I2 TECHNOLOGIES INC
Form 10-Q
May 04, 2001

1

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM ________ TO ________

COMMISSION FILE NUMBER 0-28030

i2 TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	75-2294945
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
ONE i2 PLACE 11701 LUNA ROAD DALLAS, TEXAS	75234
(Address of principal executive offices)	(Zip code)

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

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

As of April 30, 2001, the Registrant had outstanding 411,069,326 shares of Common Stock, $0.00025 par value.

2

i2 TECHNOLOGIES, INC.

TABLE OF CONTENTS

		PAGE
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets as of March 31, 2001 and December 31, 2000	3
	Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2001 and 2000	4
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2001 and 2000	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	30
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	31
Item 2.	Changes in Securities and Use of Proceeds	31
Item 3.	Defaults upon Senior Securities	31
Item 4.	Submission of Matters to a Vote of Security Holders	31
Item 5.	Other Information	31
Item 6.	Exhibits and Reports on Form 8-K	32
SIGNATURES		33

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

i2 TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2001 AND DECEMBER 31, 2000
(IN THOUSANDS, EXCEPT PAR VALUE)

	MARCH 31, 2001 (UNAUDITED)	DECEMBER 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 706,286	$ 739,241
Short-term investments	94,488	84,086
Accounts receivable, net of allowance for doubtful accounts of $39,869 and $31,329	303,590	298,465
Deferred income taxes, prepaids and other current assets	122,202	76,989
Total current assets	1,226,566	1,198,781
Premises and equipment, net	151,778	124,852
Deferred income taxes and other assets	435,517	410,026
Intangibles and goodwill, net	6,816,559	7,492,167

Total assets	$ 8,630,420	$ 9,225,826
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 50,745	$ 49,628
Accrued liabilities	138,283	111,739
Accrued compensation and related expenses	92,806	84,942
Deferred revenue	182,720	165,689
Income taxes payable	11,451	10,056
Total current liabilities	476,005	422,054
Other long-term liabilities	288	325
Long-term debt	406,139	350,000
Total liabilities	882,432	772,379
Stockholders' equity:		
Preferred Stock, $0.001 par value, 5,000 shares authorized, none issued	--	--
Common stock, $0.00025 par value, 2,000,000 shares authorized, 410,798 and 405,840 shares issued and outstanding	103	102
Additional paid-in capital	10,251,049	10,174,012
Accumulated other comprehensive loss	(15,028)	(6,694)
Accumulated deficit	(2,488,136)	(1,713,973)
Total stockholders' equity	7,747,988	8,453,447
Total liabilities and stockholders' equity	$ 8,630,420	$ 9,225,826

See accompanying notes to condensed consolidated financial statements.

i2 TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
Revenues:		
Software licenses	$ 211,132	$113,584
Services	93,223	46,870
Maintenance	52,203	25,826
Total revenues	356,558	186,280
Costs and expenses:		
Cost of software licenses	21,811	5,366
Cost of services and maintenance	83,085	41,072
Sales and marketing	140,629	66,210
Research and development	75,236	39,846

General and administrative	29,699	16,607
Amortization of intangibles	768,958	--
In-process research and development and acquisition-related expenses	4,700	557
Total costs and expenses	1,124,118	169,658
Operating income (loss)	(767,560)	16,622
Other income (expense), net	(13,537)	2,499
Income (loss) before income taxes	(781,097)	19,121
Provision (benefit) for income taxes	(6,946)	7,380
Net income (loss)	$ (774,151)	$ 11,741
Basic and diluted earnings (loss) per common share:		
Basic earnings (loss) per common share	$ (1.90)	$ 0.04
Diluted earnings (loss) per common share	$ (1.90)	$ 0.03
Weighted-average common shares outstanding	408,074	313,000
Weighted-average diluted common shares outstanding	408,074	366,050
Comprehensive income (loss):		
Net income (loss)	$ (774,151)	$ 11,741
Other comprehensive income (loss):		
Unrealized loss on available-for-sale securities arising during the period	(24,312)	--
Reclassification adjustment for net realized losses on available-for-sale securities included in income	18,229	--
Net unrealized loss	(6,083)	--
Foreign currency translation adjustments	(6,797)	(133)
Tax effect of other comprehensive income	4,546	50
Total other comprehensive loss	(8,334)	(83)
Total comprehensive income (loss)	$ (782,485)	$ 11,658

See accompanying notes to condensed consolidated financial statements.

4

5

i2 TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(774,151)	$ 11,741
Adjustments to reconcile net income to net cash provided by operating activities:		
Write-off of in-process research and development	4,700	577
Depreciation and amortization	780,386	4,593

Provision for bad debts charged to costs and expenses	12,465	1,844
Amortization of deferred compensation	645	1,129
Loss on equity investments	18,229	--
Deferred income taxes and disqualifying dispositions	(45,960)	(44,253)
Tax benefit from stock option exercises	31,750	39,399
Changes in operating assets and liabilities:		
Accounts receivable, net	(16,746)	(31,323)
Prepaids and other assets	(1,257)	(15,924)
Accounts payable	(132)	2,426
Accrued liabilities	17,512	32,215
Accrued compensation and related expenses	6,575	861
Deferred revenue	2,982	61,302
Income taxes payable	1,683	2,073
Net cash provided by operating activities	38,681	66,660
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash paid in purchase of Trade Service Corporation and ec-Content	(4,772)	--
Direct costs of purchase transactions	(695)	--
Short-term loan to RightWorks	(3,300)	--
Purchases of premises and equipment	(24,316)	(13,955)
Net change in short-term investments	(10,402)	(56,658)
Purchases of equity investments	(5,000)	(5,583)
Purchases of long-term debt securities	(30,131)	--
Net cash used in investing activities	(78,616)	(76,196)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of note acquired in acquisition of Trade Service Corporation and ec-Content	(24,698)	--
Net proceeds from sale of common stock to employees and exercise of stock options	32,217	11,898
Net cash provided by financing activities	7,519	11,898
Effect of exchange rates on cash	(539)	(11)
Net change in cash and cash equivalents	(32,955)	2,351
Cash and cash equivalents at beginning of period	739,241	454,585
Cash and cash equivalents at end of period	$ 706,286	$456,936

See accompanying notes to condensed consolidated financial statements.

5

6

i2 TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(TABLES IN THOUSANDS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying condensed consolidated financial statements have been prepared without audit and reflect all adjustments that, in the opinion of management, are necessary to present fairly our financial position at March 31, 2001, and our results of operations and cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions of Form 10-Q as prescribed by the Securities and Exchange Commission (SEC) and, therefore, do not purport to contain all

necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary in the circumstances, and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2000, included in our annual report on Form 10-K filed with the SEC on March 29, 2001 (the "2000 Form 10-K"). Refer to our accounting policies described in the notes to financial statements contained in the 2000 Form 10-K. We consistently followed these policies in preparing this Form 10-Q. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results for the year ended December 31, 2001.

