

SAP AKTIENGESELLSCHAFT SYSTEMS APPLICATIONS PRODUCTS IN DATA

Form 20-F/A

April 14, 2003

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 20-F/A**  
**(Amendment No. 1)**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

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

For the fiscal year ended December 31, 2002

**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:

1-14251

**SAP AKTIENGESELLSCHAFT**

**SYSTEME, ANWENDUNGEN, PRODUKTE IN DER DATENVERARBEITUNG**

(Exact name of registrant as specified in its charter)

**SAP CORPORATION**

**SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING**

(Translation of Registrant's name into English)

**Federal Republic of Germany**

(Jurisdiction of incorporation or organization)

**Neurottstrasse 16**

**69190 Walldorf**

**Federal Republic of Germany**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one-fourth of one Ordinary Share, without nominal value	New York Stock Exchange
Ordinary Shares, without nominal value	Frankfurt Stock Exchange New York Stock Exchange*

**Securities registered or to be registered pursuant to Section 12(g) of the Act:** None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:** None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock at the close of the period covered by the annual report:

Ordinary Shares, without nominal value (as of December 31, 2002)**	314,962,606
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

\* Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares.

\*\* Including 3,516,235 treasury shares.

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Independent Auditors Consent

Consent of Ernst & Young

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### *Explanatory Note*

As stated in Item 18 of the Registrant's annual report on Form 20-F for the year ended December 31, 2002, this amendment is being filed to provide separate consolidated financial statements of Commerce One, Inc. (Commerce One) for the fiscal year ended December 31, 2002, as required by Rule 3-09 of Regulation S-X.

This amendment is being filed for the purpose of updating Item 18. Financial Statements, and Item 19. Exhibits and adding to the page reference in Item 8. Financial Information under the heading Consolidated Financial Statements the phrase and pages M-1 through M-36. The following exhibits are amended for the year ended December 31, 2002 on Form 20-F as set forth in the pages attached hereto:

(1) Exhibit 4.8 Strategic Alliance Agreement Amendment No. 4, effective as of January 1, 2002 by and between Commerce One Operations, Inc., SAP and SAP Markets, Inc.

(2) Exhibit 4.9 Strategic Alliance Agreement Amendment No. 5, effective as of December 20, 2002, by and between Commerce One Operations, Inc., SAP and SAP Markets, Inc.

(3) Exhibit 10.3 Independent Auditors' Consent of Ernst & Young LLP, Walnut Creek, California.

In addition, the Registrant is including certain currently dated certifications and an updated consent of independent auditors. The remainder of the annual report on Form 20-F filed on March 21, 2003 remains unchanged.

### **Item 18. Financial Statements**

Reference is made to pages F-1 through F-60, incorporated herein by reference, to the annual report on Form 20-F filed on March 21, 2003.

The following consolidated financial statements are filed as part of this Annual Report on Form 20-F:

Reports of Independent Auditors.

Consolidated Statements of Income for the years ended 2002, 2001 and 2000.

Consolidated Balance Sheets as of December 31, 2002 and 2001.

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000.

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000.

Notes to the Consolidated Financial Statements.

Schedule for the years ended December 31, 2002, 2001 and 2000:

Schedule II Valuation and Qualifying Accounts and Reserves.

Separate financial statements for Commerce One filed pursuant to Rule 3-09 of Regulation S-X reference is made to pages M-1 through M-36, incorporated herein by reference. Summarized financial information for Commerce One is set forth in note 16 to the consolidated financial statements.

