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

FORM 10-Q

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from _______ to _______

Commission File Number: 0-20725

SIEBEL SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**94-3187233**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2207 Bridgepointe Parkway
San Mateo, CA 94404
(Address of principal executive offices, including zip code)

(650) 477-5000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes [X] No [ ]

The number of shares outstanding of the Registrant's common stock, par value $.001 per share, as of July 17, 2003, was 494,058,642.

SIEBEL SYSTEMS, INC.
FORM 10-Q
For the Quarterly Period Ended June 30, 2003

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Part I. Financial Information

Item 1. Financial Statements.

SIEBEL SYSTEMS, INC.
Consolidated Balance Sheets
(in thousands, except per share data; unaudited)

	December 31, 2002	June 30, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 667,511	$ 643,416
Short-term investments	1,494,093	1,658,335
Total cash, cash equivalents and short-term investments	2,161,604	2,301,751
Marketable equity securities	4,613	349
Accounts receivable, net	275,764	214,640
Deferred income taxes	96,518	95,120
Prepaids and other	49,901	40,726
Total current assets	2,588,400	2,652,586
Property and equipment, net	273,024	225,416
Goodwill	80,949	81,968
Intangible assets, net	10,354	6,780
Other assets	37,580	46,235
Deferred income taxes	42,711	42,711
Total assets	$ 3,033,018	$ 3,055,696
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 15,239	$ 8,249
Accrued expenses	319,622	301,052
Restructuring obligations	42,703	33,464
Deferred revenue	270,575	289,366
Total current liabilities	648,139	632,131
Restructuring obligations, less current portion	111,845	77,708
Other long-term liabilities, less current portion	15,574	13,298
Convertible subordinated debentures	300,000	300,000
Total liabilities	1,075,558	1,023,137
Commitments and contingencies		
Stockholders' equity:		
Common stock; $0.001 par value; 2,000,000 shares authorized; 486,428 and 493,568 shares issued and outstanding, respectively	486	494
Additional paid-in capital	1,486,612	1,523,998
Deferred compensation	(3,438)	(2,310)
Accumulated other comprehensive income	28,681	50,872
Retained earnings	445,119	459,505
Total stockholders' equity	1,957,460	2,032,559
Total liabilities and stockholders' equity	$ 3,033,018	$ 3,055,696

See accompanying notes to consolidated financial statements.

SIEBEL SYSTEMS, INC.
Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share data; unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	**2003**	**2002**	**2003**
Revenues:				
Software	$ 170,109	$ 109,894	$ 416,156	$ 221,986
Professional services, maintenance and other	235,453	223,405	467,253	444,068
Total revenues	405,562	333,299	883,409	666,054
Cost of revenues:				
Software	5,282	4,268	10,577	8,989
Professional services, maintenance and other	125,061	126,141	256,194	251,653
Total cost of revenues	130,343	130,409	266,771	260,642
Gross margin	275,219	202,890	616,638	405,412
Operating expenses:				
Product development	85,200	75,474	168,919	154,745
Sales and marketing	123,303	93,876	260,558	194,048
General and administrative	29,500	28,175	59,567	54,541
Restructuring-related expenses	--	274	--	274
Total operating expenses	238,003	197,799	489,044	403,608
Operating income	37,216	5,091	127,594	1,804
Other income, net:				
Interest and other income, net	14,196	15,025	29,736	30,422
Interest expense	(4,889)	(4,854)	(9,836)	(9,748)
Total other income, net	9,307	10,171	19,900	20,674
Income before income taxes	46,523	15,262	147,494	22,478
Income taxes	16,748	5,494	53,098	8,092
Net income	$ 29,775	$ 9,768	$ 94,396	$ 14,386
Diluted net income per share	$ 0.06	$ 0.02	$ 0.18	$ 0.03
Basic net income per share	$ 0.06	$ 0.02	$ 0.20	$ 0.03
Shares used in diluted share computation	524,920	526,726	537,126	524,626
Shares used in basic share computation	474,211	490,078	472,353	488,675
Comprehensive income:				
Net income	$ 29,775	$ 9,768	$ 94,396	$ 14,386
Other comprehensive income, net of taxes:				
Foreign currency translation adjustments	14,802	13,400	12,539	18,716
Realized gain on marketable investments previously recognized in other comprehensive income	(2,478)	(2,158)	(4,730)	(3,705)
Unrealized gain on investments	6,744	4,759	3,576	7,181
Other comprehensive income	19,068	16,001	11,385	22,192
Total comprehensive income	$ 48,843	$ 25,769	$ 105,781	$ 36,578

See accompanying notes to consolidated financial statements.

SIEBEL SYSTEMS, INC.
Consolidated Statements of Cash Flows
(in thousands; unaudited)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2003
Cash flows from operating activities:		
Net income	$ 94,396	$ 14,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Write-off of property and equipment abandoned in restructuring	--	2,596
Depreciation and other amortization	66,997	78,825
Amortization of identifiable intangible assets	4,445	3,950
Compensation related to stock options, net	2,938	980
Provision for doubtful accounts and sales returns	11,712	5,828
Tax benefit from exercise of stock options	10,000	--
Deferred income taxes	497	(46)
Write-down of cost-method investments to fair value	2,508	406
Net realized gains on marketable investments	(4,730)	(3,705)
Changes in operating assets and liabilities:		
Accounts receivable	25,653	55,369
Prepaids and other	18,679	9,175
Accounts payable and accrued expenses	9,546	(27,468)
Restructuring obligations	--	(43,376)
Deferred revenue	36,205	18,791
Net cash provided by operating activities	278,846	115,711
Cash flows from investing activities:		
Purchases of property and equipment	(49,158)	(10,514)
Purchases of short-term investments	(886,484)	(1,118,484)
Sales and maturities of short-term investments	605,735	952,188
Purchases of marketable equity securities	(1,000)	--
Proceeds from sale of marketable equity securities	853	5,338
Purchase consideration for acquired businesses, net of cash received	(500)	(1,500)
Other non-operating assets and non-marketable securities	11,364	(9,666)
Net cash used in investing activities	(319,190)	(182,638)
Cash flows from financing activities:		
Proceeds from issuance of common stock	76,152	35,757
Proceeds from equipment financing	24,873	--
Repayments of capital lease obligations	(4,457)	(6,380)
Repayments of stockholder notes	422	--
Net cash provided by financing activities	96,990	29,377
Effect of exchange rate fluctuations	12,562	13,455
Change in cash and cash equivalents	69,208	(24,095)
Cash and cash equivalents, beginning of period	799,090	667,511
Cash and cash equivalents, end of period	$ 868,298	$ 643,416
Supplemental disclosures of non-cash activities:		
Common stock and stock options issued for acquisitions	$ 5,478	$ 1,670

See accompanying notes to consolidated financial statements.

SIEBEL SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared on substantially the same basis as the audited consolidated financial statements included in the Siebel Systems, Inc. (the "Company") Annual Report on Form 10-K for the year ended December 31, 2002. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations regarding interim financial statements. All amounts included herein related to the consolidated financial statements as of June 30, 2003, and the three and six months ended June 30, 2002 and 2003, are unaudited. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for their fair presentation. The interim results presented are not necessarily indicative of results for any subsequent quarter or for the year ending December 31, 2003. Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of unaudited consolidated financial statements requires that the Company make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, provision for doubtful accounts and sales returns, fair value of investments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, restructuring obligations, and contingencies and litigation, among others. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from the estimates made by management with respect to these items and other items that require management's estimates.

Stock-Based Compensation

The Company accounts for its employee stock-based compensation plans using the intrinsic value method, as prescribed by APB No. 25 "Accounting for Stock Issued to Employees" and interpretations thereof (collectively referred to as "APB 25"). Accordingly, the Company records deferred compensation costs related to its employee stock options when the current market price of the underlying stock exceeds the exercise price of each stock option on the date of grant. The Company records and measures deferred compensation for stock options granted to non-employees, other than members of the Company's Board of Directors, based on the fair value of the stock options. Deferred compensation is expensed on a straight-line basis over the vesting period of the related stock option. The Company did not grant any stock options at exercise prices below the fair market value of the Company's common stock on the date of grant during the three and six months ended June 30, 2002 and 2003.

As of June 30, 2003, the Company's deferred compensation balances primarily related to stock awards issued in the fourth quarter of 2002 and the remaining unamortized portion of compensation expense associated with stock options granted by certain acquired companies and converted under the terms of the agreements between the Company and the companies acquired. The Company is amortizing the deferred compensation on a straight-line basis over the respective vesting periods, which range from three to five years.

An alternative method to the intrinsic value method of accounting for stock-based compensation is the fair value approach prescribed by SFAS No. 123 "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure" (collectively referred to as "SFAS 123"). If the Company followed the fair value approach, the Company would be required to record deferred compensation based on the fair value of the stock option at the date of grant. The fair value of the stock option is required to be computed using an option-pricing model, such as the Black-Scholes option valuation model. The deferred compensation calculated under the fair value method would then be amortized over the respective vesting period of the stock option.

As required by SFAS 123, the Company has prepared a reconciliation of its net income as reported on the statement of operations to the net income that the Company would have reported if it had followed SFAS 123 in accounting for its stock-based compensation arrangements. For purposes of this reconciliation, the Company added back all stock-based employee compensation expense recorded in accordance with APB 25 in the statement of operations, then deducted the stock-based employee compensation expense determined under SFAS 123. Summarized below are the pro forma effects on net income and net income per share data, if the Company had elected to use the fair value approach prescribed by SFAS 123 to account for its employee stock-based compensation plans (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Net income (loss):				
As reported	$ 29,775	$ 9,768	$ 94,396	$ 14,386
Compensation expense related to:				
Stock options accounted for in accordance with APB 25	1,331	475	2,938	980
In-the-money stock options	(8,555)	(7,121)	(17,564)	(13,423)
Stock purchase rights under the Purchase Plan	(8,234)	(1,206)	(16,468)	(2,069)
Total pro forma expense related to "in the money" stock options and Purchase Plan	(15,458)	(7,852)	(31,094)	(14,512)
Out-of-the-money stock options	(50,956)	(46,715)	(127,124)	(95,291)
Stock options cancelled for no consideration	(25,012)	--	(61,608)	(251,821)
Stock options forfeited/cancelled in connection with terminations	(18,352)	(4)	(48,192)	(559)
Stock options subsequently repurchased on September 30, 2002	(49,934)	--	(101,615)	--
Total pro forma expense giving effect to SFAS 123	(159,712)	(54,571)	(369,633)	(362,183)
Pro forma giving effect to SFAS 123	$ (129,937)	$ (44,803)	$ (275,237)	$ (347,797)
Diluted net income (loss) per share:				
As reported	$ 0.06	$ 0.02	$ 0.18	$ 0.03
Pro forma giving effect to SFAS 123	$ (0.27)	$ (0.09)	$ (0.58)	$ (0.71)
Basic net income (loss) per share:				
As reported	$ 0.06	$ 0.02	$ 0.20	$ 0.03
Pro forma giving effect to SFAS 123	$ (0.27)	$ (0.09)	$ (0.58)	$ (0.71)

In-the-money stock options in the above table have exercise prices below the closing price of the Company's common stock on June 30, 2003, of $9.48, and out-of-the-money stock options have exercise prices equal to or greater than $9.48.

As the table above illustrates, during the three and six months ended June 30, 2003, $46,719,000 and $347,671,000, respectively, of the total pro forma expense for stock options relates to: (i) stock options that were cancelled for no consideration, (ii) stock options forfeited by employees upon termination for no consideration, or (iii) stock options that are significantly out of the money (i.e., the weighted-average exercise price of the out-of-the-money stock options is $22.25 per share compared to a closing price of $9.48 per share as of June 30, 2003). This represented 86% and 96% of the pro forma expense for stock options during the three and six months ended June 30, 2003, respectively.

Consistent with the Company's accounting for deferred tax assets resulting from the exercise of employee stock options in the accompanying unaudited consolidated financial statements, the Company has not provided a tax benefit on the pro forma expense in the above table.

The Company determined the assumptions used in computing the fair value of stock options or stock purchase rights as discussed in the remainder of this paragraph. The Company estimated the expected useful lives, giving consideration to the vesting and purchase periods, contractual lives, expected employee turnover, and the relationship between the exercise price and the fair market value of the Company's common stock, among other factors. The expected volatility was estimated giving consideration to the expected useful lives of the stock options, the Company's current expected growth rate, implied expected volatility in traded options for the Company's common stock, and recent volatility of the Company's common stock, among other factors. The risk-free rate is the U.S. Treasury bill rate for the relevant expected life. The fair value of stock options was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Risk-free interest rate	1.99 %	1.66 %	1.99 %	1.67 %
Expected life (in years)	3.4	3.1	3.4	3.1
Expected volatility	65 %	46 %	65 %	47 %

Using the Black-Scholes option valuation model, stock options granted during the three and six months ended June 30, 2002, had weighted average fair values of $11.87 and $14.82 per share, respectively, as compared to weighted average fair values of $2.86 and $2.90 per share during the three and six months ended June 30, 2003, respectively.

The fair value of employees' stock purchase rights under the Company's Employee Stock Purchase Plan (the "Purchase Plan") was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for purchases:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Risk-free interest rate	1.23 %	1.13 %	1.23 %	1.13 %
Expected life (in years)	0.5	0.5	0.5	0.5
Expected volatility	83 %	63 %	83 %	63 %

The weighted average fair value of the common stock purchase rights granted under the Purchase Plan during both the three and six months ended June 30, 2002, was $9.74, as compared to a weighted average fair value of $2.23 per share during both the three and six months ended June 30, 2003.

Recent Accounting Pronouncements

Accounting for Asset Retirement Obligations

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143 "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the assets, including lease restoration obligations. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset, and this additional carrying amount is expensed over the life of the asset. The Company adopted SFAS 143 effective January 1, 2003. The adoption of SFAS 143 did not have a material impact on the Company's financial condition, results of operations or cash flows.

Accounting for Costs Associated with Exit and Disposal Activities

In July 2002, the FASB issued SFAS No. 146 "Accounting for Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses the recognition, measurement and reporting of costs associated with exit and disposal activities (i.e., restructuring activities), including costs related to terminating a contract that is not a capital lease and termination benefits due to employees who are involuntarily terminated under the terms of a one-time benefit arrangement.

SFAS 146 supersedes 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)" ("EITF 94-3") and EITF Issue No. 88-10 "Costs Associated with Lease Modification or Termination" ("EITF 88-10"). Accordingly, SFAS 146 prohibits recognition of a liability based solely on an entity's commitment to a plan to exit an activity. SFAS 146 requires that: (i) liabilities associated with exit and disposal activities be measured at fair value and changes in the fair value of the liability at each reporting period be measured using an interest allocation approach; (ii) one-time termination benefits be expensed at the date the entity notifies the employee, unless the employee must provide future service, in which case the benefits are expensed ratably over the future service period; (iii) liabilities to terminate a contract be recorded at fair value when the contract is terminated; (iv) liabilities related to an existing operating lease/contract, unless terminated, be recorded at fair value, less estimated sublease income, and measured when the contract does not have any future economic benefit to the entity (i.e., the entity ceases to utilize the rights conveyed by the contract); and (v) all other costs related to an exit or disposal activity be expensed as incurred.

SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company adopted SFAS 146 effective January 1, 2003. Therefore, the restructuring activities initiated by the Company in the second quarter of 2003, as discussed further in Note 2 below, will be accounted for in accordance with SFAS 146. The adoption of SFAS 146 will not impact the Company's restructuring obligations recognized in 2002 as these obligations must continue to be accounted for in accordance with EITF 94-3 and EITF 88-10 and other applicable pre-existing guidance.