Nature of Operations. We are a leading provider of supply chain and marketplace software solutions that may be used by enterprises to optimize business processes both internally and among trading partners. Our solutions are designed to help enterprises improve efficiencies, collaborate with suppliers and customers, respond to market demands and engage in dynamic business interactions over the Internet. Our product suites include software solutions for supply chain management, supplier relationship management and customer relationship management. In addition, we provide content and content management solutions as well as a platform for integration and administration of private and public electronic marketplaces. We also provide services such as consulting, training and maintenance in support of these offerings.

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

All prior share and per share data reflect the two-for-one stock split of our common stock paid as a 100% stock dividend on December 5, 2000.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

2. BUSINESS COMBINATIONS AND ASSET ACQUISITIONS

On March 23, 2001, we completed our acquisition of Trade Service Corporation, a leading provider of maintenance, repair and overhaul (MRO) content and its affiliate ec-Content, Inc. (collectively, "TSC"), which develops and manages content for digital marketplaces, e-procurement and supplier syndication. We purchased all the outstanding stock of both companies for approximately $74.1 million, including acquisition related costs. The total purchase price includes $5.0 million in cash, 800,000 shares of our common stock with a fair market value of $12.4 million, a convertible promissory note currently valued at $56.1 million and approximately $0.6 million in acquisition costs. This acquisition was accounted for as a purchase business combination; accordingly, the results of operations of TSC have been included with our results of operations since March 23, 2001.

The convertible promissory note issued in connection with our acquisition of TSC will mature on September 23, 2003. Interest of 7.5% per annum is payable in annual installments on each anniversary date of

6

7

the note and upon maturity. 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 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 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 by $60.00 and (ii) the quotient derived by dividing the outstanding principal balance and accrued interest by the trading average. The note is 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 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 total purchase price paid for the acquisition was allocated based on the estimated fair values of the assets acquired as follows:

Net liabilities assumed	$(24,345)
Identified intangible assets:	
Developed technology	8,500
Assembled workforce	600
Relationships	12,500
Content databases	14,800
Goodwill	57,298
In-process research and development	4,700
Total	$ 74,053

Identified intangible assets are being amortized over two to five years, while goodwill is being amortized over three years.

$4.7 million of the purchase price represents purchased in-process technology that has not yet reached technological feasibility and has no alternative future use. Accordingly, this amount was immediately expensed in the consolidated statement of operations upon consummation of the acquisition. The value assigned to purchased in-process technology, based on a valuation prepared by an independent third-party appraisal company, was determined by identifying research projects in areas for which technological feasibility has not been established, including web-based content management and e-commerce web enablement, ranging from 22% to 45% complete. The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the net cash flows from such projects, and discounting the net cash flows to their present value. A discount rate of 30% was used, which includes a factor that takes into account the uncertainty surrounding the successful development of the purchased in-process technology. The purchase price allocation is preliminary and subject to final determination and valuation of the fair value of assets and liabilities acquired.

Pro forma condensed consolidated results of operations assuming TSC had been acquired on January 1, 2000 are not presented because the acquisition of TSC was not considered significant based on SEC rules and regulations regarding

significant subsidiaries.

On March 8, 2001, we entered into a definitive agreement to acquire RightWorks Corporation, a developer of software that is designed to enable companies to manage procurement across multiple enterprises for both direct and indirect materials, and support buying models, from negotiated procurements to auctions. In connection with the acquisition, we will exchange approximately 5.3 million shares of our common stock for

all the outstanding stock of RightWorks. The transaction, which is expected to close in the second quarter of 2001, will be accounted for using the purchase method. On March 28, 2001, we entered into a loan and security agreement with RightWorks whereby we agreed to loan them up to $25.0 million to provide operating capital until our acquisition is closed. The loan is secured by substantially all of the assets of RightWorks. Principal and interest, accrued at a rate of 15.0% per annum, are due, upon the termination of the loan agreement which is the earlier of (i) the date, following the closing of our acquisition, on which we demand payment, or (ii) the date of termination of our agreement to acquire RightWorks. As of March 31, 2001, the outstanding balance of the loan was $3.3 million.

During the three months ended March 31, 2000, we issued $233.7 million (2.6 million shares) of our common stock for various software assets, cross-patent rights and software licenses.

3. STOCKHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE

Stock Splits. On January 14, 2000, our Board of Directors approved a two-for-one stock split, which was paid as a 100% dividend on February 17, 2000. On October 17, 2000, our Board of Directors approved another two-for-one stock split, which was paid as a 100% stock dividend on December 5, 2000. All share and per share amounts included herein have been adjusted to reflect the stock splits.

Basic and Diluted Earnings Per Common Share. Basic and diluted earnings per common share are computed in accordance with SFAS No. 128, "Earnings Per Share," which requires dual presentation of basic and diluted earnings per common share for entities with complex capital structures. Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of stock options 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 weighted-average shares used in calculating basic earnings per common share and the weighted-average common shares used in calculating diluted earnings per common share for the three months ended March 31, 2001 and 2000.

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
Weighted-average common shares outstanding..................	408,074	313,000
Effect of dilutive securities:		
Stock options..	--	53,050

Convertible debt	--	--
Weighted-average diluted common shares outstanding	408,074	366,050

As a result of the net loss incurred during the three months ended March 31, 2001, the effect of dilutive securities would have been anti-dilutive to the diluted earnings per common share computation and were thus excluded. Dilutive securities that would have otherwise been included in the determination of the weighted-average number of common shares outstanding for the purposes of computing diluted earnings per common share included 43.4 million shares issuable under stock options and warrants.

Stock Option Exchange Program. On March 9, 2001, we announced a voluntary stock option exchange program for the benefit of our employees. Under the program, our employees were offered the opportunity, if they chose by April 15, 2001, to cancel certain outstanding stock options previously granted to them for new stock options to be granted no earlier than October 16, 2001. The new options will be granted with a strike price to be set at the fair market value of our stock at the date of grant. Employees will receive 1.1 new stock options for each stock option cancelled. The exchange program was organized to comply with applicable accounting standards and, accordingly, no compensation charges related to this program will result. Members of our Board of Directors, executive officers, and certain members of the senior management team are not eligible to participate in this program.

4. SEGMENT INFORMATION, INTERNATIONAL OPERATIONS AND CUSTOMER CONCENTRATIONS

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

We market our software and services primarily through our worldwide sales organization augmented by other service providers, including both domestic and international e-business providers and systems consulting and integration firms. Our chief operating decision maker evaluates resource allocation decisions and our performance based on financial information, presented on a consolidated basis, accompanied by desegregated information about revenues by geographic regions.

Revenues are attributable to regions based on the locations of the customers' operations. Total revenues by geographic region for the three months ended March 31, 2001 and 2000 were as follows:

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
United States	$220,809	$121,536

Europe	84,739	29,753
Asia	40,965	28,648
Other	10,045	6,343
	$356,558	$186,280

Total assets related to our international operations accounted for $377.8 million, or 4.4%, of total consolidated assets as of March 31, 2001 and $350.3 million, or 3.8%, of total consolidated assets as of December 31, 2000.

During the three months ended March 31, 2001, one customer accounted for $42.2 million, or 11.8%, of total revenues. During the three months ended March 31, 2000, no individual customer accounted for more than 10.0% of total revenues.