### **Item 19. Exhibits**

The following documents are filed as exhibits to this Annual Report on Form 20-F:

1 Articles of Incorporation (Satzung) of SAP AG, as amended to date (English translation).<sup>(1)</sup>

2.1 Form of global share certificate for ordinary shares (English translation).<sup>(2)</sup>

2.2 Form of American Depositary Receipt.<sup>(3)</sup>

4.1 Form of Amended and Restated Deposit Agreement among SAP AG, The Bank of New York, as Depositary, and all owners and holders from time to time of American Depositary Receipts issued thereunder, including the form of American Depositary Receipts.<sup>(4)</sup>

4.2 Share Purchase Agreement by and among Commerce One, Inc., New Commerce One Holding Inc. and SAP AG, dated as of June 28, 2001.<sup>(5)</sup>

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4.3 Amended and Restated Standstill and Stock Restriction Agreement by and among Commerce One, Inc., New Commerce One Holding, Inc. and SAP AG, dated as of June 28, 2001.<sup>(6)</sup>

4.4 Investor Rights Agreement by and among Commerce One, Inc., New Commerce One Holding, Inc. and SAP AG, dated as of June 28, 2001.<sup>(7)</sup>

4.5 Strategic Alliance Agreement by and among Commerce One, Inc., SAPMarkets, Inc. and SAP AG, dated as of September 18, 2000.<sup>(8)</sup>

4.6 Strategic Alliance Agreement Amendment No. 2 by and among Commerce One, Inc., SAPMarkets, Inc. and SAP AG, dated as of June 29, 2001.<sup>(9)</sup>

4.7 Strategic Alliance Agreement Amendment No. 3 by and among Commerce One, Inc., SAPMarkets, Inc. and SAP AG, dated as of June 29, 2001.<sup>(9)</sup>

4.8 Strategic Alliance Agreement Amendment No. 4, effective as of January 1, 2002 by and between Commerce One Operations, Inc., SAP and SAP Markets, Inc.<sup>(10)</sup>

4.9 Strategic Alliance Agreement Amendment No. 5, effective as of December 20, 2002, by and between Commerce One Operations, Inc., SAP and SAP Markets, Inc.<sup>(11)</sup>

8 Subsidiaries, Associated Companies and Other Investments of SAP AG.<sup>(1)</sup>

10.1 Independent Auditors Consent of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Mannheim, Germany.

10.2 Statement regarding Auditors Consent<sup>(1)</sup>

10.3 Independent Auditors Consent of Ernst & Young LLP, Walnut Creek, California.

10.4 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) Incorporated by reference to Form 20-F of SAP AG, filed on March 21, 2003.

(2) Incorporated by reference to Form 8-A12B of SAP AG, filed on May 3, 2001.

(3) Incorporated by reference to Form 8-A12B of SAP AG, filed on May 3, 2001.

(4) Incorporated by reference to Form 8-A12B of SAP AG, filed on May 3, 2001.

(5) Incorporated by reference to the Current Report on Form 8-K of Commerce One, Inc., filed on July 10, 2001.

(6) Incorporated by reference to the Current Report on Form 8-K of Commerce One, Inc., filed on July 10, 2001.

(7) Incorporated by reference to the Current Report on Form 8-K of Commerce One, Inc., filed on July 10, 2001.

(8) Incorporated by reference to the Quarterly Report on Form 10-Q of Commerce One, Inc., filed on November 14, 2000.

(9) Incorporated by reference to the Quarterly Report on Form 10-Q of Commerce One, Inc., filed on August 14, 2001.

(10) Incorporated by reference to the Annual Report on Form 10-K of Commerce One, Inc., filed on April 1, 2002.

(11) Incorporated by reference to the Annual Report on Form 10-K of Commerce One, Inc., filed on March 31, 2003.





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**SIGNATURE**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing this Annual Report on Form 20-F and has duly caused this Annual Report to be signed on our behalf by the undersigned, thereunto duly authorized.

SAP AKTIENGESELLSCHAFT SYSTEME,  
ANWENDUNGEN, PRODUKTE IN DER  
DATENVERARBEITUNG  
(Registrant)

By: /s/ HASSO PLATTNER

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Name: Prof. Dr. Hasso Plattner  
Title: Co-Chairman and CEO

By: /s/ HENNING KAGERMANN

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Name: Prof. Dr. Henning Kagermann  
Title: Co-Chairman and CEO

By: /s/ WERNER BRANDT

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Name: Dr. Werner Brandt  
Title: CFO

Dated: April 14, 2003

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**SAP AKTIENGESELLSCHAFT AND SUBSIDIARIES**

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**REPORT OF ERNST AND YOUNG LLP, INDEPENDENT AUDITORS**

The Board of Directors and Stockholders

Commerce One, Inc.

