerce One, a business to business e-commerce company. From November 1999 to September 2000, Mr. Fanella served as Group President and General Manager of AppNet, Inc., an e-commerce company acquired by Commerce One in September 2000. From August 1994 to October 1999, Mr. Fanella held various positions with Unisys Corporation, a large systems integration company, as Managing Principal/Partner from September 1998 to October 1999, and Senior Principal/Partner from August 1994 to September 1998. Mr. Fanella holds a bachelors degree in business from Western Illinois University. Mr. Fanella also serves on the board of directors of Avatech, Inc., a public company.

Mark R. Knittel was appointed Group Vice President of Worldwide Product Operations in October 1999. From May 1997 to October 1999, Mr. Knittel served as our Vice President of Marketing, and also as our Vice President of Architecture and Business Development from March 1997 to May 1997. From July 1977 to March 1997, Mr. Knittel was employed with IBM where he held several executive development positions for both hardware and software networking products, as well as multiple strategy positions. Most recently, Mr. Knittel held the position of Director of Campus Product Marketing within the Network Hardware Division of IBM. Mr. Knittel has a masters degree in philosophy from the University of Chicago.

PART II

Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol "CMNT." The following table sets forth for the indicated periods the range of high and low per share sales prices for our common stock as reported on the Nasdaq National Market:

	Price Range of Common Stock	
	High	Low
Fiscal Year Ended January 31, 2001		
First Quarter	$27.00	$11.50
Second Quarter	19.88	11.56
Third Quarter	35.25	15.25
Fourth Quarter	40.00	18.69
Fiscal Year Ended January 31, 2002		
First Quarter	$29.88	$ 8.44
Second Quarter	12.59	7.80
Third Quarter	15.73	8.05
Fourth Quarter	24.90	14.10
Fiscal Year Ended January 31, 2003		
First Quarter	$21.75	$ 8.80
Second Quarter	9.70	5.41
Third Quarter	7.99	3.79
Fourth Quarter	9.88	5.91

As of April 1, 2003, there were approximately 1,000 shareholders of record. The Company estimates that approximately an additional 10,500 shareholders own stock held for their accounts at brokerage firms and financial institutions.

DIVIDEND POLICY

We have not paid any cash dividends since our inception, and we do not intend to pay any cash dividends in the future.

Item 6. Selected Consolidated Financial Data

	Years Ended January 31,			Years Ended December 31,	
	2003(6)	2002	2001	1999(1)	1998
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:(8)					
Revenue:					
Product sales	$145,355	$129,276	$125,432	$89,248	$ 74,969
Service fees	66,160	57,747	50,674	36,741	28,052
Total revenue	211,515	187,023	176,106	125,989	103,021
Cost of revenue	127,125	111,257	83,181	56,795	45,616
Cost of revenue — special charges	195(5)	2,325(4)	—	1,414(2)	—
Total cost of revenue	127,320	113,582	83,181	58,209	45,616
Gross profit	84,195	73,441	92,925	67,780	57,405
Operating expenses:					
Sales and marketing	57,849	52,156	41,019	34,626	32,255
Engineering and development	26,872	23,452	22,572	18,456	14,236
General and administrative	10,694	9,311	8,697	6,922	6,252
Special charges	1,666(5)	996(4)	(287)(3)	1,331(2)	—
Total operating expenses	97,081	85,915	72,001	61,335	52,743
Income (loss) from operations	(12,886)	(12,474)	20,924	6,445	4,662
Loss on sale and write down of webMethods stock	—	(10,283)(4)	—	—	—
Other income, net	869(5)	5,537	3,152	110	427
Income (loss) from continuing operations before income taxes	(12,017)	(17,220)	24,076	6,555	5,089
Provision (benefit) for income taxes	16,527(5)	(5,292)	7,947	2,229	1,730
Income (loss) from continuing operations	(28,544)	(11,928)	16,129	4,326	3,359
Income (loss) from discontinued operations, net of tax	207	8,222	(4,135)	329	1,370
Net income (loss) before cumulative effect of a change in accounting	(28,337)	(3,706)	11,994	4,655	4,729
Cumulative effect of change in accounting principle	(10,068)(6)	—	—	—	—
Net income (loss)	$(38,405)	$ (3,706)	$ 11,994	$ 4,655	$ 4,729
Diluted income (loss) per share:					
Continuing operations	$ (1.02)	$ (.40)	$ .58	$ .17	$ .15
Discontinued operations	$ .01	$ .28	$ (.15)	$ .01	$ .06
Cumulative effect of change in accounting principle	$ (.36)	$ —	$ —	$ —	$ —
Net income (loss)	$ (1.37)	$ (.12)	$ .43	$ .18	$ .21
Diluted shares	28,111	29,892	27,813	25,818	22,572
Other Financial Data(7):					
Ratio of earnings to fixed charges	—	—	12.41x	5.13x	5.55x

	As of January 31,			As of December 31,	
	2003	2002	2001	1999	1998
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$209,484	$118,014	$150,477	$ 26,895	$12,362
Working capital	229,736	160,271	182,625	50,715	35,587
Total assets	339,169	269,738	268,623	110,654	87,596
Long-term obligations	125,000	708	1,952	1,780	1,816
Total shareholders' equity	151,631	216,643	213,102	78,472	60,558

(1) On January 12, 2000, we changed our fiscal year to end on January 31st, rather than December 31st.

(2) Includes special charges in the fourth quarter of fiscal 1999 of $1.4 million for the write-off of non-SAN-related products and $1.3 million for an abandoned facility.

(3) Includes a reversal of the unused balance of a fiscal 1999 fourth quarter accrual for an abandoned facility of $287,000.

(4) Includes special charges and other items recognized in the first quarter of fiscal 2001, including a $2.0 million write-down of inventory, a $325,000 write-off of a product, a $996,000 restructuring charge and a $10.3 million loss on the sale and write-down of webMethods common stock acquired from the disposition of a portion of our discontinued operations.

(5) Includes special charges in the fourth quarter of fiscal 2002 of $1.7 million for severance and professional fees related to canceled acquisition activity. It also includes an earn-out payable to the employees of BI-Tech of $744,000, of which $195,000 was recorded as cost of service, and $549,000 as operating expense. Other income for fiscal 2002 was reduced by a $1.0 million investment write-down. Income tax expense for fiscal 2002 includes a non-cash charge of $23.6 million for a valuation allowance related to our United States deferred tax assets.

(6) In connection with the adoption of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", we recorded a $10.1 million non-cash charge for impairment of goodwill associated with the acquisition of Articulent in April 2001.

(7) For fiscal years 2002 and 2001, earnings were inadequate to cover fixed charges by $12.0 million and $17.2 million, respectively. These ratios are calculated by dividing (a) income from continuing operations before income taxes and fixed charges by (b) fixed charges. Fixed charges include interest expense plus a portion of rental expense attributable to interest.

(8) See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "The Consolidated Financial Statements" included herein for a discussion of accounting changes, business combinations and dispositions of businesses affecting the comparability of the information reflected in the selected financial data.

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

The following section should be read in conjunction with Item 1: Business; Item 6: Selected Consolidated Financial Data; and Item 8: Consolidated Financial Statements and Supplementary Data.

Overview

We are a leading provider of end-to-end storage solutions, including hardware and software products, related consulting and integration services, and managed services in the growing storage networking market. We focus primarily on helping our customers design, develop, deploy and manage storage networks, including storage area networks, or SANs, a high speed network within a business' existing computer system that allows the business to manage its data storage needs with greater efficiency and less disruption to its overall network. We design, manufacture, market and support a wide range of solutions for critical storage networking applications such as remote data replication, or the real-time backup of data to remotely located disks, and remote tape vaulting, or the backup of data to remotely archived tapes. We also supply storage systems, Fibre Channel switches, telecommunications capacity and storage application software.

Our storage networking solutions enable businesses to cost-effectively design, implement, monitor and manage their storage requirements, connect geographically dispersed storage networks, provide continuous availability to greater amounts of data and protect increasing amounts of data more efficiently. We market out storage networking products and services directly to customers through our sales force and worldwide distributors. We also have strategic marketing and supply relationships with leading storage, telecommunications and fibre switching companies, including Brocade, EMC, Hewlett-Packard, Hitachi Data Systems, IBM, McDATA, StorageTek, Dell Computer Corporation and Veritas.

Integration of Networking and Storage Solutions Team

During fiscal 2002, we integrated our networking and storage solutions sales, support and service functions into a single unit. The integration allows us to execute our strategy for continued growth and enhanced customer service, while achieving improved efficiency and profitability. Our customers will now have a single point of contact for their networking and storage solutions requirements. As a result, it is no longer possible to allocate costs and prepare separate meaningful statements for what had been our networking and storage solutions segments. Our management now reviews and makes decisions utilizing financial information for the consolidated business.

Over the last several years, our products have been designed and built to be extremely reliable and easy to service, resulting in improved efficiencies within our service organization, and a reduction in the number of employees needed to provide world-class support. We continue to see excellent acceptance of our Fibre Channel IP product, the UltraNet® Edge. The UltraNet® Edge provides enterprise-wide access to information and helps companies manage their storage infrastructure for maximum performance and efficiency. Because of the Edge product, the need for future upgrades to our legacy products is reduced. We expect to extend our competitive lead in fiscal 2003 via the introduction of new products within the UltraNet® family, and several new joint development arrangements with other leaders in the storage networking industry. These actions, along with the integration of our Networking and Storage Solutions sales, support and service functions, allowed us to reduce our worldwide workforce by 80 people or about 10%. While difficult, the reduction in workforce was necessary to improve future efficiency and profitability. In the fourth quarter of fiscal 2002, we recorded a $1.7 million restructuring charge for severance resulting from the reduction in workforce and professional fees related to canceled acquisition activity. Of this amount $1.3 million was paid prior to January 31, 2003, with the balance to be paid prior to April 30, 2003. We anticipate the annual operating cost savings related to these reductions will be approximately $6.4 million, offset by any incremental costs added during fiscal 2003.

Acquisition of Inrange Corporation

On April 6, 2003, we entered into an agreement where our wholly owned subsidiary will acquire all of the shares of Inrange Technologies Corporation that are owned by SPX Corporation. The shares acquired will constitute approximately 91% of the issued and outstanding shares of Inrange for a purchase price of $2.3132 per share and $173 million in the aggregate. Pursuant to the agreement, immediately following the acquisition, the subsidiary will be merged into Inrange, and the remaining capital stock owned by other Inrange shareholders will be converted into the right to receive $2.3132 per share in cash, resulting in a total payment of approximately $190 million for both the stock purchase and the merger. Consummation of these transactions is subject to significant conditions, including filing and expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Upon completion of the acquisition, we will be one of the world's largest providers of complete storage networking products, solutions and services, with 2002 pro forma annual revenues of approximately $435 million and global leadership positions in Fibre Channel and wide area network switching, and operations worldwide. The acquisition would significantly broaden and strengthen our portfolio of storage and networking products and solutions, expand our customer base, and provide us with significant scale and cost reduction opportunities.

Acquisition of BI-Tech Solutions, Inc.

In June 2002, we acquired all of the outstanding stock of BI-Tech, a leading provider of storage management solutions and services, for $12 million in cash, plus the assumption of approximately $3.6 million of liabilities and the acquisition of approximately $8.7 million of tangible assets. The accompanying financial statements include the results of BI-Tech since June 24, 2002. The purchase agreement requires that we pay at our option, in the form of a note payable or our stock to the former stockholders, and in cash to the BI-Tech employees, additional consideration based on achievement of certain earnings for each of the next two years starting July 1, 2002. The portion payable to the former stockholders will be recorded as goodwill. The portion payable to BI-Tech employees will be recorded as compensation expense. Through January 31, 2003, additional consideration of $3.6 million and $744,000 was recorded as goodwill and compensation expense, respectively, and a corresponding liability was recorded.

Valuation Allowance for Deferred Tax Assets

In the fourth quarter of fiscal 2002, we recorded a non-cash charge of $23.6 million to provide a valuation allowance for our United States deferred tax assets. As we generate taxable income in future periods, we do not expect to record significant income tax expense in the United States until it becomes likely that we will be able to utilize the deferred tax assets, and we reduce the valuation allowance. The establishment of the valuation allowance does not impair our ability to use the deferred tax assets upon achieving profitability. Our federal net operating loss carry-forwards and credits do not expire for the next 15-20 years.

Convertible Subordinated Debt Offering

In February 2002, we sold $125 million of 3% convertible subordinated notes due February 2007, raising net proceeds of $121 million. The notes are convertible into our common stock at a price of $19.17 per share. We may redeem the notes upon payment of the outstanding principal balance, accrued interest and a make whole payment if the closing price of our common stock exceeds 175% of the conversion price for at least 20 consecutive trading days within a period of 30 consecutive trading days ending on the trading day prior to the date we mail the redemption notice. The make whole payment represents additional interest payments that would be made if the notes were not redeemed prior to their due date. On August 15, 2002 a registration statement for the resale of the notes and the 6.5 million shares of common stock issuable upon conversion of the notes became effective.

Special Charges in Fiscal Year 2001

Economic conditions in early 2001 caused our customers to reevaluate their capital spending plans, and to defer previously planned projects for information technology infrastructure. The reduction in demand for our products and services resulted in the following charges in the first quarter of fiscal 2001:

- $2.0 million to write-down slow moving inventory
- $325,000 for the write-off of a product; and
- $996,000 for restructuring, principally severance.

Sale and Write-down of webMethods Stock

During the first quarter of fiscal 2001, we sold 232,511 shares of webMethods stock received from the sale of IntelliFrame for approximately $6.2 million, resulting in a pre-tax loss of approximately $8.7 million. We also wrote-down the carrying value of the remaining 41,031 shares of webMethods stock that we still own, resulting in a pre-tax loss of approximately $1.5 million.

Acquisition of Articulent

On April 3, 2001 we acquired all of the outstanding stock of Articulent Inc., a privately held, leading provider of storage solutions and services for $12.4 million in cash, plus the assumption of approximately $24.4 million of liabilities and the acquisition of approximately $19.3 million of tangible assets.