5. COMMITMENTS AND CONTINGENCIES

An employee of a company we acquired in 1998 is currently disputing the cancellation of stock options received at the time of the acquisition. Vesting of the options was dependent upon continued employment; however, the employment was terminated in 2000. We maintain the former employee was not entitled to unvested stock options.

Since March 2, 2001, several class actions have been filed in the United States District Court, Northern District of Texas, Dallas Division, alleging that we and certain of our officers have violated federal securities laws. All of the complaints are virtually identical and allege that we issued a series of false and misleading statements which failed to disclose, among other things, that we were experiencing software implementation difficulties with Nike, Inc. and that these problems were material, severe and damaging our relationship with Nike. The potential class consists of all persons who purchased our stock during the period from October 18, 2000 to February 26, 2001. As these suits have just been filed, we have not had the opportunity to adequately review the claims or respond. Although the ultimate outcome and liability, if any, cannot be determined, we believe the facts in these class actions do not support the plaintiffs' claims and our officers and we have meritorious defenses.

We are subject to various other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on our business, financial condition or results of operations.

6. FOREIGN CURRENCY RISK MANAGEMENT

On January 1, 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137 and SFAS 138. Adoption of SFAS 133 did not materially impact our financial statements. SFAS 133 requires all derivatives to be recorded at fair value. Unless designated as hedges, changes in these fair values will be recorded in the statement of operations. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if changes in the fair value of the hedged item are not otherwise recorded. We account for all of our derivative instruments in accordance with this standard.

Due to the fact that we conduct business on a global basis in various

foreign currencies, we are exposed to adverse movements in foreign currency exchange rates. In January 2001, we established a foreign currency hedging program utilizing foreign currency forward contracts to hedge selected nonfunctional currency exposures. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts. We have not used, nor do we expect to use, forward contracts for trading purposes.

We generally enter into forward contracts to purchase or sell various foreign currencies as of the last day of each month. These forward contracts generally have original maturities of one month and are net-settled in U.S. Dollars. Each forward contract is based on the current market forward exchange rate as of the contract date and no premiums are paid or received. Accordingly, these forward contracts have no fair value as of the contract date. Changes in the applicable foreign currency exchange rates subsequent to the contract date cause the fair value of the forward contracts to change. These changes in the fair value of forward contracts are recorded through earnings and the corresponding assets or liabilities are recorded on our balance sheet. Gains and losses on the forward contracts are included in other income/expense, net in the Consolidated Statements of Operations and offset foreign exchange gains and losses from the revaluation of intercompany balances or other current assets and liabilities denominated in currencies other than the functional currency of the reporting entity. During the three months ended March 31, 2001, we recognized net gains of $2.6 million on foreign currency forward contracts, which partly offset net foreign currency transaction losses of $4.7 million. Foreign currency transaction losses totaled $0.5 million during the three months ended March 31, 2000.

Details of our foreign currency forward contracts as of March 31, 2001 are presented in the following table. All of these contracts were originated, without premiums, on March 31, 2001 based on market forward exchange rates. Accordingly, these forward contracts had no fair value on March 31, 2001 and no amounts related to these forward contracts have been recorded in our financial statements.

	NOTIONAL AMOUNT OF FORWARD CONTRACT IN FOREIGN CURRENCY		NOTIONAL AMOUNT OF FORWARD CONTRACT IN U.S. DOLLARS
Forward contracts to purchase:			
British Pounds....................	GBP	647	$ 908
Swiss Francs......................	CHF	22,213	12,901
Danish Kroners....................	DKK	5,671	670
Forward contracts to sell:			
Australian Dollars................	AUD	9,089	4,375
Brazilian Reals...................	BRL	1,769	807
Canadian Dollars..................	CAD	8,856	5,581
European Euros....................	EUR	20,443	17,792
Indian Rupees.....................	INR	119,324	2,524
Japanese Yen......................	JPY	3,248,689	25,655

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

7. NEW ACCOUNTING STANDARDS

In February 2001, the Financial Accounting Standards Board issued a revision to a previously issued exposure draft covering business combinations proposing new accounting guidance related to goodwill. This proposed standard would not allow for amortization of goodwill. The carrying amount of goodwill would be reduced only if it was found to be impaired. Goodwill would be tested for impairment when events or circumstances occur indicating that goodwill might be impaired. A fair-value based impairment test would be used to measure goodwill for impairment in lieu of the method for measuring impairment of long-lived assets set forth in SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." As goodwill is measured as a residual amount in an acquisition, it is not possible to directly measure the fair value of goodwill. Under this proposed standard, the net assets of a reporting unit should be subtracted from the fair value of that reporting unit to determine the implied fair value of goodwill. Impairment loss would be recognized to the extent the carrying amount of goodwill exceeds the implied fair value. The provisions of this proposed standard would be effective for fiscal quarters beginning after the issuance of a final statement. Management believes the adoption of this standard, as it is proposed, will have a material non-cash impact on our financial statements if the final statement is issued prior to the full amortization of our remaining goodwill.

8. SUBSEQUENT EVENTS

On April 2, we announced plans to reduce our workforce by about 10% as part of an effort to bring our total expenses in line with our current business outlook. Subsequent to that announcement, we reduced our staff by over 600. As part of our restructuring, we expect to incur charges related to employee severance, among other things. We expect to record these charges in the second quarter of 2001.

On March 4, 2001 and April 12, 2001, our Board of Directors approved two amendments to our 1995 Stock Option/Stock Issuance Plan that would (i) implement an automatic share increase feature and (ii) extend the term of the plan from September 20, 2005 to April 11, 2011. The amendments are subject to approval by our stockholders at our annual stockholders' meeting on May 31, 2001.

On April 20, 2001, our Board of Directors approved three amendments to our Employee Stock Purchase Plans that would (i) implement an automatic share increase feature; (ii) extend the term of the plan until the last business day in April 2011; and (iii) amend the stockholder approval requirements for future amendment to the plan. The amendments are subject to approval by our stockholders at our annual stockholders' meeting on May 31, 2001. In addition to these changes, the Board also amended the plan to: (i) eliminate the thirty-day service requirement for participation in the Purchase Plan and (ii) amend the leave of absence provision to provide a procedure by which a participant resumes participation in the Purchase Plan. These amendments do not require stockholder approval.

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

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of

Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than historical or current facts, including, without limitation, statements about our business, financial condition, business strategy, plans and objectives of management and our future prospects, are forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from these expectations. Such risks and uncertainties include, without limitation, the following:

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

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

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

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

- Any decrease in demand for our products and services could significantly reduce our revenues.

- Other risks listed under the section captioned "Factors that May Affect Future Results" included elsewhere in this report and in our other filings with the Securities and Exchange Commission.