We have audited the accompanying consolidated balance sheets of Commerce One, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commerce One, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 1 and 4 to the consolidated financial statements, in 2002 Commerce One, Inc. changed its method of accounting for goodwill and certain other purchased intangible assets.

/s/ Ernst & Young LLP

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Walnut Creek, California

January 27, 2003

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**Table of Contents****COMMERCE ONE, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share, and per share data)**

	December 31,	
	2002	2001
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 73,753	\$ 192,547
Short term investments	3,510	81,346
Accounts receivable, net of allowance for doubtful accounts of \$6.0 million at December 31, 2002 and \$24.1 million at December 31, 2001 <sup>(1)</sup>	7,373	45,877
Prepaid expenses and other current assets	4,923	9,762
<b>Total current assets</b>	<b>89,559</b>	<b>329,532</b>
Restricted cash, cash equivalents and short term investments	35,630	14,260
Property and equipment, net	9,761	64,908
Goodwill, net		164,679
Other intangible assets, net	18,449	244,855
Investments and other assets	6,023	10,707
<b>Total assets</b>	<b>\$ 159,422</b>	<b>\$ 828,941</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,104	\$ 23,773
Accrued compensation and related expenses	8,338	17,960
Deferred revenue <sup>(2)</sup>	23,546	57,367
Other current liabilities <sup>(3)</sup>	29,997	50,021
<b>Total current liabilities</b>	<b>64,985</b>	<b>149,121</b>
Notes payable	25,000	19,000
Non-current accrued restructuring charges	21,947	37,005
Commitment and Contingencies		
Stockholders' equity:		
Common stock, par value \$0.0001, 95,000,000 shares authorized; 29,276,716 and 28,752,021 issued and outstanding at December 31, 2002 and 2001, respectively	3,674,645	3,723,419
Deferred stock compensation	(4,385)	(66,772)
Note receivable from stockholder	(129)	(129)
Accumulated other comprehensive loss	(1,203)	(1,101)
Accumulated deficit	(3,621,438)	(3,031,602)
<b>Total stockholders' equity</b>	<b>47,490</b>	<b>623,815</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 159,422</b>	<b>\$ 828,941</b>

	_____	_____
Amounts included above from related parties (Note 10):		
(1) Accounts receivable, net	\$ 947	\$ 1,669
	_____	_____
(2) Deferred revenue	\$ 11,138	\$ 35,458
	_____	_____
(3) Other current liabilities	\$ 418	\$ 4,114
	_____	_____

See accompanying notes.

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**Table of Contents****COMMERCE ONE, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

	Years ended December 31,		
	2002	2001	2000
Revenues:			
License fees	\$ 28,597	\$ 130,917	\$ 223,277
Services	76,932	277,652	178,519
Total revenues <sup>(1)</sup>	105,529	408,569	401,796
Costs and expenses:			
Cost of license fees <sup>(2)</sup>	192,406	662,315	14,910
Cost of services	68,233	228,023	139,746
Sales and marketing	78,945	183,412	168,647
Product development	76,922	118,159	102,676
General and administrative	25,615	116,621	43,236
Purchased in-process research and development		4,548	5,142
Stock compensation	8,728	98,302	39,820
Restructuring costs and other	22,947	126,605	
Amortization of goodwill and other intangible assets	11,867	332,789	233,183
Impairment of intangible assets, fixed assets and equity investments	214,082	1,120,464	
Total costs and expenses	699,745	2,991,238	747,360
Loss from operations	(594,216)	(2,582,669)	(345,564)
Interest income and other, net	4,681	7,571	7,017
Net loss before income taxes	(589,535)	(2,575,098)	(338,547)
Provision for income taxes	301	9,001	6,400
Net loss	\$(589,836)	\$(2,584,099)	\$(344,947)
Basic and diluted net loss per share	\$ (20.33)	\$ (103.02)	\$ (20.52)
Shares used in calculation of net loss per share	29,011	25,084	16,807
(1) Revenue from related parties (Note 10)	\$ 32,022	\$ 97,741	\$ 52,512
(2) Includes charges for the impairment and amortization of the Technology Agreement with Covisint (Notes 4 and 11)	\$ 190,396	\$ 647,500	\$ 5,700

See accompanying notes.