Cumulative Effect of Change in Accounting Principle — Impairment Charge

Effective February 1, 2002, we adopted SFAS No. 142 "Goodwill and Other Intangible Assets." In connection with the adoption of SFAS No. 142, we engaged a third party appraisal firm to determine the fair value of one of the reporting units within our former storage solutions segment. This valuation indicated that the goodwill associated with our acquisition of Articulent in April of 2001 was impaired, resulting in a $10.1 million non-cash charge. This non-cash charge was recognized as a cumulative effect of change in accounting principle in our first quarter ended April 30, 2002.

Discontinued Operations — Divestiture of Propelis Software, Inc.

Propelis Software, Inc., formerly known as our Enterprise Integration Solutions Division, developed and sold our enterprise application integration, or EAI, software that automates the integration of computer software applications and business workflow processes. In August 2000, we determined to divest Propelis Software, Inc. and focus on our core storage networking business. As a result, Propelis Software, Inc. has been accounted for as discontinued operations in the accompanying financial statements, meaning that the division's revenues and expenses are not shown and its net income (loss) for all periods are included under the "Discontinued Operations" caption in our statement of operations. During 2001, we sold substantially all of the assets of our discontinued operations in a series of transactions. These included the sale of our IntelliFrame subsidiary to webMethods and the sale of other assets to Jacada Ltd. All outstanding options to purchase stock of Propelis Software have been cancelled or have lapsed.

On February 2, 2001 we sold all of the outstanding stock of IntelliFrame Corporation, including the technology underlying our Propelis BPm™ product, to webMethods, Inc. for $8.8 million in cash and 273,542 shares of webMethods common stock. The stock received from webMethods, Inc. was valued at $17.1 million, which reflects a discount from its publicly reported trading price due to the initial restrictions placed on our ability to freely sell the stock. In connection with this transaction, we paid $3.0 million to two employees, who were former shareholders of IntelliFrame, to satisfy all obligations to make further bonus payments under their employment agreements. The sale resulted in an after tax gain of $12.6 million in the first quarter of fiscal 2001.

In the first quarter of fiscal 2001, we accrued $9.3 million for the estimated future operating losses of Propelis Software, Inc. through the potential date of divestiture, resulting in an after tax loss of $6.2 million.

On August 23, 2001, we sold substantially all of the remaining assets and liabilities of Propelis Software, Inc. to Jacada Ltd. for $6.0 million in cash, plus a warrant to purchase 350,000 ordinary shares of Jacada Ltd. stock at a price of $3.26 per share. The transaction resulted in an after tax gain of $1.8 million in the third quarter of fiscal 2001.

In the third quarter of fiscal 2002, we received $207,000 of royalty income, net of tax, related to the discontinued operations sold in fiscal 2001.

Change in Fiscal Year End

On January 12, 2000, we changed our fiscal year end to January 31st, from December 31st. References in this Form 10-K to fiscal 2002, 2001 and 2000 represent the twelve months ended January 31, 2003, 2002 and 2001, respectively.

Critical Accounting Policies

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, management applies judgment based on its understanding and analysis of the relevant circumstances. Reported results may differ from these estimates if different assumptions or conditions were to be made. Our most critical accounting estimates include valuation of accounts receivable, which impacts bad debt expense; valuation of inventory, which impacts gross margin; recognition and measurement of current and deferred income tax assets and liabilities, which impact our tax provision; and valuation of long-lived intangible assets and goodwill, which will impact operating expense. These critical accounting estimates and other critical accounting policies are discussed further below.

Revenue Recognition

Revenue is recognized upon shipment for product sales with standard configurations and product sales with other than standard configurations, which have demonstrated performance in accordance with its customer's specifications prior to shipment provided that (a) evidence of an arrangement exists, (b) delivery has occurred, (c) the price to the customer is fixed and determinable, and (d) collectibility is assured. All other product sales are recognized when customer acceptance is received, or the passage of the customer acceptance period. We accrue for warranty costs and sales returns at the time of shipment based on experience. In transactions that include multiple products and/or services, we allocate the sales value to each of the deliverables, based on their relative fair values.

Service fees are recognized as revenue when earned, which is generally on a straight-line basis over the contracted service period or as the services are rendered. Deferred revenue primarily consists of the unearned portion of service agreements billed in advance to customers.

Valuation of Accounts Receivable

We review accounts receivable to determine which are doubtful of collection. In addition, we also make estimates of potential future product returns. In making the determination of the appropriate allowance for doubtful accounts and product returns, we consider specific accounts, changes in customer payment terms, historical write-offs and returns, changes in customer demand and relationships, concentrations of credit risk and customer credit worthiness. Changes in the credit worthiness of customers, general economic conditions and other factors may impact the level of future write-offs and product returns.

Valuation of Inventory

We review obsolescence to determine that inventory items deemed obsolete are appropriately reserved. In making the determination we consider our history of inventory write-offs, future sales of related products, and quantity of inventory at the balance sheet date assessed against our past usage rates and future expected usage rates. Changes in factors such as technology, customers demand, competitor product introductions and other matters could affect the level of inventory obsolescence in the future.

Valuation of Deferred Taxes

Significant management judgment is required in determining the provision for incomes taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. We are required to estimate our income taxes in each jurisdiction where we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as the depreciable life of fixed assets for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe recovery is unlikely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase the valuation allowance in a given period, we must increase tax expense within our statement of operations.

In the fourth quarter of fiscal 2002, we recognized a non-cash charge of $23.6 million to provide a valuation allowance for our United States deferred tax assets. Our cumulative valuation allowance recorded against our deferred tax assets at January 31, 2003 was $24.8 million. As we generate taxable income in future periods, we do not expect to record significant income tax expense in the United States until it becomes likely that we will be able to utilize the deferred tax assets, and we reduce the valuation allowance. The establishment of the valuation allowance does not impair our ability to use the deferred tax assets upon achieving profitability. Our federal net operating loss carry-forwards and credits do not expire for the next 15-20 years.

Valuation of Long-Lived and Intangible Assets and Goodwill

We assess the impairment of long-lived and intangible assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include significant under performance relative to expected operating results, changes in the manner of use of the acquired assets or the strategy of our overall business, negative industry or economic trends, significant decline in our stock price for a sustained period, and our market capitalization relative to our net book value.

When we determine that the carrying value of long-lived and intangibles assets and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on the projected discounted cash flow method using a discount rate commensurate with the risk inherent in our current business model. We may also obtain an independent third party appraisal of the asset to help us identify and quantify any possible impairment. Net long-lived and intangible assets, and goodwill amounted to $44.4 million at January 31, 2003, and no asset impairments were identified as of that date.

Effective February 1, 2002, we adopted SFAS No. 142 which eliminates amortization of goodwill, but instead follows an impairment approach for goodwill valuation. In fiscal 2001, we recorded goodwill amortization expense of $624,000, which was not required in fiscal 2002. In lieu of amortization, we were required to perform an initial impairment review of our goodwill in fiscal 2002, and an annual impairment review thereafter. SFAS No. 142 provides a six-month transitional period from the effective date of adoption to perform an assessment of whether there is an indication of goodwill impairment. We tested our reporting units for impairment by comparing fair value to carrying value. Fair value was determined using a discounted cash flow and cost methodology. We engaged a third-party appraisal firm to determine the fair value of a reporting unit within our former Storage Solutions segment. This valuation indicated that the goodwill associated with our acquisition of Articulent in April of 2001 was impaired. The performance of this business has not met management's original expectations, primarily due to the unexpected global slow down in capital spending for information technology equipment. Accordingly, a non-cash impairment charge of $10.1 million from the adoption of SFAS No. 142 was recognized as a cumulative effect of change in accounting principle in our first quarter ended April 30, 2002. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as an operating expense.

Results of Continuing Operations

The following table sets forth financial data for our continuing operations for the periods indicated as a percentage of total revenue except for gross profit, which is expressed as a percentage of the related revenue.

	Years Ended January 31,		
	2003	2002	2001
Revenue:			
Product sales	68.7%	69.1%	71.2%
Service fees	31.3	30.9	28.8
Total revenue	100.0	100.0	100.0
Gross profit:			
Product sales	38.7	41.0	57.8
Service fees	42.2	35.4	40.2
Total gross profit	39.8	39.3	52.8
Operating expenses:			
Sales and marketing	27.3	27.9	23.3
Engineering and development	12.7	12.5	12.8
General and administrative	5.1	5.0	4.9
Restructuring	0.8	0.5	(0.2)
Total operating expenses	45.9	45.9	40.9
Income (loss) from continuing operations	(6.1)%	(6.6)%	11.9%

Revenue

Years Ended January 31, 2003 and 2002

Product revenue

Sales of our networking products generated revenue of $94.6 million in fiscal 2002, an increase of $2.6 million or 3%, from $92.0 million in fiscal 2001. Storage networking related product revenue increased 16% in fiscal 2002 to $80.9 million from $69.8 million in fiscal 2001. Sales of our new UltraNet® Edge product were up over 300%, or $10 million, in fiscal 2002 to $13.2 million, from $3.2 million in fiscal 2001. Sales of channel extension product applications decreased 38% in fiscal 2002 to $13.7 million from $22.2 million in fiscal 2001. Our older channel extension products continue to be a profitable part of our business and a key application for many of our storage networking customers. We expect that revenue from our storage networking products will account for a substantial portion of our total networking product sales for the foreseeable future. Further we do not expect revenue for our channel networking products to increase significantly and it may decline in the future.

Sales of our third party storage solutions products generated revenues of $50.8 million in fiscal 2002, an increase of 36%, from $37.2 million in fiscal 2001. Our acquisition of Articulent in April 2001 and BI-Tech in June 2002 significantly expanded our third party solutions offerings, and accounted for most of the increase in third party product revenue when comparing fiscal 2002 to earlier years. Our acquisition of BI-Tech in June 2002 contributed $12.1 million of product revenue in fiscal 2002.

Service revenue

Service revenue from maintenance of our networking products decreased 3% in fiscal 2002 to $43.3 million from $44.8 million in fiscal 2001. The decrease can be attributed to cancellation of maintenance related to our Channelink® products and migration of customers to our UltraNet® products.

Our storage consulting fee revenues increased 77% in fiscal 2002 to $22.8 million from $12.9 million in fiscal 2001. The growth in solutions consulting fees revenue in fiscal 2002 was due to increased customer acceptance of our service offerings. In addition, our sales team has become more experienced and proficient at selling solutions that include our service offerings. During fiscal 2002, BI-Tech contributed $3.0 million of storage consulting fee revenue.

Years Ended January 31, 2002 and 2001

Product revenue

Sales of our networking products generated revenue of $92.0 million in fiscal 2001, a decrease of 24%, from $121.1 million in fiscal 2000. Storage networking related product revenue decreased 16% in fiscal 2001 to $69.8 million from $83.5 million in fiscal 2000. Approximately $3.2 million of storage networking product revenue in fiscal 2001 resulted from the sale of our new UltraNet® Edge product, which started to ship in our third quarter ended October 31, 2001. Sales of channel extension product applications decreased 41% in fiscal 2001 to $22.2 million from $37.7 million in fiscal 2000.

During fiscal 2000, partner relationships with STK and Compaq generated significant product revenue. Sales of the DXE product to STK contributed $9.3 million of product revenue in fiscal 2000, compared to $1.5 million of product revenue in fiscal 2001. We discontinued the DXE/RDE product line in March 2001, and are transitioning the customer base to our UltraNet® products. An OEM agreement with Compaq contributed $5.7 million of product revenue in fiscal 2000. No revenue was generated from this OEM agreement in fiscal 2001.

Sales of our third party storage solutions products generated revenues of $37.2 million in fiscal 2001, up significantly from $4.3 million in fiscal 2000. Our acquisition of Articulent in April 2001 significantly expanded our third party solution offerings and accounted for most of the increase when comparing fiscal 2001 to fiscal 2000.

Service revenue

Service revenue from maintenance of our networking products increased 6% in fiscal 2001 to $44.8 million from $42.3 million in fiscal 2000. The increase in revenue was due to the growing installed base of customers using our networking products.

Our storage consulting fee revenues increased 55% in fiscal 2001 to $12.9 million, from $8.3 million in fiscal 2000. The increase primarily relates to our acquisition of Articulent in April 2001. During fiscal 2001, Articulent contributed $2.9 million of service revenue.

General

Revenue from the sale of products and services outside the United States increased by $13.1 million or 29% in fiscal 2002 when compared to fiscal 2001, and decreased by 12% or $6.0 million in fiscal 2001 when compared to fiscal 2000. We derived 27%, 25% and 30% of our revenue outside the United States in fiscal 2002, 2001 and 2000, respectively. The increase in revenue generated outside the United States in fiscal 2002 is primarily attributable to the BI-Tech acquisition in June of 2002. BI-Tech increased our international sales in fiscal 2002 by $15.1 million. BI-Tech is based in the United Kingdom, and we expect that, it will further increase our international sales in future periods.

One customer accounted for 10% of our revenue in fiscal 2002. No single customer accounted for more than 10% of our revenue in fiscal 2001 or 2000. Price discounting for our networking products had a small impact on revenue in fiscal 2002 and 2001.

In fiscal 2002, approximately 36%, 5% and 14% of our product revenue was derived from businesses in the financial services, telecommunications and information outsourcing industries, respectively.

We primarily sell our networking and third party storage solutions products directly to end-user customers in connection with joint marketing activities with our business partners. For a new customer, the initial sales and design cycle, from first contact through shipment, can vary from 90 days to 12 months or more. We expect that this cycle will continue.

We expect continued quarter-to-quarter fluctuations in revenue in both domestic and international markets. The timing of sizable orders, because of their relative impact on total quarterly sales, may contribute to such fluctuations. The level of product sales reported by us in any given period will continue to be affected by the receipt and fulfillment of sizable new orders in both domestic and international markets.

Gross Profit Margin

Years Ended January 31, 2003 and January 31, 2002

Product margins

Gross margins from the sale of networking products were 49% in fiscal 2002, compared to 51% in fiscal 2001. Excluding the $2.0 million write-down of slow moving inventory and the $325,000 write-off of a product in the first quarter of fiscal 2001, gross profit margins from the sale of networking products were 53% in fiscal 2001. The decline in gross margin percentage was due to the continued movement in sales mix toward our UltraNet® Director products, which carry a lower margin than our older Channelink® products, and higher levels of sales discounts. We believe that margins for our networking products will trend upward as volumes increase, particularly for our new higher margin UltraNet® Edge product.