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

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

OVERVIEW

We are a leading provider of supply chain and marketplace software solutions that may be used by enterprises to optimize business processes both internally and among trading partners. Our solutions are designed to help enterprises improve efficiencies, collaborate with suppliers and customers, respond to market demands and engage in dynamic business interactions over the Internet. Our product suites include software solutions for supply chain management, supplier relationship management and customer relationship management. In addition, we provide content and content management solutions as well as a platform for integration and administration of private and public electronic marketplaces. We also provide services such as consulting, training and maintenance in support of these offerings.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
Revenues:		
Software licenses	59.2%	61.0%
Services	26.2	25.1
Maintenance	14.6	13.9
Total revenues	100.0	100.0
Costs and expenses:		
Cost of software licenses	6.1	2.9
Cost of services and maintenance	23.3	22.1
Sales and marketing	39.5	35.5
Research and development	21.1	21.4
General and administrative	8.3	8.9
Amortization of intangibles	215.7	--
In-process research and development and acquisition-related expenses	1.3	0.3
Total costs and expenses	315.3	91.1
Operating income (loss)	(215.3)	8.9
Other income (expense), net	(3.8)	1.3
Income before income taxes	(219.1)	10.2
Provision for income taxes	(2.0)	3.9
Net income (loss)	(217.1)%	6.3%

REVENUES

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

Software license revenues are recognized upon shipment, provided fees are fixed and determinable and collection is probable. Revenue for agreements that include one or more elements to be delivered at a future date is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred, and the remaining portion of the agreement fee is recognized as license revenue. If fair values have not been established for certain undelivered elements, revenue is deferred until those elements have been delivered, or their fair values have been determined. Agreements that include a right to unspecified future elements are recognized ratably over the term of the agreement. License fees from reseller agreements are generally based on the

sublicenses granted by the reseller and recognized when the license is sold to the end customer. Licenses to our content databases are recognized over the term of the agreements. Fees from licenses sold together with services are generally recognized upon shipment, provided fees are fixed and determinable, collection is probable, payment of the license fee is not dependent upon the performance of the consulting services and the consulting services are not essential to the functionality of the licensed software.

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

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

Payments received in advance of revenue recognized are classified as deferred revenue in the Consolidated Balance Sheets.

Total revenues increased $170.3 million, or 91.4%, during the three months ended March 2001 compared to the same period in 2000. These increases resulted from the expansion of our product offerings; increased demand for our products and services, particularly from our existing customer base; increased sales activities resulting from additional sales representatives; and additional revenues generated by acquired businesses. We derived substantially all of our revenues from licenses associated with our software products and content databases and related services and maintenance.

Software Licenses. Software license revenues constituted 59.2% of total revenues during the three months ended March 31, 2001, compared to 61.0% for the same period in 2000. Software license revenues increased $97.5 million, or 85.9%, during the three months ended March 31, 2001, compared to the same period in 2000. The increase in software license revenues over the comparable periods was due to:

- Expansion of product offerings.

- Increased demand for our products and services from our existing customer base.

- Increased sales activities resulting from increases in direct sales representatives and strategic alliances with industry partners.

- Increased customer awareness and interest in our product offerings.

As a result of the above items, the number of recognized software license transactions increased to 102 transactions for the three months ended March 31, 2001 from 88 transactions for the same period in 2000, an increase of 15.9%. License revenue generated from our existing customer base totaled 73.6% of total license revenue for the three months ended March 31, 2001 compared to 42.1% for the same period in 2000. The average size of individual license transactions increased 50.1% to $1.9 million for the three months ended March 31, 2001 from $1.3 million for the same period in 2000. Additionally, the number of individual software license transactions in excess of $1.0 million increased 7.4% to 29 transactions for the three months ended March 31, 2001 from 27 transactions for the same period in 2000. Our direct sales channel is responsible for most of our license revenue.

Although we believe direct sales will continue to account for most of our

software license revenues for the foreseeable future, our strategy is to continue to increase the level of indirect sales activities. We expect sales of our software products through, or in conjunction with, sales alliances, distributors, resellers and other indirect channels to increase as a percentage of software license revenues; however, there can be no assurance that our efforts to expand indirect sales will be successful or will continue in the future.

Services. Service revenues constituted 26.2% of total revenues during the three months ended March 31, 2001, compared to 25.1% during the same period in 2000. Service revenues as a percentage of total revenues have fluctuated, and are expected to continue to fluctuate on a year-to-year basis, as revenues from the implementation of software are not generally recognized in the same period as the related license revenues. As large licenses or a significant number of smaller licenses are sold near the end of a given period, the relative proportion of services revenues to total revenues will increase in subsequent periods as services related to implementation are performed.

Service revenues increased $46.4 million, or 98.9%, during the three months ended March 31, 2001, compared to same period in 2000. The increases in service revenues were due to an increase in the number of marketplace solutions sold and resulting demand for consulting and implementation services. The increases were also due to expanded use of third-party consultants as subcontractors to provide implementation services to our customers. This has allowed us to increase our penetration into various international and targeted vertical markets.

Maintenance. Maintenance revenues increased to 14.6% of total revenues during the three months ended March 31, 2001, from 13.9% during the same period in 2000. Maintenance revenues increased $26.4 million, or 102.1%, during the three months ended March 31, 2001, compared to the same period in 2000. In 2000, we began offering new, tiered levels of maintenance with proportionately higher fees for higher levels of service. The increases in maintenance revenues were also due to continued increases in software license sales and renewals of maintenance agreements from prior license sales.

International Revenues. Our international revenues are primarily generated from customers located in Europe, Asia, Canada and Latin America. International revenues totaled $135.7 million, or 38.1% of total revenues, during the three months ended March 31, 2001, increasing from $64.7 million, or 34.8% of total revenues, during the same period in 2000. The increase in international revenues is consistent with our efforts to expand our international presence and sales efforts. We believe continued growth and profitability will require further expansion in international markets. We have expended and will continue to expend substantial resources to expand our international operations.

COSTS AND EXPENSES

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

- Commissions paid to third parties in connection with joint marketing and other related agreements.

- Royalty fees associated with third-party software.

- Costs related to user documentation.

- Costs related to reproduction and delivery of software.

Cost of software licenses as a percentage of related revenue was 10.3% and

4.7% during the three months ended March 31, 2001 and 2000. Cost of software license increased $16.4 million, or 306.5%, during the three months ended March 31, 2001, compared to the same period in 2000. The increases in cost of software licenses, both as a percentage of software license revenue and in dollar amount, are due to increases in commissions paid to third parties in connection with joint marketing efforts and other sales assistance, and increases in the amount of royalty fees associated with third-party software.

Cost of Services and Maintenance. Cost of services and maintenance includes costs associated with the implementation of software solutions and consulting and training services. Cost of services and maintenance also includes the cost of providing software maintenance to customers such as telephone support and packaging and shipping costs related to new releases of software and updated user documentation.

Cost of services and maintenance as a percentage of related revenues was 57.1% and 56.5% during the three months ended March 31, 2001 and 2000. The total cost of services and maintenance increased $42.0 million, or 102.3%, during the three months ended March 31, 2001, compared to the same period in 2000. The increases in both dollar amount and percent of revenue are attributable to increases in the number of consultants, product support and training staff and increased use of third-party consultants to provide implementation services. The accretive effect on service revenues related to newly hired consultants generally lags behind the immediate cost impact of adding to our headcount.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of personnel costs, commissions, travel, and promotional events such as trade shows, seminars, technical conferences, advertising and public relations programs. Sales and marketing expenses increased $74.4 million, or 112.4%, during the three months ended March 31, 2001, compared to the same period in 2000. The increases were due to:

- An increased number of direct sales representatives to 603 at March 31, 2001, up from 328 at March 31, 2000. This represents an 83.8% increase in our direct sales force over the comparable periods.

