I2 TECHNOLOGIES INC
Form 10-Q
April 29, 2002
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2002

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 0-28030

i2 Technologies, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**75-2294945** (I.R.S. Employer Identification No.)
One i2 Place **11701 Luna Road** **Dallas, Texas** (Address of principal executive offices)	**75234** (Zip code)

(469) 357-1000
(Registrant s telephone number, including area code)

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

As of April 23, 2002 the Registrant had 426,160,108 shares of $0.00025 par value Common Stock outstanding.

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i2 TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q
MARCH 31, 2002

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

i2 TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2002 and December 31, 2001
(In thousands, except par value)

	March 31, 2002	December 31, 2001
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 473,443	$ 538,218
Short-term investments, at fair value	143,597	187,977
Accounts receivable, net of allowance for doubtful accounts of $37,286 and $50,286	103,361	140,246
Deferred income taxes, prepaids and other current assets	91,232	95,373
Total current assets	811,633	961,814
Premises and equipment, net	109,921	129,475
Long-term investments, at fair value	76,072	28,209
Deferred income taxes and other assets	606,647	564,768
Identified intangible assets and goodwill, net	95,453	106,771
Total assets	$ 1,699,726	$ 1,791,037
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 43,511	$ 43,681
Accrued liabilities	193,880	230,037
Accrued compensation and related expenses	57,044	62,176
Deferred revenue	140,268	151,624
Total current liabilities	434,703	487,518
Other long-term liabilities	459	345
Long-term debt	410,930	410,930
Total liabilities	846,092	898,793
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000 shares authorized, none issued		
Series A junior participating preferred stock, $0.001 par value, 2,000 shares authorized, none issued		
Common stock, $0.00025 par value, 2,000,000 shares authorized, 425,746 and 424,253 shares issued and outstanding	106	106
Additional paid-in capital	10,360,048	10,353,602
Accumulated other comprehensive income (loss)	(6,540)	3,757
Accumulated deficit	(9,499,980)	(9,465,221)
Total stockholders equity	853,634	892,244
Total liabilities and stockholders equity	$ 1,699,726	$ 1,791,037

See accompanying notes to condensed consolidated financial statements.

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i2 TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED
For the Three Months Ended March 31, 2002 and 2001
(In thousands, except per share data)

	Three Months Ended March 31,	
	2002	**2001**
Revenues:		
Software licenses	$ 58,615	$ 211,132
Services	60,853	100,887
Maintenance	48,946	52,203
Total revenues	168,414	364,222
Costs and expenses:		
Cost of revenues:		
Cost of software licenses	16,257	21,811
Amortization of acquired technology	7,722	12,258
Cost of services and maintenance	59,978	90,749
Sales and marketing	62,897	140,629
Research and development	56,005	75,236
General and administrative	20,343	29,699
Amortization of intangibles	3,232	756,700
Write-off of acquired in-process research and development		4,700
Adjustment to prior restructuring charges	(257)	
Total costs and expenses	226,177	1,131,782
Operating loss	(57,763)	(767,560)
Other income (expense), net	3,452	(13,537)
Loss before income taxes	(54,311)	(781,097)
Income tax benefit	(19,552)	(6,946)
Net loss	$ (34,759)	$ (774,151)
Loss per common share:		
Basic	$ (0.08)	$ (1.90)
Diluted	$ (0.08)	$ (1.90)
Weighted-average common shares outstanding:		
Basic	424,916	408,074
Diluted	424,916	408,074
Comprehensive loss:		
Net loss	$ (34,759)	$ (774,151)
Other comprehensive loss:		
Unrealized loss on available-for-sale securities arising during the period	(9,451)	(24,312)
Reclassification adjustment for net realized (gains) losses on available-for-sale securities included in net loss	(5,532)	18,229
Net unrealized loss	(14,983)	(6,083)
Foreign currency translation adjustments	(708)	(4,350))
Tax effect of other comprehensive loss	5,394	2,099

Total other comprehensive loss	(10,297)	(8,334)
Total comprehensive loss	$ (45,056)	$ (782,485)

See accompanying notes to condensed consolidated financial statements.

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i2 TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED
For the Three Months Ended March 31, 2002 and 2001
(In thousands, except per share data)

	Three Months Ended March 31,	
	2002	2001
Cash flows from operating activities:		
Net loss	$ (34,759)	$ (774,151)
Adjustments to reconcile net loss to net cash from operating activities:		
Write-off of in-process research and development		4,700
Depreciation and amortization	21,228	780,386
Provision for bad debts charged to costs and expenses	3,181	12,465
Amortization of deferred compensation	115	645
(Gain) loss on corporate equity security investments	(5,532)	18,229
Deferred income taxes and disqualifying dispositions	(27,130)	(45,960)
Tax benefit from stock option exercises	1,047	31,750
Changes in operating assets and liabilities:		
Accounts receivable, net	33,704	(16,746)
Prepaids and other assets	(2,592)	(1,257)
Accounts payable	(217)	(132)
Accrued liabilities	(30,285)	17,512
Accrued compensation and related expenses	(5,132)	6,575
Deferred revenue	(11,356)	2,982
Income taxes payable	(6,678)	1,683
Net cash from operating activities	(64,406)	38,681
Cash flows from investing activities:		
Net cash paid in acquisitions		(4,772)
Direct costs of purchase transactions	(344)	(695)
Short-term loan to RightWorks prior to acquisition		(3,300)
Purchases of premises and equipment	(5,232)	(24,316)
Proceeds from sale of real estate	12,474	
Net change in short-term investments	42,703	(10,402)
Purchases of corporate equity security investments	(500)	(5,000)
Proceeds from sales of corporate equity security investments	7,286	
Proceeds from settlements of corporate equity security hedges	3,134	
Purchases of long-term debt securities	(65,086)	(30,131)
Net cash from investing activities	(5,565)	(78,616)
Cash flows from financing activities:		
Payment of note acquired in acquisition of TSC		(24,698)
Net proceeds from option exercises and stock issued under employee stock purchase plans	5,284	32,217
Net cash from financing activities	5,284	7,519
Effect of exchange rates on cash	(88)	(539)
Net change in cash and cash equivalents	(64,775)	(32,955)
Cash and cash equivalents at beginning of period	538,218	739,241

Cash and cash equivalents at end of period	$ 473,443	$ 706,286

See accompanying notes to condensed consolidated financial statements.

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i2 TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
(Table dollars in thousands, except per share data)

1. Summary of Significant Accounting Policies

Basis of Presentation. The accompanying condensed consolidated financial statements have been prepared without audit and reflect all adjustments that, in the opinion of management, are necessary to present fairly our financial position as of March 31, 2002, and our results of operations and cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission (SEC) and, therefore, do not purport to contain all necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary in the circumstances, and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2001, included in our annual report on Form 10-K filed with the SEC on April 1, 2002 (the 2001 Form 10-K). Refer to our accounting policies described in the notes to financial statements contained in the 2001 Form 10-K which we consistently followed in preparing this Form 10-Q. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results for the year ending December 31, 2002 or any future period.

Nature of Operations. We are a leading provider of enterprise software applications and solutions for dynamic value chain management. A value chain is an extended supply chain that encompasses the demand chain and other activities that add value. Dynamic value chain management is a business approach to manage variability and increase efficiency in the value chain by reducing complexity, increasing visibility and increasing transaction velocity. Our product suites may be used by enterprises to align their value chains to better serve their customers and to help optimize business processes both internally and across the value chain. Our solutions are designed to help enterprises improve operating efficiencies, collaborate with suppliers and customers, respond to market demands and engage in business interactions over the Internet. Our product suites include software solutions for supply chain management, supplier relationship management and customer relationship management. We provide content and content management solutions as well as integration services to enable our products to work with other applications. We also provide services such as consulting, training and maintenance in support of these offerings.

Principles of Consolidation. The condensed consolidated financial statements include the accounts of i2 Technologies, Inc. and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The allowance for doubtful accounts, the reserve for estimated costs to service warranty claims, fair values of financial instruments and status of contingencies are particularly subject to change.

Goodwill. On January 1, 2002, in accordance with a new accounting standard, we stopped amortizing goodwill and adopted a new policy for measuring goodwill for impairment. No impairment of goodwill was recognized in connection with the adoption of this new policy. We currently operate as a single reporting unit and all of our goodwill is associated with the entire company. Under our new policy, goodwill is tested for impairment at least annually, or on an interim basis if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of the reporting unit below its carrying value. Goodwill is tested for impairment using a two-step approach. The first step is to compare the fair value of the reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any. The second step of the impairment test is to compare the implied fair value of goodwill to its carrying

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amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The implied fair value of goodwill is calculated in the same manner that goodwill is calculated in a business combination, whereby the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price. The excess purchase price over the amounts assigned to assets and liabilities would be the implied fair value of goodwill.

Intangible Assets and Other Long-Lived Assets. Acquired technology and other intangible assets with definite useful lives are amortized on a straight-line basis over periods of two to five years. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. Other long-lived assets include software, information databases and installed customer base/relationships acquired from third parties or in business combinations.

Reimbursements Received for Out-of-Pocket Expenses Incurred. On January 1, 2002, in accordance with a new accounting standard, we began classifying as revenue in our income statement reimbursements for out-of-pocket expenses such as airfare, mileage, hotel stays, out-of-town meals, photocopies, and telecommunications charges incurred in connection with providing services to our customers. Prior to our adoption of this accounting standard, we classified reimbursements received from customers as reductions of expenses incurred. Accordingly, the comparative financial statements for prior periods were reclassified to comply with the new accounting guidance.

Reclassifications. Some items in prior year financial statements have been reclassified to conform to the current year presentation.

2. Investment Securities

Short-term time deposits and other liquid investments in debt securities with remaining maturities of less than three months when acquired by us are classified as available for sale and reported as cash and cash equivalents in the Consolidated Balance Sheets. The estimated fair value of these investments approximates their carrying value. Investment securities reported as cash and cash equivalents were as follows:

	March 31, 2002	December 31, 2001
Short-term time deposits	$ 16,782	$ 56,512
Obligations of state and local municipalities	158,100	178,850
Corporate bonds and notes and commercial paper	168,218	118,475
	$ 343,100	$ 353,837

Investments in debt securities with remaining maturities in excess of three months but less than one year when acquired by us are classified as available for sale and reported as short-term investments in the Consolidated Balance Sheets. Short-term investments were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
March 31, 2002				
Obligations of state and local municipalities	$ 14,398	$ 2	$	$ 14,400
U.S. government agencies	5,000			5,000
Corporate bonds and notes	123,984	259	(46)	124,197
	$ 143,382	$ 261	$ (46)	$ 143,597
December 31, 2001				
Obligations of state and local municipalities	$ 9,395	$ 5	$	$ 9,400
Corporate bonds and notes	176,690	1,887		178,577
	$ 186,085	$ 1,892	$	$ 187,977

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Investments in debt securities with remaining maturities in excess of one year when acquired by us and corporate equity securities are classified as available for sale and reported as long-term investments in the Consolidated Balance Sheets. All long-term debt securities outstanding at March 31, 2002 will contractually mature within 2 years. Long-term investments were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
March 31, 2002				
U.S. government agencies	$ 35,000	$	$ (212)	$ 34,788
Corporate bonds and notes	35,034		(653)	34,381
Corporate equity securities	6,450	600	(147)	6,903
	$ 76,484	$ 600	$ (1,012)	$ 76,072
December 31, 2001				
Corporate bonds and notes	$ 4,976	$ 69	$	$ 5,045
Corporate equity securities	10,338	12,826		23,164
	$ 15,314	$ 12,895	$	$ 28,209

As of March 31, 2002 and December 31, 2001, corporate equity securities included common stock of public companies as well as warrants to purchase common stock of public companies. As of March 31, 2002, $14.9 million in debt securities were pledged as collateral for outstanding letters of credit.