Gross margins from the sale of third party storage solutions products were 20% in fiscal 2002, compared to 17% in fiscal 2001. The increase in gross margin percentage was primarily due to a change in product mix, as certain third party storage solutions products carry higher gross margins. Historically, the third party storage solutions products offered by Articulent, BI-Tech and CNT have generated gross margins in the 15% to 25% range.

Service margins

Gross service margins for our networking maintenance business decreased slightly in fiscal 2002 to 48% from 49% in fiscal 2001. The slight decrease was due to the 3% decline in maintenance revenue, resulting from the cancellation of maintenance for our older Channelink® products, and migration of customers to our newer UltraNet® products. Cost of service associated with our networking maintenance business decreased slightly in fiscal 2002 to $22.7 million from $22.9 million in fiscal 2001.

Gross service margins for our storage consulting fees were 32% in fiscal 2002, or 33%, excluding a $195,000 earn-out payable to the service employees of BI-Tech. The gross service margins for our storage consulting fees were a negative 12% in fiscal 2001. The improvement in gross service margin percentage in fiscal 2002 compared to fiscal 2001 was due to higher utilization of our employee consultants. Our storage consulting fees revenue increased to $22.8 million in fiscal 2002 from $12.9 million in fiscal 2001, an increase of 77%. Costs associated with our storage consulting fees were $15.5 million or $15.3 million, excluding the BI-Tech earn-out, up from $14.4 million in fiscal 2001.

Years Ended January 31, 2002 and January 31, 2001

Product margins

Gross margins from the sale of our networking products were 51% in fiscal 2001. Excluding the $2.0 million write-down of slow moving inventory and the $325,000 write-off of a product in the first quarter of fiscal 2001, gross profit margins from the sale of networking products were 53% in fiscal 2001 compared to 58% in fiscal 2000. The decline in gross margin percentage was due to the continued movement in sales mix toward our UltraNet® products which carry a lower margin than our older Channelink® products, and higher levels of sales discounts.

Gross profit margins from the sale of storage solutions products were 17% in fiscal 2001 compared to 53% in fiscal 2000. The decline in gross margin percentage was primarily due to an increase in the sale of lower margin third party products resulting from the acquisition of Articulent in April 2001. Historically, the product solutions offered by Articulent have generated gross margins in the 15% to 25% range.

Service margins

Gross service margins for our networking maintenance business improved to 49% in fiscal 2001 from 46% in fiscal 2000. The improvement was due to the steadily increasing base of customers contracting for maintenance services, actions taken in April 2001 to reduce employee costs, including a workforce reduction and wage freeze, and a change in third party maintenance and logistic suppliers that also reduced costs in fiscal 2001.

Gross profit margins from storage consulting fees were a negative 12% in fiscal 2001 compared to a positive 13% in fiscal 2000. The decline in gross margin percentage and negative gross margin in fiscal 2001 is due to the fixed cost structure of the services business and low levels of service revenue in fiscal 2001. The service costs for the solutions business, mainly people, tend to be fixed in nature. Gross profit margins for storage consulting fees improve as the volume of storage consulting fees revenue increases.

Operating Expenses

Years Ended January 31, 2003 and 2002

Sales and marketing

Sales and marketing expense increased 11% or $5.6 million in fiscal 2002 to $57.8 million from $52.2 million in fiscal 2001. The June 2002 acquisition of BI-Tech added $1.7 million to sales and marketing expense in fiscal 2002. The remainder of the increase in sales and marketing expense was due to increases in expense for employee wages, fringe benefits, commissions, and travel, partially offset by a $1.3 million reduction in employee recruitment in fiscal 2002 compared to fiscal 2001. Recruitment costs were higher in fiscal 2001 due to a 25% increase in our sales force, and an increase in sales management.

Engineering and development

Engineering and development expense increased 15% or $3.4 million in fiscal 2002 to $26.9 million from $23.5 million in fiscal 2001. The increase in engineering and development expense for fiscal 2002 was primarily due to continued development of our UltraNet® family of products, particularly the UltraNet® Edge product, which generated $13.2 million of revenue in fiscal 2002.

General and administrative

General and administrative expense increased $1.4 million or 15% in fiscal 2002 to $10.7 million from $9.3 million in fiscal 2001. The June 2002 acquisition of BI-Tech added $776,000 to general and administrative expense in fiscal 2002. The remaining increase in expense for fiscal 2002 was due to higher costs for employee wages, fringe benefits, insurance, professional fees and legal fees associated with canceled acquisition activity, partially offset by a $624,000 reduction in goodwill amortization expense. Amortization of goodwill ceased effective February 1, 2002 with our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets".

Years Ended January 31, 2002 and 2001

Sales and marketing

Sales and marketing expense increased $11.1 million or 27% in fiscal 2001 to $52.2 million from $41.0 million in fiscal 2000. The acquisition of Articulent in April 2001 added $6.0 million to sales and marketing expense in fiscal 2001, including wages for approximately 26 new employees, and related costs such as travel, training and facilities. The remaining increase in sales and marketing expense was due to a planned expansion of our sales force. During fiscal 2001, we increased our sales force by over 25%, and added additional sales management, resulting in additional expense for employee wages, fringe benefits and recruitment.

Engineering and development

Engineering and development expense increased 4% in fiscal 2001 to $23.5 million from $22.6 million in fiscal 2000. The increase was primarily due to continued development of our UltraNet® family of products, particularly the UltraNet® Edge product, which generated over $3.0 million of revenue since its introduction in the third quarter of fiscal 2001. This increase was partially offset by cost reduction actions taken in April 2001, including a workforce reduction, wage cuts and reductions in discretionary spending.

General and Administrative

General and administrative expenses increased $614,000 or 7% in fiscal 2001 to $9.3 million from $8.7 million in fiscal 2000. The increase in expense is primarily due to the acquisition of Articulent in April 2001, including $594,000 of additional expense for goodwill amortization. Total goodwill amortization expense in fiscal 2001 was $624,000, including the goodwill amortization expense associated with the acquisition of Articulent.

Other

Years Ending January 31, 2003 and 2002

Interest and other income in fiscal 2002 totaled $5.2 million, including a $1.0 write-down of an equity investment. Excluding the equity investment write-down, interest and other income totaled $6.2 million in fiscal 2002, a $400,000 increase from $5.8 million in fiscal 2001. Higher balances of cash and marketable securities available for investment in fiscal 2002 were partially offset by lower investment yields. We also had foreign exchange gains of $63,000 in fiscal 2002, compared to a foreign exchange loss of $106,000 in fiscal 2001. Interest expense increased $4.0 million in fiscal 2002 to $4.3 million from $285,000 in fiscal 2001. In February 2002, we sold $125 million of 3% convertible subordinated notes due February 2007, raising net proceeds of $121 million. Pending use of our cash and marketable securities for general corporate purposes or complementary acquisitions, the funds have been invested in investment grade, interest-bearing securities.

Years Ending January 31, 2002 and 2001

Other income was an expense of $4.7 million in fiscal 2001. Excluding the $10.3 million loss from the sale and write-down of webMethods stock, other income increased by $2.4 million to $5.5 million in fiscal 2001 from $3.2 million in fiscal 2000. Interest income increased by $2.4 million in fiscal 2001. Proceeds from an October 2000 offering of common stock increased the balances of cash and marketable securities available for investment.

Income Taxes

Given our losses in fiscal 2002 and 2001, and our cautious outlook for information technology spending, we concluded that it was necessary to provide a valuation allowance for our United States deferred tax assets, resulting in a non-cash charge of $23.6 million in our fourth quarter ending January 31, 2003. As we generate taxable income in future periods, we do not expect to record significant income tax expense in the United States until it becomes likely that we will be able to utilize the deferred tax assets, and we reduce the valuation allowance. The establishment of the valuation allowance does not impair our ability to use the deferred tax assets upon achieving profitability. Our federal net operating loss carry-forwards and credits do not expire for the next 15-20 years.

We recorded a provision for income taxes at an effective tax rate of 31% in fiscal 2001, and at an effective tax rate of 33% in fiscal 2000. The fluctuations in our effective tax rate were primarily due to the large special charges recorded in fiscal 2001, including the $10.3 million loss on the sale of webMethods stock, the amount of nondeductible foreign losses and fluctuations in the level of benefit from our foreign sales corporation. We also recorded an $830,000 valuation allowance in fiscal 2001 for certain state and foreign tax credits and loss carry-forwards. Utilization of these benefits in future periods was determined to be unlikely.

Liquidity and Capital Resources

We have historically financed our operations through the public and private sale of debt and equity securities, bank borrowings under lines of credit, capital and operating equipment leases and cash generated by operations.

Cash, cash equivalents and marketable securities at January 31, 2003 totaled $209.5 million, an increase of $91.5 million since January 31, 2002. In February 2002, we sold $125 million of 3% convertible subordinated notes due February 2007, raising net proceeds of $121.6 million. Operations generated $17.5 million of cash in fiscal 2002, including $7.4 million from reduced inventories due to better inventory management, $1.7 million from lower accounts receivable, a $2.1 million increase in accounts payable, and $5.9 million from deferred revenue, resulting from receipt of cash in advance of revenue recognition. Proceeds from the exercise of stock options, and purchases of stock through our employee stock purchase plan provided cash in fiscal 2002 of $3.0 million. Uses of cash in fiscal 2002 included $7.7 million for the purchase of BI-Tech, $1.5 million for repayment of capital lease obligations, and purchases of property and equipment and field support spares totaling $12.4 million. We also used $32.2 million of cash in fiscal 2002 to repurchase 4.0 million shares of our common stock.

Expenditures for capital equipment and field support spares have been, and will likely continue to be, a significant capital requirement. On April 6, 2003, we entered into an agreement to acquire all of the outstanding common stock of Inrange Technologies Corporation for $190 million in cash. Upon closing of the transaction, Inrange will become our wholly owned subsidiary. We anticipate that our available cash after closing for the combined entity will be approximately $50-$60 million before transaction costs. We believe that our available cash after closing, when combined with our anticipated cash flows from the combined operations of the two companies, including cash flow improvements resulting from increased scale and cost synergies, will be adequate to fund our operating plans and meet our current anticipated aggregate capital requirements, at least through fiscal 2003.

In April 2001, our board of directors authorized the repurchase of up to $50.0 million of our common stock. As of January 31, 2003, we had repurchased 4.1 million shares of our common stock for $33.0 million. The board recently changed the authorization, so that the remaining balance of the $50.0 million authorized can be used for the repurchase of either debt or common stock.

In fiscal 2002, our board of directors adopted amendments to our 1999 Non-Qualified Stock Award Plan increasing the number of shares authorized for issuance from 3,230,000 to 4,730,000. In fiscal 2002, our board and shareholders also approved our 2002 Stock Award Plan providing for the issuance of 1,000,000 shares of our common stock. In February 2003, our board of directors adopted an amendment to our 1999 Non-Qualified Stock Award Plan increasing the number of shares authorized for issuance by 250,000 to 4,980,000, in connection with the hiring of our new Executive Vice President of Worldwide Sales & Services.

We believe that inflation has not had a material impact on our operations or liquidity to date.

Our future contractual cash obligations at January 31, 2003, including open purchase orders incurred in the ordinary course of business, are as follows (in millions):

Cash Obligation	Total	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
Capital leases	$ .7	$ .7	None	None	None
Operating leases	$ 22.6	$ 4.6	$ 8.2	$ 4.6	$ 5.2
Purchase orders	$ 13.5	$12.9	$ .6	None	None
Convertible subordinated debt, plus interest	$140.0	$ 3.8	$11.3	$124.9	None

On December 3, 2002 we entered into a product development agreement that requires us to purchase $10.0 million of product prior to March 15, 2005. The commitment expires if the product is not generally available by March 31, 2004. This purchase commitment has been reflected in the above table under the "Purchase Order" caption.

Our acquisition of BI-Tech requires that we pay to the former stockholders and the BI-Tech employees additional consideration based on achievement of certain earnings for each of the next two years starting July 1, 2002. The additional consideration of $4.4 million at January 31, 2003 is not reflected in the above table because terms of payment have not yet been elected. Payment may be in the form of a note payable or stock at our option, or in the case of the employees, cash.

On February 20, 2002, we sold $125 million in aggregate principal amount of 3% convertible subordinated notes due February 2007. Holders of the notes may, in whole or part, convert the notes into shares of our common stock at a conversion price of approximately $19.17 per share (aggregate of approximately 6.5 million shares) at any time prior to maturity on February 15, 2007. We may redeem the notes in whole or part at any time if the closing price of our common stock has exceeded 175% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day prior to the date we mail the redemption notice. We are required to pay interest on February 15 and August 15 of each year while the notes are outstanding. Debt issuance costs of $3.2 million are being amortized over a five-year term using the straight-line method, which approximates the effective interest rate method. The amortization of these debt issuance costs will accelerate upon early redemption of the notes. The net proceeds remain available for general working capital purposes and potential acquisitions. Cash obligations related to this debt include annual interest payments of $3.8 million for the next five fiscal years starting 2002 and a principal payment of $125 million due February 2007. Payment of the notes will also accelerate upon certain events of default. In addition, upon certain events which constitute a change in control of the company, we must make an offer to purchase the notes at 100% of the principal amount plus accrued interest.

Our convertible subordinated debt is subject to a fixed interest rate, and the notes are based on a fixed conversion ratio into common stock. Therefore, we are not exposed to changes in interest rates related to our long-term debt instruments. On January 31, 2003, the reported trading price of our convertible subordinated notes due 2007 was 75.50 per $100 in face amount of principal indebtedness, resulting in an aggregate fair value of approximately $94.4 million. Our common stock is quoted on the Nasdaq National Market under the symbol "CMNT". On January 31, 2003, the last reported sale price of our common stock on the Nasdaq Market was $7.49 per share.