- Increased sales commissions due to higher revenues.

- Increased marketing and promotional activities due to the expansion of our suite of supply chain and marketplace solutions and our expansion into new international markets.

Research and Development Expenses. Research and development expenses consist of continued software development and product enhancements to existing software. Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the establishment of technological feasibility of our products and general release of such software has substantially coincided. As a result, software development costs qualifying for capitalization have been insignificant; therefore, we have not capitalized any software development costs.

Research and development expenses increased $35.4 million, or 88.8%, during the three months ended March 31, 2001, compared to the same period in 2000. Research and development expenses as a percentage of total revenues decreased to 21.1% in the first quarter of 2001 from 21.4% in the first quarter of 2000. The decrease in research and development expenses as a percentage of total revenues resulted from our ability to leverage our resource base to support a larger organization. The increases in the dollar amount of research and development

expenses were due to increased research and development personnel by approximately 97.9% over the comparable periods. As of March 31, 2001, our research and development headcount totaled approximately 2,000, up from approximately 1,000 at March 31, 2000. Approximately 600 employees included in this increase were added as a result of our acquisition of Aspect.

General and Administrative Expenses. General and administrative expenses include the personnel and other costs of our finance, legal, accounting, human resources, information systems and executive departments. General and administrative expenses increased $13.1 million, or 78.8%, during the three months ended March 31, 2001, compared to the same period in 2000. General and administrative expenses as a percentage of total revenues decreased to 8.3% in the first quarter of 2001 from 8.9% in the first quarter of 2000. The increases in the dollar amounts of general and administrative expenses were primarily due to the cost of supporting a 90.4% increase in personnel in over the comparable periods, as well as increases in the number and size of our facilities and equipment related to our corporate headquarters. The decrease in general and administrative expenses as a percentage of total revenues resulted from our ability to leverage our resource base to support a larger organization. We expect to hold general and administrative expenses relatively flat as a percentage of revenue and to leverage our existing resource base to support our current operations.

Amortization of Intangibles. From time to time, we have sought to supplement the expanding depth and breadth of our product offerings through technology or business acquisitions. When an acquisition of a business is accounted for using the purchase method, the amount of the purchase price is allocated to the fair value of assets acquired, net of liabilities assumed. Any excess purchase price is allocated to goodwill. Goodwill is amortized over the life of the asset (typically two to three years). Details of our acquisition of TSC during the first quarter of 2001 are presented in Note 2 -- Business Combinations and Asset Acquisitions in the Notes to Condensed Consolidated Financial Statements included elsewhere in this report.

Amortization of intangibles, including amortization of goodwill, related to acquisitions totaled $769.0 million during the three months ended March 31, 2001. Under current accounting guidance, amortization of these intangibles will continue through 2004. In February 2001, the Financial Accounting Standards Board issued a revision to a previously issued exposure draft covering business combinations proposing new accounting guidance related to goodwill that would change the amortization methodology. See Note 7 -- New Accounting Standards in the Notes to Condensed Consolidated Financial Statements included elsewhere in this report.

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

16

17

presented in Note 2 -- Business Combinations and Asset Acquisitions in the Notes to Condensed Consolidated Financial Statements included elsewhere in this report.

The write-off of acquired in-process research and development totaled $4.7

million during the three months ended March 31, 2001. This amount is related to the acquisition of Trade Service Corporation and ec-Content. We expect to continue to expand through acquisitions and the resulting write-off of process research and development could vary significantly from quarter to quarter.

OTHER INCOME (EXPENSE), NET

Other income (expense), net, consists of interest income on investments partially offset by interest expense, realized gains/losses on equity investments, foreign currency exchange transaction gains/losses, gains/losses on foreign currency exchange forward contracts and other miscellaneous income and expense. During the three months ended March 31, 2001, we recognized net other expenses of $13.5 million compared to net other income of $2.5 million during the same period in 2000. Other income (expense), net, for the first quarter of 2001, included net realized losses on equity investments of $18.2 million, which included the write-down of the carrying basis of certain equity investments as a result of significant declines in the fair value and expected realizable amounts of these investments. Excluding these losses, we would have realized net other income of $4.7 million. The increase in other income, net, excluding losses on equity investments, was attributable to increased interest income from higher average investment balances partly offset by an increase in net foreign currency exchange transaction losses. The interest yields on investments and the relative exchange values of foreign currencies are influenced by the monetary and fiscal policies of the governments in the countries we operate. The nature, timing and extent of any impact on our financial statements resulting from changes in those governments' policies are not predictable.

PROVISION (BENEFIT) FOR INCOME TAXES

We recognized an income tax benefit of $6.9 million during the three months ended March 31, 2001, compared to an income tax expense of $7.4 million during the same period in 2000. Our effective income tax rate in the first quarter of 2001 was 0.9% compared to 38.6% in the first quarter of 2000. The effective income tax rate during the three months ended March 31, 2001, and to a lesser extent in the same period in 2000, differed from the U.S. statutory rate primarily due to the non-deductibility of goodwill, in-process research and development and acquisition-related expenses. Other items affecting our effective tax rate during the periods presented include state taxes (net of federal tax benefits), non-deductible meals and entertainment, deferred tax asset valuation allowances and research and development tax credits. Excluding the impact of these and other items, our effective tax rates were 36.0% and 37.5% during the three months ended March 31, 2001 and 2000.

BASIC AND DILUTED EARNINGS PER COMMON SHARE

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

- The ongoing issuance of common stock associated with stock option exercises.

- The issuance of common shares associated with our employee stock purchase plans.

- Any fluctuations in our stock price, which could cause changes in the number of common stock equivalents included in the diluted earnings per common share calculation.

- The issuance of common stock to effect business combinations should we enter into such transactions.

- The issuance of common stock or warrants to effect joint marketing, joint development or other similar arrangements should we enter into such arrangements.

- Assumed or actual conversions of debt into common stock with respect to our convertible notes.

PRO FORMA RESULTS OF OPERATIONS

The following summary of unaudited pro forma consolidated selected statement of operations data presents our results of operations for the three months ended March 31, 2001 and 2000, excluding: amortization of intangibles, write-off of in-process research and development and acquisition-related expenses, employer taxes on stock option exercises and net losses realized on minority investments. We believe the exclusion of these items provides a more relevant summary of the results of our operations as they relate to our core business and we use these measures internally to evaluate our operating performance. This information is not to be construed as a measurement of profitability under generally accepted accounting principles. Additionally, the pro forma results of operations, as presented, may not be consistent with measures used by other companies. All acquisitions accounted for using the purchase method are included in the following summary from the date those entities were acquired. As discussed in Note 2 -- Business Combinations and Asset Acquisitions in the Notes to Condensed Consolidated Financial Statements, the acquisition of TSC was completed in the first quarter of 2001 and, accordingly, the operating results of TSC are included with our results of operations since the date of acquisition of March 23, 2001. Amounts shown are in thousands, except per share data.