Accounting for and Disclosure of Guarantees

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("Interpretation 45"). Interpretation 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit, and provides new disclosure requirements regarding indemnification provisions, including indemnification provisions typically included in a software license arrangement. It also clarifies that at the time a guarantee is issued, the Company must recognize an initial liability for the fair value of the obligations it assumes under the guarantee and must disclose that information in its financial statements. The provisions related to recognizing a liability at inception of the guarantee do not apply to product warranties, indemnification provisions in the Company's software license arrangements, or to guarantees accounted for as derivatives. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements were effective as of December 31, 2002. The adoption of Interpretation 45 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

(2) Restructuring

Overview

Beginning in 2001 and continuing through the first half of 2003, economic conditions in many of the countries in which the Company operates either deteriorated or stabilized at depressed levels. In addition, there appears to have been a disproportionate impact on capital spending by corporations, and more specifically information technology spending. As a result, certain of the Company's key operating metrics, such as total revenue, operating margin and revenue per employee, declined from the Company's historical levels. In response to this decline, the Company initiated a series of steps that it believes will: (i) strengthen the Company's competitive position; (ii) reduce its cost structure, thereby improving its revenue per employee, operating margin and overall operating performance; and (iii) better align its management structure in order to return to sequential quarterly revenue growth. Specifically, the Company took the following actions:

- The Company reduced the discretionary portion of its operating costs through various cost control initiatives, including: (i) reducing advertising expenditures, (ii) maintaining the CEO's salary at one dollar per year, (iii) deferring merit increases, (iv) eliminating bonuses (from July 2001 to June 2002) or paying bonuses based on achievement of financial objectives (commencing in July 2002), (v) reducing depreciation, primarily through reduced capital expenditures, and (vi) reducing other discretionary expenditures, such as costs related to outside consultants, travel and recruiting.

- In order to further align the Company's operating structure with anticipated revenue levels, the Company initiated a restructuring of its operations and an associated workforce reduction in the third quarter of 2002 (the "2002 Restructuring"), which it completed in December 2002. The 2002 Restructuring consisted primarily of the consolidation of excess facilities, reductions in its workforce and the abandonment of certain assets in connection with the consolidation of excess facilities.

- During the first half of 2003, the Company continued to evaluate the economic conditions in the information technology industry, along with the Company's current organizational structure and its expectations regarding revenue levels. Based on this evaluation, in the second quarter of 2003 the Company determined that it would initiate a further restructuring of its operations, including a reorganization of its operating structure (e.g., sales organization, geographic operations, management structure, etc.) (the "2003 Restructuring" and collectively with the 2002 Restructuring, the "Restructuring"). The Company anticipates the 2003 Restructuring will be completed by the end of 2003.

Summary of Restructuring Obligations as of June 30, 2003

The following table summarizes the Company's Restructuring expenses during the six months ended June 30, 2003, and the related Restructuring obligations as of June 30, 2003 (in thousands):

	Employee Termination Costs	Facility-Related Costs	Asset Abandonment Costs	Total
Restructuring obligations, December 31, 2002 (1)...............	$ 3,935	$ 150,613	$ --	$ 154,548
Restructuring-related expenses charged to operations:				
Changes in estimate related to 2002 Restructuring (2)......	(58)	(10,531)	617	(9,972)
2003 Restructuring charges (3)...	--	8,267	1,979	10,246
Total Restructuring-related expenses..............................	(58)	(2,264)	2,596	274
Cash payments..	(2,800)	(38,254)	--	(41,054)
Non-cash charges..	--	--	(2,596)	(2,596)
Restructuring obligations, June 30, 2003 (4)........................	$ 1,077	$ 110,095	$ --	$ 111,172
Less: Restructuring obligations, short-term...................				33,464
Restructuring obligations, long-term...............................				$ 77,708

1) The Company recognized a charge related to the 2002 Restructuring of $205,305,000, which was comprised of: (i) severance and associated employee termination costs of $23,649,000 related to the reduction of the Company's workforce, (ii) lease termination and other costs of $155,701,000 associated with permanently vacating certain facilities, and (iii) non-cash impairment costs of $25,955,000 related to certain long-lived assets that were abandoned in connection with the Company's consolidation of its facilities. The Company settled $24,802,000 of the 2002 Restructuring obligations during 2002.

2) During the second quarter of 2003, the Company revised its estimates related to the 2002 Restructuring due primarily to: (i) the Company terminating certain leases at more favorable terms than originally anticipated, and (ii) entering into subleases sooner than previously expected and/or at higher sublease rates than originally anticipated. This resulted in a net reversal of $9,972,000 of the 2002 Restructuring expenses during the three months ended June 30, 2003. The Company believes its estimates with respect to the remaining 2002 Restructuring obligations are appropriate as of June 30, 2003.

3) The 2003 Restructuring charges incurred as of June 30, 2003, consist solely of charges associated with certain facilities that the Company ceased use of as of that date. As discussed further below, the Company will incur additional charges in connection with the 2003 Restructuring during the third and fourth quarters of 2003.

4) Total Restructuring obligations as of June 30, 2003, primarily relate to costs associated with permanently vacated facilities. These costs are primarily comprised of the remaining lease obligations, net of estimated sublease income, along with costs associated with demising and subleasing the vacated facilities. The obligations in the above table associated with permanently vacating facilities will generally be paid over the remaining lease terms, ending at various dates through March 2022, or over a shorter period as the Company may negotiate with its lessors. The obligations in the above table associated with the Company's workforce reduction will be paid during the second half of 2003.

2003 Restructuring

In the second quarter of 2003, the Company began developing a plan to restructure its operations, including a reorganization of its operating structure (e.g., sales organization, geographic operations, management structure, etc.). The Company anticipates the 2003 Restructuring will be completed by the end of 2003. The 2003 Restructuring charges incurred as of June 30, 2003, consist solely of charges associated with certain facilities that the Company ceased use of as of that date. During the third and fourth quarters of 2003, the Company anticipates that it will: (i) consolidate additional facilities, including ceasing operations in certain geographic locations; (ii) reduce its workforce, including reductions as the result of reorganizing its operating and management structures; and (iii) abandon certain long-lived assets, including leasehold improvements, furniture and fixtures, and computer equipment.

The Company will record the costs associated with the 2003 Restructuring as follows: (i) costs associated with the Company's reduction of its workforce and consolidation of its facilities will be recorded based on their respective fair values (i.e., the present value of expected net cash flows associated with these obligations), and (ii) the cost associated with the abandonment of certain long-lived assets will be recorded based on the net carrying value of the assets at the time of the abandonment. The Company is still in the process of finalizing its plans related to the 2003 Restructuring and, accordingly, the total expenses and cash outlays are not currently estimable.

As part of the 2003 Restructuring, the Company intends to reduce its workforce by approximately 10%. This workforce reduction will affect substantially all of the Company's organizations and geographical regions. Expenses associated with the workforce reduction will be comprised primarily of severance, COBRA benefits, payroll taxes and other associated employment termination costs. The Company expects that these costs will be expensed during the third quarter of 2003.

As a result of the anticipated workforce reduction, certain of the Company's facilities are projected to be under-utilized. Accordingly, the Company intends to improve the utilization of its facilities by consolidating its remaining workforce into certain existing facilities and ceasing to utilize the then vacated facilities. The Company expects that the portion of the 2003 Restructuring charge related to facilities consolidation will be expensed during the second half of 2003 as the Company ceases to utilize the facilities. The costs associated with the Company's facilities consolidation will be recorded based on the present value of the sum of the expected lease termination costs and/or costs associated with satisfying remaining lease commitments, less estimated sublease income.

In accordance with SFAS 146, in periods subsequent to the initial recording of the 2003 Restructuring obligations, the Company will recognize accretion expense due solely to the passage of time. The Company will record this accretion as an additional Restructuring-related expense and as an increase in the carrying amount of the 2003 Restructuring obligations. Additionally, the Company will expense certain other costs, such as moving costs, when incurred.

As part of the 2003 Restructuring, certain leasehold improvements, furniture and fixtures, and computer equipment are expected to be abandoned in the second half of 2003. The Company expects the charge related to asset impairments will be expensed in the second half of 2003.

(3) Commitments and Contingencies

Legal Proceedings

On September 23, 2002, Teachers' Retirement System of Louisiana, a Louisiana public trust fund, filed a derivative suit against the Company's Board of Directors, as well as against the Company as a nominal defendant, in the Superior Court of the State of California for the County of San Mateo. The derivative suit alleges, among other things, that members of the Company's Board of Directors breached their fiduciary duties by authorizing excessive compensation for the Company's Chairman and CEO, Thomas M. Siebel. The derivative plaintiffs seek compensatory and other damages, rescission of certain stock options and other relief. The suit alleges that the Company incorrectly accounted for stock options that were alleged to be granted below fair market value. The Company believes it has meritorious defenses to this suit, as the stock options in question were granted at fair market value. In addition, the stock options in question were cancelled in January 2003 as a result of actions initiated by Mr. Siebel in June 2002, prior to the filing of this suit by the Teachers' Retirement System of Louisiana. The Company cannot currently determine the ultimate outcome of this litigation and its possible impact on the Company.

On May 6, 2003, the Securities & Exchange Commission ("SEC") contacted the Company and indicated that a May 1, 2003 article on CBS MarketWatch had raised questions regarding the Company's compliance with Regulation FD. On May 9, 2003, the Company announced that, in response to the inquiry from the SEC, the Audit Committee of the Company's Board of Directors is conducting an internal review of the circumstances involving recent statements that were reported by CBS MarketWatch to have been made by Company executives. The Audit Committee has engaged counsel in connection with such review. Upon completion of that review, the Company intends to take required and appropriate actions, if any, but the Company has not concluded that any violation has occurred. The Company is cooperating with the SEC inquiry.

In addition, the Company is subject to legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, management does not believe that the outcome of any pending legal matters will have a material adverse effect on the Company's consolidated financial position, although results of operations or cash flows could be affected in a particular period.

Income and Payroll Taxes

The Company's U.S. Federal income tax returns for 1998, 1999 and 2000 are currently under examination by the Internal Revenue Service ("IRS"). The Company believes it has made adequate provision in the accompanying consolidated financial statements for any adjustments the IRS has or may propose with respect to the U.S. Federal income tax returns. In addition, certain of the Company's payroll tax returns, both in the U.S. and internationally, are currently under examination by the applicable taxing authority. The Company believes it has made adequate provision in the accompanying consolidated financial statements for any adjustments the taxing authorities may propose with respect to its international payroll tax returns. The Company has not made any provision for potential assessments by the IRS related to its U.S. payroll tax returns in the accompanying consolidated financial statements, as the amount, if any, which the Company may have to pay is not currently estimable.

Indemnifications

The Company sells software licenses and services to its customers under contracts which the Company refers to as Software License and Service Agreements (each an "SLSA"). Each SLSA contains the relevant terms of the contractual arrangement with the customer, and generally includes certain provisions for indemnifying the customer against losses, expenses, and liabilities from damages that may be awarded against the customer in the event the Company's software is found to infringe upon a patent, copyright, trademark, or other proprietary right of a third party. The SLSA generally limits the scope of and remedies for such indemnification obligations in a variety of industry-standard respects, including but not limited to certain time- and geography-based scope limitations and a right to replace an infringing product.

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the SLSA. In addition, the Company requires its employees to sign a proprietary information and inventions agreement, which assigns the rights to its employees' development work to the Company. To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions and no material claims are outstanding as of June 30, 2003. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the SLSA, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

Lease Obligations

As of June 30, 2003, the Company leased facilities and certain equipment under non-cancelable operating leases expiring between 2003 and 2022. The Company also leases certain assets, primarily computer equipment, under capital leases expiring between 2004 and 2005. Future minimum lease payments under both operating and capital leases as of June 30, 2003, are as follows (in thousands):

		Operating Leases		
	Capital Leases	Leases in the Restructuring	All Other Leases	Total Operating
Six months ending December 31, 2003	$ 7,044	$ 18,569	$ 41,013	$ 59,582
Year ending December 31, 2004	12,584	34,565	83,050	117,615
Year ending December 31, 2005	6,479	29,900	80,013	109,913
Year ending December 31, 2006	--	22,535	76,615	99,150
Year ending December 31, 2007	--	20,522	72,354	92,876
Year ending December 31, 2008, and thereafter	--	118,404	489,652	608,056
Total minimum lease payments	26,107	$ 244,495	$ 842,697	$ 1,087,192
Amounts representing interest	(1,648)			
Present value of minimum lease payments	24,459			
Less: capital lease obligations, short-term portion (included in accrued liabilities)	12,949			
Capital lease obligations, long-term portion (included in other long-term liabilities)	$ 11,510			

The lease commitments in the above table designated as "Leases in the Restructuring" include only the non-cancelable portion of lease commitments reflected in Restructuring-related expenses through June 30, 2003. Accordingly, these lease commitments have not been reduced by estimated sublease income. Please refer to Note 2 for a further discussion of the Company's Restructuring obligations.

(4) Employee Stock Purchase Plan

In May 2003, the Company's Board of Directors adopted the Siebel Systems, Inc. 2003 Employee Stock Purchase Plan (the "2003 Purchase Plan"). The 2003 Purchase Plan was approved by stockholders on June 11, 2003. There are 15,000,000 shares of the Company's common stock reserved for issuance under the 2003 Purchase Plan. As of June 30, 2003, no shares of the Company's Common Stock had been issued under the 2003 Purchase Plan. The 2003 Purchase Plan replaced the Company's 1996 Employee Stock Purchase Plan ("1996 Purchase Plan"), which was terminated on June 30, 2003, as all shares of common stock available for issuance under the 1996 Purchase Plan were issued as of June 30, 2003.

The 2003 Purchase Plan permits eligible employees to purchase shares of the Company's common stock through payroll deductions of up to 15% of such employees' total compensation during the offering period. The purchase price per share at which shares of the Company's common stock may be purchased under the 2003 Purchase Plan is the lower of 85% of: (i) the fair market value of a share of the Company's common stock on the first day of the offering or (ii) the fair market value of a share of the Company's common stock on the last day of the offering. The maximum length for an offering period under the 2003 Purchase Plan is 27 months. Currently, each offering period, other than the first offering period, is six months long and shares are purchased on the last day of each offering period. The first offering period is seven months long (July 1, 2003 to January 31, 2004).

(5) Stockholder Rights Plan and Preferred Stock

Stockholder Rights Plan

On January 23, 2003, the Company's Board of Directors approved the adoption of a Stockholder Rights Plan (the "Rights Plan") and the authorization of 100,000 shares of Series A2 junior participating preferred stock, par value $0.001 per share (the "Junior Preferred Stock"). The Rights Plan is intended as a means to guard against abusive takeover tactics and to provide for fair and equal treatment for all stockholders in the event that an unsolicited attempt is made to acquire the Company. Accordingly, the Rights Plan will have certain anti-takeover effects.

Under the terms of the Rights Plan, stockholders of record on February 13, 2003, received a dividend distribution of one preferred share purchase right (a "Right") for each outstanding share of the Company's common stock. The Rights trade with the Company's common stock and no separate Right certificates will be distributed until such time as the Rights become exercisable as described below. Each Right entitles the holder to purchase from the Company one ten-thousandth of a share of Junior Preferred Stock at a price of $70.00 per one ten-thousandth of a share (the "Purchase Price"), subject to adjustment. Each one ten-thousandth of a share of Junior Preferred Stock is designed to be the economic equivalent of one share of the Company's common stock. However, until a Right is exercised, the holder of the Right will have no rights as a stockholder of the Company, including without limitation, the right to vote or receive dividends.

The Rights are not exercisable until the earlier to occur of (i) the date of a public announcement that a person, entity or group of affiliated or associated persons have acquired beneficial ownership of 15% or more of the Company's outstanding common stock (an "Acquiring Person") except that Thomas M. Siebel, the Company's Chairman and CEO, and his affiliates may have greater beneficial ownership without becoming an "Acquiring Person"; or (ii) ten business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or entity becomes an Acquiring Person) following the commencement of, or announcement of an intention to commence, a tender offer or exchange offer, the consummation of which would result in any person or entity becoming an Acquiring Person (the earlier of such dates being called the "Distribution Date"). The Rights will expire on February 12, 2013 (the "Final Expiration Date"), unless the Rights are earlier redeemed or exchanged by the Company. The exercise of Rights for shares of Junior Preferred Stock is at all times subject to the availability of a sufficient number of shares of authorized but unissued Junior Preferred Stock.

In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, each holder of a Right, other than Rights beneficially owned by the Acquiring Person and its associates and affiliates (which will thereafter be void), will for a 60-day period have the right to receive upon exercise that number of shares of common stock having a market value of two times the exercise price of the Right. If such number of shares is not and cannot be authorized, the Company may issue Junior Preferred Stock, cash, property, stock or a combination thereof in exchange for the Rights.

At any time prior to the earliest of (i) such time as a person has become an Acquiring Person; or (ii) the Final Expiration Date, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of $0.001 per Right (the "Redemption Price"). Following the expiration of these periods, the Rights become non-redeemable. Immediately upon any redemption of the Rights, the ability to exercise the Rights will terminate and the holders of Rights will be entitled to receive only the Redemption Price. The terms of the Rights may be amended by the Board of Directors of the Company without the consent of the holders of the Rights, except that from and after such time as the Rights are distributed no such amendment may adversely affect the interest of the holders of the Rights, excluding the interests of an Acquiring Person.