3. Intangible Assets and Goodwill

Goodwill totaled $24.0 million at March 31, 2002 and December 31, 2001. Intangible assets as of March 31, 2002 and December 31, 2001 were as follows:

	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
March 31, 2002			
Content databases	$ 110,500	$ (97,072)	$ 13,428
Installed customer base	42,000	(39,428)	2,572
Developed technology	143,638	(105,101)	38,537
Relationships	12,500	(2,546)	9,954
Other intangible assets	6,961		6,961
	$ 315,599	$ (244,147)	$ 71,452
December 31, 2001			
Content databases	$ 110,500	$ (95,061)	$ 15,439
Installed customer base	42,000	(38,876)	3,124
Developed technology	143,638	(97,380)	46,258
Relationships	12,500	(1,924)	10,576
Other intangible assets	7,374		7,374
	$ 316,012	$ (233,241)	$ 82,771

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Amortization expense related to intangible assets totaled $11.0 million and $36.0 million during the three months ended March 31, 2002 and 2001. The estimated aggregate future amortization expense for intangible assets remaining as of March 31, 2002 is as follows:

Remainder of 2002	$	25,314
2003		26,224
2004		13,888
2005		3,942
2006		2,084
Total	$	71,452

In accordance with a new accounting standard adopted on January 1, 2002, we stopped amortizing goodwill. The following pro forma information for the three months ended March 31, 2001 presents net loss and loss per common share adjusted to exclude goodwill amortization expense of $733.0 million recognized during the period.

Net loss:		
As reported	$	(774,151)
Pro forma		(41,172)
Loss per common share Basic:		
As reported	$	(1.90)
Pro forma		(0.10)
Loss per common share Diluted:		
As reported	$	(1.90)
Pro forma		(0.10)

4. Commitments and Contingencies

Certain employees of a company we acquired in 1998 are currently disputing the cancellation of unvested stock options received at the time of the acquisition. Vesting of the options was dependent upon continued employment and the employees were terminated in 2000. We maintain the former employees were not entitled to unvested stock options.

A former executive officer has made certain claims against us related to his termination and his ability to exercise and sell certain stock options. Our position is that the former executive officer was terminated for cause and we dispute his other claims and therefore we intend to vigorously defend against this lawsuit.

Since March 2001, a number of purported class action complaints have been filed in the United States District Court for the Northern District of Texas (Dallas Division) against us and certain of our officers and directors. The cases have been consolidated, and in August 2001, plaintiffs filed a consolidated amended complaint. The consolidated amended complaint alleges that we and certain of our officers violated the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, by making purportedly false and misleading statements concerning the characteristics and implementation of certain of our software products. The consolidated amended complaint seeks unspecified damages on behalf of a purported class of purchasers of our common stock during the period between May 4, 2000 and February 26, 2001. We filed a motion to dismiss the consolidated amended complaint in September 2001. Although the motion was subsequently denied, we continue to vigorously defend against this lawsuit.

In April 2001, a purported shareholder derivative lawsuit was filed in Dallas County, Texas, against certain of our officers and directors, naming i2 as a nominal defendant. The suit claims that certain of our officers and directors breached their fiduciary duties to us and our stockholders by: (i) selling shares of our common stock while in possession of material adverse non-public information regarding our business and prospects, and (ii) disseminating inaccurate information regarding our business and prospects to the market and/or failing to correct such inaccurate information. As stated, the complaint is derivative in nature and does not seek relief from i2 itself. However, we have entered into indemnification agreements in the ordinary course of business with certain of the defendant officers and directors and may be obligated throughout the pendency of this action to advance payment of legal fees and costs incurred by the defendants pursuant to our obligations under the indemnification agreements and/or applicable Delaware law. This suit has since been removed to the United States District Court for the Northern District of Texas (Dallas Division). We intend to vigorously defend against this lawsuit and filed a motion to dismiss the action on February 19, 2002.

We are subject to various other claims and legal actions, including claims and legal actions from former employees and certain customers. We have accrued for estimated losses in the accompanying financial statements for those matters where we believe the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable. Although we currently believe the outcome of the outstanding legal proceedings, claims and litigation involving us will not have a material adverse effect on our business, financial condition or results of operation, the outcome is inherently uncertain, and it is possible that some of these matters may be resolved adversely to us. The adverse resolution of any one or more of these matters could have a material adverse effect on our business, financial condition or results of operations.

5. Stockholders Equity and Earnings Per Common Share

Stock Rights Plan. On January 17, 2002, our Board of Directors approved adoption of a stockholder rights plan and declared a dividend of one preferred share purchase right for each outstanding share of common stock. Stockholders of record on January 28, 2002 received, for each share of common stock then owned, one right to purchase a unit of one one-thousandth of a share of Series A junior participating preferred stock at a price of $75.00 per unit, subject to adjustment. The rights, which expire on January 17, 2012, will only become exercisable upon distribution. Distribution of the rights will not occur until ten days after the earlier of (i) the public announcement that a person or group has acquired beneficial ownership of 15.0% or more of our outstanding common stock or (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer that would result in a person or group acquiring the beneficial ownership of 15.0% or more of our outstanding common stock.

Shares of Series A preferred stock purchasable upon exercise of the rights are not redeemable. Each share of Series A preferred stock will be entitled to a dividend of 1,000 times the dividend declared per share of common stock. In the event of liquidation, each share of Series A preferred stock will be entitled to a payment of the greater of (i) 1,000 times the payment made per share of common stock or (ii) $1,000. Each share of Series A preferred stock will have 1,000 votes, voting together with the common stock. Finally, in the event of any merger, consolidation or other transaction in which shares of common stock are exchanged, each share of Series A preferred stock will be entitled to receive 1,000 times the amount received per share of common stock. These rights are protected by customary anti-dilution provisions. Because of the nature of the dividend, liquidation and voting rights, the value of each unit of Series A preferred stock purchasable upon exercise of each right should approximate the value of one share of common stock.

If, after the rights become exercisable, we are acquired in a merger or other business combination transaction, or 50% or more of our consolidated assets or earning power are sold, proper provision will be made so that each holder of a right will thereafter have the right to receive upon exercise that number of shares of common stock of the acquiring company having market value of two times the exercise price of the right.

If any person or group becomes the beneficial owner of 15.0% or more of the outstanding shares of common stock, proper provision will be made so that each holder of a right, other than rights beneficially owned by the acquiring person (which will thereafter be void), will have the right to receive upon exercise that number of shares of common stock or units of Series A preferred stock (or cash, other securities or property) having a market value of two times the exercise price of the right.

We may redeem the rights in whole, but not in part, at a price of $0.01 per right at the sole discretion of our Board of Directors at any time prior to distribution of the rights. The terms of the rights may be amended by our Board of Directors without the consent of the holders of the rights except that after the distribution of the rights, no amendment may adversely affect the interests of the holders of the rights. Until a right is exercised, the holder of a right will have no rights by virtue of ownership as a stockholder of the company, including, without limitation, the right to vote or to receive dividends.

The rights have significant anti-takeover effects by causing substantial dilution to a person or group that attempts to acquire us on terms not approved by our Board of Directors. The rights should not interfere with any merger or other business combination approved by the Board of Directors since the rights may be redeemed by us at the redemption price prior to the occurrence of a distribution date.

Earnings Per Common Share. Basic and diluted earnings per common share are computed in accordance with SFAS No. 128, Earnings Per Share, which requires dual presentation of basic and diluted earnings per common share for entities with complex capital structures. Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of stock options, restricted stock and warrants granted using the treasury stock method, the effect of contingently issuable shares earned during the period and shares issuable under the conversion feature of our convertible notes using the if-converted method.

As a result of the net losses incurred during the three months ended March 31, 2002 and 2001, the effect of dilutive securities would have been anti-dilutive to the diluted earnings per common share computation and were thus excluded. Dilutive securities that would have otherwise been included in the determination of the weighted-average number of common shares outstanding for the purposes of computing diluted earnings per common share during the three months ended March 31, 2002 included 25.8 million shares issuable in connection with outstanding stock option, warrant and restricted stock awards and 12.0 million shares related to convertible debt. Dilutive securities that would have otherwise been included in the determination of the weighted-average number of common shares outstanding for the purposes of computing diluted earnings per common share during the three months ended March 31, 2001 included 43.4 million shares issuable in connection with outstanding stock options and warrants.

6. Segment Information, International Operations and Customer Concentrations

We operate our business in one segment, value chain solutions designed to help enterprises optimize business processes both internally and among trading partners. SFAS 131, Disclosures About Segments of an Enterprise and Related Information, establishes standards for the reporting of information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

We market our software and services primarily through our worldwide sales organization augmented by other service providers, including both domestic and international systems consulting and integration firms and other industry-related partners. Our chief operating decision maker evaluates resource allocation decisions and our performance based on financial information, presented on a consolidated basis, accompanied by disaggregated information by geographic regions. Sales to our customers generally include products from some or all of our product suites. We do not allocate revenues from such sales to individual product lines for internal or general-purpose financial statements.

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Revenues are attributable to regions based on the locations of the customers operations. Total revenues by geographic region, as reported to our chief operating decision maker, were as follows:

	Three Months Ended March 31,	
	2002	2001
Americas	$ 111,067	$ 235,489
EMEA	30,537	87,772
Japan	17,782	29,251
APAC	9,028	11,710
	$ 168,414	$ 364,222

Revenues from international operations totaled $63.6 million and $135.7 million during the three months ended March 31, 2002 and 2001. No individual customer accounted for more than 10% of total revenues during the three months ended March 31, 2002. One customer accounted for $42.2 million, or 11.6%, of total revenues during the three months ended March 31, 2001.

7. Strategic Restructuring

Overview. During the second quarter of 2001, we initiated a global restructuring plan to reduce our operating expenses and strengthen both our competitive and financial positions. Overall expense reductions were necessary both to lower our existing cost structure and to reallocate resources to pursue our future operating strategies. The restructuring plan was initiated in response to poor economic conditions during 2001, which led to declining gross margins and other performance measures such as revenue per employee. The restructuring plan encompassed terminating approximately 1,840 employees and reducing office space and related overhead expenses. Charges related to the restructuring plan primarily consisted of severance and termination costs for the involuntarily terminated employees and office closure costs. The majority of the restructuring activity occurred during 2001 and we expect the remaining actions, including closing and consolidating identified offices, will be completed within a one-year time frame.