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
PRO FORMA UNAUDITED SELECTED STATEMENT OF OPERATIONS DATA:		
Revenues	$356,558	$186,280
Costs and expenses	349,566	167,928
Operating income	6,992	18,352
Other income, net	4,692	2,499
Income before income taxes	11,684	20,851
Provision for income taxes	4,206	7,819
Net income	$ 7,478	$ 13,032
Basic earnings per common share	$ 0.02	$ 0.04
Diluted earnings per common share	$ 0.02	$ 0.04
Weighted-average common shares outstanding	408,074	313,000

Weighted-average diluted common shares outstanding..........	451,467	366,050
THE ABOVE PRO FORMA AMOUNTS HAVE BEEN ADJUSTED TO EXCLUDE THE FOLLOWING ITEMS:		
Amortization of intangibles................................	$768,958	$ --
In-process research and development and acquisition related expenses...	4,700	557
Employer taxes on stock option exercises...................	894	1,173
Net losses realized on minority investments................	18,229	--
Income tax effect of excluded items........................	(11,152)	(439)
Net effect of pro forma adjustments........................	$781,629	$ 1,291

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our operations and met our capital expenditure requirements primarily through cash flows provided from operations, long-term borrowings and sales of equity securities. Our liquidity and financial position at March 31, 2001 showed a 3.5% decrease in working capital in the first quarter of 2001. Working capital was $750.6 million as of March 31, 2001 compared to $776.7 million as of December 31, 2000. The decrease in working capital was primarily the result of the investment of $30.1 million in long-term debt securities. We have historically invested excess cash in short-term investment instruments; however, as a result of declining market interest rates during the quarter, we reinvested a portion of our available funds in higher-yielding, longer-term investment instruments, all of which have original maturities of less than two years.

During the three months ended March 31, 2001, net cash provided by operating activities decreased $28.0 million, net cash used in investing activities increased $2.4 million and net cash provided by financing activities decreased $4.4 million compared to totals for the same period in 2000. Cash and cash equivalents were $706.3 million at March 31, 2001, a decrease of $32.9 million, compared to balances at December 31, 2000. The decrease was primarily the result of $38.7 million in cash generated by operating activities and $7.5 million in cash provided by financing activities, offset by $78.6 million in cash used in investing activities.

The most significant transactions which adjusted net income to net cash provided by operations in the first quarter of 2001 were depreciation and amortization of $780.4 million, deferred income taxes and disqualifying dispositions of $46.0 million, tax benefits from stock option exercises of $31.8 million, losses on equity investments of $18.2 million, bad debt expense of $12.5 million, the net change in accounts receivable of $16.7 million and the net change in accrued liabilities of $17.5 million.

Significant items that affected our net cash used in investing activities in the first quarter of 2001 were purchases of premises and equipment of $24.3 million, cash paid in purchase transactions of $4.8 million and net purchases of debt securities and equity investments of $45.5 million.

The $7.5 million in cash provided by financing activities in the first quarter of 2001 was from $32.2 million in proceeds from the sale of common stock to employees and exercises of stock options, offset by $24.7 million paid on a note acquired in the acquisition of TSC.

Accounts receivable, net of allowance for doubtful accounts, increased 1.7% for the first quarter of 2001. Days sales outstanding (DSO's) in receivables

increased to 77 days as of March 31, 2001 from 73 days as of December 31, 2000. There is no assurance that DSO performance will remain at this level.

We maintain two, one-year revolving lines of credit of $15.0 million with separate financial institutions that have an aggregate borrowing capacity of $30.0 million. There have been no borrowings under these agreements, which are renewable in August 2001.

On December 10, 1999, we issued an aggregate principal amount of $350.0 million of our 5.25% convertible subordinated notes due in 2006. As of March 31, 2001, none of the notes have been converted to common stock. 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.

In connection with our acquisition of TSC on March 23, 2001, we issued a convertible promissory note currently valued at $56.1 million with a 7.5% coupon payable in cash annually. The note matures on September 23, 2003. After March 23, 2002 and prior to maturity, we may convert the note into shares of our common stock. The holder of the note may convert the note into shares of our common stock at any time prior to maturity provided the average of the last sale prices of our common stock as reported on the Nasdaq National Market for the three consecutive trading days immediately prior to the conversion date exceeds $60.00 per share. Details of the note are presented in Note 2 -- Business Combinations and Asset Acquisitions in the Notes to Condensed Consolidated Financial Statements included elsewhere in this report.

In the future, we may pursue acquisition of businesses, products and technologies, or enter into joint venture arrangements, that could complement or expand our business. Any material acquisition or joint

venture could result in a decrease to our working capital depending on the nature, timing and amount of consideration to be paid.

We expect future liquidity will be enhanced to the extent that we are able to realize the cash benefit from utilization of our net operating loss carryforwards against future tax liabilities. As of March 31, 2001, we had $1.0 billion in net operating loss carryforwards, which represent up to $370.8 million in future tax benefits. The utilization of the net operating loss carryforwards is subject to limitations and various expiration dates in years 2002 through 2021.

We believe that existing cash and cash equivalent balances, short-term investment balances, available borrowings under the revolving credit agreements and our anticipated cash flows from operations will satisfy our working capital and capital expenditure requirements for the foreseeable future. However, any material acquisitions of complementary businesses, products or technologies or joint venture arrangements could require us to obtain additional equity or debt financing.

SENSITIVITY TO MARKET RISKS

Foreign Currency Risk. Revenues originating outside of the United States totaled 38.1% of total revenues during the three months ended March 31, 2001. Due to the fact that we conduct business on a global basis in various foreign currencies, we are exposed to adverse movements in foreign currency exchange rates. In January 2001, we established a foreign currency hedging program utilizing foreign currency forward exchange contracts to hedge various nonfunctional currency exposures. The objective of this program is to reduce the

effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts. Details of our foreign currency risk management program are presented in Note 6 -- Foreign Currency Risk Management in the Notes to Condensed Consolidated Financial Statements included elsewhere in this report.

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

Due to the demand nature of our money market funds and the short-term nature of our time deposits and debt securities portfolio, these assets are particularly sensitive to changes in interest rates. As of March 31, 2001, 75.1% of our debt securities and time deposits had original maturities of three months or less, while 16.8% had original maturities between three months and one year. If these short-term assets are reinvested in a declining interest rate environment, we would experience an immediate negative impact on other income. The opposite holds true in a rising interest rate environment. The Federal Reserve Board influences the general market rates of interest. Since December 31, 2000, the Federal Reserve Board has decreased the discount rate by 200 basis points, which has led to a general decline in market interest rates. As a result, the weighted-average yield on interest-earning investments held as of March 31, 2001 was 5.40% compared to 6.8% for investments held as of December 31, 2000. The decrease in the weighted-average yield on interest-earning investments resulted as the majority of the investments held as of December 31, 2000 matured during the first quarter of 2001. Market yields available on similar investment instruments had declined significantly as a result of the Federal Reserve Board's recent actions. To partly compensate, we invested a portion of our available funds in longer-term investment instruments carrying higher yields in comparison to similar instruments with shorter terms to maturity.