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**Table of Contents****COMMERCE ONE, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands, except share data)

	Common Stock		Deferred Stock Compensation	Note Receivable from Shareholder	Accumulated Other Comprehensive Loss	Accumulate Deficit	Total
	Shares	Amount					
BALANCES AT DECEMBER 31, 1999	14,993,648	\$ 423,839	\$ (4,110)	\$	\$ (452)	\$ (102,556)	\$ 316,721
Issuance of common stock upon exercise of stock options	803,304	40,407					40,407
Issuance of common stock under employee stock purchase plan	198,534	11,221					11,221
Issuance of shares in connection with business combinations	2,988,970	1,774,339	(169,166)				1,605,173
Notes receivable from shareholder assumed in business combination				(133)			(133)
Payment of note receivable from stockholder assumed in business combination				4			4
Sale of common in connection with strategic partnerships, net of issuance cost	505,955	249,783					249,783
Contractual obligation to issue common stock in connection with Covisint agreement	2,880,000	880,200					880,200
Deferred stock compensation		20,174	(20,174)				
Amortization of deferred stock compensation			39,820				39,820
Issuance of warrants for services		1,524					1,524
Net loss						(344,947)	(344,947)
Foreign currency translation adjustment					(323)		(323)
Unrealized loss on investments					(39)		(39)
Comprehensive loss							(345,309)
BALANCES AT DECEMBER 31, 2000	22,370,411	3,401,487	(153,630)	(129)	(814)	(447,503)	2,799,411
Issuance of common stock upon exercise of stock options	429,331	6,961					6,961
Repurchase of common stock from terminated employees	(17,416)	(59)					(59)
Issuance of common stock under employee stock purchase plan	291,330	11,664					11,664
Issuance of common stock and assumption of stock options in connection with business combinations	807,858	74,768	(2,181)				72,587
Issuance of restricted common stock to employees	187,915	14,099	(14,099)				
Forfeiture of restricted common stock by employees upon termination	(65,885)	(4,836)	4,836				
Sale of common stock to SAP, net of issuance cost	4,748,477	219,335					219,335
Amortization of deferred stock compensation			98,302				98,302
Net Loss						(2,584,099)	(2,584,099)
					120		120



Foreign currency translation adjustment							
Unrealized loss on investments					(407)		(407)
Comprehensive loss							(2,584,386)
<b>BALANCES AT DECEMBER 31, 2001</b>	<b>28,752,021</b>	<b>3,723,419</b>	<b>(66,772)</b>	<b>(129)</b>	<b>(1,101)</b>	<b>(3,031,602)</b>	<b>623,815</b>
Issuance of common stock upon exercise of stock options	215,382	3,163					3,163
Repurchase of common stock from terminated employees	(9,661)	(53)					(53)
Issuance of common stock under employee stock purchase plan	358,760	2,275					2,275
Forfeiture of restricted common stock by employees upon termination	(39,786)	(2,958)	2,958				
Additional issuance cost on sale of common stock to SAP		(500)					(500)
Deferred compensation forfeited		(50,701)	50,701				
Amortization of deferred stock compensation			8,728				8,728
Net loss						(589,836)	(589,836)
Foreign currency translation adjustment					(490)		(490)
Unrealized gain on investments					388		388
Comprehensive loss							(589,938)
<b>BALANCES AT DECEMBER 31, 2002</b>	<b>29,276,716</b>	<b>\$ 3,674,645</b>	<b>\$ (4,385)</b>	<b>\$ (129)</b>	<b>\$ (1,203)</b>	<b>\$ (3,621,438)</b>	<b>\$ 47,490</b>

See accompanying notes.

