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

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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

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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

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

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

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

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

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 condit