I2 TECHNOLOGIES INC
Form 10-Q
August 12, 2003
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2003

or

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

For the transition period from _____ to _____

Commission file number 0-28030

i2 Technologies, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

As of August 1, 2003 the Registrant had 432,853,021 shares of $0.00025 par value Common Stock outstanding.

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i2 TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q

March 31, 2003

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	March 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 391,442	$ 402,177
Restricted cash	12,086	12,052
Short-term investments, at fair value	10,000	10,000
Accounts receivable, net of allowance for doubtful accounts of $8,715 and $10,368	38,865	45,764
Deferred contract costs	12,391	14,332
Other current assets	34,802	32,721
Total current assets	499,586	517,046
Long-term investments, at fair value	28,137	33,016
Premises and equipment, net	44,236	59,814
Intangible assets, net	6,288	7,223
Goodwill	15,854	15,854
Other assets	271	270
Total assets	$ 594,372	$ 633,223
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 23,757	$ 24,176
Accrued liabilities	108,344	137,931
Accrued compensation and related expenses	29,095	40,663
Deferred tax liabilities	2,290	2,246
Current portion of long-term debt	60,930	60,930
Deferred revenue	279,886	319,292
Total current liabilities	504,302	585,238
Non-current deferred tax liabilities	35	10
Long-term debt	350,000	350,000
Total liabilities	854,337	935,248

Commitments and contingencies (Note 9)

Stockholders deficit:		
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, 432,853 shares issued and outstanding	108	108
Additional paid-in capital	10,378,634	10,378,747
Deferred compensation	(3,097)	(3,563)
Accumulated other comprehensive loss	(2,226)	(2,601)
Accumulated deficit	(10,633,384)	(10,674,716)
Net stockholders deficit	(259,965)	(302,025)
Total liabilities and stockholders deficit	$ 594,372	$ 633,223

See accompanying notes to condensed consolidated financial statements.

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i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2003	**2002**
		(As restated, see note 2)
Revenues:		
Software licenses	$ 19,149	$ 26,464
Contract	65,882	94,914
Services	38,573	42,875
Maintenance	34,345	38,277
Total revenues	157,949	202,530
Costs and expenses:		
Cost of revenues:		
Software licenses	283	4,330
Contract	13,418	35,599
Amortization of acquired technology	145	6,631
Services and maintenance	36,774	38,345
Sales and marketing	28,450	62,873
Research and development	15,976	54,917
General and administrative	14,379	18,054
Amortization of intangibles	423	3,616
Restructuring charges and adjustments	253	130
Total costs and expenses	110,101	224,495
Operating income (loss)	47,848	(21,965)
Non-operating income (expense), net:		
Interest income	1,650	4,590
Interest expense	(5,767)	(5,826)
Realized gains on investments, net		5,532
Foreign currency hedge and transaction losses, net	(409)	(393)
Other income (expense), net	(492)	(456)
Total non-operating income (expense), net	(5,018)	3,447
Income (loss) before income taxes	42,830	(18,518)
Provision (benefit) for income taxes	1,498	(6,274)
Net income (loss)	$ 41,332	$ (12,244)

Earnings (Loss) per common share:		
Basic	$ 0.10	$ (0.03)
Diluted	$ 0.09	$ (0.03)
Weighted-average common shares outstanding:		
Basic	432,850	424,916
Diluted	477,524	424,916
Comprehensive income (loss):		
Net income (loss)	$ 41,332	$ (12,244)
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities arising during the period	121	(9,451)
Reclassification adjustment for net realized (gains) losses on available-for-sale securities included in income (loss)		(5,532)
Net unrealized gain (loss)	121	(14,983)
Foreign currency translation	279	(708)
Tax effect of other comprehensive income (loss)	(44)	5,394
Total other comprehensive income (loss)	356	(10,297)
Total comprehensive income (loss)	$ 41,688	$ (22,541)

See accompanying notes to condensed consolidated financial statements.

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i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2003	**2002**
		(As restated, see Note 2)
Cash flows from operating activities:		
Net income (loss)	$ 41,332	$ (12,244)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	7,394	21,079
Write-down of equipment	349	
Provision (credit) for bad debts charged to costs and expenses	(594)	2,165
Amortization of deferred compensation	352	115
Net (gain) loss realized on investments		(5,532)
Deferred income taxes	30	(13,845)
Tax benefit from stock option exercises		839
Changes in operating assets and liabilities:		
Restricted cash	(34)	(6,055)
Accounts receivable, net	7,855	29,155
Deferred expenses	3,081	12,848
Other assets	(3,191)	(12,829)
Accounts payable	(405)	(2,261)
Accrued liabilities	(20,679)	(31,315)
Accrued compensation and related expenses	(11,542)	(6,135)
Deferred revenue	(39,729)	(47,206)
Net cash used in operating activities	(15,781)	(71,221)
Cash flows from investing activities:		
Purchases of premises and equipment	(97)	(4,265)
Proceeds from sale of real estate		12,474
Net change in short-term investments		42,703
Purchases of long-term investments		(1,000)
Proceeds from sales of long-term investments	5,000	10,420
Purchases of long-term debt securities		(65,283)
Investments designated as restricted cash		6,055
Net cash provided by investing activities	4,903	1,104
Cash flows from financing activities:		
Net proceeds from option exercises and stock issued under employee stock purchase plans	1	5,284
Net cash provided by financing activities	1	5,284
Effect of exchange rates on cash	142	58

Net change in cash and cash equivalents	(10,735)	(64,775)
Cash and cash equivalents at beginning of period	402,177	538,045
Cash and cash equivalents at end of period	$ 391,442	$ 473,270

See accompanying notes to condensed consolidated financial statements.

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i2 TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Table dollars in thousands, except per share data)

(Unaudited)

1. Summary of Significant Accounting Policies

Nature of Operations. We are a provider of enterprise supply chain management solutions, including various supply chain software and service offerings. We operate our business in one business segment. Supply chain management is the set of processes, technology and expertise involved in managing supply, demand and fulfillment throughout divisions within a company and with its customers, suppliers and partners. The goals of our solutions include increasing supply chain efficiency and enhancing customer and supplier relationships by managing variability, reducing complexity, improving operational visibility, increasing operating velocity and integrating planning and execution. Our offerings help customers maximize efficiency in relation to spend, production, revenue and profit, fulfillment and logistics performance. Our application software is often bundled with other offerings including content and services we provide such as business optimization and technical consulting, training, solution maintenance, content management, software upgrades and development.

Basis of Presentation. The unaudited condensed consolidated financial statements of the Company have been prepared by management and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2003. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted under the Securities and Exchange Commission s rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto, together with management s discussion and analysis of financial condition and results of operations, presented in the Company s Annual Report on Form 10-K for the year ended December 31, 2002 filed on July 21, 2003 with the Securities and Exchange Commission (2002 Annual Report on Form 10-K).

Stock-Based Compensation Plans. Employee compensation expense under stock option plans is reported only if options are granted below market price at the grant date in accordance with the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees . Statement of Financial Accountings Standards (SFAS) No. 123, Accounting for Stock Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure , requires pro forma disclosures of net income and earnings per share for companies not adopting its fair value accounting method for stock-based employee compensation.

The following pro forma information presents net loss and loss per common share for the three months ended March 31, 2003 and 2002 had the fair value method of SFAS No. 123 been used to measure compensation cost for stock-based compensation plans. For purposes of these pro forma disclosures, the estimated fair value of the options and stock rights is amortized to expense over the related vesting periods and the estimated fair value of the employee

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stock purchase plans shares is amortized to expense over the purchase period. During the second quarter of 2002, we ceased recognizing tax benefits for net operating losses for financial reporting purposes. Accordingly, the pro forma adjustments in the table below have not been tax affected for the three months ended March 31, 2003.

	Three months ended March 31,	
	2003	2002
Net income (loss), as reported	$ 41,332	$ (12,244)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects in 2002	321	(74)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects in 2002	(46,260)	(53,902)
Pro forma net loss	$ (4,607)	$ (66,220)
Earnings (loss) per common share Basic:		
As reported	$ 0.10	$ (0.03)
Pro forma	(0.01)	(0.16)
Earnings (loss) per common share Diluted:		
As reported	$ 0.09	$ (0.03)
Pro forma	(0.01)	(0.16)

Adoption of Accounting Standards

SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 clarifies and simplifies existing accounting pronouncements related to gains and losses from debt extinguishments and certain lease modifications and eliminates certain transitional accounting standards that are no longer necessary. This statement also makes minor technical corrections to various other existing pronouncements. Certain provisions of this statement became effective for us on January 1, 2003, while other provisions became effective for transactions occurring and financial statements issued after May 15, 2002. Adoption of the provisions of this statement that were effective after May 15, 2002 did not have a significant impact on our financial statements. Due to the adoption of this standard, the gain on early extinguishment of our Trade Services Corporation (TSC) promissory note in the second quarter of 2003 will be recorded in other income and expense (see *Note 10 Subsequent Events*).

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Such costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 replaces Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 is required to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Adoption of this standard on January 1, 2003 did not have a significant impact on our financial statements; however, the statement will impact the way we account for any future restructuring activities.

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

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2. Restatement

Subsequent to the issuance of our consolidated financial statements as of and for the year ended December 31, 2001 and for the first three quarters of 2002, we determined the need to adjust the accounting with respect to certain transactions as discussed in our 2002 Annual Report on Form 10-K. The revenue adjustments that were made mostly resulted in revenue being deferred and recognized in subsequent periods, although in certain situations the adjustments resulted in revenue reversals. The adjustments included amounts deferred and reversed as a result of our application of the principles of contract accounting and amounts reversed as a result of the presence of concurrent transactions. We also made certain deferrals and reversals to our expenses in connection with these revenue adjustments and made certain other adjustments to our expenses. As a result of these adjustments to our revenues and expenses, we made certain income tax-related adjustments, discussed below**.** Accordingly the accompanying unaudited condensed consolidated financial statements for the three months ended March 31, 2002 have been restated.

Restatement Impact on Net Income (Loss)

(In millions, except per share data)

	Quarter Ended March 31, 2002		
	(As Reported)	**(As Restated)**	**Difference**
Net Revenue adjustments	$ 168.4	$ 202.5	$ 34.1
Expense adjustments, including operating expense and other income and expense	$ 222.7	$ 221.0	$ 1.7
Income tax adjustment	$ (19.6)	$ (6.3)	$ (13.3)
Total decrease of net loss	$ (34.8)	$ (12.2)	$ 22.5
Effect on loss per share Basic and diluted	$ (0.08)	$ (0.03)	$ 0.05

The following discussion provides additional information regarding these adjustments.