Market Price Risk. In addition to investments in debt securities, we maintain minority equity investments in various privately held and publicly traded companies for business and strategic purposes. Our investments in publicly traded companies are subject to market price volatility. As a result of market price volatility, we experienced a $4.0 million net after-tax unrealized loss during the first quarter of 2001 on these

investments. We also wrote-down, by $9.8 million, the carrying basis of certain equity investments in publicly traded companies as a result of significant declines in the fair value of these investments. Our ability to sell certain equity positions is restricted because the shares held may not have been registered or other contractual agreements. We may implement hedging strategies using put and call options to fix our gains and limit our losses in certain equity positions until such time as the investments can be sold. During the first quarter of 2001, we hedged an unrealized gain position in one of our equity holdings using a combination of put and call options. Subsequent to placing our hedge, the fair value of this investment declined $2.5 million and we adjusted its carrying basis accordingly. The fair value of the hedging instruments, which totaled $2.4 million, was recorded as an asset. A loss of

$0.1 million from hedge ineffectiveness was included in earnings. The fair value of our investments in publicly traded companies totaled $23.0 million at March 31, 2001. The fair value of these investments would be $20.7 million given 10% decreases in each stock's price.

We have invested in numerous privately held companies, many of which can still be considered in the start-up or development stages. These investments are inherently risky as the market for technologies or products they have under development are typically in the early stages and may never materialize. Further, market conditions for these types of investments have been deteriorating of late. We could lose our entire investments in these companies. As of March 31, 2001, our investments in privately held companies totaled $32.0 million. During the first quarter of 2001, we wrote-down, by $8.3 million, the carrying basis of certain equity investments in privately held companies as a result of significant declines in the expected realizable amounts of these investments.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

OUR FINANCIAL RESULTS MAY VARY SIGNIFICANTLY FROM QUARTER TO QUARTER OR WE MAY FAIL TO MEET EXPECTATIONS, WHICH WOULD NEGATIVELY IMPACT THE PRICE OF OUR STOCK.

Our operating results have varied significantly from quarter to quarter in the past, and we expect our operating results to continue to vary from quarter to quarter in the future, due to a variety of factors, many of which are outside of our control. Factors that could affect quarterly operating results include:

- Volume and timing of customer orders.

- Length of the sales cycle.

- Customer budget constraints.

- Announcement or introduction of new products or product enhancements by our competitors or us.

- Changes in prices of our products and those of our competitors.

- Foreign currency exchange rate fluctuations.

- Market acceptance of new products.

- Mix of direct and indirect sales.

- Changes in our strategic relationships.

- Changes in our business strategy.

- Economic conditions.

- Technological changes.

We will continue to determine our investment and expense levels based on expected future revenues. Significant portions of our expenses are not variable in the short term, and we cannot reduce them quickly to respond to decreases in revenues. Therefore, if revenues are below expectations, this shortfall is likely to adversely and disproportionately affect our operating results. In addition, we may reduce our prices or accelerate investment in research and development efforts in response to competitive pressures or to pursue new market opportunities. Any of these activities may further limit our ability to adjust spending in response to revenue fluctuations. Revenues may not grow at historical rates in future periods, or they may not grow at all. Accordingly, we may not maintain positive operating margins in future quarters. In addition, with our rapid growth, we have set a number of demanding objectives and commitments that may cause challenges to our operations. Any of these factors could cause our operating results to be below the expectations of public market analysts and investors, and negatively affect the price of our common stock.

THE IMPACT OF CHANGES IN GLOBAL ECONOMIC CONDITIONS ON OUR CUSTOMERS MAY CAUSE US TO FAIL TO MEET EXPECTATIONS, WHICH WOULD NEGATIVELY IMPACT THE PRICE OF OUR STOCK.

Our operating results can vary significantly based upon the impact of changes in global economic conditions on our customers. More specifically, the macro-economic environment entering 2001 is more uncertain than in recent periods and has the potential to materially and adversely affect us. The revenue growth and profitability of our business depends on the overall demand for computer software and services, particularly in the areas in which we compete. Because our sales are primarily to corporate customers whose businesses fluctuate with general economic and business conditions, a softening of demand for computer software caused by a weakening economy may result in decreased revenues and lower growth rate and may increase the collection risk of our accounts receivable portfolio. We may be especially prone to this as a result of the relatively large license transactions we have historically relied upon. Customers may defer or reconsider purchasing products if they experience a downturn in their business or if there is a downturn in the general economy.

WE ANTICIPATE SEASONAL FLUCTUATIONS IN REVENUES, WHICH MAY CAUSE VOLATILITY IN OUR STOCK PRICE.

The market price of our common stock has been volatile in the past, and the market price of our common stock may be volatile in the future. Historically, our revenues have tended to be strongest in the fourth quarter of the year. We believe that our seasonality is due to the calendar year budgeting cycles of many of our customers and our compensation policy that rewards sales personnel for achieving annual revenue quotas. In future periods, these seasonal trends may cause our quarter-to-quarter operating results to vary, which may result in failing to meet the expectations of public market analysts and investors in any period.

HISTORICALLY, A SMALL NUMBER OF INDIVIDUAL LICENSE SALES HAVE BEEN SIGNIFICANT IN EACH QUARTERLY PERIOD. THEREFORE, OUR OPERATING RESULTS FOR A GIVEN PERIOD COULD SUFFER SERIOUS HARM IF WE FAIL TO CLOSE ONE OR MORE LARGE SALES EXPECTED FOR THAT PERIOD.

We generally derive a significant portion of revenues in each quarter from a small number of relatively large license sales with, in some cases, long and intensive sales cycles. Moreover, due to customer purchasing patterns, we typically realize a significant portion of our software license revenues in the last few weeks of a quarter. As a result, we are subject to significant variations in license revenues and results of operations if we incur any delays in customer purchases. If in any future period we fail to close one or more

substantial license sales that we have targeted to close in that period, this failure could seriously harm our operating results for that period.

IMPLEMENTATION OF OUR PRODUCTS IS COMPLEX, TIME-CONSUMING AND EXPENSIVE AND CUSTOMERS MAY BE UNABLE TO IMPLEMENT OUR PRODUCTS SUCCESSFULLY OR OTHERWISE ACHIEVE THE BENEFITS ATTRIBUTABLE TO OUR PRODUCTS.

Our products must integrate with the many existing computer systems and software programs of our customers. This can be complex, time-consuming and expensive, and may cause delays in the deployment of our products. Our customers may be unable to implement our products successfully or otherwise achieve the benefits attributable to our products.

WE MAY NOT REMAIN COMPETITIVE, AND INCREASED COMPETITION COULD SERIOUSLY HARM OUR BUSINESS.

Our competitors offer a variety of e-business solutions including enterprise software. We segment our competition into several main categories, including:

- Large ERP software vendors, including Oracle and SAP, who have added or are attempting to add capabilities for supply chain planning or business-to-business collaboration to their transaction system products.

- Companies such as Adexa, Manugistics and others that compete principally with our supply chain management applications.