Related Party Transactions

During fiscal 2002 and 2001, we purchased $374,000 and $491,000, respectively, of bandwidth from Dynegy Connect, an entity wholly owned by Dynegy Global Communications. At January 31, 2003 we have commitments to purchase $933,000 of additional bandwidth from Dynegy Connect through fiscal 2006. All of the bandwidth purchases were for re-sale at a profit. The bandwidth was purchased from Dynegy Connect because they offered us the best pricing. We have purchased bandwidth from competitors of Dynegy Connect when their pricing has been more attractive. Our board member, Lawrence McLernon was formerly chief executive officer of Dynegy Global Communications.

On May 3, 2002 our board of directors granted Mr. Kelen, a board member, an option to purchase 50,000 shares of our common stock at a price of $8.77 per share in consideration of his special participation on our board, and in consideration of such services to be performed in the future.

Thomas G. Hudson's son-in-law is employed by us as a regional sales manager. In fiscal 2002, he was paid $128,688 in compensation, commissions and bonuses. Erwin A. Kelen's son is employed by us as an area business development manager. In fiscal 2002, he was paid $146,896 in compensation, commissions and bonuses.

New Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and must be applied beginning January 1, 2003. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than when the exit or disposal plan is approved. The adoption of SFAS 146 did not have an effect on our consolidated financial statements.

In December 2002, the EITF reached a consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables". This Issue addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of their fair values to separately account for some or all of the deliverables (that is, there are separate units of accounting). In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. This Issue addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. This Issue does not change otherwise applicable revenue recognition criteria. The guidance in this Issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We do not expect the adoption of EITF 00-21 will have a material effect on our financial statements.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment to FASB Statement 123". SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123, "Accounting for Stock-Based Compensation", to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, and the effect of the method used on reported results. We adopted the disclosure provisions of SFAS 148 effective January 31, 2003.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN No. 45 requires companies to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Guarantees in existence at December 31, 2002 are grandfathered for the purposes of recognition and would only need to be disclosed. We do not expect that the adoption of FIN No. 45 will have an effect on our consolidated financial statements. We will adopt the initial recognition and measurement provisions of FIN No. 45 for guarantees issued or modified after December 31, 2002.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We have no derivative financial instruments in our cash, cash equivalents and marketable securities. We mainly invest our cash and cash equivalents in investment grade, highly liquid investments, consisting of money market instruments, bank certificates of deposits and investments in commercial paper.

At January 31, 2003, our marketable securities include a $149,000 investment in a Standard & Poors 500 stock price index fund and a $259,000 investment in a NASDAQ 100 index tracking stock. These investments were purchased to directly offset any investment gains or losses owed to participants under our executive deferred compensation plan, which has been established for selected key employees.

We are exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and the assets and liabilities of our foreign subsidiaries, are denominated in foreign currencies, primarily the euro and British pounds sterling. As of January 31, 2003, we had no open forward exchange contracts.

Item 8. Consolidated Financial Statements and Supplementary Data

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	January 31, 2003	January 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 98,341	$ 34,402
Marketable securities	111,143	83,612
Receivables, net	56,040	53,962
Inventories	24,091	31,410
Deferred tax asset	—	5,134
Other current assets	2,118	4,138
Total current assets	291,733	212,658
Property and equipment, net	22,566	25,604
Field support spares, net	6,009	4,562
Deferred tax asset	—	11,048
Goodwill, net	14,113	14,070
Other intangibles, net	1,669	463
Other assets	3,079	1,333
	$339,169	$269,738
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 16,889	$ 17,240
Accrued liabilities	25,060	20,158
Deferred revenue	19,340	13,466
Current installments of obligations under capital lease	708	1,523
Total current liabilities	61,997	52,387
Convertible subordinated debt	125,000	—
Deferred tax liability	541	—
Obligations under capital lease, less current installments	—	708
Total liabilities	187,538	53,095
Shareholders' equity:		
Undesignated preferred stock, authorized 965 shares; none issued and outstanding	—	—
Series A junior participating preferred stock, authorized 40 shares; none issued and outstanding	—	—
Common stock, $.01 par value; authorized 100,000 shares; issued and outstanding 26,921 at January 31, 2003, and 30,383 at January 31, 2002.	269	304
Additional paid-in capital	173,955	202,996
Unearned compensation	(675)	(1,232)
Retained earnings (accumulated deficit)	(22,946)	15,459
Accumulated other comprehensive income (loss)	1,028	(884)
Total shareholders' equity	151,631	216,643
	$339,169	$269,738

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Years Ended January 31, 2003	2002	2001
Revenue:			
Product sales	$145,355	$129,276	$125,432
Service fees	66,160	57,747	50,674
Total revenue	211,515	187,023	176,106
Cost of revenue:			
Cost of product sales	89,110	76,254	52,873
Cost of service fees	38,210	37,328	30,308
Total cost of revenue	127,320	113,582	83,181
Gross profit	84,195	73,441	92,925
Operating expenses:			
Sales and marketing	57,849	52,156	41,019
Engineering and development	26,872	23,452	22,572
General and administrative	10,694	9,311	8,697
Abandoned facility	—	—	(287)
Restructuring charge	1,666	996	—
Total operating expenses	97,081	85,915	72,001
Income (loss) from operations	(12,886)	(12,474)	20,924
Other income (expense):			
Write-down of investment	(1,000)	—	—
Loss on sale and write-down of webMethods stock	—	(10,283)	—
Interest income	6,183	6,166	3,802
Interest expense	(4,326)	(285)	(338)
Other, net	12	(344)	(312)
Other income (expense), net	869	(4,746)	3,152
Income (loss) from continuing operations before income taxes	(12,017)	(17,220)	24,076
Provision (benefit) for income taxes	16,527	(5,292)	7,947
Income (loss) from continuing operations	(28,544)	(11,928)	16,129
Discontinued operations:			
Gain on disposition of discontinued operations, net of tax	—	8,222	—
Income (loss) from discontinued operations, net of tax	207	—	(4,135)
	207	8,222	(4,135)
Net income (loss) before cumulative effect of change in accounting principle	(28,337)	(3,706)	11,994
Cumulative effect of change in accounting principle	(10,068)	—	—
Net income (loss)	$(38,405)	$ (3,706)	$ 11,994
Basic income (loss) per share:			
Continuing operations	$ (1.02)	$ (.40)	$ .64
Discontinued operations	$ .01	$ .28	$ (.16)
Cumulative effect of change in accounting principle	$ (.36)	$ —	$ —
Net income (loss)	$ (1.37)	$ (.12)	$ .47
Shares	28,111	29,892	25,383
Diluted income (loss) per share:			
Continuing operations	$ (1.02)	$ (.40)	$ .58
Discontinued operations	$ .01	$ .28	$ (.15)
Cumulative effect of change in accounting principle	$ (.36)	$ —	$ —
Net income (loss)	$ (1.37)	$ (.12)	$ .43
Shares	28,111	29,892	27,813

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in Capital	Unearned Compensation	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance, January 31, 2000	23,841	$238	$ 69,434	$(1,130)	$ 7,171	$ (602)	$ 75,111
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	1,215	13	8,181	(675)	—	—	7,519
Shares issued pursuant to a secondary stock offering, net of offering costs	4,600	46	110,189	—	—	—	110,235
Tax benefits from employee stock transactions	—	—	8,106	—	—	—	8,106
Compensation expense	—	—	—	501	—	—	501
Comprehensive income:							
Net income					11,994		11,994
Translation adjustment, net of tax effect of $0						(364)	(364)
Total comprehensive income	—	—	—	—	—	—	11,630
Balance, January 31, 2001	29,656	$297	$195,910	$(1,304)	$ 19,165	$ (966)	$213,102
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	817	8	6,894	(496)	—	—	6,406
Tax benefits from employee stock transactions	—	—	978	—	—	—	978
Repurchase of common stock	(90)	(1)	(786)	—	—	—	(787)
Compensation expense	—	—	—	568	—	—	568
Comprehensive income:							
Net loss	—	—	—	—	(3,706)	—	(3,706)
Unrealized gain on marketable securities, net of tax effect of $299	—	—	—	—	—	510	510
Translation adjustment, net of tax effect of $0						(428)	(428)
Total comprehensive loss	—	—	—	—	—	—	(3,624)
Balance, January 31, 2002	30,383	$304	$202,996	$(1,232)	$ 15,459	$ (884)	$216,643
Shares issued pursuant to the employee stock purchase plan, restricted stock plan and exercise of stock options	583	5	3,124	(165)	—	—	2,964
Repurchase of common stock	(4,045)	(40)	(32,165)	—	—	—	(32,205)
Compensation expense	—	—	—	722	—	—	722
Comprehensive income:							
Net loss	—	—	—	—	(38,405)	—	(38,405)
Unrealized gain on marketable securities, net of tax effect of $266	—	—	—	—	—	393	393
Translation adjustment, net of tax effect of $0						1,519	1,519
Total comprehensive loss	—	—	—	—	—	—	(36,493)
Balance, January 31, 2003	26,921	$269	$173,955	$ (675)	$(22,946)	$1,028	$151,631

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended January 31, 2003	2002	2001
ıerating Activities:			
Net income (loss)	$ (38,405)	$ (3,706)	$ 11,994
Cumulative effect of change in accounting principle	10,068	—	—
Discontinued operations	(207)	(8,222)	4,135
Depreciation and amortization	15,868	15,127	11,812
Compensation expense	722	568	346
Loss on sale and write-down of webMethods stock	—	10,283	—
Write-down of investment	1,000	—	—
Change in deferred taxes	16,077	(1,268)	(5,344)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	1,714	(40)	(14,833)
Inventories	7,370	(4,517)	(3,717)
Other current assets	2,020	(1,575)	(445)
Accounts payable	(2,110)	(21,879)	11,036
Accrued liabilities	(2,670)	(7,606)	17,754
Deferred revenue	5,875	(2,091)	5,569
Net cash provided by (used in) continuing operations	17,322	(24,926)	38,307
Net cash provided by (used in) discontinued operations	207	(8,830)	(1,490)
Cash provided by (used in) operating activities	17,529	(33,756)	36,817
esting Activities:			
ıdditions to property and equipment	(6,878)	(8,198)	(14,329)
ıdditions to field support spares	(5,486)	(2,770)	(2,520)
ıdditions to purchased technology	—	—	(375)
ıcquisition of Articulent, net of cash acquired	—	(11,145)	—
ıcquisition of BI-Tech, net of cash acquired	(7,723)	—	—
Jet proceeds from sale of discontinued operations	—	11,800	—
'roceeds from the sale of webMethods stock	—	6,281	—
'urchase of marketable securities	(163,860)	(87,786)	(148,389)
'roceeds from redemption of marketable securities	136,988	115,717	45,998
›ther assets	695	876	(1,967)
›iscontinued operations — additions to long-term assets	—	—	(158)
Cash provided by (used in) investing activities	(46,264)	24,775	(121,740)
ıncing Activities:			
let proceeds from issuance of convertible subordinated debt	121,559	—	—
ayments for repurchases of common stock	(32,205)	(787)	—
roceeds from issuance of common stock	2,964	6,406	117,754
epayments of obligations under capital leases	(1,523)	(1,421)	(1,187)
Cash provided by financing activities	90,795	4,198	116,567
cts of exchange rate changes	1,879	(259)	(174)
increase (decrease) in cash and cash equivalents	63,939	(5,042)	31,470
ı and cash equivalents — beginning of year	34,402	39,444	7,974
ı and cash equivalents — end of year	$ 98,341	$ 34,402	$ 39,444

See accompanying notes to consolidated financial statements

COMPUTER NETWORK TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2003, 2002 and 2001
(tabular amounts in thousands except per share data)

(1) Summary of Significant Accounting Policies

Description Of Business

Computer Network Technology Corporation is a leading provider of end-to-end storage solutions, related consulting and integration services, and managed services in the high-performance storage networking market.

Discontinued Operations

In 2001, the Company divested Propelis Software, Inc. formerly known as the Enterprise Integration Solutions Division. Accordingly, Propelis Software, Inc. has been accounted for as discontinued operation in the accompanying consolidated financial statements.

Fiscal Year End

References in these footnotes to fiscal 2002, 2001 and 2000 represent the twelve months ended January 31, 2003, 2002 and 2001, respectively.

Principles Of Consolidation

The accompanying consolidated financial statements include the accounts of Computer Network Technology Corporation and its subsidiaries (together, the Company). All significant intercompany balances and transactions are eliminated in consolidation.

Revenue Recognition

Revenue is recognized upon shipment for product sales with standard configurations and product sales with other than standard configurations which have demonstrated performance in accordance with customer specifications prior to shipment provided that (a) evidence of an arrangement exists, (b) delivery has occurred, (c) the price to the customer is fixed and determinable, and (d) collectibility is assured. All other product sales are recognized as revenue when customer acceptance is received or upon passage of the customer acceptance period. Warranty costs and sales returns are accrued at the time of shipment based on experience. In transactions that include multiple products and/or services, the sales value is allocated among each of the deliverables based on their relative fair values.

Service fees are recognized as revenue when earned, which is generally on a straight-line basis over the contracted service period or as the services are rendered. Deferred revenue primarily consists of the unearned portion of service agreements billed in advance to customers, including amounts both collected and uncollected.

Valuation of Accounts Receivable

Accounts receivable are reviewed to determine which are doubtful of collection. Estimates are also made of potential future product returns. In making the determination of the appropriate allowance for doubtful accounts and product returns, the Company considers specific accounts, changes in customer payment terms, historical write-offs and returns, changes in customer demand and relationships, concentrations of credit risk and customer credit worthiness. The provision for doubtful accounts and product returns was $1,388,000, $898,000 and $1,600,000 in 2002, 2001 and 2000, respectively. The accounts receivable balances at January 31, 2003 and 2002 were $56,040,000 and $53,962,000, respectively, net of an allowance for doubtful accounts and sales returns of $2,416,000 and $1,848,000, respectively.

Valuation of Inventory

Inventories are stated at the lower of cost (determined on a first in, first out basis) or market. The Company reviews obsolescence to determine that inventory items deemed obsolete are appropriately reserved. In making the determination, consideration is given to the history of inventory write-offs, future sales of related products, and quantity of inventory at the balance sheet date, assessed against past usage rates and future expected usage rates.

Valuation of Deferred Taxes

Significant management judgment is required in determining the provision for incomes taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. The Company is required to estimate income taxes in each jurisdiction where it operates. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as the depreciable life of fixed assets for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent recovery is believed unlikely, establishes a valuation allowance. The Company has increased tax expense within its statements of operations when a valuation allowance is established or increased in a given period.