Net Revenue Adjustments

Net Contract Revenue and Related Expense Adjustments

As a result of a comprehensive review of revenue recognition practices conducted by senior management in connection with the restatement, which involved an extensive in-depth review and analysis of data and other information accumulated during the course of the re-audits from various sources within our company, we determined the need to change the accounting for a number of transactions from revenue recognition under Statement of Position (SOP) 97-2, Software Revenue Recognition, to revenue recognition under SOP 81-1, Accounting for Certain Construction Type and Certain Production Type Contracts, referred to as contract accounting. This determination was made because we concluded that in some instances our services were essential to the functionality of certain software products we licensed and that contract accounting was therefore the appropriate accounting treatment for these transactions. We concluded that our services were essential to the

functionality of certain software products we licensed for a variety of reasons, including (i) expansion of the use of such products into new industries and markets, (ii) communications with customers which established certain expectations inconsistent with the capabilities of products at the time of sale, (iii) significant performance and product-readiness issues related to certain products, and/or (iv) the

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requirement of significant customization, modifications or additions to products to meet the customers expectations or intended purposes.

Applying contract accounting to these transactions required that the recognition of license, services and/or maintenance revenue for these transactions be deferred and recognized in subsequent periods. The deferral and related revenue recognition is based on the applicability of either the percentage of completion method or the completed contract method of accounting. The percentage of completion method requires revenue to be recorded as the implementation is completed and the completed contract method requires revenue to be recorded only when we have satisfied all of our product and/or service delivery obligations to the customer.

We do not have fair value for our license revenue as a result of our varied discounting practices. Accordingly, under SOP 97-2 we have recognized revenue under the residual method which has prevented us from allocating license revenue among the individual products licensed to a customer. As a result, if a determination is made that our services are essential to the functionality of any single software product or group of products licensed to a customer as part of a larger bundle of our software products, then the license, services and/or maintenance revenue associated with the entire bundle must be accounted for in accordance with SOP 81-1. This is so even if the software product for which our services are essential has not been implemented by the customer. As a result of this treatment, in numerous situations we deferred all license, maintenance and/or services revenue associated with transactions in which our customers have implemented many parts of a software bundle and have paid us in full.

In these situations, we deferred license, services and/or maintenance revenue because the customer retained the license right to the non-implemented software product for which our services have been deemed to be essential. Once payment from the customer is received, these amounts remain on the balance sheet as deferred revenue until an event occurs to allow revenue to be recognized under SOP 81-1. There are a limited number of transactions that remain in deferred revenue at March 31, 2003 in which certain non-implemented software products for which services are essential are no longer being licensed by us. In these cases, we believe it is unlikely that the customer will implement these software products, although most are using other products and services from us. While we will attempt to resolve these situations with the customers involved in order to enable recognition of the deferred revenue in question, we cannot predict how successful we will be in doing so.

Revenue and Expense Reversals Contract Accounting

With respect to certain transactions that are now being accounted for under contract accounting rules, we were not paid all amounts due to us or we incurred transaction-related settlement expenses. In each of these cases we reversed revenue equal to the amount of such payment shortfall and/or settlement expense. These payment shortfalls and settlement expenses, formerly recorded as bad debt or customer litigation expenses, were also reversed.

Revenue and Expense Reversals Concurrent Transactions

We also identified four transactions which were concluded at or about the same time as other arrangements with the same customers and with respect to which we were unable to determine that we had paid or received fair value for the products or services involved. The principal transaction was our license of software to International Business Machines Corporation (IBM) in the first quarter of 2000. We have determined that our license of software to IBM and the concurrent arrangements with IBM should be accounted for as a single transaction.

Expense Adjustments

We also identified several accrued expense items for which we made adjustments to the amount of the liability, the timing of recording the liability or the timing of releasing the liability. These adjustments related to our accrued compensation and related expenses, including the accruals related to vacation, employee health plans and potential bonus payouts. Finally, the original accounting treatment with respect to certain business combinations was modified. As a result, we adjusted the allocation of purchase price on certain acquisitions and the related amortization of intangibles and goodwill.

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Income Tax Adjustments

As a result of these adjustments to our revenues and expenses, we also made certain income tax-related adjustments.

Net Income

The statement of operations impact of the adjustments described above is to decrease our net loss by $22.5 million during the first quarter of 2002, as summarized below:

	Three Months Ended March 31, 2002		
	As Reported	As Restated	Difference
Revenues:			
Software licenses	$ 58,615	$ 26,464	$ (32,151)
Contract		94,914	94,914
Services	60,853	42,875	(17,978)
Maintenance	48,946	38,277	(10,669)
Total revenues	168,414	202,530	34,116
Costs and expenses:			
Software licenses	16,257	4,330	11,927
Contract		35,599	(35,599)
Amortization of acquired technology	7,722	6,631	1,091
Services and maintenance	59,978	38,345	21,633
Sales and marketing	62,897	62,873	24
Research and development	56,005	54,917	1,088
General and administrative	20,343	18,054	2,289
Amortization of intangibles	3,232	3,616	(384)
Restructuring charges and adjustments	(257)	130	(387)
Total costs and expenses	226,177	224,495	1,682
Operating loss	(57,763)	(21,965)	35,798
Non-operating income (expense), net:			
Interest income	4,589	4,590	(1)
Interest expense	(5,821)	(5,826)	5
Realized gains on investments, net	5,532	5,532	
Foreign currency hedge and transaction losses, net	(394)	(393)	(1)
Other expense, net	(454)	(456)	2
Non-operating income (expense), net	3,452	3,447	5
Loss before income taxes	(54,311)	(18,518)	35,793
Benefit for income taxes	(19,552)	(6,274)	(13,278)

Net loss	$ (34,759)	$ (12,244)	$ 22,515
Loss per common share:			
Basic and diluted	$ (0.08)	$ (0.03)	$ 0.05

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3. 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 condensed 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, 2003	December 31, 2002
Short-term time deposits	$ 40,269	$ 9,313
Obligations of state and local municipalities	111,400	202,700
Corporate bonds and notes and commercial paper	104,396	114,781
	$ 256,065	$ 326,794

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 condensed consolidated balance sheets. Short-term investments were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
March 31, 2003				
Obligations of state and local municipalities	$ 10,000	$	$	$ 10,000
December 31, 2002				
Obligations of state and local municipalities	$ 10,000	$	$	$ 10,000

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 condensed consolidated balance sheets. All long-term debt securities outstanding at March 31, 2003 will contractually mature within 18 months. Long-term investments were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
March 31, 2003				
U.S. government obligations	$ 28,000	$ 127	$	$ 28,127
Corporate equity securities	6	4		10
	$ 28,006	$ 131	$	$ 28,137

December 31, 2002				
U.S. government obligations	$ 33,000	$ 10	$	$ 33,010
Corporate equity securities	6	$		6
	$ 33,006	$ 10	$	$ 33,016

As of March 31, 2003 and December 31, 2002, corporate equity securities included common stock of public companies as well as warrants to purchase common stock of public companies.

4. Intangible Assets and Goodwill

Intangible Assets. During the third quarter of 2002, we tested our identified intangible assets for impairment and recorded an impairment charge of approximately $37.7 million. In testing these assets for potential impairment, we categorized and analyzed the assets in asset groups by related acquisition as follows: (i) Aspect / SupplyBase, (ii)

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Rightworks, (iii) Trade Service Corporation, and (iv) certain IBM assets. Using internal projections and historical run rates, we estimated the future cash flows for the asset groups to first determine if the intangible assets were impaired. Upon determining the existence of an impairment, we then discounted the future projected cash flows over the remaining useful lives of the primary assets to estimate their current fair value. The estimated future cash flows were discounted using our estimated weighted average cost of capital. The amount of the impairment charge represents the difference between the estimated fair value and the carrying amount of the asset groups prior to impairment. The impairment was then allocated to the individual assets within the corresponding asset group.

Intangible assets, excluding debt issuance costs, as of March 31, 2003 and December 31, 2002 were as follows:

	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
March 31, 2003			
Content databases	$ 110,500	$ (110,429)	$ 71
Installed customer base	46,700	(46,700)	
Developed technology	118,600	(117,797)	803
Relationships	12,500	(12,415)	85
Intellectual property	2,000	(2,000)	
	$ 290,300	$ (289,341)	$ 959
December 31, 2002			
Content databases	$ 110,500	$ (110,411)	$ 89
Installed customer base	46,700	(46,317)	383
Developed technology	118,600	(117,653)	947
Relationships	12,500	(12,393)	107
Intellectual property	2,000	(2,000)	
Other	8		8
	$ 290,308	$ (288,774)	$ 1,534

Accumulated amortization as of March 31, 2003 and December 31, 2002, includes the impairment charges of $57.5 million for content databases; $21.5 million for installed customer base; $36.7 million for developed technology; and $8.5 million for relationships recorded during 2002 and 2001.

Amortization expense related to intangible assets totalled $0.6 million and $10.2 million during the three months ended March 31, 2003 and 2002, respectively.

In conjunction with testing for impairment, we were also required to review and assess the estimated useful lives of the remaining intangible assets. This analysis led to adopting an accelerated remaining useful life for the remaining relationships intangible asset. The remaining useful life for the relationships assets was modified to 18 months from the original useful life of 42 months. The remaining useful lives of the other intangible assets were not changed. The estimated aggregate future amortization expense for intangible assets remaining as of March 31, 2003 is as follows:

Remainder of 2003	$ 552
2004	407
Total	$ 959

Goodwill. On January 1, 2002, in accordance with SFAS No. 142, we stopped amortizing goodwill and adopted a new policy for measuring goodwill for impairment. No impairment to goodwill was recorded in conjunction with the adoption of the new accounting standard. The Company intends to complete its annual impairment test for 2003 during the fourth quarter. Goodwill totalled $15.9 million at March 31, 2003 and December 31, 2002.

5. Borrowings and Debt Issuance Costs

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In March 2001, we issued a $60.9 million convertible promissory note in connection with our acquisition of TSC. The note matures on September 23, 2003 and bears interest of 7.5% per annum which is payable in annual installments on each anniversary date of the note and upon maturity. The note provides that at any time on or after March 23, 2002, we may convert the note into shares of our common stock based upon the trading average of our stock. The trading average is 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. If the trading average is $60.00 per share or less, then the number of shares issued upon conversion will be determined by dividing the outstanding principal balance and accrued interest on the note by the trading average. If the trading average is greater than $60.00 per share, then the number of shares issued upon conversion will be the average of (a) the quotient derived by dividing the outstanding principal balance and accrued interest on the note by the average of $60.00 and the trading average and (b) the average of (i) the quotient derived by dividing the outstanding principal balance and accrued interest on the note by $60.00 and (ii) the quotient derived by dividing the outstanding principal balance and accrued interest on the note by the trading average. The note is also convertible by the holder at any time the trading average exceeds $60.00 per share using the same conversion formula as set forth in the previous sentence. Whether the note is converted at our option or at the option of the holder, the entire outstanding principal balance and accrued interest payable on the note must be converted. The aggregate number of shares of our common stock issued pursuant to the conversion of the note cannot exceed 39.0 million shares. Any portion of the note that may not be converted into shares of our common stock as a result of this limitation will instead be paid in cash. The principal balance of the note totalled $60.9 million at March 31, 2003 and December 31, 2002. On June 6, 2003 we prepaid this convertible promissory note (see *Note 10 Subsequent Events*).

In December 1999, we issued $350.0 million of convertible subordinated notes. The notes mature on December 15, 2006 and bear interest at a rate 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**,** from time to time, seek to retire the notes through cash repurchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise**.** Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. As of March 31, 2003, none of the notes have been converted to common stock, redeemed, or otherwise retired. The principal balance of the notes totalled $350.0 million at March 31, 2003 and December 31, 2002.