The Rights will cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the Company's Board of Directors. The Company does not expect the Rights to interfere with any merger or other business combination approved by the Board of Directors, as the Rights may be amended to permit such acquisition or redeemed by the Company at $0.001 per Right prior to the earliest of (i) the time that a person or group has acquired beneficial ownership of 15% or more of the Common Shares; or (ii) the Final Expiration Date.

Until the Rights become exercisable, the Rights will have no dilutive impact on the Company's earnings per share data. The Rights are protected by customary anti-dilution provisions.

Series A2 Junior Participating Preferred Stock

The Junior Preferred Stock purchasable upon exercise of the Rights will not be redeemable. In the event of liquidation, the holders of the Junior Preferred Stock would be entitled to a minimum preferential liquidation payment of $10,000 per share, but would be entitled to receive an aggregate payment equal to 10,000 times the payment made per share of common stock. Each share of Junior Preferred Stock will have 10,000 votes, voting together with the Company's common stock. If issued, the Junior Preferred Stock will also be entitled to preferential dividends, when and if declared by the Board of Directors. Finally, in the event of any merger, consolidation or other transaction in which shares of the Company's common stock are exchanged, each share of Junior Preferred Stock will be entitled to receive 10,000 times the amount of consideration received per share of common stock. The Junior Preferred Stock would rank junior to any other series of the Company's preferred stock.

(6) Stock Option Cancellation

In June 2002, the Company's CEO notified the Board of Directors of his intent to cancel 25,950,000 shares subject to outstanding stock options in order to reduce net dilution from stock options to the Company's stockholders. On December 11, 2002, the Company's Compensation and Audit Committees of the Board of Directors approved the cancellation of these stock options. In January 2003, the 25,950,000 stock options were cancelled and they are therefore no longer outstanding. Accordingly, the only stock options granted to the Company's CEO that remain in effect were granted in January 1998 or earlier.

The stock options cancelled had a weighted average exercise price of $34.63, with exercise prices ranging from $4.91 to $59.81 per share, and represented all stock options granted to the Company's CEO subsequent to October 29, 1998. The stock options cancelled had a fair value of $56,100,000 at the time of cancellation (stock options that were "in-the-money" at the time of cancellation represented $30,150,000, or 54%, of the total fair value at cancellation), as determined by the Black-Scholes option-pricing model. In determining the fair value of these stock options, the Company used the following weighted-average assumptions: (i) an expected remaining life of six years; (ii) a volatility of 50% during the expected life; (iii) a risk-free interest rate of 3.4%; and (iv) no dividends. The approach used to develop these weighted-average assumptions is the same as discussed in Note 1 under the Section "Stock-Based Compensation." Differences between average useful life and volatility assumptions for these stock options, as compared to assumptions disclosed elsewhere herein, primarily relate to differences in the characteristics of the stock options being valued.

The Company provided no compensation in exchange for the cancellation of its CEO's stock options, and no additional stock options will be granted to him for a period of at least six months following the cancellation, nor will he receive any salary, other than the one dollar per year currently being paid or bonus for a period of at least six months following the cancellation.

(7) Acquisitions, Intangible Assets and Goodwill

Acquisitions

During the six months ended June 30, 2003, the Company acquired certain assets of BoldFish, Inc. ("BoldFish"), a developer of permission-based outbound messaging solutions, for an initial payment of $1,000,000, and up to an additional $500,000 by March 2004 upon the achievement of designated performance and revenue based milestones. The purchase price was allocated to tangible net assets totaling $117,000 (current assets of $73,000 and property and equipment of $44,000) and identifiable intangible assets (acquired technology) valued at $376,000. The acquired technology is currently being amortized over its estimated useful life of three years using the straight-line method. The excess of the purchase price over the fair value of the identifiable tangible and intangible net assets acquired of $507,000 was recorded as goodwill. This amount is expected to be deductible for tax purposes.

The Company has included the operating results of BoldFish in its consolidated financial statements from the date of acquisition. Pro forma information giving effect to this acquisition has not been presented since the pro forma information would not differ materially from the historical results of the Company.

Goodwill

The changes in the carrying amount of goodwill during the six months ended June 30, 2003, were as follows:

Balance as of December 31, 2002	$ 80,949
Earnout payments to the stockholders of acquired companies	500
Purchase of certain assets of BoldFish	507
Foreign currency fluctuation	12
Balance as of June 30, 2003	$ 81,968

As required by SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), the Company does not amortize its goodwill balances, but instead tests its goodwill for impairment in accordance with the provisions of SFAS 142 at least annually and more frequently upon the occurrence of certain events.

Intangible Assets

Intangible assets consist of the following (in thousands):

	December 31, 2002	June 30, 2003
Acquired technology	$ 26,747	$ 27,123
Less: accumulated amortization	16,393	20,343
Intangible assets, net	$ 10,354	$ 6,780

Identifiable intangibles (acquired technology) are currently amortized over three years using the straight-line method. Based on identified intangible assets recorded as of June 30, 2003, and assuming no subsequent impairment of the underlying assets, the annual amortization expense is expected to be as follows:

Period Ending December 31,	
2003	$ 3,981
2004	2,643
2005	125
2006	31
Total	$ 6,780

(8) Net Income per Share

The following is a reconciliation of the number of shares used in the basic and diluted net income per share computations for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Shares used in basic net income per share computation	474,211	490,078	472,353	488,675
Effect of dilutive potential common shares resulting from stock options and common stock warrants	50,587	36,498	64,635	35,796
Effect of dilutive potential common shares resulting from common stock subject to repurchase	122	150	138	155
Shares used in diluted net income per share computation	524,920	526,726	537,126	524,626

Shares used in the diluted net income per share computation in the above table include the dilutive impact of the Company's stock options. The impact of the Company's stock options on shares used for the diluted earnings per share computation is calculated based on the average share price of the Company's common stock for each period using the treasury stock method. Under the treasury stock method, the proceeds that would be hypothetically received from the exercise of all stock options with exercise prices below the average share price of the Company's common stock are assumed to be used to repurchase shares of the Company's common stock. The dilutive impact of the Company's stock options was calculated using an average price of the Company's common stock of $21.50 and $27.25 per share for the three and six months ended June 30, 2002, respectively, and an average price of the Company's common stock of $9.35 and $8.97 per share for the three and six months ended June 30, 2003, respectively.

The Company excludes all potentially dilutive securities from its diluted net income per share computation when their effect would be anti-dilutive. The following common stock equivalents were excluded from the earnings per share computation, as their inclusion would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	**2003**	**2002**	**2003**
Stock options excluded due to the exercise price exceeding the average fair value of the Company's common stock during the period	86,187	81,053	69,992	81,646
Weighted average shares issuable upon conversion of the convertible subordinated debentures	12,867	12,867	12,867	12,867
Total common stock equivalents excluded from diluted net income per share computation	99,054	93,920	82,859	94,513

Under the treasury stock method, stock options with exercise prices exceeding the average fair value of the Company's common stock during the applicable period are excluded from the diluted earnings per share computation. These stock options had weighted average exercise prices of $47.51 and $52.94 per share during the three and six months ended June 30, 2002, respectively, compared to weighted average exercise prices of $22.15 and $22.06 per share during the three and six months ended June 30, 2003, respectively.

(9) Segment and Geographic Information

The Company and its subsidiaries are principally engaged in the design, development, marketing and support of Siebel *e*Business Applications, its family of industry-specific eBusiness software applications. Substantially all revenues result from the license of the Company's software products and related professional services and customer support (maintenance) services. The Company's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. Accordingly, the Company considers itself to be in a single industry segment, specifically the license, implementation and support of its software. The Company does not prepare reports for, or measure the performance of, its individual software applications and, accordingly, the Company has not presented revenues or any other related financial information by individual software product.

International software license revenues for three and six months ended June 30, 2002, were $58,036,000 and $152,486,000, respectively, representing 34% and 37% of software license revenues, respectively. International software license revenues for three and six months ended June 30, 2003, were $49,823,000 and $107,177,000, respectively, representing 45% and 48% of software license revenues, respectively. Total international revenues for the three and six months ended June 30, 2002, were $138,928,000 and $309,219,000, respectively, representing 34% and 35% of total revenues, respectively. Total international revenues for the three and six months ended June 30, 2003, were $133,783,000 and $272,974,000, respectively, representing 40% and 41% of total revenues, respectively. International software license revenues and total revenues are primarily derived from countries in Europe for all periods presented.

During the three and six months ended June 30, 2002 and 2003, no individual customer accounted for more than 10% of the Company's total revenues.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The statements contained in this quarterly report that are not historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, without limitation, statements regarding the extent and timing of future revenues, restructuring and other expenses and customer demand, statements regarding the deployment of our products, and statements regarding reliance on third parties. All forward-looking statements included in this quarterly report are based on information available to us as of the date of this quarterly report. We assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless we are required to do so by law. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions, including those in the section entitled "Risk Factors" and elsewhere in this quarterly report and the risk factors under Item 7 in our Annual Report on Form 10-K for the year ended December 31, 2002.

The Company's consolidated financial statements are included in Item 1 of this Quarterly Report on Form 10-Q. The following discussion is designed to provide a better understanding of these financial statements, including the Company's business, its performance during the three and six months ended June 30, 2002 and 2003, key factors that impacted this performance and risks that may impact the Company's on-going operations.

Overview of the Company's Business

Siebel Systems is a leading provider of eBusiness applications software. Siebel eBusiness Applications are a family of enterprise applications software that enable an organization to better manage its most important relationships: its customer, partner and employee relationships. Siebel eBusiness Applications are designed to meet the information system requirements needed to manage these relationships for organizations of all sizes, from small businesses to the largest multinational organizations and government agencies. The Company's customer relationship management applications enable an organization to sell to, market to, and serve its customers across multiple channels and lines of business. The Company's partner relationship management applications unite the organization's partners, resellers and customers in one global information system to facilitate greater collaboration and increased revenues, productivity and customer satisfaction. The Company's employee relationship management applications enable an organization to drive employee and organizational performance and increase employee satisfaction through the support of each stage of the employee life cycle. By deploying the comprehensive functionality of Siebel eBusiness Applications to better manage their customer, partner and employee relationships, the Company's customers achieve high levels of satisfaction from these constituencies and improve their competitiveness in their markets.

Siebel Systems recognizes that each industry has different business processes, competitive challenges and information systems requirements, which cannot be addressed with a "one size fits all" eBusiness approach. Accordingly, Siebel eBusiness Applications are available in 21 industry applications designed for specific segments within multiple industries, including financial services, communications, travel and transportation, energy, the consumer sector, life sciences, the industrial sector and the public sector. Siebel eBusiness Applications enable organizations to create a single source of customer information that sales, service and marketing professionals can use to tailor product and service offerings to meet each of their customers' needs. By using Siebel eBusiness Applications, organizations can develop new customer relationships, profitably serve existing customers, and integrate their systems with those of their partners, suppliers and customers, regardless of location.

The Company and its subsidiaries are principally engaged in the design, development, marketing and support of Siebel eBusiness Applications. Substantially all of the Company's revenues are derived from the sale of perpetual licenses of these software products and the related professional services and customer support, otherwise known as maintenance. The Company licenses its software in multiple element arrangements in which the customer purchases a combination of software, maintenance and/or professional services, i.e., training, implementation services, etc. First-year maintenance, which includes technical support and product updates, is typically sold with the related software license and is renewable at the option of the customer on an annual basis after the first year. The Company's Global Services Organization provides professional services, which include a broad range of implementation services, training and technical support, to the Company's customers and implementation partners. The Company's Global Services Organization has significant product and implementation expertise and is committed to supporting customers and partners through every phase of the eBusiness transformation cycle. Substantially all of the Company's professional service arrangements are billed on a time and materials basis. Payment terms for the above arrangements are negotiated with the Company's customers and determined based on a variety of factors, including the customer's credit standing and the Company's history with the customer.

The Company plans to continue its efforts to develop software applications that meet its customers' and potential customers' changing business needs and to further reduce the total cost of ownership of its software applications through its newest product, Universal Application Network, or UAN. The Company regularly faces competition from new entrants to its product market. The Company will continue to take various steps, including the introduction of new products, reducing prices or other incentives, at such times as it deems appropriate, in order to further increase the acceptance of its products.

Overview of the Results for the Three and Six Months Ended June 30, 2003

To understand the Company's operating results during the first half of 2003, the Company believes an understanding of the environment in which the Company operated is required. Specifically, the Company believes its operating results during the first half of 2003 were impacted by several factors, including macro-economic conditions, economic conditions in the information technology industry and uncertainties within the application software industry. In addition, the Company is committed to improving its own performance, even in the current difficult macro- and micro-economic environment. As discussed further below, the Company has initiated a further restructuring of its operations that it believes will: (i) strengthen its competitive position; (ii) reduce its cost structure thereby improving its revenue per employee, operating margin and overall operating performance; and (iii) better align its management and organizational structure in order to return to sequential quarterly revenue growth.

During the first half of 2003, the Company believes the primary factor impacting its operating performance was the weak global economic conditions. Simply stated, the Company's biggest challenge was the economy. Throughout 2001 and continuing into the first half 2003, economic conditions in many of the countries in which the Company operates either deteriorated or stabilized at depressed levels. For instance, during the first half of 2003 corporate and consumer confidence in the economy has remained very cautious; unemployment in the United States reached a nine year high; and many of the leading economic indicators declined during this period. Further, geopolitical uncertainties, including the on-going hostilities involving the United States, have exacerbated corporations' general cautiousness in setting their capital spending budgets.

In addition, the Company believes that these weak economic conditions have disproportionately impacted the information technology industry. Many corporations have intensified their efforts to identify and realize potential cost savings in these difficult economic circumstances and, accordingly, capital spending by corporations, and more specifically information technology spending, continues to decline or be delayed. In addition, many corporations made capital expenditures in previous years in anticipation of future growth that did not materialize, thereby impacting their current capital expenditures.

The application software segment of the information technology industry was also affected by the uncertainty created by recently announced mergers and takeover attempts within this segment. Specifically, several of the Company's direct and indirect competitors are in the process of merger negotiations or taking steps to avoid takeover attempts.

The Company's operations and financial performance were directly and negatively impacted by the above factors. Specifically, many of the Company's customers and potential customers have: (i) delayed the initiation of the purchasing process; (ii) increased the evaluation time to complete a software purchase; (iii) reduced their capital expenditure budgets, thereby restricting their software procurement to well-defined current needs; and/or (iv) lengthened the purchasing cycle. As a result of these and other factors, both the number of software license revenue transactions and average transaction size continued to be negatively impacted during the first half of 2003, with individual transactions generating license revenues greater than or equal to $5 million affected to the greatest extent.

The Company has taken and is in the process of taking additional steps to improve its operating performance and execution, even in the current difficult economic climate. Despite the difficult economic climate, the Company did not take any extraordinary actions, such as one time contingent discounts related to its software licenses. The following are the actions that the Company has taken in order to better enable it to grow its revenues and operating margins:

- The Company has continued to reduce the discretionary portion of its operating costs through the implementation of various new cost control initiatives, including: (i) tying bonuses more closely to achievement of financial objectives, (ii) reducing depreciation, primarily through reduced capital expenditures, and (iii) further reducing other discretionary expenditures, such as costs related to outside consultants, travel and recruiting.

- The Company completed a restructuring of its operations and an associated workforce reduction in the fourth quarter of 2002 (the "2002 Restructuring"). Primarily as the result of the 2002 Restructuring, the Company reduced total quarterly costs and expenses by approximately $40 million on year-over-year basis during the quarter ended June 30, 2003.

- As a result of an evaluation of the current economic conditions in the information technology industry, along with the Company's current organizational structure and its expectations regarding revenue levels, in the second quarter of 2003 the Company determined that it would initiate a further restructuring of its operations, including a reorganization of its operating structure (e.g., sales organization, geographic operations, management structure, etc.) (the "2003 Restructuring" and collectively with the 2002 Restructuring, the "Restructuring"). The Company anticipates the 2003 Restructuring will be completed by the end of 2003. Please refer to "Restructuring-Related Expenses" below for a further discussion of the 2003 Restructuring.