The following table summarizes the activity in the restructuring accrual accounts:

	Employee Severance and Termination	Office Closure and Consolidation	Non-cash Asset Disposal Losses	Total
Remaining accrual balance at December 31, 2001	$ 24,866	$ 38,551	$	$ 63,417
Adjustments to accrual	(257)	(2,084)	2,084	(257)
Cash payments and non-cash charges	(7,363)	(6,799)	(2,084)	(16,246)
Remaining accrual balance at March 31, 2002	$ 17,246	$ 29,668	$	$ 46,914

Employee Severance and Termination Costs. The accrual for employee severance and termination costs includes termination salaries, benefits, stock compensation, outplacement, employee relocation costs and other related costs to the employees involuntarily terminated worldwide. The total workforce reduction was accomplished through a combination of involuntary terminations and reorganizing operations to eliminate open positions resulting from normal employee attrition. Only costs for involuntarily terminated employees are included in the restructuring accrual.

Office Closure and Consolidation Costs. The office closure and consolidation accrual includes the estimated costs to close specifically identified facilities, costs associated with obtaining subleases, lease termination costs, and other related costs, all of which are in accordance with the restructuring plan. We closed or

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consolidated several offices worldwide, including offices in North America and Europe. As of March 31, 2002, the majority of office closings and consolidations were completed, with the remaining moves scheduled for completion by the end of 2002.

The accrual for office closure and consolidation is an estimate that assumes certain facilities will be subleased or the underlying leases will otherwise be favorably terminated prior to the contracted lease expiration date. While the current accrual represents our best estimate of our expected costs to exit these obligations, addition accruals may be required if we are not successful in our efforts to sublet these facilities or favorably terminate these leases.

Asset Disposal Losses. Asset disposal losses are write-offs of certain assets, consisting primarily of leasehold improvements, computer equipment, and furniture and fixtures that were deemed unnecessary. These assets were taken out of service and disposed in connection with the office closures and consolidations.

8. Foreign Currency Risk Management

Since we conduct business on a global basis in various foreign currencies, we are exposed to adverse movements in foreign currency exchange rates. We maintain a foreign currency hedging program utilizing foreign currency forward contracts to hedge selected nonfunctional currency exposures. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts.

We generally enter into forward contracts to purchase or sell various foreign currencies as of the last day of each month. These forward contracts generally have original maturities of one month and are net-settled in U.S. Dollars. Each forward contract is based on the current market forward exchange rate as of the contract date and no premiums are paid or received. Accordingly, these forward contracts have no fair value as of the contract date. Changes in the applicable foreign currency exchange rates subsequent to the contract date cause the fair value of the forward contracts to change. These changes in the fair value of forward contracts are recorded through earnings and the corresponding assets or liabilities are recorded on our balance sheet. Gains and losses on the forward contracts are included in other income (expense), net in the Consolidated Statements of Operations and offset foreign exchange gains and losses from the revaluation of intercompany balances or other current monetary assets and liabilities denominated in currencies other than the functional currency of the reporting entity. During the three months ended March 31, 2002, we recognized net losses of $680,000 on foreign currency forward contracts and net gains of $286,000 on foreign currency transactions. During the three months ended March 31, 2001, we realized net gains of $2.6 million on foreign currency forward contracts and net losses of $4.7 million on foreign currency transactions.

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Details of our foreign currency forward contracts as of March 31, 2002 are presented in the following table (in thousands). All of these contracts were originated, without premiums, on March 31, 2002 based on market forward exchange rates. Accordingly, these forward contracts had no fair value on March 31, 2002 and no amounts related to these forward contracts were recorded in our financial statements.

		Notional Amount of Forward Contract in Foreign Currency	Notional Amount of Forward Contract in U.S. Dollars
Forward contracts to purchase:			
British Pounds	GBP	6,747	$ 9,649
Danish Kroners	DKK	5,022	586
Singapore Dollars	SGD	1,418	766
Swiss Francs	CHF	14,934	8,844
Taiwan Dollar	TWD	12,047	348
Forward contracts to sell:			
Australian Dollars	AUD	10,759	5,670
Brazilian Reals	BRL	4,527	1,888
Canadian Dollars	CAD	513	324
European Euros	EUR	21,130	18,554
Hong Kong Dollars	HKD	2,361	302
Indian Rupees	INR	145,453	2,944
Japanese Yen	JPY	1,406,630	10,556

Our foreign currency forward contracts contain credit risk to the extent that the bank counterparties may be unable to meet the terms of agreements. We reduce such risk by limiting our counterparties to major financial institutions. Additionally, the potential risk of loss with any one party resulting from this type of credit risk is monitored.

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

Forward-Looking Statements

This report contains 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. All statements other than historical or current facts, including, without limitation, statements about our business, financial condition, business strategy, plans and objectives of management and our future prospects, are forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from these expectations. Such risks and uncertainties include, without limitation, the following:

We are currently experiencing substantial operating losses and we may not achieve profitability, which could cause our stock price to decline.

Our financial results may vary significantly from quarter to quarter or we could fail to meet expectations, which would negatively impact the price of our stock.

Continued stagnation in information technology spending, especially in the high-tech sector, and general economic conditions could further negatively impact our revenues.

Failure to achieve the desired results of our restructuring and other strategic initiatives, including changes within our sales force and executive management team and newly implemented demand generation programs, could have a significant adverse affect on our business.

We anticipate seasonal fluctuations in revenues, which may cause volatility in our stock price.

Historically, a small number of individual license sales have been significant in each quarterly period. Therefore, our operating results for a given period could suffer serious harm if we fail to close one or more large sales expected for that period.

We may not remain competitive and increased competition could seriously harm our business.

Other risks indicated below under the section captioned Factors that May Affect Future Results and in our other filings with the SEC.

These risks and uncertainties are beyond our control and, in many cases, we cannot predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward-looking statements. When used in this document, the words believes, plans, expects, anticipates, intends, continue, may, will, should or the negative of such terms and similar expressions as they relate to us, our or our management are intended to identify forward-looking statements.

References in this report to the terms optimal and optimized and words to that effect are not necessarily intended to connote the mathematically optimal solution, but may connote near-optimal solutions, which reflect practical considerations such as customer requirements as to response time, precision of the results and other commercial factors.

Overview

We are a leading provider of enterprise software applications and solutions for dynamic value chain management. A value chain is an extended supply chain that encompasses the demand chain and other activities that add value. Dynamic value chain management is a business approach to manage variability and increase efficiency in the value chain by reducing complexity, increasing visibility and increasing transaction velocity. Our product suites may be used by enterprises to align their value chains to better serve their customers and to help optimize business processes both internally and across the value chain. Our solutions are designed to help enterprises improve operating efficiencies, collaborate with suppliers and customers, respond to market demands and engage in business interactions over the Internet. Our product suites include software solutions for supply chain management, supplier relationship management and customer relationship management. We provide content and content management solutions as well as integration services to enable our products to work with other applications. We also provide services such as consulting, training and maintenance in support of these offerings.

Results of Operations

The following table sets forth the percentages of total revenues represented by selected items reflected in our Consolidated Statements of Operations. The year-to-year comparisons of financial results are not necessarily indicative of future results.

	Three Months Ended March 31,	
	2002	2001
Revenues:		
Software licenses	34.8%	58.0%
Services	36.1	27.7
Maintenance	29.1	14.3
Total revenues	100.0	100.0
Costs and expenses:		
Cost of revenues:		
Cost of software licenses	9.7	6.0
Amortization of acquired technology	4.6	3.4
Cost of services and maintenance	35.6	24.9
Sales and marketing	37.3	38.6
Research and development	33.3	20.6
General and administrative	12.1	8.1
Amortization of intangibles	1.9	207.8
In-process research and development and acquisition-related expenses		1.3
Adjustment to prior restructuring charges	(0.2)	
Total costs and expenses	134.3	310.7
Operating loss	(34.3)	(210.7)
Other income (expense), net	2.0	(3.7)
Loss before income taxes	(32.3)	(214.4)
Income tax benefit	(11.6)	(1.9)
Net loss	(20.7)%	(212.5)%

Revenues

Revenues consist of software license revenues, service revenues and maintenance revenues, and are recognized in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as modified by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions, and SEC Staff Accounting Bulletin (SAB) 101, Revenue Recognition.

Software license revenues are recognized upon shipment, provided fees are fixed and determinable and collection is probable. Revenue for agreements that include one or more elements to be delivered at a future date is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred, and the remaining portion of the agreement fee is recognized as license revenue. If fair values have not been established for certain undelivered elements, revenue is deferred until those elements have been delivered, or their fair values have been determined. Agreements that include a right to unspecified future products are recognized ratably over the term of the agreement. License fees from reseller agreements are generally based on the sublicenses granted by the reseller and recognized when the license is sold to the end customer. Licenses to our content databases are recognized over the terms of the agreements. License revenues from custom development projects are generally recognized in proportion to the percentage completion of the project. Fees from licenses sold together with services are generally recognized upon shipment, provided fees are fixed and determinable, collection is probable, payment of the license fee is not dependent upon the performance of any related consulting services by us and any such consulting services are not essential to the functionality of the licensed software.

Service revenues are primarily derived from fees for implementation, consulting and training services and are generally recognized under service agreements in connection with initial license sales and as the services are performed.

Maintenance revenues are derived from technical support and software updates provided to customers. Maintenance revenue is recognized ratably over the term of the maintenance agreement.

Payments received in advance of revenue recognized are classified as deferred revenue.

Total revenues decreased $195.8 million, or 53.8%, during the three months ended March 31, 2002 compared to the same period in 2001. We derived substantially all of our revenues from licenses associated with our software products and content databases and related services and maintenance. Details of our revenues are presented below.

Software Licenses. Software license revenues totaled $58.6 million, or 34.8% of total revenues, for the three months ended March 31, 2002 decreasing $152.5 million, or 72.2%, from $211.1 million, or 58.0% of total revenues, for the same period in 2001.

The decrease in software license revenues during the three months ended March 31, 2002 was the result of a decline in sales arising from a weaker macroeconomic environment, sales execution issues and increased competition, among other factors. Poor economic conditions, among other factors, have caused a significant decrease in technology and capital spending and extended the decision cycles of many potential customers. We have been particularly affected because we have historically derived a large percentage of our revenue from the high-tech industry, which appears to have been more significantly adversely impacted by the poor economic conditions. In response to the declining demand, we have initiated various demand generation programs to compensate for the changing composition of our customer base. The composition of our customer base has changed due to the sharp decline in capital spending for enterprise application software within our product segments in the high-tech sector. Despite our efforts to generate demand and develop growth in other industry sectors, there can be no assurance that we will effectively develop future revenue growth. In the near-tem, we expect continued challenges in generating license sales, in part due to changes within our sales management and other factors.

During the three months ended March 31, 2002, we recognized 79 software license transactions, 9 of which were in excess of $1.0 million. During the same period in 2001, we recognized 102 software license transactions, 29 of which were in excess of $1.0 million. The average size of individual license transactions was $558,000 and $1.9 million during those same periods. The decline in the average sales price over the comparable periods was partly the result of decreases in technology spending by many potential customers and increased competition.