This indenture governing our $350 million of convertible subordinated notes due in December 2006 requires us to deliver our annual and quarterly filings with the SEC to the indenture trustee within 15 days after the date such periodic filings are due to be filed with the SEC, and the indenture contains a 60-day cure period for covenant non-compliance. In the event that we were unable to cure such non-compliance within the 60-day cure period, we would then be in default under the convertible subordinated notes. The cure period commences upon delivery of notice of non-compliance to us. To date, we have not received notice of non-compliance from the trustee or the debt holders. With the filing of this quarterly report on Form 10-Q for the quarter ended March 31, 2003 (and the delivery of such filing to the indenture trustee), we believe that we will cure our non-compliance with the reporting covenants in the indenture.

Debt Issuance Costs. Unamortized debt issuance costs totalled $5.3 million and $5.7 million at March 31, 2003 and December 31, 2002, respectively, and are included in intangibles, net in the accompanying condensed consolidated balance sheets. Debt issuance costs, initially recorded in connection with our issuance of $350.0 million in convertible debt in 1999, are amortized at a rate of $1.5 million per year over the life of the debt, which matures in December 2006. Amortization of debt issuance costs is reported as a component of other non-operating expense in the accompanying condensed consolidated statements of operations.

6. Restructuring Charges and Adjustments

2002 Restructuring Plan. In July 2002, we initiated a global restructuring plan to further reduce our operating expenses and to bring them into alignment with our recent revenue levels. Overall expense reductions were necessary to both lower our existing cost structure and to realign and reallocate our resources in a manner commensurate with our new operating plan. Declining revenues, gross margins, losses and other performance measures such as revenue per employee during 2002 precipitated the restructuring plan. The plan included the elimination of certain employee positions and the reduction of office space and related overhead expenses. The restructuring charges recorded in the third and

fourth quarters primarily consisted of severance and termination costs for the involuntarily terminated employees and office closure costs. The majority of the restructuring activity related to the 2002 restructuring charges occurred during 2002 and we expect the remaining actions, such as additional office closures or consolidations and asset disposals, will be completed within one year from the date the charges were recorded.

2001 Restructuring Plan. During 2001, we implemented a global restructuring plan to reduce our operating expenses with a goal of improving our financial position. The restructuring plan was initiated in response to poor economic conditions during 2001, which led to increasing net losses, declining gross margins and other performance measures such as revenue per employee. The restructuring plan encompassed terminating employees and reducing

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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, with the remaining actions, including closing and consolidating identified offices, completed in 2002.

Consolidated Restructuring Accrual

The following table summarizes the 2003 restructuring related payments and the components of the remaining restructuring accruals at December 31, 2002 and March 31, 2003:

	Employee Severance and Termination	Office Closure and Consolidation	Total
Remaining accrual balance at December 31, 2002	$ 10,569	$ 48,939	$ 59,508
Non-cash utilization in the first quarter of 2003		(8,868)	(8,868)
Payments in the first quarter of 2003	(5,559)	(8,233)	(13,792)
Remaining accrual balance at March 31, 2003	$ 5,010	$ 31,838	$ 36,848

7. Stockholders Deficit and Earnings (Loss) Per Common Share

Earnings (Loss) Per Common Share. Basic earnings (loss) per common share is based on net income (loss) divided by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per common share includes the dilutive effect of stock options, stock rights awards 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. The following is a reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three months ended March 31, 2003 and 2002 (in thousands):

	2003	2002
Basic earnings per share of common stock weighted average common shares outstanding	432,850	424,916
Effect of dilutive securities:		
Outstanding stock option, warrant, and stock rights awards	5,674	
Convertible debt	39,000	
Diluted earnings per share weighted average common and common equivalent shares outstanding	477,524	424,916

As a result of the net loss incurred during 2002, options to purchase 25.8 million shares of common stock and debt convertible into 12.0 million shares of common stock were excluded from the determination of the weighted-average number of common shares outstanding for the purposes

of computing diluted earnings per common share because their effect would have been anti-dilutive. Had we reported net income, these securities would have been included in the dilutive share computation.

8. Segment Information, International Operations and Customer Concentrations

We operate our business in one segment, supply chain management solutions designed to help enterprises optimize business processes both internally and among trading partners. Statement of Financial Accounting Standards (SFAS No. 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, who is our Chief Executive Officer, in deciding how to allocate resources and in assessing performance.

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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 have not consistently allocated revenues from such sales to individual products for internal or general-purpose financial statements.

Revenues are attributable to regions based on the locations of the customers operations. Regions are categorized as Americas, Europe, Middle East and Africa (EMEA), Japan or Asia Pacific (APAC). Total revenues by geographic region, as reported to our chief operating decision maker, were as follows:

	Three Months Ended March 31,	
	2003	2002
Americas	$ 112,646	$ 145,350
EMEA	26,604	30,076
Japan	9,912	17,782
APAC	8,787	9,322
	$ 157,949	$ 202,530

Revenues from international operations totalled $48.0 million and $63.6 million during the three months ended March 31, 2003 and 2002, respectively.

During the periods presented, no individual customer accounted for more than 10% of total revenues.

Long-lived assets by geographic region, as reported to our chief operating decision maker, were as follows:

	March 31, 2003	December 31, 2002
Americas	$ 68,986	$ 89,256
EMEA	19,016	19,204
Japan	1,379	1,485
APAC	5,405	6,232
	$ 94,786	$ 116,177

9. Commitments and Contingencies

Securities and Exchange Commission Investigation

On or about March 26, 2003, we were advised that the United States Securities and Exchange Commission (SEC) had issued a formal order of investigation to determine whether there have been violations of the federal securities laws by the company and/or others involved with the company in connection with matters relating to the restatement of our consolidated financial statements. Our Board of Directors had directed our Audit Committee to conduct an internal investigation of certain allegations made during the fall of 2001 by a former officer relating to revenue recognition and financial reporting, among other things. In November 2002, we reported to the SEC and in our third quarter 10-Q the results of that investigation, as well as certain new, related allegations made during the fall of 2002 by the former officer and another former officer. Thereafter, the staff of the SEC opened an informal inquiry into these allegations and other matters relating to our financial reporting prior to the issuance of the formal order of investigation by the SEC. We continue to be in discussions with the SEC and intend to continue to fully

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cooperate with the SEC. We cannot predict when this investigation will be completed or its outcome. If the SEC makes a determination that we have violated federal securities laws, we may face sanctions, including, but not limited to, significant monetary penalties and injunctive relief.

Class Action and Derivative Litigation

Beginning in March 2001, a number of purported class action complaints were filed in the United States District Court for the Northern District of Texas (Dallas Division) against the company 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 from May 4, 2000 and February 26, 2001. In July 2003, the Court issued an order that consolidated, for purposes of pre-trial matters only, this class action with the class action complaints, described below, that were filed in April 2003 against the company. We continue to vigorously defend against this lawsuit. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

In April 2001, a purported shareholder derivative lawsuit was filed in Dallas County, Texas, against certain of our officers and directors, naming the company as a nominal defendant. The suit claims that certain of our officers and directors breached their fiduciary duties to the company 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 the company. 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 filed a motion to dismiss the action on February 19, 2002 and the motion was granted on October 8, 2002. Plaintiffs filed an appeal of the decision on October 15, 2002 and this appeal is still pending. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

Restatement Class Action Litigation and Derivative Litigation

Beginning in April 2003, a number of purported shareholder class action complaints were filed in the United States District Court for the Northern District of Texas (Dallas Division) against the company and certain of our current and former officers and directors. The complaints bring claims under the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, relating to our announcement that we would re-audit certain of our consolidated financial statements and that there would be material adjustments to our financial statements. Specifically, these actions allege that we issued a series of false or misleading statements to the market during the class period that failed to disclose that (i) we had materially overstated our revenue by improperly recognizing revenue on certain customer contracts; (ii) we lacked adequate internal controls and were therefore unable to ascertain our true financial condition; and (iii) as a result of the foregoing, our financial statements issued during the class period were materially false and misleading. Plaintiffs contend that such statements caused our stock price to be artificially inflated. The complaints seek unspecified damages on behalf of a purported class of purchasers of our common stock during the period from April 18, 2000 to January 24, 2003. In July 2003, the Court issued an order that consolidated, for purposes of pre-trial matters only, these class action complaints with the class action, described above, that commenced in March 2001 against the company. We continue to vigorously defend against these lawsuits. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

In April and May 2003, two purported shareholder derivative lawsuits were filed in the United States District Court for the Northern District of Texas (Dallas Division) against certain of our officers and directors, naming the company as a nominal defendant. The suits claim that certain of our officers and directors breached their fiduciary

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duties to the company and our stockholders by: (i) causing us to improperly recognize revenue in violation of generally accepted accounting principles to artificially inflate our stock price in order to complete acquisitions in which our stock was used as consideration, and (ii) selling shares of our common stock while in possession of material adverse non-public information regarding our financial statements and securing personal loans using our allegedly artificially inflated stock price. As stated, the complaints are derivative in nature and do not seek relief from us. 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 these actions 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. In July 2003, the Court issued an order that consolidated, for purposes of pre-trial matters only, these two purported shareholder derivative lawsuits and plaintiffs amended their consolidated complaint to add a claim that our Chief Executive Officer and Chief Financial Officer violated section 304 of the Sarbanes-Oxley Act of 2003 seeking to recover from them (a) bonuses and equity-based compensation, and (b) profits realized from sales of securities of the company. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of these matters.

In May 2003, a purported shareholder derivative lawsuit was filed in the United States District Court for the Northern District of Texas (Dallas Division) against our current Chief Executive Officer, Chief Financial Officer and directors, naming the company as a nominal defendant. The suit claims that our Chief Executive Officer and Chief Financial Officer violated section 304 of the Sarbanes-Oxley Act of 2003 and seeks to recover from them (a) bonuses and equity-based compensation, and (b) profits realized from sales of securities of the company. The suit also names our current directors for failing to seek recovery of the aforementioned bonuses, equity-based compensation and trading profits. As stated, the complaint is derivative in nature and does not seek relief from the company. However, the company has entered into indemnification agreements in the ordinary course of business with our Chief Executive Officer, Chief Financial Officer and directors and we 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. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

Other Litigation

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.

The adverse resolution of any one or more of these matters, discussed in this *Note 9 Commitments and Contingencies*, over and above the amount that has been estimated and accrued in the current condensed consolidated financial statements could have a material adverse effect on our business, financial condition or results of operations.

Indemnification Agreements. We have entered into indemnification agreements with certain of our officers, directors and employees that may require us, among other things, to indemnify such officers, directors and employees against certain liabilities that may arise by reason of their status or service as directors, officers or employees and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. Pursuant to these agreements, we plan to advance or indemnify certain directors, officers and employees for fees and expenses incurred by them in connection with the internal review resulting in the restatement of our consolidated financial statements, the related SEC investigation and legal proceedings and other matters.

We have also entered into agreements regarding the advancement of costs with certain officers and employees. Pursuant to these agreements, we plan to advance certain officers and employees for fees and expenses incurred by them in connection with the internal review resulting in the restatement of our consolidated financial statements, the related SEC investigation and legal proceedings and other matters.