In addition, the Company achieved several milestones in the first half of 2003 that it believes will better enable the Company to grow its business when information technology spending returns to normalized levels, including:

- Industry analysts continued to acknowledge the Company's product leadership. For example, the Gartner Group, a prominent information technology market research firm, designated Siebel Systems as "leader"[*] in ten of its copyrighted Magic Quadrants[**] in 2003, up from seven in 2002. In nine of the ten categories, Gartner cited Siebel Systems as the only vendor that meets the leadership criteria for those CRM categories. There were a total of 18 Gartner Magic Quadrants covering CRM Suites, Marketing, Sales and Service.

  The Company believes that the Gartner Magic Quadrants provide an objective and rigorous evaluation of technology suppliers' global capabilities, breadth and depth of functionality, proven scalability, technology innovation, company viability and vision, and successful installed customer base. These quadrants assess a vendors' overall success in selling, deploying, supporting, and extending their applications.

- The Company believes it was able to maintain its market share in the majority of the product categories in which it operates and continues as the technology leader in the CRM market. In addition, information technology surveys indicate CRM software is among the top spending priorities of corporations.

- The Company's customer satisfaction levels continued at already high levels, with an overall customer loyalty rating of 97%, based on a December 31, 2002 survey.

- The Company continued its focus on customer satisfaction through further development efforts of UAN, the Company's latest product release. The Company and leading systems integrators and software vendors continue to work together to further develop UAN in order to address one of the primary challenges currently facing the software applications industry: driving down the cost of application ownership and maintenance.

In addition to the above accomplishments, the Company was able to achieve improvement in several of its key financial metrics. Specifically, despite the difficult economic challenges faced during the first half of 2003, the Company was able to operate a cash-positive, profitable business and achieved the following financial results:

- Total costs and expenses decreased by $40.1 million, or 11%, from $368.3 million in the three months ended June 30, 2002, to $328.2 million in the three months ended June 30, 2003, and decreased by $91.6 million, or 12%, from $755.8 million in the six months ended June 30, 2002, to $664.2 million in the six months ended June 30, 2003. The decrease in each of these periods was primarily due to cost savings from the 2002 Restructuring and its cost control initiatives.

- Cash and short-term investments increased by $140.2 million, or 6%, from $2,161.6 million as of December 31, 2002, to $2,301.8 million as of June 30, 2003, representing approximately 71% and 75% of total assets, respectively. During the periods of weak global economic conditions from 2001 to 2003, the Company increased cash and short-term investments by $1,149.2 million, or 100%, primarily through cash flows from operations.

- Days sales outstanding was 63 days as of December 31, 2002, as compared to 58 days as of June 30, 2003.

- Cash flows from operations were $278.8 million and $115.7 million during the six months ended June 30, 2002 and 2003, respectively.

- Working capital increased from $1,940.3 million as of December 31, 2002, to $2,020.5 million as of June 30, 2003.

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[*] Leaders are performing well today, have a clear vision of market direction and are actively building competencies to sustain their leadership position in the market.

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- Deferred revenue, which consists primarily of deferred maintenance revenue, increased by 7%, from $270.6 million as of December 31, 2002, to $289.4 million as June 30, 2003.

- Stockholders' equity increased from $1,957.5 million as of December 31, 2002, to $2,032.6 million as of June 30, 2003.

The Company intends to improve these financial metrics and to return its software license and total revenues to sequential quarterly growth. The Company has set the following objectives that will guide management's decisions throughout the remainder of 2003:

- Increase software license revenue from the Company's core customer relationship management products and verticals;
- Continue to increase market share and software license revenues in the Company's newest product lines: UAN, Siebel ERM, and Siebel Analytics;
- Increase the Company's customer base in key vertical markets, such as Life Sciences, Public Sector, Retail, and Travel and Transportation;
- Increase customer satisfaction levels;
- Increase the return on investment to the Company's customers from its products;
- Reduce the total cost of ownership related to the Company's products;
- Identify opportunities to expand product lines, both organically and through acquisition;
- Improve the execution within the Company's sales organization;
- Grow professional services, maintenance and other revenues;
- Commence new cost control initiatives to further reduce total cost per employee; and
- Expand operating margins.

The Company will continue to follow high professional standards in measuring and reporting its performance against the above objectives. Specifically, the Company believes that its accounting policies are prudent and provide a clear view of its financial performance. The Company utilizes its internal audit function to help ensure that it follows these accounting policies and maintains its internal controls. The Company has formed an Internal Controls Committee, comprised primarily of senior financial and legal personnel, to help ensure its internal controls over financial reporting are complete, accurate and appropriately documented. The Company has formed a Disclosure Committee, comprised primarily of senior financial and legal personnel, to help ensure the completeness and accuracy of the Company's financial results and disclosures. In addition, prior to the release of the Company's financial results, key members of the Company's management review the Company's annual and quarterly results and key accounting policies and estimates with its Audit Committee, which is comprised of independent members of the Company's Board of Directors.

Discussion of the Results of Operations for the Three and Six Months Ended June 30, 2002 and 2003

Revenues

The following table sets forth the Company's revenues, both in absolute dollars and expressed as a percentage of total revenues, for the three and six months ended June 30, 2002 and 2003 (in thousands, except percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2002		2003		2002		2003	
Revenues:								
Software	$ 170,109	41.9 %	$ 109,894	33.0 %	$ 416,156	47.1 %	$ 221,986	33.3 %
Professional services, maintenance and other	235,453	58.1	223,405	67.0	467,253	52.9	444,068	66.7
Total revenues	$ 405,562	100.0 %	$ 333,299	100.0 %	$ 883,409	100.0 %	$ 666,054	100.0 %

Software. Software license revenues decreased by 35% from $170.1 million for the three months ended June 30, 2002, to $109.9 million for the three months ended June 30, 2003, and decreased by 47% from $416.2 million for the six months ended June 30, 2002, to $222.0 million for the six months ended June 30, 2003. Software license revenues as a percentage of total revenues decreased from 42% and 47% during the three and six months ended June 30, 2002, respectively, to 33% during both the three and six months ended June 30, 2003.

The Company markets its products through its direct sales force and to a limited extent through distributors, primarily in Europe, Asia Pacific, Japan and Latin America. International software license revenues accounted for 34% and 37% of software license revenues for the three and six months ended June 30, 2002, respectively, as compared to 45% and 48% of software license revenues for the three and six months ended June 30, 2003, respectively. The Company expects international software license revenues will continue to account for a significant portion of its overall software license revenues in the foreseeable future.

During the three and six months ended June 30, 2002 and 2003, the Company's customers' purchasing decisions were impacted by, among many other factors: (i) the overall weakness of the global economy, (ii) continued reductions in corporate capital expenditures, (iii) geopolitical uncertainties, and (iv) uncertainties in the application software industry as a result of speculation of further consolidation within the industry. Accordingly, many of the Company's customers and potential customers have: (i) delayed the initiation of the purchasing process, (ii) increased the evaluation time to complete a software purchase, due in part to increased competition and the uncertainty in the application software industry, and/or (iii) reduced their capital expenditure budgets, thereby restricting their software procurement to well-defined current needs.

As a result of these and other factors, both the number of software license revenue transactions and average transaction size were negatively impacted during the three and six months ended June 30, 2003, with individual transactions generating software license revenues greater than or equal to $5 million affected to the greatest extent. Specifically, the number of software license transactions decreased from 460 and 1,066 during the three and six months ended June 30, 2002, respectively, to 319 and 716 during the three and six months ended June 30, 2003, respectively. The Company's average transaction size decreased from $370,000 and $390,000 during the three and six months ended June 30, 2002, respectively, to $344,000 and $310,000 during the three and six months ended June 30, 2003, respectively. In addition, the number of transactions generating software license revenues greater than or equal to $5 million decreased from three and 15 transactions during the three and six months ended June 30, 2002, respectively, to two and four transactions during the three and six months ended June 30, 2003, respectively. Consequently, the Company's software license revenues decreased by 35% and 47% from the three and six months ended June 30, 2002, to the three and six months ended June 30, 2003. The decline in software license revenues as a percentage of total revenues was primarily due to the factors described above impacting software license revenues to a greater extent than professional services, maintenance and other revenues.

The Company and its management are committed to improving the performance of the Company's sales operations and returning its software license revenues to positive sequential quarterly growth. Although the Company's software license revenues decreased on a year-over-year basis, the Company took several steps in the latter part of 2002 and is in the process of taking additional steps in 2003 that it believes will better position it for future growth. Specifically, the Company has taken the following steps:

- The Company reorganized its sales management in the fourth quarter of 2002, including the hiring of Richard P. Chiarello as Senior Vice President, Worldwide Sales, in order to improve the sales organization's performance.

- As discussed previously, the Company initiated a restructuring of its operations in the second quarter of 2003 (the "2003 Restructuring" and collectively with the 2002 Restructuring, the "Restructuring"), including a reorganization of its operating structure (e.g., sales organization, geographic operations, management structure, etc.). The Company believes the 2003 Restructuring and the resulting new organizational structure will improve cross-unit collaboration, better align its organizational structure with the Company's go-to-market strategy, and empower local managers with increased authority and accountability. The Company believes that the new organizational structure will allow greater responsiveness to customers, faster decision making and an improved focus of the Company's resources on key growth areas.

- The Company continued to increase its customer base with 59% and 57% of software license revenues coming from new customer projects during the three and six months ended June 30, 2003. The Company measures revenues from new customer projects based on software license transactions from new customers, new divisions of existing customers and/or new projects at existing customers. The Company believes that the continued growth of its customer base will provide a competitive advantage through increased future sales opportunities when corporate capital expenditures return to normalized levels.

- Many smaller software providers that compete with the Company fell into financial difficulties during 2002 and the first half of 2003 as a result of the reluctance of customers to procure their software needs from a vendor lacking either a mature solution or secure financial outlook. Accordingly, the Company believes that it is well positioned to offer the customers and potential customers of these vendors the software solution they need.

The Company anticipates that its software license revenues will return to positive growth when the current geopolitical tensions ease and the overall economic conditions strengthen and, more specifically, when the overall demand for information technology increases. The Company does not expect a significant improvement in information technology spending in the immediate future and, accordingly, during the third quarter of 2003 the Company expects software license revenues, both in terms of absolute dollars and as a percentage of total revenues, to remain comparable to levels in the second quarter of 2003.

The Company's future software license revenues and operating performance may be negatively impacted by: (i) the uncertainty in the application software industry and resulting reductions in capital expenditures, (ii) geopolitical uncertainties, including continued hostilities involving the United States, (iii) additional terrorist attacks, (iv) a lack of confidence in corporate governance and accounting practices, (v) the diversity in global economic conditions, (vi) continued intense competition, (vii) corporate and consumer confidence in the economy, (viii) operational execution related to and the resulting uncertainty created by the 2003 Restructuring, and (ix) other factors described under "Risk Factors" below.

Professional Services, Maintenance and Other. Professional services, maintenance and other revenues are primarily comprised of professional services (i.e., implementation services and training) and maintenance (i.e., technical support and product updates). Professional services are typically provided over a period of three to six months subsequent to the signing of a software license arrangement and depend in large part on the Company's software license revenues. The Company's maintenance revenues depend on both the Company's software license revenues and renewals of maintenance agreements by the Company's existing customer base. Professional services, maintenance and other revenues decreased by 5% from $235.5 million for the three months ended June 30, 2002, to $223.4 million for the three months ended June 30, 2003, and also decreased by 5% from $467.3 million for the six months ended June 30, 2002, to $444.1 million for the six months ended June 30, 2003. As a percentage of total revenues, professional services, maintenance and other revenues were 58% and 53% during the three and six months ended June 30, 2002, respectively, as compared to 67% during both the three and six months ended June 30, 2003.

The decrease in the absolute dollar amount of professional services, maintenance and other revenues was due to a decline in revenues derived from the Company's implementation and training services, partially offset by an increase in the installed base of customers receiving maintenance. The Company's maintenance revenues have continued to increase on a year-over-year basis, primarily due to the renewal of customer maintenance agreements and the signing of maintenance agreements at the time of a new software license. However, due primarily to weak economic conditions, the Company's efforts to renew existing customers' maintenance agreements have become more challenging. Specifically, several of the Company's customers have reduced the size of their employee base, thereby impacting the number of users of the Company's software.

While maintenance revenues have increased on a year-over-year basis, professional services revenues decreased in both the three and six months ended June 30, 2003, compared to the three and six months ended June 30, 2002. Because the Company's professional services revenues generally lag software license revenues by three to six months, the Company's implementation and training services are largely dependent on the amount of software license revenues generated in the preceding period. The deteriorating economic conditions and resulting decline in software license revenues throughout 2002 and the first half of 2003 have negatively impacted professional services revenues.

Professional services, maintenance and other revenues increased as a percentage of total revenues during the three and six months ended June 30, 2003, due primarily to growth in the number of customers receiving maintenance, coupled with a comparatively sharper decrease in the Company's software license revenues. The Company expects that professional services, maintenance and other revenues will return to positive growth soon after the Company's software license revenues return to positive growth. The Company currently anticipates that quarterly professional services, maintenance and other revenues for the third quarter of 2003, both in terms of absolute dollars and as a percentage of total revenues, will remain comparable to the levels in the second quarter of 2003.

Cost of Revenues

The following table sets forth the Company's cost of revenues, both in absolute dollars and expressed as a percentage of total revenues, for the three and six months ended June 30, 2002 and 2003 (in thousands, except percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2002		2003		2002		2003	
Cost of revenues:								
Software	$ 5,282	1.3 %	$ 4,268	1.3 %	$ 10,577	1.2 %	$ 8,989	1.3 %
Professional services, maintenance and other	125,061	30.8	126,141	37.8	256,194	29.0	251,653	37.8
Total cost of revenues	$ 130,343	32.1 %	$ 130,409	39.1 %	$ 266,771	30.2 %	$ 260,642	39.1 %

Total cost of revenues was $130.3 million and $266.8 million during the three and six months ended June 30, 2002, respectively, as compared to $130.4 million and $260.6 million during the three and six months ended June 30, 2003, respectively. As a percentage of total revenues, total cost of revenues was 32% and 30% during the three and six months ended June 30, 2002, respectively, as compared to 39% during both the three and six months ended June 30, 2003. Total cost of revenues increased as a percentage of total revenues during the 2003 periods compared to the 2002 periods, primarily due to the Company deriving a higher percentage of its total revenues from professional services, maintenance and other revenues, which are at lower margins than software license revenues.

The following is a discussion of the year-over-year changes within the individual components of cost of revenues:

Software. Cost of software license revenues includes amortization of acquired technology; third-party software royalties; and product packaging, production and documentation. All costs incurred in the research and development of software products and enhancements to existing products have been expensed as incurred. Cost of software license revenues was $5.3 million and $10.6 million for the three and six months ended June 30, 2002, respectively, compared to $4.3 million and $9.0 million for the three and six months ended June 30, 2003, respectively. As a percentage of software license revenues, cost of software license revenues was 3% during both the three and six months ended June 30, 2002, compared to 4% during both the three and six months ended June 30, 2003, respectively. Cost of software license revenues decreased in terms of absolute dollars primarily due to the decrease in software license revenues. As a percentage of software license revenues, these costs increased in the three and six months ended June 30, 2003, compared to the three and six months ended June 30, 2002, primarily due to a significant portion of these costs relating to amortization of acquired technology, which is relatively fixed in nature, and certain royalty arrangements which are fixed in nature (i.e., royalty rates that are time based and therefore do not vary with software license revenues). During the third quarter of 2003, cost of software license revenues as a percentage of software license revenues is expected to remain comparable to the percentage incurred during the second quarter of 2003.

Professional Services, Maintenance and Other. Cost of professional services, maintenance and other revenues consists primarily of personnel, facilities and systems costs incurred to provide training, consulting and other global services. Cost of professional services, maintenance and other revenues was $125.1 million and $256.2 million for the three and six months ended June 30, 2002, respectively, compared to $126.1 million and $251.7 million for the three and six months ended June 30, 2003, respectively. These costs were approximately 53% and 55% of professional services, maintenance and other revenues during the three and six months ended June 30, 2002, respectively, compared to 56% and 57% during the three and six months ended June 30, 2003, respectively.