In the fourth quarter of fiscal 2002, the Company recorded a non-cash charge of $23,568,000 to provide a valuation allowance for its United States deferred tax assets. The Company's cumulative valuation allowance recorded against its deferred tax assets at January 31, 2003 was $24,808,000. As the Company generates taxable income in future periods, it does not expect to record significant income tax expense in the United States until it becomes likely that the Company will be able to utilize the deferred tax assets, and reduce its valuation allowance. The establishment of the valuation allowance does not impair the Company's ability to use the deferred tax assets upon achieving profitability. The Company's federal net operating loss carry-forwards and credits do not expire for the next 15-20 years.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets. Upon adoption of Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets," in the first quarter of fiscal 2002, the Company no longer amortized goodwill. See Note 4 for the effects of adopting this standard. Other intangible assets are related to the acquisitions of Articulent and BI-Tech and are amortized on a straight-line basis over periods ranging from two to ten years.

Impairment of Long-lived and Intangible Assets

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement requires that long-lived and intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Company reviews goodwill for impairment annually or more frequently if changes in circumstances or the occurrence of events suggest the remaining value may not be recoverable. An asset is deemed impaired and written down to its fair value if estimated related net undiscounted future cash flows are less than its carrying value in accordance to the provisions of SFAS No. 142. In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Statement requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses, captioned in general and administrative expenses.

Cash Equivalents

The Company considers investments in highly liquid debt securities having an initial maturity of three months or less to be cash equivalents.

Marketable Securities

Unrealized gains and losses on available-for-sale securities are excluded from earnings and are reflected as a separate component of shareholders' equity. Unrealized gains and losses on trading securities are included in earnings.

Property And Equipment

Property and equipment owned by the Company is carried at cost and depreciated using the straight-line method over three to eight years. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases. Expenditures for repairs and maintenance are charged to expense as incurred. Capital lease equipment is amortized over the life of the lease.

The carrying value of long-lived assets is reviewed whenever events or changes in circumstances such as market value, asset utilization, physical change, legal factors or other matters indicate that the carrying value may not be recoverable. When the review indicates that the carrying value of the asset or group of assets representing the lowest level of identifiable cash flows exceeds the sum of the expected future cash flows (undiscounted and without interest charges), an impairment loss is recognized. The amount of the impairment loss is the amount by which the carrying value exceeds the fair value of the impaired asset or group of assets.

Field Support Spares

Field support spares are carried at cost and depreciated using the straight-line method over three years.

Engineering And Development

The Company has expensed all engineering and development costs to date.

Foreign Currency

The financial statements of the Company's international subsidiaries have been translated into U.S. dollars. Assets and liabilities are translated into U.S. dollars at year-end exchange rates, while equity accounts are translated at historical rates. Income and expenses are translated at the average exchange rates during the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity.

The Company is exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and the assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies. The Company had no outstanding forward exchange contracts as of January 31, 2003. Gains and losses from transactions denominated in foreign currencies and forward exchange contracts are included in net income (loss).

Stock Compensation Plans

The Company accounts for its stock based compensation awards in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB No. 25) and provides the footnote disclosures required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" (SFAS No. 123).

The Company has elected to continue to account for its plans in accordance with APB No. 25. Accordingly, no compensation cost associated with the fair value of stock option grants or shares sold to employees under the Employee Stock Purchase Plan has been recognized in the Company's financial statements. Had compensation cost for the Company's stock-based compensation plans been recognized consistent with the fair value method of SFAS No. 123, the Company's net income (loss) and net income (loss) per basic and diluted share would have been reduced to the pro forma amounts indicated below:

	Years Ended January 31,		
	2003	2002	2001
Net income (loss), as reported	$(38,405)	$ (3,706)	$11,994
Deduct: Total stock-based employee compensation expense under fair value based method of all awards, net of tax effects	(12,301)	(7,109)	(6,368)
Pro forma net income (loss)	$(50,706)	$(10,815)	$ 5,626
As reported			
Basic	$ (1.37)	$ (.12)	$ .47
Diluted	$ (1.37)	$ (.12)	$ .43
Pro forma			
Basic	$ (1.80)	$ (.36)	$ .22
Diluted	$ (1.80)	$ (.36)	$ .20

In determining the compensation cost of stock option grants and shares sold to employees under the employee stock purchase plan, as specified by SFAS No. 123, the fair value of each award has been estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used in these calculations are summarized below:

	Years Ended January 31,		
	2003	2002	2001
Risk free interest rate	3.71%	4.51%	5.90%
Expected life	5.68	5.73	5.33
Expected volatility	87.29%	86.88%	85.06%

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates that could significantly affect the results of operations or financial condition of the Company include the determination of the valuation of the deferred tax asset, recoverability of goodwill, valuation of accounts receivable and valuation of inventory. Further discussion on these estimates can be found in related disclosures elsewhere in these notes to the consolidated financial statements.

Net Income (Loss) Per Share

Basic net income (loss) per share is computed based on the weighted average number of common shares outstanding, while diluted net income per share is computed based on the weighted average number of common shares outstanding plus potential dilutive shares of common stock. Potential dilutive shares of common stock include stock options which have been granted to employees and directors, awards under the employee stock purchase plan and common shares issuable upon conversion of the Company's outstanding convertible subordinated debt. Net loss per basic and diluted share is based on the weighted average number of common shares outstanding. Potential dilutive shares of common stock have been excluded from the computation of net loss per share due to their anti-dilutive effect.

Comprehensive Income (loss)

Comprehensive income (loss) consists of the Company's net income (loss), foreign currency translation adjustment and unrealized gains and losses from available-for-sale securities and is presented in the consolidated statement of shareholders' equity.

New Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and must be applied beginning January 1, 2003. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than when the exit or disposal plan is approved. The adoption of SFAS 146 did not have an effect on the Company's consolidated financial statements.

In December 2002, the EITF reached a consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables". This Issue addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of their fair values to separately account for some or all of the deliverables (that is, there are separate units of accounting). In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. This Issue addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. This Issue does not change otherwise applicable revenue recognition criteria. The guidance in this Issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company does not expect the adoption of EITF 00-21 to have a material effect on its financial statements.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment to FASB Statement 123". SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123, "Accounting for Stock-Based Compensation", to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted the disclosure provisions of SFAS 148 effective January 31, 2003.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires companies to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Guarantees in existence at December 31, 2002 are grandfathered for the purposes of recognition and would only need to be disclosed. The Company does not expect that the adoption of FIN 45 will have an effect on its consolidated financial statements. The Company will adopt the initial recognition and measurement provisions of FIN 45 for guarantees issued or modified after December 31, 2002.

(2) Components of Selected Balance Sheet Accounts

	January 31, 2003	January 31, 2002
Inventories:		
Components and subassemblies	$16,918	$22,391
Work in process	306	3,834
Finished goods	6,867	5,185
	$24,091	$31,410
Property and equipment:		
Land	$ 1,226	$ 1,186
Machinery and equipment	47,841	43,161
Office and data processing equipment	23,574	21,388
Furniture and fixtures	4,299	3,895
Leasehold improvements	2,849	2,183
	79,789	71,813
Less accumulated depreciation and amortization	57,223	46,209
	$22,566	$25,604
Field support spares:		
Field support spares	$28,191	$22,704
Less accumulated depreciation	22,182	18,142
	$ 6,009	$ 4,562
Accrued liabilities:		
Compensation	$10,817	$10,323
Income taxes	1,697	3,084
Interest	1,731	—
Product warranty	1,521	1,935
BI-Tech earn-out	4,380	—
Other	4,914	4,816
	$25,060	$20,158

(3) Cumulative Effect of Change in Accounting Principle

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 also provides new criteria in the determination of intangible assets, including goodwill acquired in a business combination, and expands financial disclosure concerning business combinations consummated after June 30, 2001. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized but instead be tested for impairment at least annually using a two-step impairment test. The application of SFAS No. 141 did not affect previously reported amounts included in goodwill and other intangible assets.

Effective February 1, 2002, the Company adopted SFAS No. 142. SFAS No. 142 provides a six-month transitional period from the effective date of adoption for the Company to perform an assessment of whether there is an indication of goodwill impairment. The Company tested its reporting units for impairment by comparing fair value to carrying value. Fair value was determined using a discounted cash flow and cost methodology. The Company engaged a third-party appraisal firm to determine the fair value of a reporting unit within its former Storage Solutions segment. This valuation indicated that the goodwill associated with the acquisition of Articulent in April of 2001 was impaired. The performance of this business has not met management's original expectations, primarily due to the unexpected global slow down in capital spending for information technology equipment. Accordingly, a non-cash impairment charge of $10,068,000 from the adoption of SFAS No. 142 was recognized as a cumulative effect of change in accounting principle in the first quarter ended April 30, 2002. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as an operating expense.

(4) Goodwill and Intangible Assets

As described previously, the Company adopted SFAS No. 142 as of February 1, 2002. The following table reflects the consolidated results adjusted as if the adoption of SFAS No. 142 occurred as of the beginning of the year ended January 31, 2001:

	Years Ended January 31,		
	2003	2002	2001
Net income (loss), as reported	$(38,405)	$(3,706)	$11,994
Add back amortization of goodwill	—	624	29
Net income (loss), as adjusted	$(38,405)	$(3,082)	$12,023
Basic income (loss), per share, as reported	$ (1.37)	$ (.12)	$ .47
Add back amortization of goodwill	—	.02	—
Basic income (loss) per share, as adjusted	$ (1.37)	$ (.10)	$ .47
Diluted income (loss), per share, as reported	$ (1.37)	$ (.12)	$ .43
Add back amortization of goodwill	—	.02	—
Diluted income (loss) per share, as adjusted	$ (1.37)	$ (.10)	$ .43

The change in the net carrying amount of goodwill for the years ended January 31, 2003 and 2002 was as follows:

	Years Ended January 31,	
	2003	2002
Beginning of year	$ 14,070	$ 500
Acquisition of Articulent	—	13,558
Acquisition of BI-Tech	10,177	—
Translation adjustment	(66)	12
Impairment charge	(10,068)	—
End of year	$ 14,113	$14,070

The components of other amortizable intangible assets as of January 31, 2003 and 2002 were as follows:

	January 31, 2003		January 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	$1,630	$(161)	$505	$(42)
Non-compete agreements	250	(50)	—	—
Total	$1,880	$(211)	$505	$(42)
Total other intangible assets, net	$1,669		$463	

Amortization expense for intangible assets for the year ended January 31, 2003 was $169,000. Amortization expense is estimated to be $288,000 in fiscal 2003, $238,000 in fiscal 2004 and $163,000 in fiscal 2005 through 2007.

(5) Marketable Securities

The Company's investments in marketable securities are summarized as follows:

	January 31,	
	2003	2002
Available-for-Sale:		
Bank certificates of deposit	$ —	$35,096
U.S. government and agency securities	40,868	10,362
Corporate debt securities	68,816	36,538
Corporate equity securities	1,051	1,068
	110,735	83,064
Trading:		
Standard & Poors 500 stock price index fund	149	258
NASDAQ 100 tracking stock	259	290
	$111,143	$83,612

The amount of gross unrealized gains with respect to investments in available-for-sale securities at January 31, 2003 and 2002 was $1,468,000 and $809,000, respectively. The amount of gross unrealized losses with respect to investments in available-for-sale securities at January 31, 2003 and 2002 was not significant. The Company realized a loss of $8,747,000 in 2001 from the sale of 232,511 shares of webMethods stock received in connection with the sale of IntelliFrame in 2001 (see note 7 to the consolidated financial statements). Proceeds from the sale of available-for-sale securities in fiscal 2002, 2001 and 2000 were $34,373,000, $47,723,000 and $1,204,000, respectively. At January 31, 2003, investments in available-for-sale securities with contractual maturities of less than twelve months and one to five years totaled $32,334,000 and $77,350,000, respectively.

An additional loss of $1,536,000 was realized in fiscal 2001 when the remaining 41,031 shares of webMethods stock received in connection with the sale of IntelliFrame experienced a decline in value that was determined to be other than temporary, resulting in a write-down of the shares. The Company realized no other significant gains or losses with respect to available-for-sale securities during the three-year period ended January 31, 2003.

The Company's trading securities consist of a mutual fund investment that seeks to provide a return corresponding to the Standard & Poors 500 stock price index and a NASDAQ 100 tracking stock. The Company intends to use any gain or loss from these investments to fund the investment gains or losses allocated to participants under the Company's executive deferred compensation plan. The amount of unrealized holding losses with respect to trading securities included in net income (loss) for fiscal 2002, 2001 and 2000 was $132,000, $266,000 and $168,000, respectively.

(6) Acquisitions

On June 24, 2002, the Company acquired all the outstanding stock of BI-Tech, a leading provider of storage management solutions and services, for $12 million in cash plus the assumption of approximately $3.6 million of liabilities and the acquisition of approximately $8.7 million of tangible assets. The Company has allocated $6.5 million, $1.1 million and $250,000 of the purchase price to goodwill, customer list and non-compete agreements, respectively. The customer list and non-compete agreements are currently being amortized over periods of ten and two years, respectively. The accompanying financial statements include the results of BI-Tech since June 24, 2002.

The following table presents the unaudited pro forma consolidated results of operations of the Company for the years ended January 31, 2003 and 2002 as if the acquisition of BI-Tech took place on February 1, 2002 and 2001, respectively:

	Pro Forma Years Ended January 31, 2003	Pro Forma Years Ended January 31, 2002
Total revenue	$223,470	$216,626
Net loss	$(36,010)	$ (2,601)
Net loss per share	$ (1.28)	$ (.09)

The pro-forma results include amortization of the customer list and non-compete agreement presented above. The unaudited pro-forma results are for comparative purposes only and do not necessarily reflect the results that would have been recorded had the acquisition occurred at the beginning of the period presented or the results which might occur in the future.