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The maximum potential amount of future payments we could be required to make under these indemnification agreements and the agreements for the advancement of costs is unlimited; however, we have Director and Officer insurance that should limit our exposure and enable us to recover a portion of any future amounts paid in regards to officers and directors. Additionally, our corporate by-laws allow us to choose to indemnify any employee of the Company for certain events or occurrences while the employee is, or was serving, at our request in such capacity. There have been no amounts advanced as of March 31, 2003.

10. Subsequent Events

In April 2003, we obtained a waiver letter under our $20 million letter of credit line pursuant to which the lender waived, to and including July 15, 2003, any and all defaults and events of default under the line that occurred or that could occur as a result of or in connection with the re-audit and restatement of our financial statements. On April 30, 2003 this line expired and we negotiated a new letter of credit line for $15.0 million with another lender. Under the new line, we are required to maintain restricted cash in a depository account maintained by the lender to secure letters of credit issued in connection with the new line. The new line contains a letter of credit fee equal to 0.375% per year on the face amount of the letters of credit and an unused commitment fee of 0.15% per year on the average daily-unused amount of the line. The new line has no financial covenants and expires on April 29, 2004.

In May 2003, we entered into a lease termination agreement with the owner of one of our headquarter buildings that we vacated in January 2003 as part of our restructuring plan. This lease, originally scheduled to expire in October 2011, would have required us to pay approximately $37.7 million through the lease s original date of termination. In consideration for the early termination of the lease, we paid approximately $7.6 million in cash and issued a $6.8 million non-negotiable promissory note due and payable on December 15, 2006. The note bears interest at a rate of 5.25% per annum, payable semi-annually in arrears. Upon executing this agreement in the second quarter of 2003, the remaining restructuring accrual of $12.4 million was utilized and an additional charge of $2.0 million was recorded.

On June 6, 2003, we prepaid our $60.9 million convertible promissory note that we originally issued in connection with the acquisition of TSC. The note had a maturity date of September 23, 2003. We paid $59.2 million in cash to the holder of the note as payment and satisfaction in full of the principal amount of, and all accrued interest under, the note and our remaining obligations under the acquisition agreement. The amount paid in settlement of the note and those obligations represents approximately a 5.5% discount to the principal and interest accrued under the note through the date of prepayment.

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, which could have a material adverse effect on our business and thereby cause our stock price to decline. Such risks and uncertainties include, without limitation, the following:

We are currently experiencing negative cash flow and we may not achieve or maintain profitability or a return to positive cash flow.

We have been named as a defendant in a number of class action and shareholder derivative lawsuits and the SEC has issued a formal order of investigation to determine whether there have been violations of the federal securities laws by us and/or others involved with us in connection with matters relating to the restatement of our financial results. If any of these lawsuits or the SEC investigation is decided adversely to us, the outcome could have a material adverse effect on our relationships with customers, financial condition or results of operations.

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Our future financial results are difficult to predict and may vary significantly from quarter to quarter.

Lack of improvement in information technology spending, especially in the high technology sector and other markets we serve, and general economic conditions could further negatively impact our revenues.

We may fail to achieve the desired results of our restructuring activities and other strategic initiatives.

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

We may not remain competitive.

Further loss of key employees, including customer-facing employees, may negatively affect our operating results and revenues.

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

Many of these risks and uncertainties are beyond our control and, in many cases, we cannot accurately 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 express relate to us, our customers or our management are intended to identify forward-looking statements.

References in this report to the terms optimal and optimization 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 provider of enterprise supply chain management solutions, including various supply chain software and service offerings. We operate our business in one business segment. Supply chain management is the set of processes, technology and expertise involved in managing supply, demand and fulfillment throughout divisions within a company and with its customers, suppliers and partners. The goals of our solutions include increasing supply chain efficiency and enhancing customer and supplier relationships by managing variability, reducing complexity, improving operational visibility, increasing operating velocity and integrating planning and execution. Our offerings help customers maximize efficiency in relation to spend, production, revenue and profit, fulfillment and logistics performance. Our application software is often bundled with other offerings including content and services we provide such as business optimization and technical consulting, training, solution maintenance, content management, software upgrades and development.

Application of Critical Accounting Policies And Accounting Estimates

There have been no changes to our critical accounting policies since we filed our 2002 Annual Report on Form 10-K on July 21, 2003.

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Results of Operations

The following discussion and analysis gives effect to the restatement described above in *Note 2 Restatement* in the accompanying notes to condensed consolidated financial statements. For this reason, the data set forth in this section may not be comparable to discussions and data in our previously-filed quarterly reports and our annual reports prior to our 2002 Annual Report on Form 10-K.

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

	Three Months Ended March 31,	
	2003	2002
Revenues:		
Software licenses	12.1%	13.1%
Contract	41.7%	46.9%
Services	24.4%	21.2%
Maintenance	21.8%	18.8%
Total revenues	100.0%	100.0%
Costs and expenses:		
Cost of revenues:		
Software licenses	0.2%	2.1%
Contract	8.5%	17.6%
Amortization of acquired technology	0.1%	3.3%
Services and maintenance	23.3%	18.9%
Sales and marketing	18.0%	31.0%
Research and development	10.0%	27.1%
General and administrative	9.1%	8.9%
Amortization of intangibles	0.3%	1.8%
Restructuring charges and adjustments	0.2%	0.1%
Total costs and expenses	69.7%	110.8%
Operating income (loss)	30.3%	(10.8)%
Non-operating income (expense), net:		
Interest income	1.0%	2.3%
Interest expense	(3.7)%	(2.9)%
Realized gains on investments, net	0.0%	2.7%
Foreign currency hedge and transaction losses, net	(0.2)%	(0.2)%
Other expense, net	(0.3)%	(0.2)%
Total non-operating income (expense), net	(3.2)%	1.7%
Income (loss) before income taxes	27.1%	(9.1)%
Provision (benefit) for income taxes	0.9%	(3.1)%

Net income (loss)	26.2%	(6.0)%

Revenues

Revenues consist of software license revenues, contract revenues, service revenues and maintenance revenues, and are recognized in accordance with SOP 81-1, Accounting for Certain Construction Type and Certain

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Production Type Contracts, 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. Total revenues decreased $44.6 million, or 22%, in the three months ended March 31, 2003 as compared to the same period in 2002. 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 revenue includes amounts related to software product sales, content subscriptions and other revenues classified as license revenue. Software license revenues totalled $19.1 million, or 12% of total revenues, for the three months ended March 31, 2003, decreasing $7.3 million, or 28%, from the same period in 2002.

Revenue from software product sales totalled $9.4 million, or 49%, of our total software license revenue for the three months ended March 31, 2003, as compared to $15.3 million, or 58%, of total software license revenue for the three months ended March 31, 2002. The decrease in revenue from software product sales during the comparable periods was the result of a decline in sales arising from continued softness in demand, uncertainties related to our financial condition and the re-audit of our financial statements, sales and other deal execution issues, reduction in sales and marketing capacity and increased competition, among other factors. Poor economic conditions, among other factors, have continued to suppress technology and capital spending by customers 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 impacted by the poor economic conditions. We have also experienced customer dissatisfaction that has negatively altered our reputation in the market and contributed to the decline in our revenue from software product sales. Based on our recent financial performance and the other matters referred to in *Note 2 Restatement*, in the accompanying notes to condensed consolidated financial statements, our customers and prospects have also voiced concerns about our continued financial viability that may have contributed to the decline of our total revenues. Further, the delay or cancellation of software implementations by customers may have contributed to the decline in license sales. Despite our efforts to generate demand and develop growth in other areas, our success has been limited and there can be no assurance that our business will stabilize or that we will be able to effectively develop future revenue growth from software product sales.

Revenue from content subscriptions and other revenue classified as software license revenue totalled $9.7 million, or 51%, of total software license revenue for the three months ended March 31, 2003, as compared to $11.2 million, or 42%, of our total software license revenue for the three months ended March 31, 2002. The decline in revenue from content subscriptions and other revenue classified as software license revenue is primarily attributable to increased competition in the market, specifically as related to price pressure, a decline in content subscription renewals and a decline in the market growth of content and content services.

Our account teams, led by sales representatives and consulting managers, are responsible for most of our software license and contract revenue. Although we believe direct sales will continue to account for most of our software license and contract revenue for the foreseeable future, our objectives include continuing 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 further expand indirect sales of our software products and content subscriptions will be successful or that such indirect sales will continue in the future.

Contract. Contract revenue consists of fees generated from development services projects (which includes the related license, services and maintenance fees) as well as license, services and maintenance revenue from those transactions for which we determined in connection with our recent restatement to change the accounting from revenue recognition under SOP 97-2 to contract accounting under SOP 81-1. Contract revenue totalled $65.9 million, or 42% of total revenue for the three months ended March 31, 2003, a decrease of $29.0 million, or 31%, compared to the same period for 2002. The decrease in contract revenue is a result of fewer contracts being recognized on a percentage of completion or completed contract basis in the first quarter of 2003 as compared to the earlier comparable period. In the future, we expect significantly reduced contract revenue due to the fact that the revenue deferred from prior periods has been reduced and we can provide no assurance as to whether or when we will be able to recognize such revenue.

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Revenue from development services projects totalled $9.3 million, or 14%, of our total contract revenue in the three months ended March 31, 2003, as compared to $7.4 million, or 8%, of total contract revenue in the same period a year earlier. The increase in revenue from development services is a result of a payment of approximately $3.6 million arising from the termination of a development services contract. Excluding the effects of this payment, we expect development services revenue to moderately increase over the long-term.

Services. Services revenue consists of fees generated by providing services to customers, including consulting, training and other services. Services revenue totalled $38.6 million, or 24% of total revenue, in the three months ended March 31, 2003, as compared to $42.9 million, or 21% of total revenue, in the same period of 2002. The decrease in services revenue for the first quarter of 2003 was primarily due to the continued decrease in license sales specifically in the latter part of 2002, which resulted in decreased demand for consulting and implementation services.

We continue to see downward trends in consulting rates due in part to pressure from offshore competition and the reduced consulting budgets of customers. The market for information technology consulting services is challenging and we are affected by these market conditions. There can be no assurance that the demand for consulting and implementation services or the rates that we can charge for our services will improve, or even remain at current levels. We expect services revenue to continue to decline unless and until we experience a sustained increase in license sales. We also expect services revenue to continue to fluctuate on a quarter-to-quarter basis, as revenue from the implementation of software is not generally recognized in the same period as the related license revenue. In any period, services revenue is 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; and
- timing of milestone acceptance for engagements contractually requiring customer sign-off.

Maintenance. Maintenance revenue consists of fees generated by providing software maintenance, upgrades and support to customers, such as telephone support and new releases of software and updated user documentation. Maintenance revenue totalled $34.3 million, or 22% of total revenues, in the three months ended March 31, 2003, as compared to $38.3 million, or 19% of total revenues, for the first three months of 2002. The decrease in maintenance revenue resulted from a decline in both the number and dollar amount of maintenance renewals mainly because of cost cutting efforts by our customers, less favorable renewal terms, deferred or cancelled implementations by customers and the fact that certain customers to whom we previously sold software are no longer operating or solvent. There can be no assurance that the number of maintenance renewals will improve, or even remain at current levels. We expect maintenance revenues to remain flat until we experience a sustained increase in license sales.