Cost of professional services, maintenance and other revenues in terms of absolute dollars were comparable during the three months ended June 30, 2002 and 2003. These costs decreased in terms of the absolute dollar amount from the six months ended June 30, 2002, to the six months ended June 30, 2003, primarily due to: (i) the partial realization of cost savings from the 2002 Restructuring, as described more fully in Note 2 to the accompanying unaudited consolidated financial statements, including savings from the reduction of personnel, and (ii) the further realization of savings from the Company's cost control initiatives. Partially offsetting these cost savings was an increase in compensation costs from the renewal of merit increases and other incentive compensation in the second half of 2002.

Cost of professional services, maintenance and other revenues as a percentage of the corresponding revenue amounts increased during the three and six months ended June 30, 2003, from the three and six months ended June 30, 2002, primarily due to: (i) the increase in compensation expense as a result of a renewal of merit increases and other incentive compensation, and (ii) a decrease in revenue from licenses of the Company's Multi-Channel Services' products that is included in "other revenues," which is at higher margins than maintenance and professional services.

In connection with the 2003 Restructuring, the Company intends to reduce personnel in the Company's Global Services Organization, including consolidating its management structure, in order to improve the utilization of its professional services' staff and better align its cost structure with expected revenues. In addition, the Company expects to continue to reduce the cost of professional services, maintenance and other revenues through the continuation of its cost control initiatives and further aligning its incentive compensation plans with gross margin attainment. Accordingly, the Company expects that professional services, maintenance and other costs, in terms of both the absolute dollar amount and as a percentage of professional services, maintenance and other revenues, will remain comparable to or decrease in the third quarter of 2003 from the levels incurred during the second quarter of 2003.

Operating Expenses

The following table sets forth the Company's operating expenses, both in absolute dollars and expressed as a percentage of total revenues, for the three and six months ended June 30, 2002 and 2003 (in thousands, except percentages):

	2002		2003		2002		2003	
Operating expenses:								
Product development	$ 85,200	21.0 %	$ 75,474	22.7 %	$ 168,919	19.1 %	$ 154,745	23.2 %
Sales and marketing	123,303	30.4	93,876	28.2	260,558	29.5	194,048	29.2
General and administrative	29,500	7.3	28,175	8.4	59,567	6.8	54,541	8.2
Restructuring-related expenses	--	--	274	0.1	--	--	274	--
Total operating expenses	$ 238,003	58.7 %	$ 197,799	59.4 %	$ 489,044	55.4 %	$ 403,608	60.6 %

Product Development. Product development expense includes costs associated with the development of new products, enhancements of existing products, quality assurance activities and vertical engineering. These costs consist primarily of employee salaries, benefits, consulting costs and the cost of software development tools and equipment. The Company considers technological feasibility of its software products to have been reached upon completion of a working model that has met certain performance criteria. The period between achievement of technological feasibility and general release of a software product is typically very short, and development costs incurred during that period have not been material. Accordingly, the Company has not capitalized any software development costs to date. Product development expense decreased from $85.2 million for the three months ended June 30, 2002, to $75.5 million for the three months ended June 30, 2003, and decreased from $168.9 million for the six months ended June 30, 2002, to $154.7 million for the six months ended June 30, 2003. As a percentage of total revenues, product development expense was 21% and 19% for the three and six months ended June 30, 2002, as compared to 23% for both the three and six months ended June 30, 2003.

The decrease in product development expense in terms of absolute dollars from the three and six months ended June 30, 2002, to the three and six months ended June 30, 2003, was primarily attributable to: (i) cost savings from the reduction of product development personnel and consolidation of the remaining personnel into more highly utilized facilities in connection with the 2002 Restructuring, and (ii) further realization of cost savings from the Company's cost control initiatives, including reductions of travel- and entertainment-related expenditures. Partially offsetting these cost savings were: (i) increased compensation costs from the renewal of merit increases and other incentive compensation, and (ii) increased costs from outside consultants in connection with the further development of the Company's newest product, UAN. Product development expense as a percentage of total revenues increased due to the Company's continued investment in the research and development during a period in which the Company's software license revenues decreased.

In connection with the 2003 Restructuring, the Company intends to: (i) eliminate unprofitable products, which will result in the reduction of personnel in its product development organization, (ii) move a portion of its quality assurance and testing activities offshore, and (iii) consolidate the Company's product development management structure in order to better align its cost structure with the Company's expected revenues. For the Company's core product lines, the Company anticipates that it will continue to devote substantial resources to develop new versions of its existing products, new products and additional modules for its products. As a result of the anticipated actions related to the 2003 Restructuring, the Company expects product development expenses, in terms of both absolute dollars and as a percentage of total revenues, to decrease in the third quarter of 2003 from the levels incurred during the second quarter of 2003.

Sales and Marketing. The Company continues to place significant emphasis, both domestically and internationally, on direct sales through its own sales force. Sales and marketing expense is comprised primarily of costs associated with the Company's sales and marketing personnel and consists primarily of: (i) salaries, commissions and bonuses; (ii) facility-related (i.e., rent) and equipment-related (i.e., depreciation) expenses; (iii) travel and entertainment expenses; and (iv) promotional and advertising expenses. Sales and marketing expense decreased from $123.3 million for the three months ended June 30, 2002, to $93.9 million for the three months ended June 30, 2003, and decreased from $260.6 million for the six months ended June 30, 2002, to $194.0 million for the six months ended June 30, 2003. As a percentage of total revenues, sales and marketing expense was 30% for both the three and six months ended June 30, 2002, as compared to 28% and 29% for the three and six months ended June 30, 2003, respectively.

Sales and marketing expense decreased in terms of absolute dollars from the three and six months ended June 30, 2002, to the three and six months ended June 30, 2003, due primarily to: (i) the continued close monitoring of the Company's expenses and further implementation of the Company's cost control initiatives, including reductions in travel and entertainment expenditures and advertising expenditures; (ii) the decrease in sales commissions and other incentive compensation that resulted from a decrease in the Company's software license revenues; and (iii) the further reduction of expenses as a result of the 2002 Restructuring, including the reduction of sales and marketing personnel and consolidation of the remaining personnel into more highly utilized facilities in the second half of 2002. Partially offsetting these costs savings were increases in compensation expense associated with the renewal of merit compensation increases and incentive compensation plans.

In connection with the 2003 Restructuring, the Company intends to: (i) consolidate the number of sales personnel serving an individual customer, which the Company believes will allow greater responsiveness to customers, faster decision making, and an improved focus of the Company's resources on key growth areas; and (ii) consolidate the Company's sales and marketing management structure in order to better align its cost structure with the Company's expected revenues. As a result of the anticipated actions related to the 2003 Restructuring, the Company expects sales and marketing expense, in terms of both absolute dollars and as a percentage of total revenues, to decrease in the third quarter of 2003 from the levels incurred during the second quarter of 2003.

General and Administrative. General and administrative expense consists primarily of salaries and occupancy costs for administrative, executive and finance personnel, along with bad debt expense. General and administrative expenses decreased from $29.5 million for the three months ended June 30, 2002, to $28.2 million for the three months ended June 30, 2003, and decreased from $59.6 million for the six months ended June 30, 2002, to $54.5 million for the six months ended June 30, 2003. As a percentage of total revenues, general and administrative expense was 7% for both the three and six months ended June 30, 2002, compared to 8% for both the three and six months ended June 30, 2003. General and administrative expenses decreased from the 2002 periods to 2003 periods primarily due to: (i) further reduction of expenses in the second half of 2002 as a result of the 2002 Restructuring, including the reduction of general and administrative personnel and consolidation of the remaining personnel into higher-utilized facilities, and (ii) a decrease in the Company's provision for doubtful accounts associated with reduced receivable levels. Partially offsetting these cost savings were increases in legal expenses and compensation expense associated with the renewal of merit compensation increases and incentive compensation plans.

During the three and six months ended June 30, 2003, the majority of general and administrative expenses were relatively fixed in nature. Accordingly, due primarily to a decrease in total revenues, general and administrative expense increased as a percentage of total revenues during the three and six months ended June 30, 2003, from the respective periods in 2002.

In connection with the 2003 Restructuring, the Company intends to consolidate the Company's general and administrative management structure and to reduce the size of it general and administrative staff in order to better align its cost structure with the Company's expected revenues. In addition, the Company expects to continue to closely monitor discretionary expenditures and continue many of the cost control initiatives discussed above throughout the remainder of 2003. Accordingly, during the third quarter of 2003, the Company anticipates general and administrative expense, in terms of both absolute dollars and as a percentage of total revenues, to decrease in the third quarter of 2003 from the levels incurred during the second quarter of 2003.

Restructuring-Related Expenses. As previously discussed, certain of the Company' key operating metrics have declined from their historical levels. In response to this decline, the Company initiated a series of steps that it believes will: (i) strengthen the Company's competitive position; (ii) reduce its cost structure thereby improving its revenue per employee, operating margin and overall operating performance; and (iii) better align its management structure in order to return to sequential quarterly revenue growth. Specifically, the Company has taken the following actions:

- The Company reduced the discretionary portion of its operating costs through various cost control initiatives discussed above.

- In order to further align the Company's operating structure with anticipated revenue levels, the Company initiated the 2002 Restructuring, which it completed in December 2002. The 2002 Restructuring consisted primarily of the consolidation of excess facilities, reductions in its workforce and the abandonment of certain assets in connection with the consolidation of excess facilities.

- During the first half of 2003, the Company continued to evaluate the economic conditions in the information technology industry, along with the Company's current organizational structure and its expectations regarding revenue levels. Based on this evaluation, in the second quarter of 2003 the Company determined that it would initiate the 2003 Restructuring. The Company anticipates the 2003 Restructuring will be completed by the end of 2003.

The following table summarizes the Company's Restructuring expenses during the six months ended June 30, 2003, and the related Restructuring obligations as of June 30, 2003 (in thousands):

	Employee Termination Costs	Facility-Related Costs	Asset Abandonment Costs	Total
Restructuring obligations, December 31, 2002 (1)	$ 3,935	$ 150,613	$ --	$ 154,548
Restructuring-related expenses charged to operations:				
Changes in estimate related to 2002 Restructuring (2)	(58)	(10,531)	617	(9,972)
2003 Restructuring charges (3)	--	8,267	1,979	10,246
Total Restructuring-related expenses	(58)	(2,264)	2,596	274
Cash payments	(2,800)	(38,254)	--	(41,054)
Non-cash charges	--	--	(2,596)	(2,596)
Restructuring obligations, June 30, 2003 (4)	$ 1,077	$ 110,095	$ --	$ 111,172
Less: Restructuring obligations, short-term				33,464
Restructuring obligations, long-term				$ 77,708

1) The Company recognized a charge related to the 2002 Restructuring of $205.3 million, which was comprised of: (i) severance and associated employee termination costs of $23.6 million related to the reduction of the Company's workforce, (ii) lease termination and other costs of $155.7 million associated with permanently vacating certain facilities, and (iii) non-cash impairment costs of $26.0 million related to certain long-lived assets that were abandoned in connection with the Company's consolidation of its facilities. The Company settled $24.8 million of the 2002 Restructuring obligations during 2002.

2) During the second quarter of 2003, the Company revised its estimates related to the 2002 Restructuring due primarily to: (i) the Company terminating certain leases at more favorable terms than originally anticipated, and (ii) entering into subleases sooner than previously expected and/or at higher sublease rates than originally anticipated. This resulted in a net reversal of $10.0 million of the 2002 Restructuring expenses during the three months ended June 30, 2003. The Company believes its estimates with respect to the remaining 2002 Restructuring obligations are appropriate as of June 30, 2003.

3) The 2003 Restructuring charges incurred as of June 30, 2003, consist solely of charges associated with certain facilities that the Company ceased use of as of that date. As discussed further below, the Company will incur additional charges in connection with the 2003 Restructuring during the third and fourth quarters of 2003.

4) Total Restructuring obligations as of June 30, 2003, primarily relate to costs associated with permanently vacated facilities. These costs are primarily comprised of the remaining lease obligations, net of estimated sublease income, along with costs associated with demising and subleasing the vacated facilities. The obligations in the above table associated with permanently vacating facilities will generally be paid over the remaining lease terms, ending at various dates through March 2022, or over a shorter period as the Company may negotiate with its lessors. The obligations in the above table associated with the Company's workforce reduction will be paid during the second half of 2003.

In the second quarter of 2003, the Company began developing a plan to restructure its operations, including a reorganization of its operating structure (e.g., sales organization, geographic operations, management structure, etc.). The Company anticipates the 2003 Restructuring will be completed by the end of 2003. The 2003 Restructuring charges incurred as of June 30, 2003, consist solely of charges associated with certain facilities that the Company ceased use of as of that date. During the third and fourth quarters of 2003, the Company anticipates that it will: (i) consolidate additional facilities, including ceasing operations in certain geographic locations; (ii) reduce its workforce, including reductions as the result of reorganizing its operating and management structures; and (iii) abandon certain long-lived assets, including leasehold improvements, furniture and fixtures, and computer equipment.

The Company will record the costs associated with the 2003 Restructuring as follows: (i) costs associated with the Company's reduction of its workforce and consolidation of its facilities will be recorded based on their respective fair values (i.e., the present value of expected net cash flows associated with these obligations), and (ii) the cost associated with the abandonment of certain long-lived assets will be recorded based on the net carrying value of the assets at the time of the abandonment. The Company is still in the process of finalizing its plans related to the 2003 Restructuring and, accordingly, the total expenses and cash outlays related to the 2003 Restructuring are not currently estimable.

As part of the 2003 Restructuring, the Company intends to reduce its workforce by approximately 10%. This workforce reduction will affect substantially all of the Company's organizations and geographical regions. Expenses associated with the workforce reduction will be comprised primarily of severance, COBRA benefits, payroll taxes and other associated employment termination costs. The Company expects that these costs will be expensed during the third quarter of 2003.

As a result of the anticipated workforce reduction, certain of the Company's facilities are projected to be under-utilized. Accordingly, the Company intends to improve the utilization of its facilities by consolidating its remaining workforce into certain existing facilities and ceasing to utilize the then vacated facilities. The Company expects that the portion of the 2003 Restructuring charge related to facilities consolidation will be expensed during the second half of 2003 as the Company ceases to utilize the facilities. The costs associated with the Company's facilities consolidation will be recorded based on the present value of the sum of the expected lease termination costs and/or costs associated with satisfying remaining lease commitments, less estimated sublease income.

In accordance with SFAS 146, in periods subsequent to the initial recording of the 2003 Restructuring obligations, the Company will recognize accretion expense due solely to the passage of time. The Company will record this accretion as an additional Restructuring-related expense and as an increase in the carrying amount of the 2003 Restructuring obligations. Additionally, the Company will expense certain other costs, such as moving costs, when incurred.

As part of the 2003 Restructuring, certain leasehold improvements, furniture and fixtures, and computer equipment are expected to be abandoned in the second half of 2003. The Company expects the charge related to asset impairments will be expensed in the second half of 2003.

Subject to the timely and successful implementation of the 2003 Restructuring, the Company believes that the 2003 Restructuring will further reduce the Company's expense levels and a portion of the related cash requirements, resulting in a cost structure that is better aligned with the Company's anticipated future revenues. The Company is still in the process of finalizing its plans related to the 2003 Restructuring. However, the Company expects that once finalized, the 2003 Restructuring, along with its cost control initiatives, may reduce the Company's quarterly operating expenses by up to $40 million from where operating expenses would have been absent the 2003 Restructuring.

The majority of the quarterly expense savings from the 2003 Restructuring are expected to be derived from: (i) the Company's workforce reduction, including expense reductions related to employee compensation, employee benefits and other direct costs of up to $20 million; (ii) the Company's consolidation of its facilities, including reductions of rent and other operating costs of up to $7 million; (iii) a decrease in depreciation expense of up to $10 million, due primarily to reductions in capital expenditures and the abandonment of certain leasehold improvements, computer equipment, and furniture and fixtures; and (iv) a decrease in other operating costs of up to $3 million, due primarily to the Company's cost control initiatives, including savings from relocating a portion of the Company's product development operations overseas. The Company expects to achieve these expense savings by end of the fourth quarter of 2004.

Because the benefits related to the 2003 Restructuring are derived from management's estimates, which are based on currently available information, the 2003 Restructuring may not achieve the benefits currently anticipated or on the timetable or at the level currently contemplated. Please refer to "We may not be able to successfully implement our Restructuring efforts, and such efforts may adversely impact our ability to retain and attract future employees" under Risk Factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, for further discussion of risks associated with the Company's Restructuring efforts.