The purchase agreement requires payment of additional consideration to the former stockholders and the BI-Tech employees based on achievement of certain earnings for each of the next two years starting July 1, 2002. The purchase agreement requires the Company to pay this additional consideration at its option, in the form of a note payable or the Company's stock to the former stockholders, and in cash to the BI-Tech employees. The portion payable to the former stockholders will be recorded as goodwill. The portion payable to BI-Tech employees will be recorded as compensation expense. During fiscal 2002 and based on BI-Tech's operations since July 1, 2002, an additional $3.6 million was recorded to goodwill and $744,000 was recorded as compensation expense, and a corresponding liability was recorded.

On April 3, 2001 the Company acquired all of the outstanding stock of Articulent Inc., a privately held, leading provider of storage solutions and services for $12,360,000 in cash, plus the assumption of approximately $24,394,000 of liabilities and the acquisition of approximately $19,333,000 of tangible assets. The acquisition was accounted for as a purchase and the consolidated financial statements of the Company include the results of Articulent since April 3, 2001. The purchase price was allocated to the fair value of the assets and liabilities acquired as follows:

Purchase Price:	
Cash paid	$ 12,360
Fair Value of Assets Acquired and Liabilities Assumed:	
Cash	$ 624
Accounts receivable	10,287
Inventory	4,446
Fixed assets	3,393
Customer list	505
Goodwill	13,809
Deferred taxes	3,107
Other assets	583
Accounts payable	(18,302)
Accrued expenses	(2,324)
Note payable	(3,768)
Total purchase consideration	$ 12,360

The following table presents the unaudited pro forma consolidated results of operations of the Company for the years ended January 31, 2002 and 2001 as if the acquisition of Articulent took place on February 1, 2001 and 2000, respectively:

	Pro Forma Years Ended January 31,	
	2002	2001
Total revenue	$194,740	$245,030
Net income (loss)	$ (5,772)	$ 2,454
Net income (loss) per share	$ (.19)	$ .09

The pro-forma results include amortization of the customer list and goodwill presented above. The unaudited pro-forma results are for comparative purposes only and do not necessarily reflect the results that would have been recorded had the acquisition occurred at the beginning of the period presented or the results which might occur in the future.

(7) Discontinued Operations

Propelis Software, Inc. formerly known as the Enterprise Integration Solutions Division, including IntelliFrame, developed and sold EAI software that automates the integration of computer software applications, and business workflow processes. In August 2000, the Company determined to divest Propelis Software, Inc. and focus on its core storage networking business. As a result, Propelis Software, Inc. has been accounted for as a discontinued operation in the accompanying financial statements.

In February 2001, the Company sold all of the outstanding stock of IntelliFrame Corporation, including the technology underlying the Propelis BPm™ product, to webMethods, Inc. for $8,800,000 in cash and 273,542 shares of webMethods common stock. The stock received from webMethods, Inc. was valued at $17,058,000, which reflects a discount from its publicly reported trading price due to the initial restrictions placed on the Company's ability to freely sell the stock. In connection with this transaction, the Company paid $3,000,000 to two employees, who were former shareholders of IntelliFrame, to satisfy all obligations to make further bonus payments under their employment agreements. The sale resulted in an after tax gain of $12,620,000 in the first quarter of fiscal 2001.

In the first quarter of fiscal 2001, the Company accrued $9,250,000 for the estimated future operating losses of Propelis Software, Inc. through the potential date of divestiture, resulting in an after tax loss of $6,197,000.

In August 2001, the Company sold substantially all of the remaining assets and liabilities of Propelis Software, Inc. to Jacada Ltd. for $6,000,000 in cash, plus a warrant to purchase 350,000 ordinary shares of Jacada Ltd. stock at a price of $3.26 per share. The final sales price was subject to adjustment based on the closing balance sheet of Propelis. The transaction resulted in an after tax gain of $1,799,000 in the third quarter of fiscal 2001.

In the third quarter of fiscal 2002, the Company received $207,000 of royalty income, net of tax, related to the discontinued operations sold in fiscal 2001.

(8) Leases

The Company leases all office and manufacturing space and certain equipment under noncancelable capital and operating leases. At January 31, 2003 and 2002, leased capital assets included in property and equipment were as follows:

	January 31,	
	2003	2002
Property and equipment:		
Office and data processing equipment	$3,345	$4,836
Less accumulated amortization	2,304	2,605
	$1,041	$2,231

Future minimum lease payments, excluding executory costs such as real estate taxes, insurance and maintenance expense, by year and in the aggregate are as follows:

	Minimum Lease Commitments	
	Capital	Operating
Year Ending January 31,		
2004	$742	$ 4,550
2005	—	3,334
2006	—	2,544
2007	—	2,344
2008	—	2,337
Thereafter	—	7,476
Total minimum lease payments	742	$22,585
Less amounts representing interest at rates ranging from 9.57% to 11.29%	34	
Present value of minimum capital lease payments	708	
Less current installments	708	
Obligations under capital lease, less current installments	$ —	

Rent expense under noncancelable operating leases, exclusive of executory costs, for fiscal 2002, 2001 and 2000 was $6,244,000, $5,857,000, and $5,315,000, respectively. During the year ended January 31, 2001, the Company reversed $287,000 representing the unused portion of an accrual for an abandoned facility.

(9) Convertible Subordinated Debt Offering

In February 2002, the Company sold $125 million of 3% convertible subordinated notes due February 15, 2007, raising net proceeds of $121.6 million. The notes are convertible into the Company's common stock at a price of $19.17 per share. The Company may redeem the notes upon payment of the outstanding principal balance, accrued interest and a make whole payment if the closing price of its common stock exceeds 175% of the conversion price for at least 20 consecutive trading days within a period of 30 consecutive trading days ending on the trading day prior to the date the redemption notice is mailed. The make whole payment represents additional interest payments that would be made if the notes were not redeemed prior to the due date.

(10) Shareholders' Equity

Common Stock Repurchase

In April 2001, the Company's board of directors authorized the repurchase of up to $50,000,000 of the Company's common stock. During fiscal 2002 and 2001, pursuant to this authorization, the Company repurchased 4,045,000 and 90,000 shares of its common stock for $32,205,000 and $787,000, respectively.

Rights Plan

On July 24, 1998 the Company's board of directors adopted a shareholders rights plan pursuant to which rights were distributed as a dividend at the rate of one preferred share purchase right for each outstanding share of common stock of the Company. The rights will expire on July 23, 2008 unless extended, earlier redeemed or exchanged by the Company.

Stock Options And Restricted Stock

The Company maintains stock option and restricted stock plans (the Plans) which provide for the grant of stock options, restricted stock and stock based awards to officers, other employees, consultants, and independent contractors as determined by the compensation committee of the board of directors. A maximum of 14,280,000 shares of common stock were issuable under the terms of the Plans as of January 31, 2003, of which no more than 6,330,000 shares may be issued as restricted stock or other stock based awards. As of January 31, 2003, there were 2,868,465 shares of common stock available for future grants under these plans.

Restricted stock issued under the Plans is recorded at fair market value on the date of grant and generally vests over a two to four year period. Vesting for some grants may be accelerated if certain performance criteria are achieved. Compensation expense is recognized over the applicable vesting period. During fiscal 2002, 2001 and 2000, the Company issued 5,000, 106,000, and 61,100 restricted shares, respectively, having an aggregate weighted fair market value per share of $14.15, $10.63, and $17.43, respectively. Compensation expense recognized for restricted shares in fiscal 2002, 2001 and 2000 was $722,000, $568,000 and $346,000, respectively.

All stock options granted under the Plans have an exercise price equal to fair market value on the date of grant, vest and become exercisable over individually defined periods, generally four years, and expire ten years from the date of grant.

A summary of the status of the Company's outstanding stock options and related changes for fiscal 2002, 2001 and 2000 is presented below:

	January 31,					
	2003		2002		2001	
Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	5,753	$11.99	4,655	$13.45	4,798	$10.02
Granted	2,970	8.52	2,666	9.71	1,552	18.77
Exercised	(231)	5.26	(549)	7.61	(1,123)	5.93
Canceled	(975)	11.59	(1,019)	15.30	(572)	13.92
Outstanding at end of year	7,517	$10.87	5,753	$11.99	4,655	$13.45
Exercisable at end of year	3,028	$11.80	2,107	$11.01	1,633	$ 8.08
Weighted-average fair value of grants during the year		$ 6.25		$ 7.26		$13.56

The following table summarizes information about stock options outstanding at January 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 3.50 — $ 4.99	1,033	7.6	$ 4.46	404	$ 4.37
$ 5.00 — $ 7.99	1,368	7.1	$ 6.45	571	$ 6.06
$ 8.00 — $14.99	3,611	8.0	$10.40	1,181	$10.49
$15.00 — $19.99	644	7.2	$17.55	295	$17.56
$20.00 — $32.75	861	6.5	$22.55	577	$22.38
	7,517			3,028	

Employee Stock Purchase Plan

The 1992 Employee Stock Purchase Plan (the Purchase Plan) allows eligible employees an opportunity to purchase an aggregate of 1,500,000 shares of the Company's common stock at a price per share equal to 85% of the lesser of the fair market value of the Company's common stock at the beginning or the end of each six-month purchase period. Under the terms of the Purchase Plan, no participant may acquire more than 5,000 shares of the Company's common stock or more than $5,000 in aggregate fair market value of common stock (as defined) during any six-month purchase period. Common shares sold to employees under the Purchase Plan in fiscal 2002, 2001 and 2000 were 346,982, 163,705 and 102,920, respectively.

The weighted-average fair value of each purchase right granted in fiscal 2002, 2001 and 2000 was $4.41, $7.34 and $3.72, respectively.

(11) Net Income (Loss) Per Share

The components of net income (loss) per basic and diluted share are as follows:

	Net Income (loss)	Weighted Average Shares Outstanding	Per Share Amount
Years Ended January 31,			
2003:			
Basic	$(38,405)	28,111	$(1.37)
Dilutive effect of employee stock purchase awards and options and shares issuable upon the conversion of convertible subordinated debt	—	—	—
Diluted	$(38,405)	28,111	$(1.37)
2002:			
Basic	$ (3,706)	29,892	$ (.12)
Dilutive effect of employee stock purchase awards and options	—	—	—
Diluted	$ (3,706)	29,892	$ (.12)
2001:			
Basic	$ 11,994	25,383	$ .47
Dilutive effect of employee stock purchase awards and options	—	2,430	(.04)
Diluted	$ 11,994	27,813	$ .43

The total weighted average number of common stock equivalents excluded from the calculation of net loss per share due to their anti-dilutive effect for fiscal 2002 and 2001 was 567,761 and 1,292,016, respectively. The company also excluded 6,521,900 shares of common stock issuable upon conversion of the Company's convertible subordinated debt from the calculation of net loss per share in fiscal 2002 due to the anti-dilutive effect of the assumed conversion.

(12) Income Taxes

The components of income from continuing operations before income taxes and income tax expense (benefit) for each of the years in the three-year period ended January 31, 2003 consists of the following:

	Years Ended January 31,		
	2003	2002	2001
Income (loss) from continuing operations before income taxes:			
U.S	$(12,657)	$(17,756)	$19,595
Foreign	640	536	4,481
Total	$(12,017)	$(17,220)	$24,076
Income tax provision:			
Current:			
U.S	$ —	$ —	$ 5,180
Foreign	533	284	1,348
State	—	—	1,027
Total current	533	284	7,555
Deferred:			
U.S	15,361	(5,198)	458
Foreign	—	—	—
State	633	(378)	(66)
Total deferred	15,994	(5,576)	392
Total income tax expense (benefit)	$ 16,527	$ (5,292)	$ 7,947

The reconciliation of the statutory federal tax rate and the effective tax rate for each of the years in the three-year period ended January 31, 2003 is as follows:

	Years Ended January 31,		
	2003	2002	2001
Statutory tax rate	(34.0)%	(34.0)%	34.0%
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	(3.5)	(3.3)	2.6
Extraterritorial income and foreign sales corporation	(.8)	(.5)	(1.9)
Meals and entertainment	.6	.6	.4
Valuation allowance	177.5	4.8	—
Other	(2.3)	1.7	(2.1)
Total	137.5%	(30.7)%	33.0%

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and (liabilities) as of January 31, 2003 and 2002 were as follows:

	Years Ended January 31, 2003	2002
Deferred tax assets:		
Inventory	$ 4,099	$ 4,658
Accrued compensation	1,111	1,145
Reserves for bad debts and sales returns	867	636
Foreign net operating loss carryforwards	—	410
Tax credits	3,655	1,265
Net operating loss carryforwards	14,596	7,895
Write down of webMethods stock	1,133	1,071
Other	590	900
Total gross deferred tax assets	26,051	17,980
Valuation allowance	(24,808)	(1,240)
Net deferred tax assets	1,243	16,740
Deferred tax liabilities:		
Property and equipment	(166)	(109)
Unrealized gains on marketable securities	(565)	(299)
Other	(1,053)	(150)
Total gross deferred tax liabilities	(1,784)	(558)
Net deferred tax assets (liabilities)	$ (541)	$16,182

The valuation allowance for deferred tax assets as of January 31, 2003 and 2002 was $24,808,000 and $1,240,000, respectively. The net change in the total valuation allowance for the years ended January 31, 2003 and 2002 was an increase of $23,568,000 and $830,000, respectively.

Significant management judgment is required in determining the valuation allowance recorded against net deferred tax assets. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent recovery is believed unlikely, establishes a valuation allowance. The Company must increase tax expense within its statements of operations when a valuation allowance is established or increased in a given period.

In the fourth quarter of fiscal 2002, the Company recorded a non-cash charge of $23,568,000 to provide a valuation allowance for its United States deferred tax assets. As the Company generates taxable income in future periods, it does not expect to record significant income tax expense in the United States until it becomes more likely than not that the Company will be able to utilize the deferred tax assets, and therefore reduce its valuation allowance. The establishment of the valuation allowance does not impair the Company's ability to use the deferred tax assets upon achieving profitability. The deferred tax liability that still exists is attributable to foreign operations.

As of January 31, 2003, the Company has federal net operating loss and credit carry-forwards available to reduce income taxes payable in future years of approximately $39,000,000 and $3,655,000, respectively. If not used, these federal net operating loss and credit carry-forwards will expire between the years 2019 and 2023. The utilization of a portion of the Company's federal net operating loss and credit carry-forwards is subject to annual limitations under Internal Revenue Code Section 382. Subsequent equity changes could further limit the utilization of these federal net operating loss and credit carry-forwards.