Our direct sales channel is responsible for most of our license revenue. Although we believe direct sales will continue to account for most of our software license revenues for the foreseeable future, our strategy is to continue to increase the level of indirect sales activities through, or in conjunction with, sales alliances, distributors, resellers and other indirect channels. There can be no assurance that our efforts to expand indirect sales of our software products will be successful or will continue in the future.

Services. Service revenues consist of fees generated by providing services to customers, including consulting, training and other services. Service revenues constituted 36.1% and 27.7% of total revenues during the three months ended March 31, 2002 and 2001. Service revenues as a percentage of total revenues have fluctuated, and are expected to continue to fluctuate on a quarter-to-quarter basis, as revenues from the implementation of software are not generally recognized in the same period as the related license revenues. In any period, total service revenues are dependent on a variety of factors, including:

License transactions closed during the current and preceding periods.

Customer decisions regarding implementations of licensed software, including utilization of internal resources or third-party systems integration firms.

The number of our internal service providers and consultants actively engaged on billable projects.

Service revenues decreased $40.0 million, or 39.7%, during the three months ended March 31, 2002 compared to the same period in 2001. The decrease in service revenues was primarily due to the lower volume of sales in the latter part of 2001 and early 2002, which resulted in decreased demand for consulting and implementation services. There can be no assurance that the demand for consulting and implementation services will improve, or even remain at current levels. Furthermore, we expect this trend of declining service revenues to continue until we experience a sustained increase in license sales.

Maintenance. Maintenance revenues constituted 29.1% and 14.3% of total revenues during the three months ended March 31, 2002 and 2001. Maintenance revenues decreased $3.3 million, or 6.2%, during the three months ended March 31, 2002 compared to the same period in 2001. We have experienced a decline in maintenance renewals in terms of both number and dollar amount because of cost cutting efforts and deferred implementations by customers and the fact that many marketplace and dot-com customers to whom we previously sold software are no longer operating or liquid. Accordingly, there can be no assurance that the number of maintenance renewals will improve, or even remain at current levels. We expect this trend of declining maintenance revenues to continue until we experience a sustained increase in license sales.

International Revenues. Our international revenues are primarily generated from customers located in Europe, Asia, Canada and Latin America. International revenues totaled $63.6 million, or 37.7% of total revenues, and $135.7 million, or 37.3% of total revenues, during the three months ended March 31, 2002 and 2001. We have expended and expect to continue to expend substantial resources to support our international operations.

Costs and Expenses

Cost of Software Licenses. Cost of software licenses consists of:

Commissions paid to third parties in connection with joint marketing and other related agreements. Such affiliate commissions are expensed when the associated revenue transactions are recognized.

Royalty fees associated with third-party software utilized with our technology. Such royalties are generally expensed when the products are shipped; however, royalties associated with fixed cost arrangements are generally expensed over the period of the arrangement.

Costs related to user documentation.

Costs related to reproduction and delivery of software.

Provisions to our reserve for estimated costs to service warranty claims. We generally warrant our products will function substantially in accordance with documentation provided to customers. We accrue for warranty claims on a case-by-case basis; however, due to the unique nature of each claim and lack of a settlement history, estimating the necessary accrual involves an element of uncertainty and future events may cause significant fluctuations.

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Cost of software licenses as a percentage of related revenue was 27.7% and 10.3% during the three months ended March 31, 2002 and 2001. Cost of software license decreased $5.6 million, or 25.5%, during the three months ended March 31, 2002 compared to the same period in 2001. The decrease in the dollar amount of the cost of software licenses was primarily due to the decline in software license sales, which resulted in decreases in commissions paid to affiliates for sales assistance and decreases in the amount of royalty fees associated with third-party software. The impact of these cost reductions was partly offset by increased provisions to our reserve for estimated costs to service warranty claims, which was also a factor in the increase in the cost of software licenses as a percentage of related revenue during the period. The increase in the cost of software licenses as a percentage of related revenue was also partly due to the fact that we have certain fixed royalty fees that are not dependent upon sales volume.

Amortization of Acquired Technology. In connection with our acquisitions in 2001 and 2000, we acquired developed technology that we offer as a part of our integrated solutions. In accordance with applicable accounting standards, the amortization of acquired technology is included as a part of our cost of revenues because it relates to software products that are marketed to others. Amortization of capitalized acquired technology totaled $7.7 million and $12.3 million during the three months ended March 31, 2002 and 2001. Despite the added impact of the amortization of technology acquired in our acquisitions of TSC and RightWorks in 2001, amortization of acquired technology decreased during the three months ended March 31, 2002 primarily as a result of a $26.2 million write-down of certain impaired developed technology intangible assets to their then current fair values in the third quarter of 2001.

Cost of Services and Maintenance. Cost of services and maintenance includes costs associated with the implementation of software solutions and consulting and training services. Cost of services and maintenance also includes the cost of providing software maintenance to customers such as telephone support and packaging and shipping costs related to new releases of software and updated user documentation. Cost of services and maintenance as a percentage of related revenues was 54.6% and 59.3% during the three months ended March 31, 2002 and 2001. The decrease in cost of services and maintenance as a percentage of related revenues primarily resulted from efficiencies developed in project management and other cost saving measures.

The total cost of services and maintenance decreased $30.8 million, or 33.9%, during the three months ended March 31, 2002 compared to the same period in 2001. The decrease was primarily due to decreases in the average number of consultants, product support staff and training staff.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of personnel costs, commissions, office facilities, travel, and promotional events such as trade shows, seminars, technical conferences, advertising and public relations programs. Sales and marketing expenses as a percentage of total revenues were 37.3% and 38.6% during the three months ended March 31, 2002 and 2001. Sales and marketing expenses decreased $77.7 million, or 55.3%, during the three months ended March 31, 2002 compared to the same period in 2001. The decrease was primarily due to, among other things, the following:

- Decreases in the average number of sales and marketing personnel and direct sales representatives over the comparable periods.
- Decreases in sales commissions and other costs normally associated with our sales process as a result of the decline in software license sales.
- Decreased expense related to marketing and promotional activities.
- Decreased bad debt expense primarily due to the collection of previously reserved receivables from marketplace customers.

Research and Development Expenses. Research and development expenses consist of continued software development and product enhancements to existing software. Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the

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product is available for general release to customers. To date, the establishment of technological feasibility of our products and general release of such software has substantially coincided. As a result, software development costs qualifying for capitalization have been insignificant; therefore, we have not capitalized any software development costs other than those recorded in connection with our acquisitions.

Research and development expenses decreased $19.2 million, or 25.6%, during the three months ended March 31, 2002 compared to the same period in 2001. Research and development expenses as a percentage of total revenues totaled 33.3% and 20.7% during the three months ended March 31, 2002 and 2001. The increase in research and development expenses as a percentage of revenues primarily resulted from a decline in revenues. The decrease in the dollar amount of research and development expenses was primarily due a decrease in the cost structure of our development organization. During the fourth quarter of 2001, we began an initiative to increase the proportion of our development workforce in India in order to take advantage of our previous experience and infrastructure in India and to achieve cost efficiencies associated with that country s lower wage scale. The program was designed to reduce our overall cost structure with respect to our research and development activities. We have already reduced the number of our research and development sites and we expect that approximately half of our future research and development personnel will be located in India.

General and Administrative Expenses. General and administrative expenses include the personnel and other costs of our finance, legal, accounting, human resources, information systems and executive departments. General and administrative expenses decreased $9.4 million, or 31.5%, during the three months ended March 31, 2002 compared to the same period in 2001. General and administrative expenses as a percentage of total revenues totaled 12.1% and 8.2% during the three months ended March 31, 2002 and 2001. The increase in general and administrative expenses as a percentage of total revenues primarily resulted from a decline in revenues. The decrease in the dollar amount of general and administrative expenses was primarily due to a decrease in the average number of personnel over the comparable periods.

Amortization of Intangibles. From time to time, we have sought to supplement the expanding depth and breadth of our product offerings through technology or business acquisitions. When an acquisition of a business is accounted for using the purchase method, the amount of the purchase price is allocated to the fair value of assets acquired, net of liabilities assumed. Any excess purchase price is allocated to goodwill. Identified intangible assets are amortized over their estimated useful lives while goodwill is only written down when it is deemed to be impaired. Details of our intangible assets and goodwill are presented in Note 3 Intangible Assets and Goodwill in the Notes to Condensed Consolidated Financial Statements included elsewhere in this report.

Amortization of intangibles (excluding the amortization of acquired technology) related to acquisitions totaled $3.2 million, or 1.9% of total revenues, during the three months ended March 31, 2002 compared to $756.7 million, or 207.8% of total revenues, during the three months ended March 31, 2001. In accordance with a new accounting standard adopted on January 1, 2002, the total for the three months ended March 31, 2002 does not include amortization of goodwill and is comprised solely of amortization of intangible assets. The total for the three months ended March 31, 2001 includes $23.7 million of amortization of intangible assets and $733.0 million of amortization of goodwill. Had amortization of goodwill been continued beyond January 1, 2002, we would have recognized an additional $1.5 million in amortization expense during the three months ended March 31, 2002. The decrease in amortization expense over the comparable periods resulted from the significant impairment write-downs of goodwill and certain intangible assets to their then current fair values in the third quarter of 2001. The write-downs included $216.8 million of certain intangible assets (excluding developed technology intangible assets discussed above under Amortization of Acquired Technology) and $4.5 billion of goodwill. Additionally, as a result of the impairments, the estimated useful lives of the goodwill recognized in connection with the acquisitions of Aspect and SupplyBase were revised and, as a result, the goodwill related to those acquisitions was fully amortized as of December 31, 2001.

Write-off of Acquired In-Process Research and Development. Technology or business acquisitions may include the purchase of technology that has not yet been determined to be technologically feasible and has no alternative future use in its then-current stage of development. In such instances, and in accordance with appropriate accounting guidelines, the portion of the purchase price allocated to in-process research and development is expensed immediately upon the consummation of the acquisition.

We wrote-off $4.7 million of acquired in-process research and development during the three months ended March 31, 2001. The amount is related to in-process research and development projects acquired in the acquisition of TSC. As of the acquisition date, TSC was conducting design, development, engineering and testing activities associated with the completion of its ec-Central and eTRA-SER development projects. These projects were intended to address issues surrounding web-based content management and web-enablement. A prototype design related to the eTRA-SER project was completed in December 2001, but additional design work is required prior to the product release scheduled for late 2002. Accordingly, we do not expect to begin to realize revenue from this project until such time. While we initially expected this project to be completed sooner, the delay is not expected to have a significant effect on future revenue and operating results, or the value of other acquired intangible assets. The ec-Central project was terminated because a substitute technology was identified.

Restructuring Charges

During the second quarter of 2001, we initiated a global restructuring plan to reduce our operating expenses and strengthen both our competitive and financial positions. Overall expense reductions were necessary both to lower our existing cost structure and to reallocate resources to pursue our future operating strategies. The restructuring plan was initiated in response to poor economic conditions during 2001, which led to declining gross margins and other performance measures, such as revenue per employee. The restructuring plan encompassed terminating employees and reducing office space and related overhead expenses. Charges related to the restructuring plan primarily consisted of severance and termination costs for the involuntarily terminated employees and office closure costs. The majority of the restructuring activity occurred during 2001 and we expect the remaining actions, including closing and consolidating identified offices, will be completed within a one-year time frame. Additional details of the remaining restructuring accrual are presented in Note 7 Strategic Restructuring in the Notes to Condensed Consolidated Financial Statements included elsewhere in this report.