Operating Income and Operating Margin

Operating income decreased from $37.2 million during the three months ended June 30, 2002, to $5.1 million during the three months ended June 30, 2003, and decreased from $127.6 million during the six months ended June 30, 2002, to $1.8 million during the six months ended June 30, 2003. Operating margin was 9% and 14% during the three and six months ended June 30, 2002, respectively, as compared to 2% and 0.3% during the three and six months ended June 30, 2003, respectively. The Company's operating income and margins decreased on a year over year basis during the three and six months ended June 30, 2003, primarily as a result of the decrease in the Company's software license revenues for the reasons described above. The decline in operating income and operating margin was partially offset by the cost savings from the 2002 Restructuring and management's cost control initiatives.

Other Income, Net

For the three and six months ended June 30, 2002 and 2003, other income, net was comprised of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Interest income	$ 14,885	$ 13,475	$ 28,957	$ 27,711
Interest expense	(4,889)	(4,854)	(9,836)	(9,748)
Net gains on marketable investments	2,478	2,158	4,730	3,705
Write-down of cost-method investments	(2,508)	(153)	(2,508)	(406)
Other, net	(659)	(455)	(1,443)	(588)
	$ 9,307	$ 10,171	$ 19,900	$ 20,674

Interest income represents earnings on the Company's cash and short-term investments. Interest income remained relatively flat in 2003 compared to 2002, primarily due to the Company's increased balances of cash and short-term investments, which offset a decline in interest rates. Interest expense primarily represents interest on the Company's $300.0 million convertible subordinated debentures (see Note 4 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, for a further description of the convertible subordinated debentures).

During the three and six months ended June 30, 2002 and 2003, net gains on marketable investments were primarily the result of gains from sales of certain of the Company's short-term investments. The Company holds several minority interests, included in other assets and accounted for under the cost method, in companies having operations or technology in areas within its strategic focus. During the three and six months ended June 30, 2002 and 2003, the write-down of cost-method investments represents adjustments to certain of these investments to the estimated fair value as the decline in the value of these investments was deemed to be other-than-temporary. Other, net for all periods presented is primarily comprised of banking fees and foreign currency transaction gains or losses.

Provision for Income Taxes

The Company's provision for income taxes totaled $16.7 million and $53.1 million for the three and six months ended June 30, 2002, respectively, compared to $5.5 million and $8.1 million for the three and six months ended June 30, 2003, respectively. Income taxes as a percentage of pretax income (i.e., the "Effective Rate") were 36% for all periods presented. The Company currently expects its Effective Rate for the third quarter of 2003 to be approximately 36%; however, the Company may have to increase its tax rate in future periods should the Company's actual geographical mix or absolute levels of annual pretax income differ from amounts currently expected.

Specifically, as part of the process of preparing the Company's consolidated financial statements, the Company is required to estimate its full-year income and the related income tax expense in each jurisdiction in which the Company operates. Changes in the geographical mix or estimated level of annual pretax income can impact the Company's overall effective tax rate. This process involves estimating the Company's current tax liabilities in each jurisdiction in which the Company operates, including the impact, if any, of additional taxes resulting from tax examinations as well as making judgments regarding the recoverability of deferred tax assets. To the extent recovery of deferred tax assets is not likely based on the Company's estimation of future taxable income in each jurisdiction, a valuation allowance is established. Tax liabilities can involve complex issues and may require an extended period to resolve. While the Company has considered future taxable income and the existence of prudent and feasible tax planning strategies in assessing its valuation allowance, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the valuation allowance would be charged to income in the period such determination was made.

As discussed in Note 3 to the accompanying unaudited consolidated financial statements, the Company's U.S. Federal income tax returns for 1998, 1999 and 2000 are currently under examination by the Internal Revenue Service ("IRS"). The Company believes it has made adequate provision in the accompanying unaudited consolidated financial statements for any adjustments the IRS has or may propose with respect to the U.S. Federal income tax returns.

Net Income

During the three and six months ended June 30, 2002, the Company earned net income of $29.8 million and $94.4 million, respectively, compared to net income during the three and six months ended June 30, 2003, of $9.8 million and $14.4 million, respectively. Diluted net income per share was $0.06 and $0.18 per share for the three and six months ended June 30, 2002, respectively, compared to net income per share of $0.02 and $0.03 per share during the three and six months ended June 30, 2003, respectively.

Liquidity and Capital Resources

Overview

The Company derives its liquidity and capital resources primarily from its cash flows from operations and from working capital. The Company's working capital increased from $1,940.3 million as of December 31, 2002, to $2,020.5 million as of June 30, 2003. The significant components of the Company's working capital are liquid assets such as cash, short-term investments and trade accounts receivable, reduced by accounts payable, accrued expenses and deferred revenue. The Company continues to operate a cash-positive business and, accordingly, the Company has continued to increase its cash and short-term investment balances. Specifically, the Company's cash, cash equivalents and short-term investments increased from $2,161.6 million as of December 31, 2002, to $2,301.8 million as of June 30, 2003, representing approximately 71% and 75% of total assets, respectively. The Company's days sales outstanding in accounts receivable was 63 days as of December 31, 2002, compared to 58 days as of June 30, 2003. In addition, the Company's average payment terms on license revenue transactions were 28 days as of December 31, 2002, compared to 34 days as of June 30, 2003.

The Company does not use off-balance-sheet arrangements with unconsolidated entities or related parties, nor does it use other forms of off-balance-sheet arrangements such as research and development arrangements. Accordingly, the Company's liquidity and capital resources are not subject to off-balance-sheet risks from unconsolidated entities. The Company's liquidity could be negatively impacted by a decrease in demand for the Company's products, which are subject to rapid technological changes, or a reduction of capital expenditures by the Company's customers as a result of a downturn in the global economy, among other factors.

While the Company believes that its current working capital and anticipated cash flows from operations will be adequate to meet its cash needs for daily operations and capital expenditures for at least the next 12 months, the Company may elect to raise additional capital through a public offering of securities or other means in the future, depending upon market conditions.

Commitments

As of June 30, 2003, the Company's future fixed commitments for cash payments primarily related to obligations under non-cancelable operating and capital leases and the Company's $300.0 million convertible subordinated debentures. Please refer to "Liquidity and Capital Resources" in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, for a further discussion of the Company's future fixed commitments, including a five-year schedule of future cash payments under these obligations.

Cash Flows

Cash provided by operating activities was $278.8 million and $115.7 million for the six months ended June 30, 2002 and 2003, respectively. Despite the weak economic conditions, the Company has continued to operate its business to produce positive cash flows from operations. Cash provided by operating activities decreased from 2002 to 2003 primarily as the result of the decreases in revenues and earnings that occurred, in part, as a result of the weak global economic conditions. During the six months ended June 30, 2002 and 2003, the Company's cash flows from operations were primarily derived from: (i) the Company's earnings from on-going operations prior to non-cash expenses such as depreciation, amortization, and bad debt, and (ii) changes in the Company's working capital, which is primarily comprised of collections of accounts receivable and increases in deferred revenue, partially offset by payments of accounts payable, accrued expenses (inclusive of bonuses and accrued compensation) and Restructuring obligations.

The majority of the Company's Restructuring-related expenses will be paid over time and, accordingly, as the Company settles its remaining Restructuring obligations ($111.2 million as of June 30, 2003), the Company's future cash flows from operations will be reduced in the period of settlement. The majority of the remaining Restructuring-related obligations will be settled over the next three to five years. The Company currently estimates that it will settle $33.5 million of these obligations in the next 12 months.

Cash used in investing activities was $319.2 million and $182.6 million for the six months ended June 30, 2002 and 2003, respectively. During each of these periods, the Company's investment activities primarily related to the purchase of additional property and equipment and the reinvestment of the Company's cash into short-term investments. For the six months ended June 30, 2002 and 2003, the Company reinvested its cash flows from operations into short-term investments in net amounts of $280.7 million and $166.3 million, respectively, and purchased property and equipment totaling $49.2 million and $10.5 million, respectively. Other investing activities resulted in an increase of $10.7 million during the six months ended June 30, 2002, compared to a decrease of $5.8 million during the six months ended June 30, 2003.

Capital expenditures have continued to decrease on a year-over-year basis primarily due to the reduction in the size of the Company's workforce and consolidation of its facilities. The Company will continue to closely monitor its capital expenditures and currently expects that total capital expenditures for the year ended December 31, 2003, will be $30 million or less.

Cash provided by financing activities was $97.0 million and $29.4 million for the six months ended June 30, 2002 and 2003, respectively. For the six months ended June 30, 2002 and 2003, the Company's financing activities consisted primarily of net proceeds of $76.2 million and $35.8 million, respectively, from the issuance of common stock pursuant to the exercise of stock options and the Company's employee stock purchase plan. During the six months ended June 30, 2002, the Company also received proceeds of $24.9 million from equipment financing. The Company's cash inflows from financing activities were partially offset during the six months ended June 30, 2002 and 2003, by the Company's repayment of capital lease obligations.

Adoption of Accounting Standards

During the six months ended June 30, 2003, the Company adopted new accounting standards related to the accounting for and disclosure of restructuring obligations (i.e., costs associated with exit and disposal activities), asset retirement obligations, and guarantees. The adoption of these accounting standards did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. However, the adoption of SFAS 146 "Accounting for Exit or Disposal Activities" may affect when future restructuring costs are recognized and the amount of such costs. Please refer to Note 1 to the accompanying unaudited consolidated financial statements for further discussion of the accounting standards adopted during 2003.

Application of Critical Accounting Policies and Use of Estimates

Use of Estimates

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (herein after referred to as "GAAP") and the application of GAAP requires management to make estimates that affect the Company's reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. In many instances, the Company could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by management. To the extent that there are material differences between these estimates and actual results, the Company's future financial statement presentation of its financial condition or results of operations could be adversely affected.

On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, provision for doubtful accounts and sales returns, fair value of investments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, Restructuring obligations, and contingencies and litigation, among others. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company refers to accounting estimates of this type as "critical accounting estimates," which are discussed further below.

In addition to the estimates and assumptions that are utilized in the preparation of financial statements, the inability to estimate the timing and amount of future revenues could significantly impact the Company's future operations. The Company's sales personnel monitor the status of all proposals, including the estimated closing date and potential dollar amount of each transaction. The Company aggregates these estimates periodically to generate a sales pipeline and then evaluates the pipeline to identify trends in the Company's business. This pipeline analysis and related estimates of revenue may differ significantly from actual revenues in a particular reporting period as the estimates and assumptions were made using the best available data at the time. Specifically, the slowdown in the global economy and information technology spending, along with hostilities involving the United States, has caused and may continue to cause customer purchasing decisions to be delayed, reduced in amount or canceled, all of which have reduced and could continue to reduce the rate of conversion of the pipeline into contracts. A variation in the pipeline or in the conversion rate of the pipeline into contracts could cause the Company to plan or budget inaccurately and thereby could adversely affect the Company's business, financial condition or results of operations. In addition, because a substantial portion of the Company's software license contracts close in the latter part of a quarter, management may not be able to adjust the Company's cost structure to respond to a variation in the conversion of the pipeline in a timely manner, which may adversely and materially affect the Company's business, financial condition or results of operations.

Critical Accounting Policies

In addition to making critical accounting estimates, the Company must ensure that its financial statements are properly stated in accordance with GAAP. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application, while in other cases, management's judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions (e.g., stock-based compensation, restructuring activities, depreciation methodology, etc.). The Company believes that the following accounting policies are critical to understanding the Company's historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates:

- Revenue recognition;
- Restructuring-related expenses;
- Stock-based compensation;
- Option Repurchase;
- Provision for doubtful accounts;
- Acquired intangible assets;
- Impairment of long-lived assets;
- Other-than-temporary declines in the market value of investments; and
- Income taxes.

The Company's management has reviewed its critical accounting policies, critical accounting estimates, and the related disclosures with the Disclosure and Audit Committees. Additional information about these critical accounting policies may by found in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Application of Critical Accounting Policies and Use of Estimates."

Employee Stock Options

Section I. Description of Plans

The Company, since inception, has been an advocate of broad-based employee stock ownership. Accordingly, the Company's stock option program has been instrumental in attracting and retaining talented employees and aligning their interests with the interests of existing stockholders. The Company's stock option program consists primarily of two plans: the Siebel Systems, Inc. 1996 Stock Option Plan, which amended and restated the Company's 1994 Stock Option Plan and the 1996 Supplemental Stock Option Plan (collectively, the "1996 Plan"); and the Siebel Systems, Inc. 1998 Equity Incentive Plan (the "1998 Plan"). Stock options granted to executive officers, key employees and non-employee directors are made under the 1996 Plan and stock options granted to employees other than officers and directors are made under the 1998 Plan. The Company's Board of Directors and stockholders have approved the 1996 Plan, and the Company's Board of Directors has approved the 1998 Plan.

All stock option grants are made after a review by, and with the approval of, the Compensation Committee of the Board of Directors. All members of the Compensation Committee are independent directors, as defined in the applicable rules for issuers traded on The Nasdaq Stock Market. Substantially all of the Company's employees participate in one of the above plans, thereby providing the Company the ability to meet its goal of long-term retention of its employees. Stock options granted under these plans expire no later than ten years from the grant date and generally vest over five years. Please refer to the "Report of the Compensation Committee of the Board of Directors on Executive Compensation" appearing in "Item 11. Executive Compensation" of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, further information concerning the policies and procedures of the Company and the Compensation Committee regarding the use of stock options.

Section II. Significant Actions Taken During 2003 Related to Stock Options

Historically, stock options have been an important component of total compensation for the Company's employees. Accordingly, substantially all employees are granted stock options upon commencement of employment. The Company has on occasion also assumed outstanding stock options of acquired businesses and rewarded existing employees for high levels of performance with additional grants of stock options (consideration of additional grants is scheduled to occur during the second quarter of each year).

Associated with the market downturn, during the first half of 2003 the Company took several steps to reduce the number of stock options outstanding, each of which is described further below. These actions resulted in stock options outstanding decreasing by 25.3 million, or 14%, from the levels outstanding as of December 31, 2002, and stock options outstanding relative to shares outstanding decreasing from 38% as of December 31, 2002, to 32% as of June 30, 2003. The Company believes that its actions will continue to align the interests of its employees and management with the interests of its stockholders.

CEO Option Cancellation

As described more fully in Note 6 to the accompanying unaudited consolidated financial statements, at the request of its CEO, the Company cancelled approximately 26 million of its CEO's stock options in January 2003. The stock options cancelled had exercise prices ranging from $4.91 to $59.81 per share and a Black-Scholes calculated fair value of $56.1 million at the time of cancellation (stock options that were "in-the-money" at the time of cancellation represented $30.2 million, or 54%, of the total fair value at cancellation). This cancellation represented all stock options granted to the Company's CEO since October 1998. The Company's CEO requested the cancellation of these stock options primarily to reduce the number of outstanding stock options relative to the number of shares outstanding. As a result of this cancellation, outstanding stock options decreased by 14% from the levels as of December 31, 2002, representing net potential dilution to existing stockholders of 5%. The potential dilution to stockholders is calculated as the stock options canceled, divided by the number of shares of common stock outstanding as of December 31, 2002. The Company has provided no compensation in exchange for the cancellation of the CEO's stock options, nor will it provide any compensation in the future in exchange for such cancellation.

2003 Grants and Forfeitures

In order to maintain the proper balance between the need to attract and retain employees and minimize the dilution to existing stockholders, the Company adjusted its compensation structure in 2002 to significantly reduce the number of stock options issued to new and existing employees. The Company has maintained these new equity based compensation guidelines in 2003. In addition, commencing in February 2003, the Company began granting stock options with a contractual life of six years, as opposed to ten years for stock options granted prior to such time.

In accordance with these revised guidelines, the Company evaluates whether to grant a merit award of stock options to employees and officers during the second quarter of each year. Accordingly, in addition to grants made to newly hired employees, during the second quarter of 2003, the Company granted an aggregate of 17.8 million stock options to its employees and officers in recognition of their performance and future potential with the Company. The Company's Chairman and CEO did not receive any new stock options during the six months ended June 30, 2003. Stock option grants, net of forfeitures by employees upon termination, resulted in a net increase in the Company's outstanding stock options of 3% from the levels as of December 31, 2002, representing an increase in net potential dilution to existing stockholders of 1%. The potential dilution to stockholders from stock options (the "Dilution Percentage") is calculated as new stock options granted during the year, net of stock options forfeited by employees leaving the Company, divided by the total outstanding shares of common stock at the beginning of the year. The Dilution Percentage for the six months ended June 30, 2003, does not reflect the voluntary cancellation of stock options by the Company's CEO discussed above. The increase in the net Dilution Percentage in the first half of 2003 of 1% compares to a decrease of 5% during the year ended December 31, 2002, and an increase of 21% during the year ended December 31, 2001.