International Revenue. Our international revenue is primarily generated from customers located in Europe, Asia, Japan, Canada and Latin America. International revenue totalled $48.0 million, or 30% of total revenue, in the first quarter of 2003 and $63.6 million, or 31% of total revenue, in the first quarter of 2002. The decrease in international revenue was the result of a decline in sales arising from declining demand for enterprise application software, continued softness in technology and capital spending by customers, uncertainties related to our financial condition and the re-audit of our financial statements, reductions in customer-facing employees, sales execution issues and increased competition, among other factors.

Costs and Expenses

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

Commissions paid to non-customer 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

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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 customer claims. We accrue for customer claims on a case-by-case basis.

Cost of software licenses totalled $0.3 million, or 1% of related revenue, in the three months ended March 31, 2003 as compared to $4.3 million, or 16% of related revenue, in the first quarter of 2002. The decrease in the cost of software licenses in the first quarter of 2003 was primarily due to the decrease in license sales over prior quarters, which led to decreases in commissions paid to affiliates for sales assistance and decreases in the amount of royalty fees associated with third-party software.

Cost of Contract. Cost of contract includes costs associated with personnel performing services for customers as well as costs associated with license, services and maintenance revenue from those transactions for which we changed the accounting from revenue recognition under SOP 97-2 to contract accounting under SOP 81-1 as a result of our recent restatements. Cost of contract totalled $13.4 million, or 20% of related revenue, in the first quarter of 2003 as compared to $35.6 million, or 38% of related revenue, in the first quarter of 2002. Because contract expenses are recorded when the corresponding revenue is recognized, the decrease in cost of contract expenses over the comparable periods is primarily a result of the corresponding decrease in contract revenue over the same periods.

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 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 potential customers. Amortization of acquired technology totalled $0.1 million in the first quarter of 2003 and $6.6 million in the first quarter of 2002. Amortization of acquired technology decreased primarily due to an $18.4 million write-down of developed technology intangible assets in the third quarter of 2002 that were determined to be further impaired as the result of an assessment that was performed due to indications the carrying amounts of these assets may not be recoverable. Such indications included our continued losses and our financial projections of continuing losses for the intangible assets. See *Note 4 Intangible Assets and Goodwill*, in the accompanying notes to condensed consolidated financial statements for additional information on the impairment charges and future amortization expense.

Cost of Services and Maintenance. Cost of services and maintenance includes costs associated with providing services to customers, including implementation and training, in addition to the cost of providing software maintenance to customers such as telephone support, upgrades and updated user documentation. Cost of services and maintenance totalled $36.8 million, or 50% of associated revenues, in the first quarter of 2003 as compared to $38.3 million, or 47% of associated revenues, in the first quarter of 2002. The decrease was primarily due to a decrease in the average number of consultants, product support staff and training staff as a result of restructuring activities in these areas.

Sales and Marketing Expense. Sales and marketing expense consists 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 expense totalled $28.5 million, or 18% of total revenues, in the first quarter of 2003 as compared to $62.9 million, or 31% of total revenues, in the first quarter of 2002. The decrease was primarily due to decreases in the average number of sales and marketing personnel and direct sales representatives, as a result of restructuring activities in these areas. In addition, we experienced a decrease in sales commissions and other costs normally associated with our sales process as a result of the decline in software license sales, a decrease in expense related to marketing and promotional activities and a decrease in bad debt expense.

Research and Development Expense. Research and development expense consists of costs related to 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 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. We anticipate that we will continue to devote

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substantial resources to product development.

Research and development expenses totalled $16.0 million, or 10% of total revenues, in the first quarter of 2003 as compared to $54.9 million, or 27% of total revenues for the first quarter of 2002. The decrease in research and development expenses in the first quarter of 2003 compared to the same period of 2002 resulted from restructuring activities, which resulted in fewer employees engaged in research and development activities, and the shifting of an increased proportion of research and development to our India facility 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 research and development activities. As of March 31, 2003, approximately 57% of our research and development employees were located in India.

General and Administrative Expenses. General and administrative expense includes the personnel and other costs of our finance, legal, accounting, human resources, information systems and executive departments. General and administrative expense totalled $14.4 million, or 9% of total revenues, in the first quarter of 2003 as compared to $18.0 million, or 9% of total revenues, in the first quarter of 2002. The decrease in general and administrative expense primarily resulted from our restructuring activities and was partially offset by an increase in legal and accounting fees of approximately $4 million as a result of our recently completed re-audits and investigation activities.

Over the near term and perhaps for much longer, we expect to incur significant fees and expenses relating to the investigation currently being conducted by the SEC and our ongoing litigation, including litigation relating to the restatement of our consolidated financial statements.

Amortization of Intangibles and Impairment of Intangibles. From time to time, we have sought to supplement 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. Intangible assets are amortized over their estimated useful lives, while goodwill is only written down when it is deemed to be impaired.

Amortization of intangibles (excluding the amortization of acquired technology) related to acquisitions was $0.4 million, or less than 1% of total revenues, in the first quarter of 2003 as compared to $3.6 million, or 2% of total revenues in the first quarter of 2002. The decrease in amortization of intangibles in the first quarter of 2003 as compared to the year earlier period is due primarily to a $19.3 million write-down of certain intangible assets, including content databases, installed customer base, relationships and intellectual property (excluding developed technology intangible assets discussed above under Amortization of Acquired Technology), which were determined to be impaired during the third quarter of 2002. See *Note 4 Intangible Assets and Goodwill*, in the accompanying notes to condensed consolidated financial statements for additional information on the impairment charges and future amortization expense.

Restructuring Charges

During the second through the fourth quarters of 2001, we implemented a global restructuring plan to reduce our operating expenses with a goal of improving our financial position. The restructuring plan was initiated in response to poor economic conditions during 2001 and our poor operating results. 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 related to this restructuring occurred during 2001 with the remaining actions, including closing and consolidating identified offices, completed during 2002.

In July 2002, we initiated another global restructuring plan to further reduce our operating expenses. Overall expense reductions were necessary to both lower our existing cost structure and to realign and reallocate our resources in a manner commensurate with our new operating plan. The restructuring plan included the elimination of certain employee positions and the reduction of office space and related overhead expenses. The restructuring charges related to this plan primarily consisted of severance and termination costs for the involuntarily terminated employees and office closure costs. The majority of the restructuring activity related to this restructuring plan occurred during 2002; we expect that the remaining actions, such as additional office closures or consolidations and asset disposals, will be completed within one year from the date the charges were recorded.

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Our workforce reductions have impacted employees in all functions and, as with any restructuring, this poses risks to our ongoing business. The workforce reductions have impacted customer-facing employees directly responsible for sales and services, which may adversely affect our ability to close transactions with our customers and prospects. Additionally, our ability to retain and effectively manage our remaining employees may be constrained, which could potentially impact our development efforts and the quality of our products and customer service.

Additional details of the remaining restructuring accruals are presented in *Note 6 Restructuring Charges and Adjustments* in the accompanying notes to condensed consolidated financial statements.

Non-operating Expense, Net

The decline in interest income over the comparable periods is primarily the result of lower market interest rates and lower average balances of invested funds. 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.

The market interest rates 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 expense (benefit) of $1.5 million and ($6.3 million), representing effective income tax rates of 3.5% and 34%, during the three months ended March 31, 2003 and 2002, respectively. Items which cause differences between the U.S. statutory rate and our effective rate during the periods presented predominately include changes in the deferred tax asset valuation allowance, state income taxes (net of federal income tax benefits), non-deductible meal and entertainment expenses and research and development tax credits.

During the second quarter of 2002, we recorded a valuation allowance for all of our remaining net deferred tax assets, resulting in an $887.3 million charge to income tax expense. Since then, we have adjusted our deferred tax valuation allowance on a quarterly basis in light of certain factors, including our financial performance. Failure to achieve sustained profitability may prevent us from utilizing these assets in their entirety, and because of the uncertainty of our return to profitability, we concluded a valuation allowance for all of our remaining deferred tax assets was necessary. Despite the existence of the valuation allowance, these deferred tax assets and the future tax-deductible benefits related to these deferred tax assets will remain available to offset future taxable income over the remaining useful lives of the underlying deferred tax assets.

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. Since the second quarter of 2001 our cash position has been declining. Our

working capital deficit was $(4.7) million at March 31, 2003 compared to $(68.2) million at December 31, 2002, an improvement of $63.5 million. The improvement in working capital was primarily the result of a decrease of $41.5 million in accounts payable, accrued liabilities, and accrued compensation and a $39.4 million decrease in deferred revenue. The decrease in these current liabilities was partially offset by a decrease of $10.7 million in cash and cash equivalents and a decrease of $6.9 million in accounts receivable. Our current liabilities as of March 31, 2003 includes the $60.9 million convertible promissory note due in September 2003, which note was subsequently prepaid in the second quarter of 2003 for $59.2 million *(See Note 10 Subsequent Events* in the accompanying notes to condensed consolidated financial statements*)*.

Cash and cash equivalents were $391.4 million at March 31, 2003, a decrease of $10.7 million from December 31, 2002. The decrease was primarily the result of $15.8 million in cash used in operating activities offset by $4.9 million in cash provided by investing and financing activities. At March 31, 2003 and December 31, 2002, $12.1 million in restricted cash was pledged as collateral for outstanding letters of credit.

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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 totalled $10.0 million and $28.1 million, respectively, at March 31, 2003 and $10.0 million and $33.0 million, respectively, at December 31, 2002. Short-term investments consist primarily of highly-rated obligations of municipalities that have remaining maturities of less than one year. Long-term investments include obligations of agencies of the U.S. government 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, restricted cash and short and long-term investments totalled $441.7 million at March 31, 2003 compared to $457.2 million at December 31, 2002. The totals for March 31, 2003 and December 31, 2002 included insignificant amounts of common stock and warrants of public companies.

The most significant adjustments to reconcile net income to net cash used in operating activities during the three months ended March 31, 2003 include the net decrease in deferred revenue of $39.7 million, the net decrease in accrued liabilities of $20.7 million, the net decrease in accrued compensation and related expenses of $11.5 million, depreciation and amortization of $7.4 million, and the decrease in accounts receivable of $7.9 million.

The significant source of cash provided by investing activities during the three months ended March 31, 2003 was the proceeds from the sale of long-term investments of $5.0 million. Offsetting this cash inflow were purchases of premises and equipment of $0.1 million.

Net cash provided by financing activities during the three months ended March 31, 2003 was not significant.

Accounts receivable, net of allowance for doubtful accounts, decreased 15.1% during the three months ended March 31, 2003. Days sales outstanding (DSO s) in receivables decreased to 22 days as of March 31, 2003 from 25 days as of December 31, 2002. DSO s decreased in part due to strong collection efforts and a lower percentage of software product sales. We anticipate the DSO s will increase in the future.