Other Income (Expense), Net

Other income (expense), net was as follows:

	Three Months Ended March 31,	
	2002	2001
Interest income	$ 4,589	$ 12,065
Interest expense	(5,821)	(4,674)
Realized gains (losses) on investments, net	5,532	(18,229)
Foreign currency hedge and transaction gains (losses), net	(394)	(2,159)
Other	(454)	(540)
	$ 3,452	$ (13,537)

Interest income declined primarily as a result of lower market interest rates and lower average balances of invested funds. The increase in interest expense resulted from the additional $60.9 million in convertible debt issued in connection with our acquisition of TSC on March 23, 2001. Net realized gains on investments during the three months ended March 31, 2002 included gains from the settlement of hedge positions and sales of certain of our equity security investments. Net realized losses on investments during the three months ended March 31, 2001 were primarily from the write-down of the carrying basis of certain equity security investments as a result of significant, non-temporary declines in the fair value and expected realizable amounts of these investments. The decrease in the net loss realized on foreign currency hedges and transactions was partly due to a decrease in our net exposure to foreign exchange risk over the comparable periods and less volatility in some of the exchange rates that affect our operations.

The interest yields on investments and the relative exchange values of foreign currencies are influenced by the monetary and fiscal policies of the governments in the countries in which we operate. The nature, timing and extent of any impact on our financial statements resulting from changes in those governments policies are not predictable. Risks associated with market interest rates and foreign exchange rates are discussed below under the section captioned Sensitivity to Market Risks.

Provision (Benefit) for Income Taxes

We recognized income tax benefits of $19.6 million and $6.9 million, representing effective income tax rates of 36.0% and 0.9%, during the three months ended March 31, 2002 and 2001. Items which cause differences between the U.S. statutory rate and our effective tax rate during the periods presented, include state taxes (net of federal tax benefits), non-deductible meals and entertainment, deferred tax asset valuation allowances and research and development tax credits. The effective income tax rate during the three months ended March 31, 2001 was also impacted by the non-deductibility of goodwill, in-process research and development and acquisition-related expenses.

As of March 31, 2002 and December 31, 2001, we had net deferred tax assets totaling $665.5 million and $633.0 million. Realization of our deferred tax assets is dependent upon our U.S. consolidated tax group of companies having sufficient federal taxable income in future years to utilize our net operating loss carryforwards before they expire. We currently believe it is more likely than not that the deferred tax assets will be realized during the net operating loss carryforward period. A valuation allowance for all or a portion of the remaining deferred tax assets may be necessary in future periods if our expectations regarding the realization of these assets change.

Earnings Per Common Share

Earnings per common share are computed in accordance with SFAS No. 128, Earnings Per Share, which requires dual presentation of basic and diluted earnings per common share for entities with complex capital structures. Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share include (i) the dilutive effect of stock options, restricted stock and warrants granted using the treasury stock method, (ii) the effect of contingently issuable shares earned during the period, and (iii) shares issuable under the conversion feature of our convertible notes using the if-converted method. Future weighted-average shares outstanding calculations will be impacted by the following factors:

- The ongoing issuance of common stock associated with stock option exercises and restricted stock awards.
- The issuance of common shares associated with our employee stock purchase plans.
- Any fluctuations in our stock price, which could cause changes in the number of common stock equivalents included in the diluted earnings per common share calculation.
- The issuance of common stock to effect business combinations should we enter into such transactions.
- The issuance of common stock or warrants to effect joint marketing, joint development or other similar arrangements should we enter into such arrangements.
- Assumed or actual conversions of our convertible debt into common stock.

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Liquidity and Capital Resources

Historically, we have financed our operations and met our capital expenditure requirements primarily through cash flows provided from operations, long-term borrowings and sales of equity securities. Our liquidity and financial position at March 31, 2002 showed a 20.5% decrease in working capital during the first quarter of 2002. Working capital was $376.9 million at March 31, 2002 compared to $474.3 million at December 31, 2001. The decrease in working capital was primarily the result of a $109.2 million decrease in cash and short-term investments, $65.6 million of which was invested in longer-term investments and a $33.7 million decrease in net accounts receivable partly offset by a $35.4 million decrease in accrued liabilities and accrued compensation and a $11.4 million decrease in deferred revenue.

Cash and cash equivalents were $473.4 million at March 31, 2002, a decrease of $64.8 million compared to balances at December 31, 2001. The decrease in cash and cash equivalents was the result of $70.0 million in cash used in operating and investing activities offset by $5.2 million in cash provided by financing activities.

In addition to our cash and cash equivalents, we also maintain a portfolio of short- and long-term investment securities to supplement our liquidity needs. Short- and long-term investments totaled $143.6 million and $76.1 million, respectively, at March 31, 2002 and $188.0 million and $28.2 million, respectively, at December 31, 2001. Short-term investments consist primarily of highly rated corporate debt securities and obligations of municipalities and agencies of the U.S. government that have remaining maturities of less than one year. Long-term investments include similar debt security investments with remaining maturities in excess of one year but not more than two years, as well as common stock and warrants of public companies.

On a combined basis, cash and cash equivalents and short- and long-term investments totaled $693.1 million at March 31, 2002 compared to $754.4 million at December 31, 2001. These totals included common stock and warrants of public companies of $6.9 million at March 31, 2002 and $23.2 million at December 31, 2001.

The most significant adjustments to reconcile net loss to net cash from operations during the three months ended March 31, 2002 were depreciation and amortization of $21.2 million, deferred income taxes and disqualifying dispositions of $27.1 million, the net decrease in accounts receivable of $33.7 million, the net decrease in accrued liabilities and accrued compensation of $35.4 million and the net decrease in deferred revenues of $11.4 million.

Significant uses of cash for investing activities during the three months ended March 31, 2002 included $65.6 million in purchases of long-term investments and $5.2 million in purchases of premises and equipment. Offsetting these cash outflows were proceeds from the sale of real estate acquired in connection with our acquisition of TSC of $12.5 million, proceeds from the sales of equity investments and the settlements of equity collar hedges of $10.4 million and the net decrease in short-term investments of $42.7 million.

The $5.2 million in net cash from financing activities during the three months ended March 31, 2002 was from proceeds from stock option exercises.

Accounts receivable, net of allowance for doubtful accounts, decreased 26.3% during the three months ended March 31, 2002. Days sales outstanding (DSO s) in receivables decreased to 55 days as of March 31, 2002 from 67 days as of December 31, 2001. DSO s decreased in part due to the use of more favorable payment terms in our contracts and strong collection efforts. There can be no assurance that DSO performance will remain at this level.

We maintain a one-year, $20.0 million letter of credit line that expires in August 2002. Letters of credit issued in connection with this line are secured by debt securities held in our brokerage account maintained by the lender. As of March 31, 2002, $9.7 million in letters of credit were outstanding under this line and $14.9 million in debt securities were pledged as collateral.

In December 1999, we issued $350.0 million of convertible subordinated notes. The notes mature on December 15, 2006 and bear interest of 5.25%, per annum, which is payable semi-annually. The notes are convertible at the option of the holder into shares of our common stock at a conversion price of $38.00 per share at any time prior to maturity. On or after December 20, 2002, we have the option to redeem, in cash, all or a portion of the notes that have not been previously converted. We may also repurchase any outstanding debt on the open market as opportunities are presented. As of March 31, 2002, none of the notes have been converted to common stock or repurchased on the open market.

In connection with our acquisition of TSC on March 23, 2001, we issued a convertible promissory note for $60.9 million with a 7.5% coupon payable in cash annually. The note matures on September 23, 2003. After March 23, 2002 and prior to maturity, we may convert the note into shares of our common stock. The holder of the note may convert the note into shares of our common stock at any time prior to maturity provided the average of the last sale prices of our common stock as reported on the Nasdaq National Market for the three consecutive trading days immediately prior to the conversion date exceeds $60.00 per share. Additional details of the note are presented in Note 8 Borrowings in the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of our 2001 Form 10-K.

In the future, we may pursue acquisition of businesses, products and technologies, or enter into joint venture arrangements, that could complement or expand our business. Any material acquisition or joint venture could result in a decrease to our working capital depending on the nature, timing and amount of consideration to be paid. Additionally, any material acquisitions of complementary businesses, products or technologies or joint venture arrangements could require us to obtain additional equity or debt financing.

We expect future liquidity will be enhanced to the extent that we are able to realize the cash benefit from utilization of our net operating loss carryforwards against future tax liabilities. As of March 31, 2002, we had approximately $1.6 billion in net operating loss carryforwards, which represent up to approximately $572.0 million in future tax benefits. The utilization of the U.S. net operating loss carryforwards is subject to limitations and various expiration dates in years 2006 through 2022. Foreign net operating loss carryforwards have no expiration date.

We expect cash, cash equivalent and short-term investment balances will continue to decrease until we return to profitability. We believe that existing cash, cash equivalent and short-term investment balances will satisfy our working capital and capital expenditure requirements for at least the next year. The current weak macroeconomic environment has resulted in a softening of demand for enterprise application software and services, which has, among other things, led to a decline in revenues and negative operating cash flows. Sustained weak demand for enterprise application software within the product and industry segments we target, or for our products, would negatively impact future revenues and operating results, which, in turn, would negatively impact our liquidity. Additionally, we may not be able to obtain additional equity or debt financing.

Sensitivity to Market Risks

Foreign Currency Risk. Revenues originating outside of the United States totaled 37.7% and 37.3% of total revenues in during the three months ended March 31, 2002 and 2001. Since we conduct business on a global basis in various foreign currencies, we are exposed to adverse movements in foreign currency exchange rates. We maintain a foreign currency hedging program utilizing foreign currency forward exchange contracts to hedge various nonfunctional currency exposures. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts. Our hedging activities cannot completely protect us from the risk of foreign currency losses as our currency exposures are constantly changing and not all of these exposures are hedged. Details of our foreign currency risk management program are presented in Note 8 Foreign Currency Risk Management in the Notes to Condensed Consolidated Financial Statements included elsewhere in this report.

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Interest Rate Risk. Our investments are subject to interest rate risk. Interest rate risk is the risk that our financial condition and results of operations could be adversely affected due to movements in interest rates. We invest our cash in a variety of interest-earning financial instruments, including bank time deposits, money market funds and taxable and tax-exempt variable-rate and fixed-rate obligations of corporations, municipalities and local, state and national governmental entities and agencies. These investments are primarily denominated in U.S. Dollars. Cash balances in foreign currencies overseas are operating balances and are invested in short-term time deposits of the local operating bank.