2003 Anticipated Stock Option Grants

The Company intends to continue to manage the number of stock options granted in the future, while still providing competitive compensation packages to its employees. The Company currently expects that the incremental Dilution Percentage resulting from new stock option grants for the remainder of 2003 will be less than the Dilution Percentage for the first six months of 2003. This estimate could differ from the actual percentage, depending on various factors, including changes in estimated stock option grants for planned hiring, potential acquisitions, merit and retention-based programs.

Section III. General Option Information

Combined plan activity for the six months ended June 30, 2003, is summarized as follows:

	Shares Available for Grant	Number of Options	Wtd. Avg. Exercise Price per Share
Balances, December 31, 2002	161,307,093	185,472,781	$ 17.42
Additional shares authorized	--	--	
Options granted to employees	(17,566,350)	17,566,350	$ 8.65
Options granted to officers and directors	(1,720,000)	1,720,000	$ 8.61
Options exercised	--	(5,753,269)	$ 4.95
Options forfeited/canceled upon termination	12,778,637	(12,833,426)	$ 21.14
Options cancelled by the Company's CEO	25,950,000	(25,950,000)	$ 34.63
Balances, June 30, 2003	180,749,380	160,222,436	$ 13.72

The Company continues to believe in broad-based employee stock ownership. As the table below indicates, the Company has continued to allocate the vast majority of its stock options to employees who are not officers and directors. "Named Executive Officers" in the below table and in the remainder of this quarterly report on Form 10-Q represent the Company's CEO and four most highly compensated executive officers for the year ended December 31, 2002, as disclosed in Item 11. "Executive Compensation" of the Company's Annual Report on Form 10-K for the year ended December 31, 2002. Summarized below is the distribution of the Company's stock options for the years ended December 31, 2001 and 2002, and the six months ended June 30, 2003:

	Year Ended December 31, 2001	Year Ended December 31, 2002	Six Months Ended June 30, 2003
Grants during the period as a percentage of total stock options granted:			
Named Executive Officers	12.4 %	3.4 %	4.1 %
All other officers and directors as a group	2.4	0.3	4.8
Total for all officers and directors	14.8	3.7	8.9
All other employees as a group	85.2	96.3	91.1
Total all grants	100.0 %	100.0 %	100.0 %

The following table details the "in-the-money" and "out-of-the-money" status of the Company's stock options outstanding as of June 30, 2003:

	Options Outstanding			Options Exercisable	
Options	Number of Shares	Wtd. Avg. Remaining Life (Years)	Wtd. Avg. Exercise Price	Number of Shares	Wtd. Avg. Exercise Price
In-the-money	79,759,575	4.7	$ 5.12	52,799,737	$ 3.88
Out-of-the-money	80,462,861	7.6	$ 22.25	36,063,549	$ 22.46
	160,222,436	6.1	$ 13.72	88,863,286	$ 11.42

In-the-money stock options in the above table have exercise prices below the closing price of the Company's common stock as of June 30, 2003, of $9.48 per share and out-of-the money stock options have exercise prices equal to or greater than $9.48 per share.

Section IV. Accounting for Stock-Based Compensation

The Company accounts for its employee stock-based compensation plans using the intrinsic value method, as prescribed by APB No. 25 "Accounting for Stock Issued to Employees" and interpretations thereof (collectively "APB 25"). Accordingly, deferred compensation is only recorded if the current market price of the underlying stock exceeds the exercise price of the stock option on the date of grant. The Company records and measures deferred compensation for stock options granted to non-employees at their fair value. Deferred compensation is expensed on a straight-line basis over the vesting period of the related stock option, which is generally five years. There were no grants of stock options at exercise prices below the fair market value of the Company's common stock on the date of grant during the three and six months ended June 30, 2002 and 2003.

An alternative to the intrinsic value method of accounting for stock options is the fair value approach allowed by SFAS No. 123 "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure" (hereinafter collectively referred to as "SFAS 123"). The Company has continued to follow the intrinsic value method of APB 25, as the Company believes the accounting for stock options under SFAS 123 is highly subjective and does not necessarily reflect the economic substance of an employee stock option. Specifically, the compensation cost under SFAS 123 is recognized ratably over the vesting period, regardless of whether the stock options' exercise prices are below the fair value of the Company's common stock. In addition, compensation expense related to vested stock options that are subsequently forfeited or canceled is reflected in operations, despite the fact that the stock options did not provide any value to the employee or dilute existing stockholders. Subsequent to cancellation of a stock option, no additional compensation expense for that cancelled stock option is reported in the pro forma disclosure of stock-based compensation.

Further, under the fair value approach, employee stock options are required to be valued at grant date using an option valuation model, such as Black-Scholes. The Company believes there are limitations to the appropriateness of the Black-Scholes option valuation model, including the fact that the Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions, are fully transferable, and typically have shorter terms. In addition, the Black-Scholes option valuation model requires the use of subjective assumptions, including expected stock price volatility and the expected remaining life. Because the Company's stock-based awards have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in the Company's opinion, the existing models that are available to value stock options do not provide an appropriate measure of the fair value of stock-based awards to its employees.

As required by SFAS 123, the Company has prepared a reconciliation of its net income as reported on the statement of operations to the net income that the Company would have reported if it had followed SFAS 123 in accounting for its stock-based compensation arrangements. For purposes of this reconciliation, the Company added back all stock-based employee compensation expense recorded in accordance with APB 25 in the statement of operations, then deducted the pro forma stock-based employee compensation expense determined under SFAS 123. This pro forma effect on earnings represents the amortization of the deferred compensation that is computed using the Black-Scholes option valuation model at the date of the stock option grant. Summarized below are the pro forma effects on net income and net income per share data, if the Company had elected to use the fair value approach prescribed by SFAS 123 to account for its employee stock-based compensation plans (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Net income (loss):				
As reported	$ 29,775	$ 9,768	$ 94,396	$ 14,386
Compensation expense related to:				
Stock options accounted for in accordance with APB 25	1,331	475	2,938	980
In-the-money stock options	(8,555)	(7,121)	(17,564)	(13,423)
Stock purchase rights under the Purchase Plan	(8,234)	(1,206)	(16,468)	(2,069)
Total pro forma expense related to "in the money" stock options and Purchase Plan	(15,458)	(7,852)	(31,094)	(14,512)
Out-of-the-money stock options	(50,956)	(46,715)	(127,124)	(95,291)
Stock options cancelled for no consideration	(25,012)	--	(61,608)	(251,821)
Stock options forfeited/cancelled in connection with terminations	(18,352)	(4)	(48,192)	(559)
Stock options subsequently repurchased on September 30, 2002	(49,934)	--	(101,615)	--
Total pro forma expense giving effect to SFAS 123	(159,712)	(54,571)	(369,633)	(362,183)
Pro forma giving effect to SFAS 123	$ (129,937)	$ (44,803)	$ (275,237)	$ (347,797)

In-the-money stock options in the above table have exercise prices below the closing price of the Company's common stock on June 30, 2003, of $9.48, and out-of-the-money stock options have exercise prices equal to or greater than $9.48.

As the table above illustrates, during the three and six months ended June 30, 2003, $46.7 million and $347.7 million, respectively, of the total pro forma expense for stock options relates to: (i) stock options that were cancelled for no consideration, (ii) stock options forfeited by employees upon termination for no consideration, or (iii) stock options that are significantly out of the money (i.e., the weighted-average exercise price of the out-of-the-money stock options is $22.25 per share compared to a closing price of $9.48 per share as of June 30, 2003). This represented 86% and 96% of the pro forma expense for stock options during the three and six months ended June 30, 2003, respectively.

Please refer to Note 1 to the accompanying unaudited consolidated financial statements for a further discussion of the fair value approach prescribed by SFAS 123, including the assumptions used to determine the fair value of and resulting SFAS 123 expense related to stock options granted, and the procedures followed by the Company in determining those assumptions.

Section V. Executive Stock-Based Compensation

The following table sets forth certain information regarding stock options granted to the Named Executive Officers during the six months ended June 30, 2003:

Officer Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 2003 (3)	Exercise or Base Price ($/Share) (4)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for the Option Term (5)	
					5%	10%
Thomas M. Siebel	--	-- %	$ --	--	$ --	$ --
Paul Wahl (6)	--	-- %	$ --	--	$ --	$ --
R. David Schmaier	300,000 (1)	1.6 %	$ 8.66	04/30/2009	$ 883,568	$ 2,004,515
Kenneth A. Goldman	250,000 (1)	1.3 %	$ 8.66	04/30/2009	$ 736,307	$ 1,670,430
Richard P. Chiarello	100,000 (1)	0.5 %	$ 8.66	04/30/2009	$ 294,523	$ 668,172
Richard P. Chiarello	150,000 (2)	0.8 %	$ 8.06	02/13/2009	$ 411,176	$ 932,817

(1) Options vest 20% on May 1, 2004, and at a rate of 5% for each quarter of service thereafter, and have a term of six years.
(2) Options vest 20% on February 14, 2004, and at a rate of 5% each quarter of service thereafter, and have a term of six years.
(3) Based on an aggregate of 19.3 million shares subject to options granted to employees pursuant to the Company's 1996 and 1998 Plans during the six months ended June 30, 2003, including grants to the Named Executive Officers.
(4) Under all stock option plans, the stock option exercise price is equal to the fair market value at the date of grant.
(5) The potential realizable value is calculated based on the term of the option at the time of grant. Stock price appreciation of 5% and 10% is assumed pursuant to rules promulgated by the SEC and does not represent the Company's prediction of its stock price performance or the actual value of the stock options.
(6) Mr. Wahl resigned as President and Chief Operating Officer effective March 31, 2003.

The following summarizes the distribution and dilutive impact of the stock options held by the Company's Named Executive Officers as of December 31, 2001 and 2002, and June 30, 2003:

	Year Ended December 31,		Six Months Ended
	2001	2002	June 30, 2003
Stock options held by Named Executive Officers as a percentage of:			
Total options outstanding	23.8 %	29.3 %	15.7 %
Outstanding shares of common stock	12.6 %	11.2 %	5.1 %

The following table sets forth for each of the Named Executive Officers the shares acquired and the value realized on each exercise of stock options during the six months ended June 30, 2003, and the number and value of securities underlying unexercised options held by the Named Executive Officers as of June 30, 2003:

Officer Name	Shares Acquired on Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options at June 30, 2003 (2)		Value of Unexercised In-the-Money Options at June 30, 2003 (3)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Thomas M. Siebel	--	$ --	18,086,138	599,996	$ 120,551,968	$ 3,944,224
Paul Wahl (4)	--	$ --	--	--	$ --	$ --
R. David Schmaier	--	$ --	1,469,289	1,710,714	$ 3,801,606	$ 2,562,612
Kenneth A. Goldman	--	$ --	1,005,000	1,865,000	$ --	$ 205,000
Richard P. Chiarello	--	$ --	7,500	442,500	$ 10,650	$ 940,350

(1) Based on the fair market value of the Company's Common Stock on the exercise date, minus the exercise price, multiplied by the number of shares exercised.
(2) Represents the total number of shares of the Company's Common Stock subject to stock options held by the Named Executive Officers as of June 30, 2003.
(3) Based on the fair market value of the Company's Common Stock as of June 30, 2003 ($9.48 per share), minus the exercise price, multiplied by the number of shares underlying the stock options.
(4) Mr. Wahl resigned as President and Chief Operating Officer effective March 31, 2003.

Section VI. Equity Compensation Plan Information

The number of shares issuable upon exercise of outstanding stock options, the weighted-average exercise price of the outstanding options, and the number of stock options remaining for future issuance for each of the Company's plans as of June 30, 2003, is summarized as follows:

Plan Category	Number of Shares to Be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Options Outstanding)
Equity compensation plans:			
Approved by shareholders (1)	54,230,466	$ 7.08	86,589,826
Not approved by shareholders (2)	104,731,655	$ 17.24	109,159,554
Acquired companies' plans (3)	1,260,315	$ 8.42	--
	160,222,436	$ 13.72	195,749,380

(1) Represents shares available under the 1996 Plan, which is used for grants to the Company's officers and directors. The shares remaining available for future issuance amount also includes 15.0 million shares available under the Company's 2003 Employee Stock Purchase Plan.

(2) Represents shares available under the 1998 Plan, which is used for grants to the Company's employees other than officers and directors.

(3) The Company has assumed certain stock options granted to former employees of acquired companies (the "Acquired Options"). All of the Acquired Options have been adjusted to give effect to the conversion under the terms of the agreements between the Company and the companies acquired. The Acquired Options generally become exercisable over a four-year period and expire ten years from the date of grant. Additional stock options will not be granted under any of the acquired companies' plans, and these plans have not been approved by the Company's stockholders.

Risk Factors

Set forth below and elsewhere in this quarterly report and in the other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this quarterly report. Prospective and existing investors are strongly urged to carefully consider the various cautionary statements and risks set forth in this quarterly report and our other public filings. Some of these factors are as follows:

- Our total revenue and operating results may fluctuate.
- Our quarterly operating results may fluctuate.
- Economic conditions could adversely affect our revenue growth and ability to forecast revenue.
- Hostilities involving the United States and/or terrorist attacks could harm our business.
- A variation in the conversion of our revenue pipeline to contracts could adversely affect our revenues and ability to forecast operations.
- We may not be able to successfully implement our Restructuring efforts, and such efforts may adversely impact our ability to retain and attract future employees.
- If we do not successfully manage the size of our operations, our business may be negatively impacted.
- Rapid change will require us to manage the size of our employee base, particularly our direct sales force and global support staff.
- We rely on strategic relationships with systems integrators, distributors, resellers and technology vendors.
- Our customers may not successfully implement our products.
- A limited number of products provide a substantial part of our license revenues.
- The length of time required to engage a client and to implement our products may be lengthy and unpredictable.
- Our software license revenue is dependent on our ability to enter into significant software license transactions with new and existing customers.
- Our distribution channels may create additional risks.
- Our continued success will require us to keep pace with technological developments, evolving industry standards and changing customer needs.
- We may not be able to compete effectively in the Internet-related products and services market.
- We operate in a competitive and rapidly changing market.
- To be successful, we must effectively compete in the eBusiness systems market.
- If we do not maintain our relationships with third-party vendors, interruptions in the supply of our products may result.
- Software errors or defects in our products could reduce revenues.
- We need to successfully integrate acquisitions.
- Integration of personnel and operations relating to our previous or future acquisitions may disrupt our business and management.
- If we acquire additional companies, products or technologies, we may face risks similar to those faced in our other acquisitions.
- The loss of key personnel could negatively affect our performance.
- Leverage and debt service obligations may adversely affect our cash flow.
- We may not be able to protect our proprietary information.
- Our international operations involve unique risks.
- Our current officers, directors and entities affiliated with us may be able to exercise control over matters requiring stockholder approval.
- Our stock price may continue to be volatile.
- Provisions in our charter documents may prevent certain corporate actions.

As discussed above and in Note 2 to the accompanying unaudited consolidated financial statements, in the second quarter of 2003, the Company initiated the 2003 Restructuring, including the reduction of approximately 10% of its workforce. The risks described in the above-mentioned risk factor "We may not be able to successfully implement our Restructuring efforts, and such efforts may adversely impact our ability to retain and attract future employees" related to the 2002 Restructuring are also applicable to the 2003 Restructuring.

If any of these risks occur, the value of our common stock could decline. Please refer to "Risk Factors" under Item 7 in our Annual Report on Form 10-K for the year ended December 31, 2002, for a further discussion of these risk factors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The tables below provide information about our derivative financial instruments and financial instruments that are subject to market risk. The first table includes our foreign currency contracts used to minimize the impact of changes in currency rates on existing foreign currency receivables, payables and intercompany balances, which are subject to exchange rate risk. The second table includes our available-for-sale short-term investments, which are subject to interest rate risk.

We manage our foreign currency exchange rate risk by entering into contracts to sell or buy foreign currency at the time a foreign currency receivable or payable is generated. When the foreign currency asset or liability is extinguished, the contract is liquidated, and the resulting gain or loss on the contract mitigates the exchange rate risk of the associated asset or liability.