In future years, the recognized tax benefits relating to the reversal of the valuation allowance for deferred tax assets as of January 31, 2003 will be recorded as follows:

	Total
Income tax benefit from continuing operations	$24,519
Additional paid in capital	289
Total	$24,808

(13) Annual Bonus Plan

The Company's Annual Bonus Plan provides a formula for determination of cash bonus payments to eligible employees based on a defined percentage of a participant's qualifying base compensation multiplied by the Company's annual bonus plan factor. The annual bonus plan factor is based on a chart outlining payout percentages for achievement of defined levels of operating profit.

There was no annual bonus for fiscal 2002. The annual bonus expense for fiscal 2001 and 2000 was $1,134,000 and $2,035,000, respectively.

(14) 401(k) and Deferred Compensation Plans

The Company has a 401(k) salary savings plan which covers substantially all of its employees. The Company matches 100% of a participant's annual plan contributions up to an annual maximum per participant of $2,500 which vests over a four-year period from the participant's date of hire.

The Company has also established an executive deferred compensation plan for selected key employees which allows participants to defer a substantial portion of their compensation each year. The Company matches 20% of a participant's annual plan contributions up to an annual maximum per participant of $10,000. Matching contributions vest over a four-year period from the later of July 1, 1997 or the participant's date of hire. In addition, the Company provides participants with an annual earnings credit based on the investment indexes selected by the participant prior to the start of each plan year.

The Company's expense under the 401(k) and deferred compensation plans for fiscal 2002, 2001 and 2000 was $1,674,000, $1,969,000 and $1,132,000, respectively.

(15) Segment Information

During fiscal 2002, the Company consolidated its storage solutions and networking sales, support and service functions into a single unit. As a result, it is no longer possible to allocate costs and prepare separate meaningful statements for what had been its networking and storage solutions segments. The

Company's management now reviews and makes decisions utilizing financial information for the consolidated business.

	Years Ending January 31, 2003	2002	2001
Foreign Operations Information:			
Revenue:			
United States	$153,235	$140,667	$123,717
United Kingdom	26,412	17,245	16,554
France	6,072	6,327	5,213
Other	25,796	22,784	30,622
Total	$211,515	$187,023	$176,106
Long-lived assets (end of period):			
United States	$ 30,554	$ 43,897	$ 29,678
United Kingdom	13,709	693	856
Other	94	109	327
Total	$ 44,357	$ 44,699	$ 30,861

Revenue has been attributed to the country where the end-user customer is located.

One customer accounted for 10% of the Company's revenue in fiscal 2002. No single customer accounted for more than 10% of the Company's revenue in fiscal 2001 or 2000.

(16) Product Warranty

The following is a roll forward of the Company's product warranty accrual for each of the years in the three-year period ended January 31, 2003:

Years Ended January 31,	Balance at beginning of year	Charged to cost of product	Revisions to estimates	Cost of warranty	Balance at end of year
2003	$1,935	2,429	—	(2,843)	$1,521
2002	$1,629	2,836	—	(2,530)	$1,935
2001	$ 904	3,290	—	(2,565)	$1,629

(17) Restructuring Charge

In the fourth quarter of fiscal 2002, the Company recorded a $1.7 million restructuring charge for severance resulting from a reduction in workforce and professional fees related to canceled acquisition activity. Of this amount $1.3 million was paid prior to January 31, 2003, with the balance to be paid prior to April 30, 2003.

(18) Noncash Financing and Investing Activities and Supplemental Cash Flow Information

Cash payments for interest expense in fiscal 2002, 2001, 2000 were $1,946,000, $285,000 and $338,000, respectively.

Cash payments for income taxes, net of refunds received, in fiscal 2002, 2001 and 2000 were $3,535,000, $17,000 and $3,286,000, respectively.

The Company did not enter into any capital leases during fiscal 2002. During fiscal 2001 and 2000, the Company entered into capital lease obligations for equipment valued at $279,000 and $1,849,000, respectively.

During fiscal 2001 and 2000, deferred tax assets increased by $994,000 and $5,736,000, respectively, as a result of the tax benefit from employee stock transactions that could not be currently utilized.

(19) Disclosures about Fair Value of Financial Instruments

The carrying amount for cash and cash equivalents, accounts receivable and capital lease obligations approximates fair value because of the short maturity of those instruments. Marketable securities are recorded at market value at January 31, 2003.

At January 31, 2003, the Company's 3% convertible subordinated notes due February 15, 2007 in the amount of $125,000,000 had a fair value of $94,375,000, based on a reported trading price of $75.50 per $100 in face amount of principal indebtedness.

(20) Related Party Transactions

During fiscal 2002 and 2001, the Company purchased $374,000 and $491,000, respectively, of bandwidth from Dynegy Connect, an entity wholly owned by Dynegy Global Communications. At January 31, 2003 the Company had commitments to purchase $933,000 of additional bandwidth from Dynegy Connect through fiscal 2006. All of the bandwidth purchases were for re-sale at a profit. The bandwidth was purchased from Dynegy Connect because they offered the best pricing. The Company has purchased bandwidth from competitors of Dynegy Connect when their pricing was more attractive. The Company's board member, Lawrence McLernon, was formerly chief executive officer of Dynegy Global Communications.

On May 3, 2002 the Company's board granted Mr. Kelen, a board member, an option to purchase 50,000 shares of the Company's common stock at a price of $8.77 per share in consideration of Mr. Kelen's special participation on the Company's board, and in consideration of such services to be performed in the future.

Thomas G. Hudson's son-in-law is employed by the Company as a regional sales manager. In fiscal 2002, he was paid $128,688 in compensation, commissions and bonuses. Erwin A. Kelen's son is employed by the Company as an area business development manager. In fiscal 2002, he was paid $146,896 in compensation, commissions and bonuses.

(21) Subsequent Event

On April 6, 2003, the Company entered into an agreement where a wholly owned subsidiary of the Company will acquire all of the shares of Inrange Technologies Corporation that are owned by SPX Corporation. The shares acquired will constitute approximately 91% of the issued and outstanding shares of Inrange for a purchase price of $2.3132 per share and $172,954,108 in the aggregate. Pursuant to the agreement, immediately following the acquisition, the subsidiary will be merged into Inrange, and the remaining capital stock owned by other Inrange shareholders will be converted into the right to receive $2.3132 per share in cash, resulting in a total payment of approximately $190,000,000 for both the stock purchase and the merger. Consummation of these transactions is subject to significant conditions, including filing and expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

The following table presents the unaudited pro forma consolidated results of operations of the Company for the years ended January 31, 2003 and 2002 as if the acquisition of Inrange took place on February 1, 2002 and 2001, respectively:

	Pro Forma Years Ended January 31,	
	2003	2002
Total revenue	$435,099	$447,874
Net loss	$(70,199)	$(37,355)
Net loss per share	$ (2.50)	$ (1.25)

The unaudited pro forma results are for comparative purposes only and do not necessarily reflect the results that would have been recorded had the acquisition occurred at the beginning of the period presented or the results which might occur in the future. The allocation of the purchase to the acquired assets and liabilities of Inrange Technologies Corporation is subject to adjustment pending completion of a purchase price allocation study and will likely result in changes to the proforma net loss amounts.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Computer Network Technology Corporation:

We have audited the accompanying consolidated balance sheets of Computer Network Technology Corporation and subsidiaries as of January 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended January 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Computer Network Technology Corporation and subsidiaries as of January 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three year period ended January 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 1, 3 and 4 to the consolidated financial statements, the company adopted the provisions of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets", on February 1, 2002.

/s/ KPMG LLP

Minneapolis, Minnesota
February 17, 2003, except as to note 21,
which is as of April 6, 2003

QUARTERLY FINANCIAL DATA
(unaudited)

	Years Ended January 31, 2003 and 2002			
	First Quarter(2)	Second Quarter(3)	Third Quarter(4)	Fourth Quarter(5)
	(in thousands, except per share data)			
2002				
Revenue	$ 45,212	$48,866	$55,903	$ 61,534
Gross profit	18,084	19,946	21,550	24,615
Income (loss) from operations	(6,674)	(3,547)	(1,823)	(842)
Income from discontinued operations, net of tax	—	—	207	—
Net income (loss)	(13,765)	(2,106)	(864)	(21,670)
Net income (loss) per share:				
Basic	(.48)	(.07)	(.03)	(.81)
Diluted	(.48)	(.07)	(.03)	(.81)
2001(1)				
Revenue	$ 29,413	$41,583	$55,362	$ 60,665
Gross profit	10,465	16,560	22,027	24,389
Income (loss) from operations	(10,478)	(2,597)	(326)	927
Income from discontinued operations, net of tax	6,423	—	1,799	—
Net income (loss)	(6,555)	(821)	2,398	1,272
Net income (loss) per share:				
Basic	(.22)	(.03)	.08	.04
Diluted	(.22)	(.03)	.08	.04

(1) In fiscal 2001, we divested Propelis Software, Inc. formerly known as our Enterprise Integration Solutions Division to focus all of our resources on our core storage networking business. Accordingly, the financial information for Propelis Software, Inc. has been accounted for as discontinued operations.

(2) Continuing operations for the first quarter of 2002 includes a $10.1 million cumulative effect of change in accounting principle related to the implementation of SFAS No. 142. Continuing operations for the first quarter of fiscal 2001 includes a $2.0 million write down of inventory, a $325,000 write-off of a product and a $1.0 million restructuring charge. Continuing operations also includes a loss on the sale and write-down of webMethods stock of $10.3 million. Discontinued operations for the first quarter of fiscal 2001 includes a provision of $6.2 million, net of tax, to accrue for the estimated future operating losses of Propelis Software, Inc. through the expected date of divestiture. Discontinued operations for the first quarter of 2001 includes an after tax gain of $12.6 million resulting from the sale of IntelliFrame.

(3) Continuing operations for the second quarter of fiscal 2002 includes an $89,000 earn-out payable to the employees of BI-Tech.

(4) Continuing operations for the third quarter of fiscal 2002 includes a $537,000 earn-out payable to the employees of BI-Tech. Discontinued operations for the third quarter of fiscal 2001 includes an after tax gain of $1.8 million from the sale of substantially all of the remaining assets and liabilities of Propelis Software, Inc. to Jacada Ltd.

(5) Continuing operations for the fourth quarter of fiscal 2002 includes a $1.7 million restructuring charge, a $1.0 million investment write-down, and a $23.6 million valuation allowance for our United States deferred tax assets. Continuing operations also includes $118,000 related to the earn-out payable to the employees of BI-Tech.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 25, 2003, to be filed with the Securities and Exchange Commission (the "Commission") on or before May 26, 2003, is incorporated herein by reference. For information concerning the executives officers, see Item 4A of this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information set forth under the captions "Summary Compensation Table," "Option Tables," "Employment Agreements," "Election of Directors — Compensation of Directors," "Internal Revenue Code Section 162(m)" and "Comparative Stock Price Performance" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 25, 2003, to be filed with the Commission on or before May 26, 2003, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 25, 2003, to be filed with the Commission on or before May 26, 2003, is incorporated herein by reference.

The information set forth under the caption "Equity Compensation Plan Information as of January 31, 2003" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 25, 2003, to be filed with the Commission on or before May 26, 2003, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

During 2002 and 2001, we purchased $374,000 and $491,000, respectively, of bandwidth from Dynegy Connect, an entity wholly owned by Dynegy Global Communications. At January 31, 2003 we have commitments to purchase $933,000 of additional bandwidth from Dynegy Connect through fiscal 2006. All of the bandwidth purchases were for re-sale at a profit. The bandwidth was purchased from Dynegy Connect because they offered us the best pricing. We have purchased bandwidth from competitors of Dynegy Connect when their pricing has been more attractive. Our board member, Lawrence McLernon, was formerly chief executive officer of Dynegy Global Communications.

On May 3, 2002 our board granted Mr. Erwin Kelen, a board member, an option to purchase 50,000 shares of our common stock at a price of $8.77 per share in consideration of his special participation on our board, and in consideration of such services to be performed in the future.

Thomas G. Hudson's son-in-law is employed by us as a regional sales manager. In fiscal 2002, he was paid $128,688 in compensation, commissions and bonuses. Erwin A. Kelen's son is employed by us as an area business development manager. In fiscal 2002, he was paid $146,896 in compensation, commissions and bonuses.

Item 14. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c)) as of a date within 90 days of the filing date of this annual report on Form 10-K (the "Evaluation Date"). This review and evaluation was done under the supervision and with the participation of management, including our Chief

Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on their review and evaluation, the CEO and CFO have concluded that, as of the Evaluation Date, our disclosure controls and procedures were adequate and effective to ensure that material information relating to us and our consolidated subsidiaries has been made known to them in a timely manner, particularly during the period in which this annual report on Form 10-K was being prepared, and that no changes are required at this time.

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

(b) Change in Internal Controls

There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date, or any significant deficiencies or material weaknesses in such internal controls requiring corrective actions. As a result, no corrective actions have been taken.

PART IV

Item 15. Exhibits, Consolidated Financial Statement Schedules, and Reports on Form 8-K.

(a) 1. Consolidated Financial Statements and Schedules of Registrant

Consolidated Statements of Operations for the Years Ended January 31, 2003, 2002 and 2001.

Consolidated Balance Sheets as of January 31, 2003 and 2002.

Consolidated Statements of Shareholders' Equity for the Years Ended January 31, 2003, 2002 and 2001.

Consolidated Statements of Cash Flows for the Years Ended January 31, 2003, 2002 and 2001.

Notes to Consolidated Financial Statements

Independent Auditors' Report

(a) 2. Consolidated Financial Statement Schedule of Registrant

Independent Auditors' Report on Consolidated Financial Statement Schedule

Schedule II: Valuation and Qualifying Accounts for the Years Ended January 31, 2003, 2002 and 2001.

All other schedules are omitted as the required information is inapplicable or is presented in the consolidated financial statements or related notes thereto.