Due to the demand nature of our money market funds and the short-term nature of our time deposits and debt securities portfolio, these assets are particularly sensitive to changes in interest rates. As of March 31, 2002, 61.7% of our debt securities and time deposits had remaining maturities of three months or less, while 25.8% had remaining maturities between three months and one year. If these short-term assets are reinvested in a declining interest rate environment, we would experience an immediate negative impact on other income. The opposite holds true in a rising interest rate environment. The Federal Reserve Board influences the general market rates of interest. During 2001, the Federal Reserve Board decreased the discount rate by 475 basis points, which has led to significant declines in short-term market interest rates. As of March 31, 2002, the weighted-average yield on debt securities was 3.24% compared to 3.85% for debt securities held as of December 31, 2001. The decrease in the weighted-average yield on these investments resulted as maturing investments were reinvested at lower market yields. Based on our investment holdings as of March 31, 2002, an immediate 100 basis point decline in the average yield earned on these investments would reduce our expected annual interest earnings by $5.6 million.

Credit Risk. Financial instruments that potentially subject us to a concentration of credit risk consist principally of investments and accounts receivable. Cash on deposit is held with financial institutions with high credit standings. Debt security investments are generally in highly rated corporations and municipalities as well as agencies of the U.S. government; however, a significant portion of these investments are in corporate debt securities which carry a higher level of risk compared to municipal and U.S. government-backed securities. In addition, we regularly monitor financial information related to our equity investments. Our customer base consists of large numbers of geographically diverse customers dispersed across many industries. As a result, concentration of credit risk with respect to accounts receivable is not significant. However, we periodically perform credit evaluations for most of our customers and maintain reserves for potential losses. In certain situations we may require letters of credit to be issued on behalf of some customers to mitigate our exposure to credit risk. We currently use foreign exchange contracts to hedge the risk in receivables denominated in foreign currencies. Risk of non-performance by counterparties to such contracts is minimal due to the size and credit standings of the financial institutions used.

Market Price Risk. In addition to investments in debt securities, we maintain minority equity investments in various privately held and publicly traded companies for business and strategic purposes. Our investments in publicly traded companies are subject to market price volatility. As a result of market price volatility, we experienced a $11.5 million net after-tax unrealized loss on these investments during the first quarter of 2002. We also wrote-down, by $35.5 million, the carrying basis of certain equity investments in publicly traded companies as a result of significant declines in the fair value of these investments during 2001. Our ability to sell certain equity positions is restricted under securities laws or pursuant to contractual agreements. We may implement hedging strategies using put and call options to fix our gains and limit our losses in certain equity positions until such time as the investments can be sold. The fair value of our investments in publicly traded companies totaled $6.9 million at March 31, 2002. The fair value of these investments would be $6.2 million assuming a 10% decrease in each stock s price.

We have invested in numerous privately held companies, many of which can still be considered in the start-up or development stages. As result of significant declines in the expected realizable amounts of these investments, we wrote-off all of our investments in privately held companies in 2001.

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Recently Issued Accounting Pronouncements

As discussed in Note 1 Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements included elsewhere in this report, we implemented new accounting standards related to accounting for goodwill, intangible assets and reimbursements for expenses incurred in connection with providing services beginning January 1, 2002.

Factors That May Affect Future Results

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties that we do not presently know or that we currently deem immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, they could materially adversely affect our business, financial condition or results of operations. In that case, the trading price of our common stock could decline.

Risks Related To Our Business

We Have Recently Experienced Substantial Losses And May Not Achieve Or Maintain Profitability In The Future. Our Restructuring And Other Strategic Initiatives May Not Succeed In Restoring Us To Profitability, Which Would Have a Significant Adverse Effect On Our Business.

We incurred a substantial loss from operations during the three months ended March 31, 2002 and for the year ended December 31, 2001. The sharp decline in our revenues combined with an operating cost structure that was designed to support higher levels of revenue growth led to our failure to achieve profitability.

Failure to grow revenues and achieve profitability could substantially impair our ability to finance and support our operations, which would have a significant adverse effect on our business, results of operations and financial condition as well as our stock price. Furthermore, realization of our deferred tax assets is dependent upon our U.S. consolidated tax group of companies having sufficient federal taxable income in future years to utilize our net operating loss carryforwards before they expire. Failure to achieve profitability could prevent us from recognizing tax benefits on future net losses for financial reporting purposes. In addition, a valuation allowance for all or a portion our remaining deferred tax assets may be necessary.

We Are Emerging From A Period Of Reorganization and Realignment. If This Reorganization And Realignment Has Been Unsuccessful Or If We Are Unable To Improve Our Execution, Serious Harm Could Result To Our Business

We initiated a restructuring plan, as well as other strategic initiatives, in 2001 with the objective of strengthening our operations and creating a more efficient cost structure. While we have achieved some of our goals, including reducing our cost structure thus far, there can be no assurance that our organizational realignment has adequately addressed the current macroeconomic environment or enhanced our ability to improve sales execution and capitalize on executive and sales management changes.

Our Financial Results May Vary Significantly From Quarter To Quarter Or We May Fail To Meet Expectations, Which Would Negatively Impact The Price Of Our Stock.

Our operating results have varied significantly from quarter to quarter in the past, and we expect our operating results to continue to vary from quarter to quarter in the future, due to a variety of factors, many of which are outside of our control. Although our revenues are subject to fluctuation, significant portions of our expenses are not variable in the short term, and we cannot reduce them quickly to respond to decreases in revenues. Therefore, if revenues are below expectations, this shortfall is likely to adversely and

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disproportionately affect our operating results. Accordingly, we may not attain positive operating margins in future quarters. Any of these factors could cause our operating results to be below the expectations of securities analysts and investors, which likely would negatively affect the price of our common stock.

The Impact Of Global Economic Conditions On Our Customers May Cause Us To Fail To Meet Expectations, Which Would Negatively Impact The Price Of Our Stock.

Our operating results can vary significantly based upon the impact of global economic conditions on our customers. More specifically, the macroeconomic environment and capital spending has continued to decline, exacerbated by uncertainty surrounding recent world events, and is more uncertain than in recent periods and has the potential to further materially and adversely affect us. The operating results of our business depend on the overall demand for computer software and services, particularly in the areas in which we compete. Because our sales are primarily to major corporate customers whose businesses fluctuate with general economic and business conditions, a softening of demand for computer software and services caused by a weakening economy has resulted in decreased revenues. We may be especially prone to this as a result of the relatively high percentage of revenue we have historically derived from the high-tech industry, which appears to have been more significantly adversely impacted by the current weak economic environment, and the relatively large license transactions we have historically relied upon. Customers may defer or reconsider purchasing products if they continue to experience a lack of growth in their business or if the general economy fails to significantly improve.

We Are Investing Significant Resources In Developing And Marketing Our Software Solutions. The Market For These Solutions Is New And Evolving, And If This Market Does Not Develop As We Anticipate, Or If We Are Unable To Develop Acceptable Solutions, Serious Harm Could Result To Our Business.

We are investing significant resources in further developing and marketing enhanced products and services to facilitate conducting business on-line, within an enterprise and among many enterprises, or marketplaces. These include, among other things, transaction management solutions related to distributed order management and inventory visibility. The demand for, and market acceptance of, these products and services are subject to a high level of uncertainty, especially where development of our products or services requires a large capital commitment or other significant commitment of resources. Adoption of software solutions, particularly by those individuals and enterprises that have historically relied upon traditional means of commerce and communication, will require a broad acceptance of new and substantially different methods of conducting business and exchanging information. These products and services are often complex and involve a new approach, which we refer to as dynamic value chain management, to the conduct of business. As a result, intensive marketing and sales efforts may be necessary to educate prospective customers regarding the uses and benefits of these products and services in order to generate demand. The market for this broader functionality may not develop, competitors may develop superior products and services, or we may not develop acceptable solutions to address this functionality. Any one of these events could seriously harm our business, operating results and financial condition.

Historically, A Small Number Of Individual License Sales Have Been Significant In Each Quarterly Period. While We Are Attempting To Transition To A More Volume-Based Sales Model, Our Operating Results For A Given Period Could Suffer Serious Harm If We Fail To Close One Or More Large Sales Expected For That Period Or If A Successful Transition To A Volume-Based Sales Model Does Not Compensate For Fewer Large Sales.

We generally derive a significant portion of revenues in each quarter from a small number of relatively large license sales with, in some cases, long and intensive sales cycles. While we did not recognize any license sales in excess of $5.0 million during the first quarter of 2002, at least three license sales recognized in each quarter during 2001 individually accounted for at least $5.0 million in license revenues. In addition, our expectations of financial results for a particular quarter frequently assume the successful closing of multiple substantial license sales that we have targeted to close in that period. Moreover, due to customer purchasing patterns, we typically realize a significant portion of our software license revenues in the last few weeks of a quarter. As a result, we are subject to significant variations in license revenues and results of operations if we incur any delays in customer purchases. If in any future period we fail to close one or more substantial license sales that we have targeted to close in that period, our operating results for that period could be seriously harmed. In an attempt to reduce our dependence on large license sales, we have begun to implement a transition to a sales model that more emphasizes the total volume of sales over the size of individual sales. However, there can be no assurance that our transition to a volume-based sales model will be successful or, even if it is, that this transition will substantially reduce our dependence on large license sales or compensate for the loss of larger license sales.

Our Software Products Are Intended To Work Within Complex Business Processes. Accordingly, Implementation Of Our Products Can Be Difficult, Time-Consuming And Expensive And Customers May Be Unable To Implement Our Products Successfully Or Otherwise Achieve The Benefits Attributable To Our Products.

Our products must integrate with the many existing computer systems and software programs of our customers. This can be complex, time-consuming and expensive, and may cause delays in the deployment of our products. As a result, some customers may have difficulty or be unable to implement our products successfully or otherwise achieve the benefits attributable to our products. Delayed or ineffective implementation of our software and services may limit our ability to expand our revenues and may result in customer dissatisfaction, harm to our reputation and cause issues relating to the collection of accounts receivable.

We Have Been And Continue To Be Subject To Certain Claims Pertaining To The Functionality And Implementation Of Our Products. These Claims, If Unresolved, Could Seriously Harm Our Business And Our Stock Price.

From time to time, customers make certain claims pertaining to the functionality and performance of our software and its implementation, citing a variety of issues. In this regard, Siemens has asserted certain claims against us regarding issues they claim to have experienced with respect to some of our software products and services. Whether customer claims of this type are founded or unfounded, if such claims are not resolved in a manner favorable to us, they may affect the market perception of our company and our products. Not only could this have an immediate effect on our stock price, but the potential resulting reputational damage could affect our ability to sell our products, which would seriously harm our business, operating results and financial condition.

We May Not Remain Competitive, And Increased Competition Could Seriously Harm Our Business.

Our competitors offer a wide variety of solutions including enterprise software. Relative to us, our competitors may have one or more of the following advantages:

- Longer operating history.
- Greater financial, technical, marketing, sales and other resources.
- Superior product functionality in specific areas.
- Greater name recognition.
- A broader range of products to offer.
- A larger installed base of customers.

Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to enhance their products, which may result in increased competition. In addition, we expect to experience increasing price competition as we compete for market share. Some competitors are even offering enterprise application software at no charge as components of product bundles. Further, traditional ERP venders such as SAP have recently focused more resources on the development and marketing of enterprise application software, particularly in the product and industry segments in which we compete. As a result of this and other factors, we may not be able to compete successfully with our existing or new competitors. Any of these conditions could cause substantial harm to our business, operating results and financial condition.