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**Table of Contents****COMMERCE ONE OPERATIONS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	<b>Years ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Operating activities:</b>			
Net loss	\$(589,836)	\$(2,584,099)	\$ (344,947)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	30,733	45,375	15,339
Purchased in-process research and development		4,548	5,142
Amortization of cost of Technology Agreement with Covisint	10,428	55,188	5,689
Amortization of deferred stock compensation	8,728	98,302	39,820
Amortization of goodwill and other intangible assets	11,867	332,789	233,184
Impairment of goodwill and other intangible assets	189,344	1,098,869	
Impairment of Technology Agreement with Covisint	179,968	592,334	
Write down of investment in Covisint	4,255	21,595	
Loss on other investments	248	2,958	2,994
Loss on disposal of property and equipment		26,914	
Impairment of property and equipment	20,483		
Other	977		
Changes in operating assets and liabilities:			
Restricted cash and investments	(30,184)		
Accounts receivable, net	29,972	111,366	(91,043)
Prepaid and other current assets	7,980	8,221	(8,402)
Accounts payable	(20,014)	(5,075)	13,654
Accrued compensation and related expenses	(9,622)	(27,390)	26,612
Other current liabilities	(28,981)	(28,780)	29,967
Deferred revenue	(33,821)	(57,078)	71,894
Non-current accrued restructuring charges		37,005	
Net cash used in operating activities	(217,475)	(266,958)	(97)
<b>Investing activities:</b>			
Purchase of property and equipment, net	(6,503)	(39,491)	(79,158)
Proceeds from maturities of short term investments	130,550	204,709	82,880
Purchase of short term investments	(43,964)	(173,954)	(136,357)
Business combinations, net of cash acquired		(2,499)	8,773
Additional costs of Technology Agreement with Covisint, net		(2,815)	
Proceed from divestitures	10,734		
Other investments	1,569	3,191	(13,199)
Net cash provided by (used in) investing activities	92,386	(10,859)	(137,061)
<b>Financing activities:</b>			
Proceeds from issuance of common stock, net	4,885	237,901	301,411
Proceeds from borrowings on notes payable	25,423	19,000	
Payments on notes payable and capital lease obligations	(23,053)	(1,846)	(533)
Net cash provided by financing activities	7,255	255,055	300,878
Effect of foreign currency translation on cash and cash equivalents	(960)	120	(323)
Net (decrease) increase in cash	(118,794)	(22,642)	163,397

Cash balance at beginning of period	192,547	215,189	51,792
Cash balance at end of period	\$ 73,753	\$ 192,547	\$ 215,189
<b>Supplemental disclosures:</b>			
Interest paid	\$ 946	\$ 351	\$ 235
Cash paid for income taxes	\$ 2,620	\$ 4,307	\$ 4,590
<b>Non-cash investing and financing activities:</b>			
Deferred stock compensation	\$	\$ 9,263	\$ 20,174
Unrealized loss on investments	\$ 388	\$ 407	\$ 39
Issuance of preferred stock, common stock and assumption of stock options in connection with business combinations	\$	\$ 74,768	\$1,774,339
Deferred stock compensation related to stock option grants and options assumed in business combinations	\$	\$ 2,181	\$ 12,821
Valuation of common stock to be issued in connection with Technology Agreement with Covisint	\$	\$	\$ 849,350
Common stock warrant issued in connection with services provided	\$	\$	\$ 1,524
Common stock issued in connection with equity interest in Covisint	\$	\$	\$ 30,850

See accompanying notes.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***DESCRIPTION OF THE COMPANY***

The Company was founded as Distrivision in 1994, and changed its name to Commerce One in 1997, and re-incorporated into Delaware in 1999. On July 11, 2001, the Company completed its reorganization into a holding company structure. Commerce One is a technology company that specializes in software and services that allow companies to conduct business more efficiently through business process automation and web services solutions. The Company's software provides the technology and infrastructure that enable companies to conduct business processes via the Internet or Intranets and to manage their supplier, partner and customer relationships more effectively. Commerce One's services operations support these software solutions and help companies take maximum advantage of the efficiencies that these solutions can offer. Together, the Company's software and services allow companies to automate business functions that traditionally involved costly and time-consuming phone calls and paperwork.