In December 1999, we issued $350.0 million of convertible subordinated notes. The notes mature on December 15, 2006 and bear interest at a rate 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. We currently have the option to redeem, in cash, all or a portion of the notes that have not been previously converted. We may also from time to time seek to retire the notes through cash repurchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. As of March 31, 2003, none of the notes have been converted to common stock, redeemed or otherwise retired**.**

This indenture governing our $350 million of convertible subordinated notes due in December 2006 requires us to deliver our annual and quarterly filings with the SEC to the indenture trustee within 15 days after the date such periodic filings are due to be filed with the SEC, and the indenture contains a 60-day cure period for covenant non-compliance. In the event that we were unable to cure such non-compliance within the 60-day cure period, we would then be in default under the convertible subordinated notes. The cure period commences upon delivery of notice of non-compliance to us. To date, we have not received notice of non-compliance from the trustee or the debt holders. With the filing of this quarterly report on Form 10-Q for the quarter ended March 31, 2003 (and the delivery of such filing to the indenture trustee), we believe that we will cure our non-compliance with the reporting covenants in the indenture.

During the third quarter of 2002, we renewed a $20.0 million letter of credit line. As of March 31, 2003, $7.3 million in letters of credit were outstanding under this line and $12.1 million in restricted cash was pledged as collateral. This letter of credit line was replaced during the second quarter of 2003 with a $15.0 million letter of credit line established with another lender. See *Note 10 Subsequent Events* in the accompanying notes to condensed consolidated financial statements.

In connection with our acquisition of TSC in the first quarter of 2001, we issued a convertible promissory note for $60.9 million with a 7.5% coupon payable in cash annually. This note is included in current liabilities as current portion of long-term debt on the accompanying consolidated balance sheet as of March 31, 2003. This note was subsequently prepaid in the second quarter of 2003 for $59.2 million of cash. Additional details of this note and our prepayment are presented in *Note 10 Subsequent Events* in the accompanying notes to condensed consolidated financial statements.

In the future, we may pursue acquisitions 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.

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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 that cash, cash equivalents and short-term investment balances will continue to decrease in the short term primarily due to cash outflows associated with operations, restructuring activities and debt service obligations. We believe that existing cash, cash equivalents and short-term investment balances will satisfy our working capital and capital expenditure requirements for at least the next 12 months. However, sustained weak demand for enterprise application software within the product and industry segments we target, and for our products, has had and will continue to have a negative impact upon our operating results, which, in turn, will continue to negatively impact our liquidity and capital resources. In addition, our $350 million of convertible debt bears interest at 5.25% per year, which is approximately $18.4 million per year, payable in semi-annual installments due in June and December. The average yield we currently realize on our cash, cash equivalents and investments is approximately 1.3%. We may seek private or public equity or debt financing, which could have a dilutive effect on the holdings of existing stockholders; however, we may not be able to obtain additional equity or debt financing on satisfactory terms or at all.

Sensitivity To Market Risks

Foreign Currency Risk. Revenues originating outside of the United States totalled 30% and 31% of total revenues in the first quarter of 2003 and 2002, respectively. Since we conduct business on a global basis in various foreign currencies, we are exposed to adverse movements in foreign currency exchange rates. Prior to 2001, our strategy for managing foreign currency risk was limited to hedging certain significant accounts receivable that were denominated in a foreign currency and gains and losses realized from hedging activities were not significant. In January 2001, we established 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.

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 primarily operating balances and are generally 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 were particularly sensitive to changes in interest rates. As of March 31, 2003, 87.1% of our debt securities and time deposits had remaining maturities of three months or less, while 3.4% 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 direction of market interest rates. The Federal Reserve Board decreased the discount rate by 475 basis points during 2001, an additional 50 basis points in 2002, and an additional 25 basis points in 2003, which has led to significant declines in short-term market interest rates. As of March 31, 2003, the weighted-average yield on debt securities we held was 1.32% compared to 1.64% for debt securities held as of December 31, 2002. The decrease in the weighted-average yield on these investments was a result of reinvesting maturing investments at lower market interest rates in 2003. Based on our investment holdings as March 31, 2003, an immediate 100 basis point decline in the average yield earned on these investments would reduce our expected annual interest earnings by $2.9 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. Our customer base consists of large numbers of geographically diverse enterprises dispersed across many industries. As a result, concentration of

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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 associated with 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 involved.

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 $7.9 million after-tax unrealized loss on these investments for the quarter ended March 31, 2002. However, the carrying value of minority equity investments was not significant at March 31, 2003.

Inflation. Inflation has not had a material impact on our results of operations or financial condition.

Factors That May Affect Future Results

Any investment in our company will be subject to risks inherent to our business. Before making an investment decision, you should carefully consider the risks described below together with all of the other information included in this report. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties that we are not aware of or focused on 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, liquidity or results of operations. In that case, the trading price of our securities could decline and you may lose all or part of your investment.

Risks Related to Recent Developments

We Face Risks Related To An SEC Investigation And Securities Litigation That Could Have A Material Adverse Effect On Our Relationships With Customers, Business, Financial Condition And Results Of Operations.

The SEC has issued a formal order of investigation to determine whether there have been violations of the federal securities laws by us and/or others involved with us in connection with matters relating to the restatement of our consolidated financial statements. Although we have fully cooperated with the SEC in this matter and intend to continue to fully cooperate, the SEC may determine that we have violated federal securities laws. We cannot predict when this investigation will be completed or its outcome. If the SEC makes a determination that we have violated federal securities laws, we may face sanctions, including, but not limited to, significant monetary penalties and injunctive relief.

In addition, we have been named a defendant in a number of class action and derivative lawsuits. The findings and outcome of the SEC investigation may affect the class action and derivative lawsuits that are pending. We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in some of these lawsuits. Defending against existing and

potential litigation relating to the restatement of our consolidated financial statements will likely require significant attention and resources of management. Regardless of the outcome, such litigation will result in significant legal expenses and may also negatively impact our relationships with our customers. If our defenses are ultimately unsuccessful, or if we are unable to achieve a favorable settlement, we could be liable for large damage awards that could have a material adverse effect on our business, results of operations and financial condition.

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The Diversion of Our Management s Time And Effort To Deal With Internal And External Investigations May Adversely Affect Our Business And Our Results Of Operations.

In addition to the challenges of the SEC investigation and the class action and derivative lawsuits described in this report, our management has spent considerable time and effort dealing with the internal investigation recently conducted by our Audit Committee involving our revenue recognition policies and financial reporting. We cannot assure you that the significant time and effort spent will not adversely affect our business, results of operations and financial condition.

Failure or Circumvention of Our Controls and Procedures Could Seriously Harm our Business.

Over time, we have made significant changes in, and are making additional changes to, our internal controls, our disclosure controls and procedures, and our corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, and not absolute, assurances that the objectives of the system are met. Any failure of our controls, policies and procedures could have a material adverse effect on our business, results of operations and financial condition.

Risks Related To Our Business

We Have Experienced Substantial Negative Cash Flows And May Continue to Experience Such Negative Cash Flows, Which Would Have A Further Significant Adverse Effect On Our Business.

We experienced substantial negative cash flows during the first two quarters of 2003 and the years 2002 and 2001 primarily due to sharp declines in our revenues combined with an operating cost structure that was designed to support revenue growth. Our continued inability to stabilize or grow revenues, control expenses and achieve positive cash flows could substantially impair our liquidity and our ability to finance and support our operations, and eventually could threaten our solvency and our ability to repay our debts when they come due, which would have a material adverse effect on our business, results of operations and financial condition as well as our stock price. As a result, we may be required to seek private or public debt or equity investments on disadvantageous terms, which could have a dilutive effect on the holdings of existing stockholders. In addition, such continued negative cash flows and the related negative market perception have and may continue to negatively affect our ability to sell our products.

Our Restructuring Initiatives May Not Achieve Our Desired Results And, If Unsuccessful, Could Result In Additional Serious Harm To Our Business.

We implemented another restructuring plan during the third and fourth quarters of 2002. Our plan involved, among other things, reducing our workforce and facilities, continuing to increase the proportion of our development workforce in India and ceasing continued development of a number of products. These activities have been distracting and disruptive to us and continue to pose significant risks, including risks of ex-employees filing legal claims related to reductions in force, joining competitors, sharing our intellectual property and disparaging us. The workforce reductions have impacted employees directly responsible for sales, which may affect our ability to close revenue transactions with our customers and prospects. The failure to retain and effectively manage our remaining employees could increase our costs, hurt our development efforts and impact the quality of our products and customer service. If customers become dissatisfied with the results of our product decisions or service, our business could be adversely impacted, our maintenance renewals may decrease, our customers may take legal action against us and

our sales to existing customers could decline, leading to reduced revenues. Failure to achieve the desired results of our strategic initiatives would harm our business, results of operations and financial condition. Additional restructuring activity may be required for us to achieve our profitability objectives.

Our Financial Results Have Varied And May Continue To Vary Significantly From Quarter To Quarter And We May Again Fail To Meet Expectations, Which Might 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

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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 disproportionately affect our operating results. Accordingly, we may not attain positive operating margins in future quarters. These factors have caused our operating results to be below the expectations of securities analysts and investors in the past and may do so again in the future. Our failure to meet or exceed analyst and investor expectations negatively affects the price of our common stock.

Global Economic And Geo-Political Conditions May Fail To Significantly Improve, Which Might Negatively Impact Us And The Price Of Our Stock.

The macroeconomic environment and capital spending on information technology have failed to significantly improve and the geo-political situation has remained unstable, resulting in continued uncertainty. 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, continued soft demand for computer software and services caused by a weak economy, political uncertainty and budgetary constraints 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 has been more significantly impacted by the current weak economic environment, and the relatively large license transactions upon which we have historically relied. Customers may continue to defer or reconsider purchasing products if they continue to experience a lack of growth in their business, if the general economy fails to significantly improve or the geo-political situation fails to stabilize, resulting in a continued reduction in our software license revenues and corresponding revenues from consulting and maintenance.

If We Are Unable To Develop Acceptable Products And Generate Demand For Such Products, Additional Serious Harm Could Result To Our Business.

We have invested significant resources in developing and marketing our products and services. The demand for, and market acceptance of, our products and services are subject to a high level of uncertainty. 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 substantially different methods of conducting business and exchanging information. Our products and services are often considered complex and may involve a new approach to the conduct of business by our customers. 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 our products and services may continue to weaken, competitors may develop superior products and services or we may fail to develop acceptable solutions to address new market conditions. In addition, the restatement of our consolidated financial statements and our ongoing legal proceedings could adversely impact customer demand. Any one of these events could have a material adverse effect on our business, results of operations and financial condition.

Historically, A Small Number Of Individual License Sales Have Been Significant In Each Quarterly Period. 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 Our Efforts To Transition To More Of A Volume-Based Sales Model Do Not Compensate For Fewer Large Sales.

Historically, we have derived a significant portion of revenues in each quarter from a small number of relatively large license sales. As a result, our financial results may vary significantly from quarter to quarter. In an attempt to reduce our dependence on large license sales, we have attempted to transition to a sales model that places greater emphasis on the total volume of sales over the size of individual sales. However, this transition is not simple and there can be no assurance that this transition to a volume-based sales model will be successful.