Continued Decreased Levels Of Demand For Our Enterprise Products And Services Could Significantly Reduce Our Revenues.

We derive a substantial portion of our revenues from licenses of our enterprise products and related services. Our enterprise products principally include solutions for supply chain management, supplier relationship management, customer relationship management and other products. We expect license revenues and maintenance and consulting contracts related to these products to continue to account for a substantial portion of our revenues for the foreseeable future. We have experienced a sharp decrease in the demand for our enterprise products and related services due to a number of factors, including weakness in the macroeconomic environment, particularly the high-tech sector; reductions in capital spending; and the changing composition of the customer base, which has led to a decline in our revenues. Other factors such as competition and technological change could also adversely impact demand for, or market acceptance of, these applications. Continued weak demand for our enterprise offerings could substantially harm our business, operating results and financial condition.

We May Not Be Successful In Convincing Customers To Migrate To Current Or Future Releases Of Our Products.

Our customers may not be willing to incur the costs or invest the resources necessary to complete upgrades to current or future releases of our products. This may lead to us losing maintenance revenues and future business from customers that operate on prior versions of our products or choose to no longer use our products.

We Depend On Our Strategic Partners And Other Third Parties For Sales And Implementation Of Our Products. If We Fail To Derive Benefits From Our Existing And Future Strategic Relationships, Our Business Will Suffer.

From time to time, we have collaborated with other companies, including IBM and PricewaterhouseCoopers, in areas such as marketing, distribution or implementation. Maintaining these and other relationships is a meaningful part of our business strategy. However, some of our current and potential strategic partners are either actual or potential competitors, which may impair the viability of these relationships. In addition, some of our relationships have failed to meet expectations and may fail to meet expectations in the future. A failure by us to maintain existing strategic relationships or enter into successful new strategic relationships in the future could seriously harm our business, operating results and financial condition.

We Have Contracted With Some Customers To Develop Custom Software Applications. Failure To Complete These Projects As Planned Could Harm Our Operating Results And Create Business Distractions That Could Harm Our Business.

Risks associated with our custom development projects include, but are not limited to:

- We have only recently undertaken these custom development projects and we may be unable to effectively execute our business strategy.
- Customers may withhold cash payments or attempt to cancel contracts if we fail to meet our delivery commitments.
- We may be unable to recognize revenue associated with custom development projects in accordance with expectations. We generally recognize revenue from custom software development projects over time using the percentage-of-completion method of accounting. Failure to complete project phases in accordance with the overall project plan can create variability in our expected revenue streams if we are not able to recognize revenues related to particular projects because of delays in development.
- Most of our projects are fixed-price arrangements. If we fail to accurately estimate the resources required for a fixed-price project, the profit, if any, realized from the projects would be adversely affected to the extent that we have to add additional resources to complete the projects.

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Part of our strategy for entering into custom development contracts is to leverage our costs associated with the technologies developed by integrating the technologies with software applications that can be marketed generally. If we are unable to leverage the technologies developed in custom development projects our revenues, growth, and operating results could suffer from the opportunities lost had we dedicated the resources used on the projects to other endeavors.

Our Objective Of Increasing Our Recurring Revenue Streams By Selling Services And Content To Marketplaces And Their Participants Is Unproven And May Be Unsuccessful.

As part of our business strategy, we are offering services and content to trading communities and participants in digital marketplaces. We are currently providing only a portion of the total solutions required to fully operate digital trading communities to only a relatively small segment of the total digital trading community market. We cannot be certain that these trading communities will be operated effectively, that enterprises will join and remain in these trading communities, or that we will develop and successfully market and deploy all solutions required to operate digital trading communities. If this business strategy is flawed, or if we are unable to execute it effectively, our business, operating results and financial condition could be substantially harmed. For example, during the second quarter of 2001, we incurred a special charge of approximately $26.0 million for bad debt expense taken primarily as a result of the poor financial conditions surrounding dot-com and public marketplace customers.

If We Publish Inaccurate Catalog Content Data, Our Content Sales Could Suffer.

The accurate publication of catalog content is critical to our customers businesses. Our suite of products offers content management tools that help suppliers manage the collection and publication of catalog content. Any defects or errors in these tools or the failure of these tools to accurately publish catalog content could deter businesses from participating in marketplaces, damage our business reputation and harm our ability to win new customers. In addition, from time to time some of our customers may submit inaccurate pricing or other inaccurate catalog information. Even though such inaccuracies are not caused by our work and are not within our control, such inaccuracies could deter current and potential customers from using our products and could seriously harm our business, operating results and financial condition.

Because Our Products Collect And Analyze Stored Customer Information, Concerns That Our Products Do Not Adequately Protect The Privacy Of Consumers Could Inhibit Sales Of Our Products.

One of the features of our customer management software applications is the ability to develop and maintain profiles of consumers for use by businesses. Typically, these products capture profile information when consumers, business customers and employees visit an Internet web-site and volunteer information in response to survey questions concerning their backgrounds, interests and preferences. Our products augment these profiles over time by collecting usage data. Although our customer management products are designed to operate with applications that protect user privacy, privacy concerns nevertheless may cause visitors to resist providing the personal data necessary to support this profiling capability. Any inability to adequately address consumers privacy concerns could seriously harm our business, financial condition and operating results.

Because Our Products Require The Transfer Of Information Over The Internet, Serious Harm To Our Business Could Result If Our Encryption Technology Fails To Ensure The Security Of Our Customers Online Transactions.

The secure exchange of confidential information over public networks is a significant concern of consumers engaging in on-line transactions and interaction. Our customer management software applications use encryption technology to provide the security necessary to effect the secure exchange of valuable and confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the algorithms that these applications use to protect customer transaction data. If any compromise or breach were to occur, it could seriously harm our business, financial condition and operating results.

We May Not Successfully Integrate The Products, Technologies Or Businesses From, Or Realize The Intended Benefits Of Recent Acquisitions, And We May Make Future Acquisitions Or Enter Into Joint Ventures That Are Not Successful.

In the future, we could acquire additional products, technologies or businesses, or enter into joint venture arrangements, for the purpose of complementing or expanding our business. Management s negotiations of potential acquisitions or joint ventures and management s integration of acquired products, technologies or businesses, could divert management s time and resources. Future acquisitions could cause us to issue equity securities that would dilute your ownership of us, incur debt or contingent liabilities, amortize intangible assets, or write off in-process research and development and other acquisition-related expenses that could seriously harm our financial condition and operating results. Further, we may not be able to properly integrate acquired products, technologies or businesses, with our existing products and operations, train, retain and motivate personnel from the acquired businesses, or combine potentially different corporate cultures. If we are unable to fully integrate acquired products, technologies or businesses, or train, retain and motivate personnel from the acquired businesses, we may not receive the intended benefits of those acquisitions, which could seriously harm our business, operating results and financial condition.

The Loss Of Any Of Our Key Personnel Or Our Failure To Attract Additional Personnel Could Seriously Harm Our Company.

We rely upon the continued service of a relatively small number of key technical, sales and senior management personnel. Our future success depends on retaining our key employees and our continuing ability to attract, train and retain other highly qualified technical, sales and managerial personnel. We have employment agreements with relatively few of our key technical, sales and senior management personnel. As a result, our employees could resign with little or no prior notice. We may not be able to attract, assimilate or retain other highly qualified technical, sales and managerial personnel in the future. Our loss of any of our key technical, sales and senior management personnel or our inability to attract, train and retain additional qualified personnel could seriously harm our business, operating results and financial condition.

If We Fail To Adequately Protect Our Intellectual Property Rights Or Face A Claim Of Intellectual Property Infringement By A Third Party, We Could Lose Our Intellectual Property Rights Or Be Liable For Significant Damages.

We rely primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect our proprietary rights. However, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our intellectual property. This is particularly true in foreign countries where the laws may not protect proprietary rights to the same extent as the laws of the United States and may not provide us with an effective remedy against piracy.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. As a result, we may be subject to claims of intellectual property infringement. Although we are not aware that any of our products infringe upon the proprietary rights of third parties, third parties may claim infringement by us with respect to current or future products. Any infringement claims, with or without merit, could be time-consuming, result in costly litigation or damages, cause product shipment delays or the loss or deferral of sales, or require us to enter into royalty or licensing agreements. If we enter into royalty or licensing agreements in settlement of any litigation or claims, these agreements may not be on terms acceptable to us. Unfavorable royalty and licensing agreements could seriously harm our business, operating results and financial condition.

We Are Dependent On Third-Party Software That We Incorporate Into And Include With Our Products And Solutions. Impaired Relations With These Third Parties, Defects In Third-Party Software Or The Inability To Enhance Their Software Over Time Could Harm Our Business.

We incorporate and include third-party software into and with our products and solutions. Additionally, we may incorporate and include additional third-party software into and with our products and solutions in future product offerings. The operation of our products could be impaired if errors occur in the third-party software that we utilize. It may be more difficult for us to correct any defects in third-party software because the development and maintenance of the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that these third parties will continue to make their software available to us on acceptable terms or continue to invest the appropriate levels of resources in their products and services to maintain and enhance the software capabilities.

Furthermore, it may be difficult for us to replace any third-party software if a vendor seeks to terminate our license to the software or our ability to license the software to customers. Any impairment in our relationship with these third parties could adversely impact our business, results of operations and financial condition.

We Currently Face Litigation And Are Likely To Contend With Additional Litigation In The Future Due To The Volatility Of Our Stock Price.

We face litigation that could have a material adverse effect on our business, financial condition and results of operations. We and certain of our directors and executive officers are named as defendants in several private securities class action lawsuits relating to our alleged failure to disclose material information regarding customer implementations. While we vigorously dispute these allegations, it is possible that we may be required to pay substantial damages or settlement costs which could have a material adverse effect on our financial condition or results of operation. Regardless of the outcome of these matters, it is likely that we will incur defense costs and such actions may cause a diversion of management time and attention. Due to the volatility of the stock market and particularly the stock prices of technology companies, it is possible that we will face additional class action lawsuits in the future.

Because Of Our Significant International Operations, We Face Risks Associated With International Sales, Development And Operations That Could Harm Our Company.

Our international operations are subject to risks inherent in international business activities, including the tendency of markets outside of the U.S. to be more volatile and difficult to forecast than the U.S. market. In addition, we have been expanding and may continue to expand our international operations in the future, which increases our exposure to these risks. The risks we face internationally include, among other things:

- Difficulties and costs of staffing and managing geographically disparate operations.
- Extended accounts receivable payment cycles in certain countries.
- Compliance with a variety of foreign laws and regulations.
- Overlap of different tax structures.
- Meeting import and export licensing requirements.
- Trade restrictions.
- Changes in tariff rates.
- Changes in general economic and political conditions in international markets.

Any of the above factors, among other things, could adversely affect the success of our international operations. One or more of these factors could have a material adverse effect on our business and operating results.