Schedule II

COMPUTER NETWORK TECHNOLOGY CORPORATION

Valuation and Qualifying Accounts

Years ended January 31, 2003, 2002 and 2001
(in thousands)

Description	Balance at beginning of year	Additions: Charged to costs & expenses	Additions: Charged to other account	Deductions	Balance at end of year
Year ended January 31, 2003					
Allowance for doubtful accounts and sales returns	$1,848	1,388	—	(820)	$2,416
Year ended January 31, 2002					
Allowance for doubtful accounts and sales returns	$2,383	898	—	(1,433)	$1,848
Year ended January 31, 2001					
Allowance for doubtful accounts and sales returns	$1,128	1,600	—	(345)	$2,383

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT SCHEDULE

The Board of Directors and Shareholders
Computer Network Technology Corporation:

Under the date of February 17, 2003, except as to note 21, which is as of April 6, 2003, we reported on the consolidated balance sheets of Computer Network Technology Corporation and subsidiaries as of January 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended January 31, 2003 as contained in the fiscal 2002 annual report on Form 10-K. These consolidated financial statements and our report thereon are included in the annual report on Form 10-K for fiscal 2002. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Minneapolis, Minnesota
February 17, 2003

(a) 3. Exhibits

The Company undertakes to furnish to any shareholder so requesting a copy of any of the following exhibits upon payment to the Company of the reasonable costs incurred by the Company in furnishing any such exhibit.

Exhibit	Description
2.	Purchase Agreement as of April 3, 2001 between Computer Network Technology Corporation and Ernest J. Parsons (Articulent, Inc.). (Incorporated by reference to Exhibit 2 Form 10-K for the year ended January 31, 2002 and Exhibit 99.1 to Form 8-K dated April 3, 2001.)
2.1	Purchase Agreement dated June 24, 2002 between Computer Network Technology Corporation, Greg Scorziello, Paul John Foskett and Owen George Smith and agreed form of registration rights agreement set forth in Annex I thereto. (Incorporated by reference to Exhibit 2.2 Registration Statement No. 333-87376.)
2.2	Agreement as of April 6, 2003 among SPX Corporation, Computer Network Technology and Basketball Corporation (Incorporated by reference to Exhibit 99.2 to current report on Form 8-K dated April 8, 2003.)
3.1	Second Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibits 3(i)-1 and 3(i)-2 to current report on Form 8-K dated May 25, 1999.)
3.2	Articles of Amendment of the Second Restated Articles of the Company. (Incorporated by reference to Exhibit 3(i)-1 to current report on Form 8-K dated May 25, 1999.)
3.3	By-laws of the Company. (Incorporated by reference to Exhibit 3(ii)-1 to current report on Form 8-K dated May 25, 1999.)
4.1	Rights Agreement between the Company and Chase Mellon Shareholder Services, L.L.C., as Rights Agent including the form of Rights Certificate and the Summary of Rights to Purchase Preferred Shares. (Incorporated by reference to Exhibit 1 to Form 8-A dated July 29, 1998 and Exhibit 1 to Form 8-A/A dated November 27, 2000.)
4.2	First Amendment of Rights Agreement dated November 21, 2000. (Incorporated by Reference to Exhibit 1 to Form 8-A/A dated November 27, 2000.)
4.3	First Amendment of Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock. ($.01 Par Value Per Share) of Computer Network Technology Corporation (Incorporated by reference to Exhibit 2 to Form 8-A/A dated November 27, 2000.)
4.4	Form of Common Stock Certificate. (Incorporated by reference to Exhibit 4.2 to Form S-3 Registration Statement No. 333-80841.)
4.5	Registration Rights Agreement, dated as of February 20, 2002, among Bear, Sterns & Co. Inc., SG Cowan Securities Corporation and Soundview Technology Corporation. (Incorporated by reference to Exhibit 4.5 Form 10-K for the year ended January 31, 2002.)
4.6	Indenture, dated as of February 20, 2002, between the Company and U.S. Bank National Association, as Trustee. (Incorporated by reference to Exhibit 4.6 Form 10-K for the year ended January 31, 2002.)
4.7	Form of Note (included in Exhibit 4.6) (Incorporated by reference to Exhibit 4.7 Form 10-K for the year ended January 31, 2002.)
10.0	Building Lease by and between Opus Northwest, L.L.C., and Computer Network Technology Corporation. (Incorporated by reference to Exhibit 10A Form 10-Q for the quarterly period ended September 30, 1998.)
10.1A	Amended and Restated 1992 Stock Award Plan. (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on August 5, 2002.)(1)
10.1B	Form of Non-Qualified Stock Option Award Agreement for employees to be used in conjunction with the Amended and Restated 1992 Stock Award Plan. (Incorporated by reference to Exhibit 10.2 to Form 8-K filed on August 5, 2002.)(1)
10.1C	Form of Non-Qualified Stock Option Award Agreement for directors to be used in conjunction with the Amended and Restated 1992 Stock Award Plan. (Incorporated by reference to Exhibit 10.3A to Form 8-K filed on August 5, 2002.)(1)

Exhibit	Description
10.1D	Form of Restricted Stock Agreement to be used in conjunction with the Amended and Restated 1992 Stock Award Plan. (Incorporated by reference to Exhibit 10.3B to Form 8-K filed on August 5, 2002.) (1)
10.2A	Amended and Restated 1999 Non-Qualified Stock Award Plan. (1) (2)
10.2B	Form of Restricted Stock Agreement to be used in conjunction with the Amended and Restated 1999 Non-Qualified Stock Award Plan. (Incorporated by reference to Exhibit 10.4B to Form 8-K filed on August 5, 2002.) (1)
10.2C	Form of Non-Qualified Stock Option Award Agreement for employees to be used in conjunction with the Amended and Restated 1999 Non-Qualified Stock Award Plan. (Incorporated by reference to Exhibit 10.4C to Form 8-K filed on August 5, 2002.) (1)
10.3	1997 Restricted Stock Plan. (Incorporated by reference to Exhibit 10.11 to Form 10-K filed on April 26, 2002.) (1)
10.4	Amended and Restated 1992 Employee Stock Purchase Plan. (1) (2)
10.5A	Amended and Restated 2002 Stock Award Plan. (Incorporated by reference to Exhibit 10.14 to Form 8-K filed on August 5, 2002.) (1)
10.5B	Form of Incentive Stock Option Award Agreement for employees to be used in conjunction with the Amended and Restated 2002 Stock Award Plan. (Incorporated by reference to Exhibit 10.15 to Form 8-K filed on August 5, 2002.) (1)
10.5C	Form of Non-Qualified Stock Option Award Agreement for employees to be used in conjunction with the Amended and Restated 2002 Stock Award Plan. (Incorporated by reference to Exhibit 10.16 to Form 8-K filed on August 5, 2002.) (1)
10.5D	Form of Non-Qualified Stock Option Award Agreement for directors to be used in conjunction with the Amended and Restated 2002 Stock Award Plan. (Incorporated by reference to Exhibit 10.17 to Form 8-K filed on August 5, 2002.) (1)
10.5E	Form of Restricted Stock Agreement in conjunction with the Amended and Restated 2002 Stock Award Plan. (Incorporated by reference to Exhibit 10.18 to Form 8-K filed on August 5, 2002.) (1)
10.6	Amended and Restated 401(k) Salary Savings Plan. (Incorporated by reference to Exhibit 10.19 to Form 8-K filed on August 5, 2002.) (1)
10.7	CNT 2002 Annual Bonus Plan. (Incorporated by reference to Exhibit 10.7 on Form 10-K for the year ended January 31, 2002.) (1)
10.8A	Amended and Restated Executive Deferred Compensation Plan. (Incorporated by reference to Exhibit 10P on Form 10-K for the year ended December 31, 1998.) (1)
10.8B	Amendment to Amended and Restated Executive Deferred Compensation Plan. (Incorporated by reference to Exhibit 10I on Form 10-K for the year ended January 31, 2001.) (1)
10.9	Amended and Restated Employment Agreement dated as of March 5, 2003, between Computer Network Technology Corporation and Thomas G. Hudson. (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 19, 2003.) (1)
10.10	Employment Agreement dated as of March 5, 2003, between Computer Network Technology Corporation and Gregory T. Barnum. (Incorporated by reference to Exhibit 10.2 to Form 8-K filed on March 19, 2003.) (1)
10.11	Employment Agreement effective February 18, 2003, between Computer Network Technology Corporation and James A. Fanella. (Incorporated by reference to Exhibit 10.3 to Form 8-K filed on March 19, 2003.) (1)
10.12	Employment Agreement by and between the Company and Mark Knittel. (Incorporated by reference to Exhibit 10AA on Form 10-K for the year ended December 31, 1997.) (1)
12.	Ratio of Earnings to Fixed Charges. (2)
21.	Subsidiaries of the Registrant. (2)
23.	Independent Auditors' Consent. (2)

Exhibit	Description
99.1	Cautionary Statements.(2)
99.2	Computer Network Technology Corporation Certification of Chief Executive officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).(2)

(1) Management contracts or compensatory plans or arrangements with the Company.

(2) Filed herewith.

(b) Reports on Form 8-K

The registrant furnished a Form 8-K on December 13, 2002 with the certifications required under Section 906 of the Sarbanes-Oxley Act of 2002 that accompanied its Form 10-Q for the period ended October 31, 2002.

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.

COMPUTER NETWORK TECHNOLOGY CORPORATION

Dated: April 17, 2003

By: /s/ THOMAS G. HUDSON

Thomas G. Hudson, President and Chief Executive Officer (Principal Executive Officer)

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.

/s/ THOMAS G. HUDSON Thomas G. Hudson	President and Chief Executive Officer (Principal Executive Officer) and Director	April 17, 2003
/s/ GREGORY T. BARNUM Gregory T. Barnum	Vice President of Finance, Chief Financial Officer and Secretary (Principal Financial Officer)	April 17, 2003
/s/ JEFFREY A. BERTELSEN Jeffrey A. Bertelsen	Corporate Controller and Treasurer (Principal Accounting Officer)	April 17, 2003
/s/ PATRICK W. GROSS Patrick W. Gross	Director	April 17, 2003
/s/ ERWIN A. KELEN Erwin A. Kelen	Director	April 17, 2003
/s/ LAWRENCE MCLERNON Lawrence McLernon	Director	April 17, 2003
/s/ JOHN A. ROLLWAGEN John A. Rollwagen	Director	April 17, 2003

CERTIFICATIONS

I, Thomas G. Hudson, certify that:

1. I have reviewed this annual report on Form 10-K of Computer Network Technology Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 17, 2003

By: /s/ Thomas G. Hudson
Thomas G. Hudson
Chief Executive Officer

CERTIFICATIONS

I, Gregory T. Barnum, certify that:

1. I have reviewed this annual report on Form 10-K of Computer Network Technology Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 17, 2003

By: /s/ Gregory T. Barnum

Gregory T. Barnum
Chief Financial Officer

INDEX TO EXHIBITS

Exhibit	Description
2.	Purchase Agreement as of April 3, 2001 between Computer Network Technology Corporation and Ernest J. Parsons (Articulent, Inc.). (Incorporated by reference to Exhibit 2 Form 10-K for the year ended January 31, 2002 and Exhibit 99.1 to Form 8-K dated April 3, 2001.)
2.1	Purchase Agreement dated June 24, 2002 between Computer Network Technology Corporation, Greg Scorziello, Paul John Foskett and Owen George Smith and agreed form of registration rights agreement set forth in Annex I thereto. (Incorporated by reference to Exhibit 2.2 Registration Statement No. 333-87376.)
2.2	Agreement as of April 6, 2003 among SPX Corporation, Computer Network Technology and Basketball Corporation (Incorporated by reference to Exhibit 99.2 to current report on Form 8-K dated April 8, 2003.)
3.1	Second Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibits 3(i)-1 and 3(i)-2 to current report on Form 8-K dated May 25, 1999.)
3.2	Articles of Amendment of the Second Restated Articles of the Company. (Incorporated by reference to Exhibit 3(i)-1 to current report on Form 8-K dated May 25, 1999.)
3.3	By-laws of the Company. (Incorporated by reference to Exhibit 3(ii)-1 to current report on Form 8-K dated May 25, 1999.)
4.1	Rights Agreement between the Company and Chase Mellon Shareholder Services, L.L.C., as Rights Agent including the form of Rights Certificate and the Summary of Rights to Purchase Preferred Shares. (Incorporated by reference to Exhibit 1 to Form 8-A dated July 29, 1998 and Exhibit 1 to Form 8-A/A dated November 27, 2000.)
4.2	First Amendment of Rights Agreement dated November 21, 2000. (Incorporated by Reference to Exhibit 1 to Form 8-A/A dated November 27, 2000.)
4.3	First Amendment of Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock. ($.01 Par Value Per Share) of Computer Network Technology Corporation (Incorporated by reference to Exhibit 2 to Form 8-A/A dated November 27, 2000.)
4.4	Form of Common Stock Certificate. (Incorporated by reference to Exhibit 4.2 to Form S-3 Registration Statement No. 333-80841.)
4.5	Registration Rights Agreement, dated as of February 20, 2002, among Bear, Sterns & Co. Inc., SG Cowan Securities Corporation and Soundview Technology Corporation. (Incorporated by reference to Exhibit 4.5 Form 10-K for the year ended January 31, 2002.)
4.6	Indenture, dated as of February 20, 2002, between the Company and U.S. Bank National Association, as Trustee. (Incorporated by reference to Exhibit 4.6 Form 10-K for the year ended January 31, 2002.)
4.7	Form of Note (included in Exhibit 4.6) (Incorporated by reference to Exhibit 4.7 Form 10-K for the year ended January 31, 2002.)
10.0	Building Lease by and between Opus Northwest, L.L.C., and Computer Network Technology Corporation. (Incorporated by reference to Exhibit 10A Form 10-Q for the quarterly period ended September 30, 1998.)
10.1A	Amended and Restated 1992 Stock Award Plan. (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on August 5, 2002.)(1)
10.1B	Form of Non-Qualified Stock Option Award Agreement for employees to be used in conjunction with the Amended and Restated 1992 Stock Award Plan. (Incorporated by reference to Exhibit 10.2 to Form 8-K filed on August 5, 2002.)(1)
10.1C	Form of Non-Qualified Stock Option Award Agreement for directors to be used in conjunction with the Amended and Restated 1992 Stock Award Plan. (Incorporated by reference to Exhibit 10.3A to Form 8-K filed on August 5, 2002.)(1)
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