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. This May Result In Customer Dissatisfaction, Harm To Our Reputation And Cause Non-Payment Issues.

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Our products typically 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 sales opportunities, result in customer dissatisfaction and harm to our reputation, or cause non-payment issues.

We Have Been And Continue To Be Subject To Certain Claims Pertaining To The Quality Of Our Products And Services, And Questions Regarding Our Financial Viability. These Claims And Perceptions, If Unresolved Or Not Addressed, Could Seriously Harm Our Business And Our Stock Price.

From time to time, customers make certain claims pertaining to the quality and performance of our software and services, citing a variety of issues. Our recent operational performance and the decline in our stock price has led to questions in the market regarding our financial viability. Whether customer claims regarding the quality and performance of our products and services or concerns about our financial viability are founded or unfounded, if such claims and perceptions are not resolved in a manner favorable to us they may affect the market perception of our company, our products and our services. Any such reputational damage could have a material adverse effect on our business, results of operations and financial condition, and could negatively affect the price of our stock.

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

Relative to us, many of our competitors have one or more of the following advantages:

Longer operating history.

Greater financial, technical, marketing, sales and other resources.

Profitable operations.

Superior product functionality in specific areas.

Greater name recognition.

A broader range of products to offer.

Better performance.

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. We understand that some competitors may even be offering enterprise application software at no charge as components of product bundles. Further, traditional enterprise resource planning vendors such as SAP have 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 these and other factors, we may be unable to compete successfully with our existing or new competitors.

The Loss Of Certain Of Our Key Personnel And Any Future Potential Losses Of 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. We have lost a number of key personnel as a result of our performance and our restructuring, among other reasons. Our future success depends on retaining our key employees and our continuing ability to retain, attract and train other highly qualified technical, sales and managerial personnel, which may be increasingly difficult given our recent financial performance and employee layoffs. 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. Our loss of any more of our key technical, sales and senior management personnel, and the intellectual capital that they possess, or our inability to retain, attract and train additional qualified personnel could have a material adverse effect on our business, results of operations and financial condition.

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

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Our Revenues.

Historically, we have derived a substantial portion of our revenues from licenses of our enterprise products and related services. Our enterprise products principally include solutions to address revenue and profit optimization, fulfillment optimization, production optimization, spend optimization, and logistics optimization. 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 our customer base, which have led to a decline in our revenues. Other factors, such as competition and technological change as well as the restatement of our consolidated financial statements and our ongoing legal proceedings, could also adversely impact demand for, or market acceptance of, these applications.

Certain Of Our Customers Purchase Our Software, But Delay Or Terminate Its Implementation. If This Type Of Activity Becomes Significant, It Could Harm Our Ability To Sell To Existing Customers And Impact Our Maintenance and Services Revenues.

Certain of our existing customers delay or terminate implementations of our software due to budgetary constraints related to economic uncertainty, dissatisfaction with product quality, the difficulty of prioritizing a surplus of information technology projects, changes in business strategy or priorities or for other reasons. Such customers may be less likely to invest in additional software in the future and to continue to pay for software maintenance. Since our business relies to a large extent upon sales to existing customers and since maintenance and services revenues are key elements of our revenue base, any reduction in these sales or these maintenance and services payments could have a material adverse effect on our business, results of operations and financial condition.

Our Software May Contain Errors Which Could Result In The Loss Of Customers And Reputation, Adverse Publicity, Loss Of Revenues, Delays In Market Acceptance, Diversion of Development Resources And Claims Against Us By Customers.

Our software programs may contain errors or bugs. Although we conduct testing and quality assurance through a release management process, 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. Errors could result in loss of customers and reputation, adverse publicity, loss of revenues, delays in market acceptance, diversion of development resources and claims against us by customers.

We May Not Be Able to Realize The Benefits Of Our Tax Deferred Assets.

If we do not achieve sufficient federal taxable income in future years to utilize our net operating loss carryforwards, they will expire, and we will be unable to realize the benefits of our tax deferred assets. In the second quarter of 2002, we stopped recognizing tax benefits for net operating losses for financial reporting purposes. In addition, we recorded a valuation allowance for all of our remaining deferred tax assets, which resulted in an $887.3 million charge to income tax expense.

We May Have Increasing Difficulty Obtaining And Maintaining Cost-Effective Insurance Which May Have A Material Adverse Effect On Our Business, Results Of Operations and Financial Condition and Restrict Our Ability To Attract and Retain Independent Directors For Our Board.

We obtain insurance to cover a variety of potential risks and liabilities. In the current market, insurance coverage is becoming more restrictive. When insurance coverage is offered, the deductible for which we are responsible is larger and premiums have increased substantially, particularly with respect to our director and officer indemnification insurance. As a result, it may become more difficult to maintain insurance coverage at historical levels, or if such coverage is available, the cost to obtain or maintain it may increase substantially. This may result in our being forced to bear the burden of an increased portion of risks for which we have traditionally been covered by insurance, which could have a material adverse effect on our business, results of operations and financial condition. This could also restrict our ability to attract and retain independent directors to our board.

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We May Not Be Successful In Convincing Customers To Migrate To Current Or Future Releases Of Our Products Which May Lead To Reduced Consulting And Maintenance Revenues And Less Future Business From Existing Customers.

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 our loss of consulting and maintenance revenues and future business from customers that continue to operate prior versions of our products or choose to no longer use 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 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 have a material adverse effect on our business, results of operations and financial condition.

Failure To Complete Development Services Projects As Planned Could Harm Our Operating Results And Create Business Distractions And Negative Publicity That Could Harm Our Business.

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

We have only recently begun undertaking relatively large development services projects and we may be unable to effectively execute our business strategy.

Customers may withhold cash payments or cancel contracts if we fail to meet our delivery commitments, the customers have financial difficulties or change strategy, or the functionality delivered is not acceptable to the customers. We are particularly susceptible to this with respect to arrangements where payments are scheduled to occur later in the engagement.

We may be unable to recognize revenue associated with development services projects in accordance with expectations. We generally recognize revenue from custom software development projects over time using the percentage-of-completion method of accounting or after cash has been received over time subject to an evaluation of collectibility. 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.

Many of our development services projects are fixed-price arrangements. If we fail to accurately estimate the resources required for a fixed-price project or the customer attempts to change the scope of the project, the profit, if any, realized from the project would be adversely affected to the extent that we have to add additional resources to complete the project.

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 subscribing to the databases maintained by us, 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.

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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 demand chain 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 demand chain 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 have a material adverse affect on our business, results of operation and financial condition.

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. Some of our 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 have a material adverse affect on our business, results of operation and financial condition.

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

From time to time, we have acquired technology or businesses to supplement and expand our product offerings. 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. Negotiation of potential acquisitions or joint ventures and our 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 have a material adverse affect on our business, results of operation and our financial condition. 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. Failure to do so could deprive us of the intended benefits of those acquisitions. In addition, we may be required to write-off acquired research and development if further development of purchased technology becomes unfeasible, which may adversely affect our business, results of operation and our 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 India, where a significant portion of our solutions operations are located, and other foreign countries where the laws do 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. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. Any litigation to defend our intellectual property rights could be time-consuming and costly.

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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 have a material adverse effect on our business, results of operations 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, to invest the appropriate levels of resources in their products and services to maintain and enhance the software capabilities, or to remain in business.

Further, 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 have a material adverse effect on our business, results of operations and financial condition.

We Currently Face Litigation And May Face Additional Litigation In The Future Due To The Volatility Of Our Stock Price That Could Harm Our Business.

We face litigation and are at risk of facing additional litigation that could have a material adverse effect on our business, results of operations and financial condition. 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 business, results of operation and financial condition. We also face class action and shareholder derivative suits as well as a formal SEC investigation as a result of the restatement of our consolidated financial statements. It is likely that we will incur defense costs and such actions may cause a diversion of management s 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.

International revenues accounted for approximately 30% of our total revenues in the first quarter of 2003, and we expect to continue to generate a significant portion of our revenues from international sales in the future. 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. Any of the following factors, among other things, could adversely affect the success of our international operations:

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.

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Changes in tariff rates.

Changes in general economic and political conditions in international markets.

The Increase In Our Operations In India Poses Significant Risks That Could Impair Our Ability To Develop Our Products Or Put Our Products At A Competitive Disadvantage.

We have implemented a program to shift a larger proportion of our development and services capacity to India. However, we may not achieve the cost savings and other benefits we anticipate from this program and we may not be able to find sufficient numbers of developers with the necessary skill sets in India to meet our needs. Our current infrastructure in India is less developed than our North American infrastructure 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, security and political conditions of India. Operational issues, recruiting issues, economic and political instability, military actions and other unforeseen occurrences in India could impair our ability to develop and introduce new software applications and functionality in a timely manner, or hinder our ability to provide cost-competitive services, either of which could put our products at a competitive disadvantage and cause us to lose existing customers or fail to attract new customers.

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 51% of our employees, 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. 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.

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 insurance policies 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 have a material adverse effect on our business, results of operations and financial condition.

Risks Related To Our Industry

If Our Products Are Not Able To Deliver Quick, Demonstrable Value To Our Customers, Our Business Could Be Seriously Harmed.

Enterprises are requiring their application software vendors to provide faster time to value on their technology investments. We must continue to improve the speed of our implementations and the pace at which our products deliver value or our competitors may gain important strategic advantages over us. If we cannot successfully respond to these market demands, or if our competitors do so more effectively than us, our business, results of operations and financial condition could be materially and adversely affected.

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If Use Of The Internet For Commerce And Communication Does Not Increase As We Anticipate, Our Business Will Suffer.

We offer products and services that 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 relatively 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 have a material adverse effect on our business, results of operations and financial condition.

Risks Related To Our Stock

Alternative Listing Options To The NASDAQ National Market For Our Common Stock May Not Provide The Same Level Of Liquidity, May Harm Our Business Reputation and May Adversely Affect Our Ability To Raise Funds In the Capital Markets.

As a result of our inability to timely file our annual report on Form 10-K, our common stock was delisted from the NASDAQ Stock Market effective at the opening of the market on May 9, 2003. The delisting of our common stock from the NASDAQ National Market may make our common stock more difficult to trade, reduce the trading volume of our common stock and harm our general business reputation. In addition, the delisting may impair our ability to raise funds in the capital markets, which could have a material adverse effect on our business, results of operations and financial condition. Our current appeal of the NASDAQ Listing Qualifications Panel s decision may not be successful and we may not be able to satisfy NASDAQ s initial listing requirements to be eligible to re-apply for listing on the NASDAQ National Market. Further, if we decide to request stockholder approval for a reverse split of our common stock in order to comply with the $5 minimum bid price requirement, there can be no assurance that we will obtain stockholder approval for the reverse split. If we are successful in obtaining such approval and are accepted for listing on the NASDAQ National Market, there is still a risk that our common stock price will decline to levels that would again cause us not to comply with NASDAQ listing standards.

Our Executive Officers And Directors, In Particular Sanjiv Sidhu, Have Significant Influence Over Stockholder Votes.