We recently initiated a program to shift a larger proportion of our development capacity to India. Our current infrastructure in India is less developed and the distributed nature of our development resources could create further operational challenges and complications. Additionally, we have a heightened risk exposure to changes in the economic and political conditions of India. Operational issues, economic and political instability, and other unforeseen occurrences, in India could impair our ability to develop and introduce new software

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applications and functionality in a timely manner, which could put our products at a competitive disadvantage whereby we lose existing customers and fail to attract new customers, which could have a significant adverse effect on our business and operating results.

Changes In The Value Of The U.S. Dollar, As Compared To The Currencies Of Foreign Countries Where We Transact Business, Could Harm Our Operating Results.

To date, our international revenues have been denominated primarily in U.S. Dollars. However, the majority of our international expenses, including the wages of approximately 35.0% of our employees, and an increasing percentage of international revenues, have been denominated in currencies other than the U.S. Dollar. Therefore, changes in the value of the U.S. Dollar as compared to these other currencies may adversely affect our operating results. As our international operations expand, we expect to use an increasing number of foreign currencies, causing our exposure to currency exchange rate fluctuations to increase. We have implemented limited hedging programs to mitigate our exposure to currency fluctuations affecting international accounts receivable, cash balances and intercompany accounts, but we do not hedge our exposure to currency fluctuations affecting future international revenues and expenses and other commitments. For the foregoing reasons, currency exchange rate fluctuations have caused, and likely will continue to cause, variability in our foreign currency denominated revenue streams and our cost to settle foreign currency denominated liabilities, which could seriously harm our future business, results of operations and financial condition.

Our Software May Contain Undetected Errors.

Our software programs may contain undetected errors or bugs. Although we conduct extensive testing, we may not discover bugs until our customers install and use a given product or until the volume of services that a product provides increases. On occasion, we have experienced delays in the scheduled introduction of new and enhanced products because of bugs. Undetected errors could result in loss of customers or reputation, adverse publicity, loss of revenues, delay in market acceptance, diversion of development resources, increased insurance costs or claims against us by customers, any of which could seriously harm our business, operating results and financial condition.

We May Become Subject To Product Liability Claims That Could Seriously Harm Our Business.

Our software products generally are used by our customers in mission critical applications where component failures could cause significant damages. To mitigate this exposure, our license agreements typically seek to limit our exposure to product liability claims from our customers. However, these contract provisions may not preclude all potential claims. Additionally, our general liability insurance may be inadequate to protect us from all liability that we may face. Product liability claims could require us to spend significant time and money in litigation or to pay significant damages. As a result, any claim, whether or not successful, could harm our reputation and business, operating results and financial condition.

Our Executive Officers And Directors Have Significant Influence Over Stockholder Votes.

As of March 31, 2002, our executive officers and directors together beneficially owned approximately 29.5% of the total voting power of our company. Accordingly, these stockholders have significant influence in determining the composition of our Board of Directors and other significant matters presented to a vote of stockholders, including amendments to our certificate of incorporation, a substantial sale of assets or other major corporate transaction or a non-negotiated takeover attempt. Such concentration of ownership may discourage a potential acquiror from making an offer to buy our company that other stockholders might find favorable which, in turn, could adversely affect the market price of our common stock.

Our Charter And Bylaws Have Anti-Takeover Provisions.

Provisions of our certificate of incorporation and our bylaws, Delaware law and our recently announced stockholder rights plan could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. We are subject to the provisions of Section 203 of the Delaware General Corporation Law, which restricts certain business combinations with interested stockholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination.

Our Stock Price Historically Has Been Volatile, Which May Make It More Difficult For You To Resell Common Stock When You Want At Prices You Find Attractive.

The market price of our common stock has been highly volatile in the past, and may continue to be volatile in the future. For example, during the first quarter of 2002, the market price of our common stock on the Nasdaq National Market has fluctuated between $5.00 and $9.58 per share. The following factors may significantly affect the market price of our common stock:

- Quarterly variations in our results of operations.
- Announcement of new customers, new products, product enhancements, joint ventures and other alliances by our competitors or us.
- Technological innovations by our competitors or us.
- General market conditions or market conditions specific to particular industries.
- Perceptions in the marketplace of performance problems involving our products and services.

In particular, the stock prices of many companies in the technology and emerging growth sectors have fluctuated widely, often due to events unrelated to their operating performance. These fluctuations may harm the market price of our common stock.

Risks Related To Our Industry

The Customers In The Markets In Which We Compete Demand Rapid Technological Change, Including The Expectation That Our Existing Offerings Will Continue To Perform More Efficiently And That We Will Continue To Introduce New Product Offerings. If We Do Not Respond To The Technological Advances Required By The Marketplace, Our Business Could Be Seriously Harmed.

Enterprises are requiring their application software vendors to provide greater levels of functionality and broader product offerings. Moreover, competitors continue to make rapid technological advances in computer hardware and software technology and frequently introduce new products, services and enhancements. We must continue to enhance our current product line and develop and introduce new products and services that keep pace with the technological developments of our competitors. We must also satisfy increasingly sophisticated customer requirements. If we cannot successfully respond to the technological advances of others, or if our new products or product enhancements and services do not achieve market acceptance, our business, operating results and financial condition could be seriously harmed.

Some of Our Offerings Require The Use Of The Internet To Take Full Advantage Of The Functionality That They Provide. If Use Of The Internet For Commerce And Communication Does Not Increase As We Anticipate, Our Business Will Suffer.

We are offering new and enhanced products and services, which depend on increased acceptance and use of the Internet as a medium for commerce and communication. Rapid growth in the use of the Internet is a recent phenomenon. As a result, acceptance and use may not continue to develop at historical rates, and a sufficiently broad base of business customers may not adopt or continue to use the Internet as a medium of commerce. Demand and market acceptance for recently introduced services and products over the Internet are subject to a high level of uncertainty, and there exists a limited number of proven services and products.

Releases Of And Problems With New Products May Cause Purchasing Delays, Which Would Harm Our Revenues.

Our practice and the practice in the industry is to periodically develop and release new products and enhancements. As a result, customers may delay their purchasing decisions in anticipation of our new or enhanced products, or products of competitors. Delays in customer purchasing decisions could seriously harm our business and operating results. Moreover, significant delays in the general availability of new releases, significant problems in the installation or implementation of new releases, or customer dissatisfaction with new releases could seriously harm our business, operating results and financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is included in the section captioned Sensitivity to Market Risks, included in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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PART II

ITEM 1. LEGAL PROCEEDINGS

Certain employees of a company we acquired in 1998 are currently disputing the cancellation of unvested stock options received at the time of the acquisition. Vesting of the options was dependent upon continued employment and the employees were terminated in 2000. We maintain the former employees were not entitled to unvested stock options.

A former executive officer has made certain claims against us related to his termination and his ability to exercise and sell certain stock options. Our position is that the former executive officer was terminated for cause and we dispute his other claims and therefore we intend to vigorously defend against this lawsuit.

Since March 2001, a number of purported class action complaints have been filed in the United States District Court for the Northern District of Texas (Dallas Division) against us and certain of our officers and directors. The cases have been consolidated, and in August 2001, plaintiffs filed a consolidated amended complaint. The consolidated amended complaint alleges that we and certain of our officers violated the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, by making purportedly false and misleading statements concerning the characteristics and implementation of certain of our software products. The consolidated amended complaint seeks unspecified damages on behalf of a purported class of purchasers of our common stock during the period between May 4, 2000 and February 26, 2001. We filed a motion to dismiss the consolidated amended complaint in September 2001. Although the motion was subsequently denied, we continue to vigorously defend against this lawsuit.

In April 2001, a purported shareholder derivative lawsuit was filed in Dallas County, Texas, against certain of our officers and directors, naming i2 as a nominal defendant. The suit claims that certain of our officers and directors breached their fiduciary duties to us and our stockholders by: (i) selling shares of our common stock while in possession of material adverse non-public information regarding our business and prospects, and (ii) disseminating inaccurate information regarding our business and prospects to the market and/or failing to correct such inaccurate information. As stated, the complaint is derivative in nature and does not seek relief from i2 itself. However, we have entered into indemnification agreements in the ordinary course of business with certain of the defendant officers and directors and may be obligated throughout the pendency of this action to advance payment of legal fees and costs incurred by the defendants pursuant to our obligations under the indemnification agreements and/or applicable Delaware law. This suit has since been removed to the United States District Court for the Northern District of Texas (Dallas Division). We intend to vigorously defend against this lawsuit and filed a motion to dismiss the action on February 19, 2002.

We are subject to various other claims and legal actions, including claims and legal actions from former employees and certain customers. We have accrued for estimated losses in the accompanying financial statements for those matters where we believe the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable. Although we currently believe the outcome of the outstanding legal proceedings, claims and litigation involving us will not have a material adverse effect on our business, financial condition or results of operation, the outcome is inherently uncertain, and it is possible that some of these matters may be resolved adversely to us. The adverse resolution of any one or more of these matters could have a material adverse effect on our business, financial condition or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the first quarter of 2002, we issued an aggregate of 416,260 shares of our common stock to employees pursuant to exercises of stock options that were granted prior to April 26, 1996 with exercise prices ranging from $0.0022 to $1.14 per share. These issuances were deemed exempt from registration under Section 5 of the Securities Act of 1933 in reliance upon Rule 701 thereunder and appropriate legends were affixed to the share certificates issued in each such transaction.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

On January 17, 2002, we announced the that Michael H. Jordan, a general partner of Global Asset Capital, LLC, a partner of Beta Capital Group, LLC and the former chairman and CEO of CBS Corporation (formerly Westinghouse Electric Corporation), was appointed to our Board of Directors. Concurrent with this announcement, we announced the resignation of Sandeep R. Tungare from our Board of Directors.

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

(a) *Exhibits*

Exhibits to this Form 10-Q have been included only with the copy of this Form 10-Q filed with the Securities and Exchange Commission. Copies of individual exhibits will be furnished to stockholders upon written request to i2 and payment of a reasonable fee.

Exhibit Number	Description
10.1+	Form of Employment Arrangement between i2 and certain of its employees in connection with their agreement to forego cash compensation for an indefinite period of time.

\+ Management contract or compensatory plan or arrangement.

(b) *Reports on Form 8-K*

During the quarter ended March 31, 2002, we filed the following report on Form 8-K:

Report on Form 8-K (Item 5) filed on January 22, 2002, which announced the declaration a dividend of one preferred share purchase right for each outstanding share of its common stock on January 17, 2002.

After March 31, 2002, we filed the following report on Form 8-K:

Report on Form 8-K (Item 5) filed on April 16, 2002, which included a press release dated April 15, 2002 announcing that Chairman Sanjiv Sidhu had assumed the role Chief Executive Officer of i2 and former Chief Executive Officer, Greg Brady, had resigned. The press release also announced the resignation of Tom Cooper, Executive Vice President of i2 and President of Americas Sales.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on our behalf by the undersigned, hereunto duly authorized.

i2 TECHNOLOGIES, INC.

April 26, 2002 (Date)	By:	/s/ WILLIAM M. BEECHER
		William M. Beecher *Executive Vice President and Chief Financial Officer* *(Principal financial officer)*
April 26, 2002 (Date)	By:	/s/ DAVID C. BECKER
		David C. Becker *Senior Vice President Finance & Accounting* *(Principal accounting officer)*

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