The following table summarizes as of June 30, 2003, our foreign currency forward contracts, by currency. All of our foreign currency forward contracts mature within a year. Contract amounts are representative of the expected payments to be made under these instruments (in thousands):

	Contract Amount (Local Currency)	Contract Amount	Fair Value (US$)
Australian dollars ("AUD") (contracts to pay AUD/receive US$)	(AUD) 16,381	US$10,614	$ (252)
Brazilian real ("BRL") (contracts to pay BRL/receive US$)	(BRL) 18,594	US$6,085	$ 110
British pounds ("GBP") (contracts to pay GBP/receive EUR)	(GBP) 13,869	EUR 19,523	$ (650)
Japanese yen ("YEN") (contracts to pay YEN/receive US$)	(YEN) 4,936,609	US$42,195	$ 338
Mexican peso ("MXN") (contracts to pay MXN/receive US$)	(MXN) 31,661	US$3,048	$ 73
Singapore dollars ("SGD") (contracts to pay SGD/receive US$)	(SGD) 2,837	US$1,646	$ 13
Canadian dollars ("CAD") (contracts to receive CAD/pay US$)	(CAD) 12,702	US$8,992	$ 379
Czech Republic koruna ("CZK") (contracts to receive CZK/pay EUR)	(CZK) 40,292	EUR 1,279	$ 3
Euro ("EUR") (contracts to receive EUR/pay US$)	(EUR) 170,272	US$194,936	$ 682
Korea won ("KRW") (contracts to receive KRW/pay US$)	(KRW) 240,231	US$193	$ 9
Swedish krona ("SEK") (contracts to receive SEK/pay EUR)	(SEK) 11,718	EUR 1,275	$ 4
Swiss franc ("CHF") (contracts to receive CHF/pay EUR)	(CHF) 3,205	EUR 2,130	$ (28)

The following table summarizes our short-term investments and the weighted average yields, as of June 30, 2003 (in thousands):

	Expected Maturity Date						
	2003	2004	2005	2006	2007	Thereafter	Total
US Treasury and Agency securities	$ 32,329	$ 248,020	$ 245,025	$ 105,991	$ 7,463	$ 3,087	$ 641,915
Weighted average yield	1.20%	1.22%	1.36%	1.74%	2.17%	2.33%	
Corporate bonds	$ 145,066	$ 138,579	$ 174,455	$ 181,321	$ 80,650	$ 23,679	$ 743,750
Weighted average yield	1.30%	1.45%	1.74%	1.97%	2.53%	2.93%	
Asset-backed securities	$ 34,359	$ 98,861	$ 87,737	$ 51,713	$ --	$ --	$ 272,670
Weighted average yield	1.47%	1.65%	1.92%	2.48%			

As of June 30, 2003, we had an investment portfolio of fixed income securities, excluding those classified as cash and cash equivalents, of $1,658.3 million. These securities, like all fixed income instruments, are subject to interest rate risk and, accordingly, if market interest rates increase, these investments will decline in value. If market interest rates were to increase immediately and uniformly by 100 basis points from levels as of June 30, 2003, the fair value of the portfolio would decline by $25.1 million.

We manage our interest rate risk by maintaining an investment portfolio with debt instruments of high credit quality and relatively short average maturities. We also manage interest rate risk by maintaining sufficient cash and cash equivalent balances such that we are typically able to hold our investments to maturity.

The fair value of our convertible subordinated debentures fluctuates based upon changes in the price of our common stock, changes in interest rates and changes in our credit-worthiness. Based on the quoted market price of the convertible subordinated debentures, the fair value of the convertible subordinated debentures as of June 30, 2003, was $305.0 million.

Item 4. Evaluation of Disclosure Controls and Procedures.

Evaluation of Our Disclosure Controls and Internal Controls

As of June 30, 2003 (the "Evaluation Date"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (the "Disclosure Controls"), as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, and our internal controls and procedures for financial reporting (the "Internal Controls"). This evaluation (the "Controls Evaluation") was done under the supervision and with the participation of management, including our CEO and CFO. Rules adopted by the SEC require that we present the conclusions of the CEO and the CFO about the effectiveness of our Disclosure Controls and Internal Controls based on and as of the date of the Controls Evaluation.

CEO and CFO Certifications

Attached as Exhibits 31 and 32 are two separate forms of certifications of the CEO and the CFO. The certifications attached as Exhibits 31.1 and 31.2 are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certifications"). The information contained in this Item 4 relates to the Controls Evaluation referred to in the Section 302 Certifications, and should be read with the Section 302 Certifications for a more complete understanding of the topics presented.

Disclosure Controls and Internal Controls over Financial Reporting

Our management, including the CEO and CFO, has a responsibility for establishing and maintaining adequate disclosure and internal controls over our financial reporting. Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal Controls are procedures that are designed with the objective of providing reasonable assurance regarding the reliability of financial reporting and include those policies and procedures that provide reasonable assurance that our transactions are properly authorized, our assets are safeguarded against unauthorized or improper use, and our transactions and dispositions of assets are properly recorded and reported, all to permit the preparation of our financial statements in conformity with GAAP.

Limitations on the Effectiveness of Controls

Our 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 a 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. In addition, over time, controls 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.

Scope of the Controls Evaluation

The CEO and CFO evaluation of our Disclosure Controls and our Internal Controls included a review of the controls' objectives and design, our controls' implementation and the effect of the controls on the information generated for use in this Quarterly Report on Form 10-Q. In the course of the Controls Evaluation, we sought to identify data errors, controls problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. We will perform this type of evaluation on a quarterly basis so that the conclusions concerning controls effectiveness can be reported in our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K. Our Internal Controls are also evaluated on an on-going basis by our internal audit department and by other personnel in our finance organization. The overall goals of these various evaluation activities are to monitor our Disclosure Controls and our Internal Controls and to make modifications as necessary. Our intent in this regard is that the Disclosure Controls and the Internal Controls will be maintained as dynamic systems that change (including with improvements and corrections) as conditions warrant.

Among other matters, we sought in our evaluation to determine whether there were any "significant deficiencies" or "material weaknesses" in our Internal Controls, or whether we have identified any acts of fraud involving personnel who have a significant role in our Internal Controls. This information was important both for the Controls Evaluation generally and because item 5 in the Section 302 Certifications require that the CEO and CFO disclose such information to our Audit Committee of the Board of Directors and to our independent auditors and to report on related matters in this section of the Quarterly Report on Form 10-Q. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions," which are control issues that could have a significant adverse effect on the ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions. We also sought to deal with other controls matters in the Controls Evaluation, and in each case if a problem was identified, we considered what revision, improvement or correction to make in accordance with our on-going procedures.

Conclusions

Based upon the Controls Evaluation, our CEO and CFO have concluded that, subject to the limitations noted above, our Disclosure Controls and procedures are effective in alerting them on a timely basis to material information related to us (including our consolidated subsidiaries) that is required to be included in our reports filed or submitted under the Securities and Exchange Act of 1934, as amended.

Changes in Internal Controls over Financial Reporting

Our CEO and CFO note that during the period covered by this Quarterly Report on Form 10-Q, there have been no changes in Internal Controls or in other factors that could materially affect or are reasonably likely to affect such controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

Part II. Other Information

Item 1. Legal Proceedings.

On September 23, 2002, Teachers' Retirement System of Louisiana, a Louisiana public trust fund, filed a derivative suit against our Board of Directors, as well as against us as a nominal defendant, in the Superior Court of the State of California for the County of San Mateo. The derivative suit alleges, among other things, that members of our Board of Directors breached their fiduciary duties by authorizing excessive compensation for our Chairman and CEO, Thomas M. Siebel. The derivative plaintiffs seek compensatory and other damages, rescission of certain stock options and other relief. The suit alleges that we incorrectly accounted for stock options that were alleged to be granted below fair market value. We believe we have meritorious defenses to this suit, as the stock options in question were granted at fair market value. In addition, the stock options in question were cancelled in January 2003 as a result of actions initiated by our CEO in June 2002, prior to the filing of this suit by the Teachers' Retirement System of Louisiana. We cannot currently determine the ultimate outcome of this litigation and its possible impact on us.

On May 6, 2003, the Securities & Exchange Commission ("SEC") contacted us and indicated that a May 1, 2003 article on CBS MarketWatch had raised questions regarding our compliance with Regulation FD. On May 9, 2003, we announced that, in response to the inquiry from the SEC, the Audit Committee of our Board of Directors is conducting an internal review of the circumstances involving recent statements that were reported by CBS MarketWatch to have been made by our executives. The Audit Committee has engaged counsel in connection with such review. Upon completion of that review, we intend to take required and appropriate actions, if any, but we have not concluded that any violation has occurred. We are cooperating with the SEC inquiry.

In addition, we are subject to legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, management does not believe that the outcome of any pending legal matters will have a material adverse effect on our consolidated financial position, although results of operations or cash flows could be affected in a particular period.

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

Our Annual Meeting of Stockholders (the "Annual Meeting") was held on June 11, 2003. At the Annual Meeting, our stockholders: (i) elected each of the persons below to serve as a director until the 2006 Annual Meeting of Stockholders or until their successor is elected; (ii) approved the authorization of an aggregate of 15,000,000 shares of our Common Stock for issuance under our 2003 Employee Stock Purchase Plan (the "2003 Purchase Plan"); (iii) ratified the selection of KPMG LLP as our independent auditors for the year ending December 31, 2003; (iv) rejected a stockholder proposal to adopt and disclose an "equity policy" designating the intended use of equity in management compensation programs and requiring that a portion of stock option grants be performance-based (the "Equity Policy Proposal"); and (v) rejected a stockholder proposal to adopt a policy that the cost of employee and director stock options be recognized in our income statement (the "Stock Option Expensing Proposal"). The following sets forth a summary of each of the proposals and the results of the voting at the Annual Meeting.

Proposal 1—Election of Board of Directors

Our Nominating and Corporate Governance Committee reviewed the qualifications of Patricia A. House, Eric E. Schmidt, Ph.D., and A. Michael Spence, Ph.D. to serve as members of our Board of Directors, and unanimously recommended that each nominee be submitted to our stockholders for re-election to the Board of Directors until the 2006 Annual Meeting of Stockholders or until their successors are elected. The other directors whose terms of office continued after the meeting were Thomas M. Siebel, James C. Gaither, Marc F. Racicot, Charles R. Schwab, and George T. Shaheen. The votes for and withheld for such nominees were as follows:

Name	For	Withheld
Patricia A. House	369,174,621	48,053,275
Eric E. Schmidt, Ph.D.	374,242,392	42,985,504
A. Michael Spence, Ph.D.	374,228,018	42,999,878

Proposal 2—Approval of 2003 Purchase Plan

The 2003 Purchase Plan was designed to provide our employees with the opportunity to purchase shares of our Common Stock. There are 15,000,000 shares of Common Stock reserved for issuance under the 2003 Purchase Plan. We believe that the purchase of stock through the 2003 Purchase Plan encourages employees to build long-term stockholder value, and helps better align the interests of our employees with those of our stockholders. Our stockholders approved the 2003 Purchase Plan at the Annual Meeting, with 397,282,659 votes "For," 16,597,224 votes "Against," and 3,348,013 votes "Abstained." There were no "Broker Non-Votes."

Proposal 3—Ratification of Selection of Independent Auditors

Our Audit Committee and Board of Directors selected KPMG LLP as our independent auditors for the year ending December 31, 2003, and directed that management submit the selection of independent auditors for ratification by our stockholders at the Annual Meeting. KPMG LLP has audited our financial statements since our inception in 1993. Our stockholders ratified the selection of KPMG LLP as our independent auditors for the year ending December 31, 2003, with 407,603,297 votes "For," 6,779,573 votes "Against," and 2,845,026 votes "Abstained." There were no "Broker Non-Votes."

In addition to the above proposals submitted to our stockholders by our Board of Directors, two stockholder proposals were also submitted for our stockholders' consideration: the Equity Policy Proposal and the Stock Option Expensing Proposal. The following is a summary of these stockholder proposals and the results of the voting at the Annual Meeting:

Proposal 4—Equity Policy Proposal

The College Retirement Equities Fund ("CREF"), beneficial owner of approximately 2.4 million shares, or 0.5%, of our Common Stock, submitted the Equity Policy Proposal to be voted on by our stockholders at the Annual Meeting. The Equity Policy Proposal would have required us to adopt and disclose an "equity policy" designating the intended use of equity in management compensation programs and required that a portion of our stock option grants be performance-based.

Our stockholders rejected this proposal with approximately 63% of the voted shares cast "Against" the Equity Policy Proposal. Specifically, the voting was as follows: 170,202,345 votes "Against," 100,747,028 votes "For" and 5,604,116 votes "Abstained." There were 140,674,407 "Broker Non-Votes."

Proposal 5—Stock Option Expensing Proposal

The AFSCME Employees Pension Plan ("AFSCME"), beneficial owner of 5,094 shares, or 0.001%, of our Common Stock, submitted the Stock Option Expensing Proposal to be voted on by our stockholders at the Annual Meeting. The Stock Option Expensing Proposal would have required us to adopt a policy that the cost of employee and director stock options be recognized in our income statement.

Our stockholders rejected this proposal with approximately 67% of the votes cast "Against" the Stock Option Expensing Proposal. Specifically, the voting was as follows: 180,518,782 votes "Against," 87,733,395 votes "For" and 8,301,312 votes "Abstained." There were 140,674,407 "Broker Non-Votes."

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation of Siebel Systems, Inc., as amended to date. (1)
3.2	Amended and Restated Bylaws of Siebel Systems, Inc. (2)
4.1	Reference is made to Exhibit 3.1 and Exhibit 3.2.
4.2	Specimen Stock Certificate. (3)
4.4	Certificate of Designation of Series A1 Preferred Stock of Siebel Systems, Inc. (4)
4.5	Indenture between Siebel Systems, Inc., as Issuer, and Chase Manhattan Bank and Trust Company, National Association, as Trustee, dated September 15, 1999. (5)
4.6	Certificate of Designation of Series A2 Junior Participating Preferred Stock. (6)
4.7	Rights Agreement dated as of January 29, 2003, between Siebel Systems, Inc. and Mellon Investors Services LLC, as Rights Agent. (6)
4.8	Form of Rights Certificate. (6)
10.17.1	First Amendment to Lease dated April 29, 2003 between Bay Meadows Park Place Investors, LLC, as landlord, and Siebel Systems, Inc., as tenant. (7)
10.20	Registrant's 2003 Employee Stock Purchase Plan. (8)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (7)
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (7)
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (7)

(1) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
(2) Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2002.
(3) Incorporated by reference to the Company’s Registration Statement on Form S-1 (No. 333-03751), as amended.
(4) Incorporated by reference to the Company’s Current Report on Form 8-K filed on November 27, 2000.
(5) Incorporated by reference to the Company’s Registration Statement on Form S-3 (No. 333-91777) filed on November 30, 1999.
(6) Incorporated by reference to the Company’s Current Report on Form 8-K filed on January 29, 2003.
(7) Filed herewith.
(8) Incorporated by reference to the Company’s Registration Statement on Form S-8 (No. 333-106671) filed on June 30, 2003.

(b) Reports on Form 8-K.

On April 4, 2003, the Company filed a current report on Form 8-K reporting under Item 12 announcing preliminary results for the quarter ended March 31, 2003.

On April 23, 2003, the Company filed a current report on Form 8-K reporting under Item 12 announcing final results for the quarter ended March 31, 2003.

Availability of this Report

The Company intends to make this Quarterly Report on Form 10-Q publicly available on its Web site (www.siebel.com) without charge immediately following its filing with the Securities and Exchange Commission. The Company assumes no obligation to update or revise any forward-looking statements in this Quarterly Report on Form 10-Q, whether as a result of new information, future events or otherwise, unless it is required to do so by law.

SIGNATURES

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

SIEBEL SYSTEMS, INC.

Date: August 11, 2003

By: /s/ Kenneth A. Goldman
Kenneth A. Goldman
Senior Vice President, Finance and Administration and Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION

I, Thomas M. Siebel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Siebel Systems, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2003

/s/ Thomas M. Siebel
Thomas M. Siebel
Chairman and CEO

Exhibit 31.2

CERTIFICATION

I, Kenneth A. Goldman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Siebel Systems, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2003

/s/ Kenneth A. Goldman
Kenneth A. Goldman
Senior Vice President, Finance and
Administration and Chief
Financial Officer