As of August 1, 2003 our current executive officers and directors together beneficially owned approximately 27.9% of the total voting power of our company, 26.8% of which was beneficially owned by Sanjiv Sidhu, our Chairman, CEO and President, and entities that he controls. Accordingly, Mr. Sidhu and other officers and directors holding stock in our company have significant influence in determining the composition of our Board of Directors and other significant matters requiring stockholder approval or acquiescence, including amendments to our certificate of incorporation, a substantial sale of assets, a merger or similar corporate transaction or a non-negotiated takeover attempt. Such concentration of ownership may discourage a potential acquirer 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 And We Have A Stockholder Rights Plan Which, In Combination, Effectively Inhibit A Non-Negotiated Merger Or Business Combination.

Provisions of our certificate of incorporation and our bylaws, Delaware law and our 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.

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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 2002 the market price of our common stock on the NASDAQ National Market fluctuated between $0.41 and $9.58 per share and, during the first quarter of 2003, the market price of our common stock on the NASDAQ National Market fluctuated between $0.69 and $1.50 per share. The following factors, should they occur, might significantly affect the market price of our common stock:

Continued negative cash flows.

Quarterly variations in our results of operations.

A reverse split of our common stock.

The market or system on which our common stock trades.

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.

Stock valuations or performance of our competitors.

General market conditions, geopolitical events or market conditions specific to particular industries.

Perceptions in the marketplace of performance problems involving our products and services.

Any future decision to restate any of our financial results.

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.

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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15 under the Securities Exchange Act of 1934, within 90 days prior to the filing of this quarterly report on Form 10-Q we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. As defined in Rules 13a-14(c) and 15d-14(c) under the Exchange Act, disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by our company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by our company in the reports we file or submit under the Exchange Act is accumulated and communicated to our company s management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We formed a disclosure committee in 2002 that includes senior financial, operational and legal personnel charged with assisting our Chief Executive Officer and Chief Financial Officer in overseeing the accuracy and timeliness of our periodic reports filed under the Exchange Act and in evaluating regularly our disclosure controls and procedures.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the date of the evaluation, our disclosure controls and procedures are effective in that they were reasonably designed to ensure that information required to be disclosed by our company in the reports we file or submit under

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the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. It should be noted that any system of controls, however well designed and operated, is based in part upon certain assumptions and can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

Changes in Internal Controls. In addition to carrying out the evaluation of our disclosure controls and procedures as discussed above, in response to the restatement of our previously issued consolidated financial statements, we undertook a review of our revenue recognition practices that focused on: our revenue recognition policies and procedures, including related product release management and price list practices; our training activities around these policies and procedures, including programs designed to educate our sales, services and development employees; our product development and release management policies and practices that affect revenue recognition, including our product release and quality assurance practices; our license transaction review and sign-off policies and procedures, including participation by finance and accounting, sales and development, legal, senior management and our external auditors; our post-transaction review procedures, including our review of warranty claims and product issues, implementation projects and non-billable services hours; and the role of internal audit, including its participation in the revenue recognition process. As discussed in our 2002 Annual Report on Form 10-K, we also considered the material weaknesses relating to our internal control processes and procedures that were identified and communicated to us and the Audit Committee by Deloitte & Touche in connection with their audits of the consolidated financial statements included in our 2002 Annual Report on Form 10-K.

Work has begun on developing a remedial plan incorporating senior management s recommendations for enhancements to our control processes and procedures. Proposed or completed enhancements to our control processes and procedures include: increased review of the facts and circumstances surrounding our transactions, implementations and products; expansion of our transaction sign-off procedures to include certain field personnel; enhanced training with respect to revenue recognition policies and procedures for our field personnel and personnel in our services and development organizations; modification of the incentive compensation structure of certain field personnel to eliminate compensation based upon recognized revenue; expansion of our quarterly sign-off; enhanced release management review and approval processes; enhancement of our post-transaction monitoring of implementations; expansion of the responsibilities of our internal audit team; enhanced analysis and support for the accounting used when recording business acquisition transactions; and enhanced analysis and support for our accrued liability accounts. We continue to consider further actions to improve the effectiveness of our control processes and procedures.

Other than as described above, since the date of our evaluation there have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls.

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PART II

ITEM 1. LEGAL PROCEEDINGS

Securities and Exchange Commission Investigation

On or about March 26, 2003, we were advised that the SEC had issued a formal order of investigation to determine whether there have been violations of the federal securities laws by the company and/or others involved with the company in connection with matters relating to the restatement of our consolidated financial results. As previously disclosed, our Board of Directors had directed our Audit Committee to conduct an internal investigation of certain allegations made during the fall of 2001 by a former officer relating to revenue recognition and financial reporting, among other things. In November 2002, we reported to the SEC and in our third quarter 10-Q the results of that investigation, as well as certain new related allegations made during the fall of 2002 by the former officer and another former officer. Thereafter, the staff of the SEC opened an informal inquiry into these allegations and other matters relating to our financial reporting prior to the issuance of the formal order of investigation by the SEC. We continue to be in discussions with the SEC and intend to continue to fully cooperate with the SEC.

Class Action and Derivative Litigation

Beginning in March 2001, a number of purported class action complaints were filed in the United States District Court for the Northern District of Texas (Dallas Division) against the company 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 from May 4, 2000 to February 26, 2001. In July 2003, the Court issued an order that consolidated, for purposes of pre-trial matters only, this class action with the class action complaints, described below, that were filed in April 2003 against the company. We continue to vigorously defend against this lawsuit. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

In April 2001, a purported shareholder derivative lawsuit was filed in Dallas County, Texas, against certain of our officers and directors, naming the company as a nominal defendant. The suit claims that certain of our officers and directors breached their fiduciary duties to the company 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 the company. 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 filed a motion to dismiss the action on February 19, 2002 and the motion was granted on October 8, 2002. Plaintiffs filed an appeal of the decision on October 15, 2002 and this appeal is still pending. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

Restatement Class Action Litigation and Derivative Litigation

Beginning in April 2003, a number of purported shareholder class action complaints were filed in the United States District Court for the Northern District of Texas (Dallas Division) against the company and certain of our current and former officers and directors. The complaints bring claims under the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, relating to our announcements that we would re-audit certain of our consolidated financial statements and that there would be material adjustments to our financial statements. Specifically, these actions allege that we issued a series of false or misleading statements to the market

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during the class period that failed to disclose that (i) we had materially overstated our revenue by improperly recognizing revenue on certain customer contracts; (ii) we lacked adequate internal controls and were therefore unable to ascertain our true financial condition; and (iii) as a result of the foregoing, our financial statements issued during the class period were materially false and misleading. Plaintiffs contend that such statements caused our stock price to be artificially inflated. The complaints seek unspecified damages on behalf of a purported class of purchasers of our common stock during the period from April 18, 2000 to January 24, 2003. In July 2003, the Court issued an order that consolidated, for purposes of pre-trial matters only, these class action complaints with the class action, described above, that commenced in March 2001 against the company. We continue to vigorously defend against these lawsuits. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

In April and May 2003, two purported shareholder derivative lawsuits were filed in the United States District Court for the Northern District of Texas (Dallas Division) against certain of our officers and directors, naming the company as a nominal defendant. The suits claim that certain of our officers and directors breached their fiduciary duties to the company and our stockholders by: (i) causing the company to improperly recognize revenue in violation of generally accepted accounting principles to artificially inflate our stock price in order to complete acquisitions in which our stock was used as consideration, and (ii) selling shares of the company s common stock while in possession of material adverse non-public information regarding our financial statements and securing personal loans using our allegedly artificially inflated stock price. As stated, the complaints are derivative in nature and do not seek relief from the company. However, the company has 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 these actions 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. In July 2003, the Court issued an order that consolidated, for purposes of pre-trial matters only, these two purported shareholder derivative lawsuits and plaintiffs amended their consolidated complaint to add a claim that our Chief Executive Officer and Chief Financial Officer violated section 304 of the Sarbanes-Oxley Act of 2003 seeking to recover from them (a) bonuses and equity-based compensation, and (b) profits realized from sales of securities of the company. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of these matters.

In May 2003, a purported shareholder derivative lawsuit was filed in the United States District Court for the Northern District of Texas (Dallas Division) against our current Chief Executive Officer, Chief Financial Officer and directors, naming the company as a nominal defendant. The suit claims that our Chief Executive Officer and Chief Financial Officer violated section 304 of the Sarbanes-Oxley Act of 2003 and seeks to recover from them (a) bonuses and equity-based compensation, and (b) profits realized from sales of securities of the company. The suit also names our current directors for failing to seek recovery of the aforementioned bonuses, equity-based compensation and trading profits. As stated, the complaint is derivative in nature and does not seek relief from the company. However, we have entered into indemnification agreements in the ordinary course of business with our Chief Executive Officer, Chief Financial Officer and directors and we 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. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

Other Litigation

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 consolidated 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.

The adverse resolution of any one or more of the matters described in this Item 1, over and above the amount that has been estimated and accrued in the current consolidated financial statements could have a material adverse effect on our business, financial condition or results of operations. See *Note 9 Commitments and Contingencies* in the accompanying notes to condensed consolidated financial statements.

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ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

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

(a) *Exhibits*

Exhibit Number	Description
99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Sanjiv S. Sidhu, the Chairman and Chief Executive Officer of i2.
99.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of William M. Beecher, Executive Vice President and Chief Financial Officer of i2.

(b) *Reports on Form 8-K*

During the quarter ended March 31, 2003, we filed the following reports on Form 8-K:

Report on Form 8-K (Item 9) on January 24, 2003, which announced that the Company s conference call with analysts and investors regarding its release of results for the fourth quarter of 2002, which was originally scheduled for Tuesday, January 28, 2003 at 4:00 p.m. (CST), had been rescheduled to Monday, January 27, 2003 at 7:30 a.m. (CST).

Report on Form 8-K (Items 5 and 9) on January 28, 2003, which announced (i) that the Audit Committee of the Company s Board of Directors has engaged Deloitte & Touche LLP, the Company s current external auditors, to re-audit the Company s financial statements for the years ended December 31, 2000 and 2001; (ii) that the Company will move to the NASDAQ SmallCap Market effective January 30, 2003; and (iii) the Company s preliminary unaudited fourth quarter 2002 financial results.

Report on Form 8-K (Items 5 and 9) on February 13, 2003, which announced that the Company would not be moving to the NASDAQ SmallCap Market as previously announced.

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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.

August 11, 2003 By: /s/ WILLIAM M. BEECHER

William M. Beecher

Executive Vice President and

Chief Financial Officer

(Principal financial officer)

August 11, 2003 /s/ MARY K. MURRAY

Mary K. Murray

Vice President Finance & Accounting

(Principal accounting officer)

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CERTIFICATION

I, Sanjiv S. Sidhu, certify that:

1. I have reviewed this quarterly report on Form 10-Q of i2 Technologies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: August 11, 2003

By: /s/ SANJIV S. SIDHU
Name: Sanjiv S. Sidhu

Title: President and Chief Executive Officer

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CERTIFICATION

I, William M. Beecher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of i2 Technologies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: August 11, 2003

By: /s/ WILLIAM M. BEECHER
Name: William M. Beecher

Title: Executive Vice President and Chief

Financial Officer