***BASIS OF PRESENTATION***

At December 31, 2002, the Company has \$112.9 million cash and cash equivalents and investments, of which \$77.3 million is unrestricted and available to fund operations, \$24.6 million working capital and \$3,621.4 million accumulated deficit. Furthermore, the Company expects to use approximately \$39 million in cash to fund its operations in the first quarter of 2003. To date, the Company has funded its operations from revenue and equity financing. The Company plans to fund its current level of operations from a combination of available unrestricted cash and cash equivalents, investments and revenue. However, plans and future events are inherently uncertain. Therefore, should the Company's levels of revenue and cash, cash equivalents and investments fall short of the Company's expectations, the Company will take action to further reduce its operating expenses, primarily through reductions of personnel-related costs, and the Company believes such action, if needed, will allow the Company to have sufficient cash to finance its expected operating losses and working capital requirements through the 2003 calendar year.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain previously reported amounts have been reclassified to conform to the current presentation format.

The functional currency of the Company's foreign subsidiaries is the local currency. The Company translates all assets and liabilities to U.S. dollars at the current exchange rates as of the applicable balance sheet date. Revenue and expenses are translated using the average exchange rate for the period. Gains and losses resulting from the translation of the foreign subsidiaries' financial statements are reported as a separate component of accumulated comprehensive other income (loss) in stockholders' equity. Net gains and losses resulting from foreign exchange transactions, which are recorded in the statement of operations, were not significant during any of the periods presented.

***USE OF ESTIMATES***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates and assumptions made by management involve revenue recognition, the establishment of provisions for bad debts and warranty, the determination of the fair value of stock awards to employees for purposes of the pro forma disclosures, the valuation of goodwill, other intangible assets, fixed assets, and equity investments, and the restructuring accruals related to office closures.

**Table of Contents****CASH AND CASH EQUIVALENTS**

Cash equivalents are highly liquid investments with insignificant interest rate risk and maturities of 90 days or less at the date of purchase and are stated at amounts that approximate fair value. Cash equivalents consist principally of investments in short-term money market instruments and certificates of deposit.

**SHORT TERM INVESTMENTS**

Short-term investments consist principally of commercial paper, corporate notes and bonds, government notes and bonds and certificates of deposit with maturities greater than 90 days and are stated at amounts that approximate fair value.

The Company accounts for its short term investments in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date.

The Company has classified its short-term investments as available-for-sale. Available-for-sale investments are recorded at fair value based on quoted market prices at December 31, 2002 and 2001, with unrealized gains and losses reported as other comprehensive income (loss) and included within accumulated other comprehensive income (loss) in the statement of stockholders' equity. Realized gains and losses, which have been immaterial to date, are included in interest and other income and are derived using the specific identification method for determining the cost of investments sold. Dividend and interest income is recognized when earned.

As of December 31, 2002, all of the Company's short-term investments have a contractual maturity date that is less than one year from December 31, 2002. The following summarizes the fair value of the Company's short-term investments at December 31, 2002 (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government notes and bonds	\$ 8,928	\$ 2	\$	\$ 8,930
Certificates of deposit	26			26
	\$ 8,954	\$ 2	\$	\$ 8,956

Short-term investments as of December 31, 2002 included approximately \$26,000 and \$5.4 million in certificates of deposit and government notes and bonds, respectively, which collateralized certain of the Company's obligations related to operating lease agreements for office facilities.

The following summarizes the fair value of the Company's short-term investments at December 31, 2001 (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	\$ 30,916	\$ 28	\$	\$ 30,944
Government notes and bonds	32,973	13	(2)	32,984
Corporate notes and bonds	20,648	27		20,675
Certificates of deposit	11,003			11,003
	\$ 95,540			