- Companies such as Agile, Commerce One and others that compete principally with our supplier relationship management applications.

- Companies such as Trilogy and others that compete principally with our customer relationship management applications.

- Companies such as RTI, Saqqara and others that compete principally with our content and content management applications.

- Other vendors who establish electronic marketplaces and indirect procurement capabilities that may compete now or in the future with marketplaces created or powered by us.

- Other business application software vendors that may offer or partner with independent developers of advanced planning and scheduling software.

- Internal development efforts by corporate information technology departments.

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

- Longer operating history.

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

- Superior product functionality in specific areas.

- Greater name recognition.

- A broader range of products to offer.

- A larger installed base of customers.

Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to enhance their products, which may result in increased competition. In addition, we expect to experience increasing price competition as we compete for market share, and we may not be able to compete successfully with our existing or new competitors. Any of these conditions could cause substantial harm to our business, operating results and financial condition.

OUR OBJECTIVE OF INCREASING OUR RECURRING REVENUE STREAMS BY SELLING MARKETPLACE SERVICES AND CONTENT TO MARKETPLACES AND THEIR PARTICIPANTS IS UNPROVEN AND MAY BE UNSUCCESSFUL.

As part of our business strategy, we are offering electronic marketplace services and content to trading communities and participants in digital marketplaces. We are currently providing only a limited portion of our intended i2 TradeMatrix solutions in only a relatively small number of digital trading communities compared to the potential market for digital trading communities. We cannot be certain that these trading communities will be operated effectively, that enterprises will join and remain in these trading communities, or that we will develop and provide successfully all intended i2 TradeMatrix solutions. If this business strategy is flawed, or if we are unable to execute it effectively, our business, operating results and financial condition could be substantially harmed.

WE DEPEND ON OUR STRATEGIC PARTNERS AND OTHER THIRD PARTIES. IF WE FAIL TO DERIVE BENEFITS FROM OUR EXISTING AND FUTURE STRATEGIC RELATIONSHIPS, OUR BUSINESS WILL SUFFER.

From time to time, we have collaborated with other companies, including IBM and PricewaterhouseCoopers, in areas such as marketing, distribution and implementation. Maintaining these and other relationships is a meaningful part of our business strategy. However, some of our current and potential strategic partners are either actual or potential competitors, which may impair the viability of these relationships. In addition, some of our relationships have failed to meet expectations and may fail to meet expectations in the future. We may not be able to enter into successful new strategic relationships in the future and our business, operating results and financial condition could be harmed.

ANY DECREASE IN DEMAND FOR OUR ENTERPRISE PRODUCTS AND SERVICES COULD SIGNIFICANTLY REDUCE OUR REVENUES.

We derive a substantial portion of our revenues from licenses of our enterprise products and related services. Our enterprise products principally include solutions for supply chain management, supplier relationship management, customer relationship management and other planning products. We expect license revenues and maintenance and consulting contracts related to these products to continue to account for a substantial portion of our revenues for the foreseeable future. As a result, our future operating results will depend upon continued market acceptance of these applications. However, our enterprise applications may not achieve continued market acceptance. Competition, technological change or other factors could decrease demand for, or market acceptance of these applications. Any decrease in demand or market acceptance of our enterprise offering could substantially harm our business, operating results and financial condition.

WE ARE INVESTING SIGNIFICANT RESOURCES IN DEVELOPING AND MARKETING OUR MARKETPLACE SOLUTIONS. THE MARKET FOR THESE SOLUTIONS IS NEW AND EVOLVING, AND,

IF THIS MARKET DOES NOT DEVELOP AS WE ANTICIPATE, OR, IF WE ARE UNABLE TO DEVELOP ACCEPTABLE SOLUTIONS, SERIOUS HARM WOULD RESULT TO OUR BUSINESS.

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

OUR I2 TRADEMATRIX SOLUTIONS ARE HOSTED BY A VARIETY OF THIRD PARTIES AND CUSTOMERS MAY EXPERIENCE PERFORMANCE PROBLEMS OR DELAYS AS A RESULT OF SERVICE INTERRUPTIONS.

Our i2 TradeMatrix platform may be hosted by i2 or other companies. Dissatisfaction or problems with our services or the services of the third parties that host our i2 TradeMatrix solutions or delays or interruptions or other problems with service due to mechanical failure, human error, security breaches, power loss and other facility failures, natural disaster, sabotage, vandalism, or other similar events could result in a reduction of business generated by the marketplaces. In addition, failure of any telecommunications providers to provide consistent data communications capacity could result in interruptions in services. Each of these service providers could experience outages, delays and other difficulties due to system failures unrelated to our products, services and systems. Dissatisfaction with hosting providers could adversely affect our relationship with our customers resulting in a loss of future sales of licenses and services to the customer, which could have a material adverse effect on our business, operating results and financial condition.

IF WE PUBLISH INACCURATE CATALOG CONTENT DATA, OUR BUSINESS COULD SUFFER.

The accurate publication of catalog content is critical to our customers' businesses. Our i2 TradeMatrix suite of products offers content management tools that help suppliers manage the collection and publication of catalog content. Any defects or errors in these tools or the failure of these tools to accurately publish catalog content could deter businesses from participating in the i2 TradeMatrix marketplaces, damage our business reputation and harm our ability to win new customers. In addition, from time to time some of our customers may submit inaccurate pricing or other inaccurate catalog information. Even though such inaccuracies are not caused by our work and are not within our control, such inaccuracies could deter current and potential customers from using our products and could harm our business, operating results and financial condition.

THE MARKETS IN WHICH WE COMPETE EXPERIENCE RAPID TECHNOLOGICAL CHANGE. IF WE DO NOT RESPOND TO THE TECHNOLOGICAL ADVANCES OF THE MARKETPLACE, WE COULD SERIOUSLY HARM OUR BUSINESS.

Enterprises are increasing their focus on decision-support solutions for e-business challenges. As a result, they are requiring their application software vendors to provide greater levels of functionality and broader product offerings. Moreover, competitors continue to make rapid technological advances in computer hardware and software technology and frequently introduce new products, services and enhancements. We must continue to enhance our current product line and develop and introduce new products and services that keep pace with the technological developments of our competitors. We must also satisfy increasingly sophisticated customer requirements. If we cannot successfully respond to the technological advances of others, or if our new products or product enhancements and services do not achieve market acceptance, these events could negatively impact our business, operating results and financial condition.

IF USE OF THE INTERNET FOR COMMERCE AND COMMUNICATION DOES NOT INCREASE AS WE ANTICIPATE, OUR BUSINESS WILL SUFFER.

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

Our business could be seriously harmed, among other things, if:

- Use of the Internet and other online services does not continue to increase or increases more slowly than expected.

- The necessary communication and computer network technology underlying the Internet and other online services does not effectively support any expansion that may occur.

- New standards and protocols are not developed or adopted in a timely manner.

- The Internet does not create a viable commercial marketplace, inhibiting the development of electronic commerce and reducing the need for and desirability of our products and services due to concerns about security, reliability, cost, ease of use, accessibility, quality of service or other reasons.

FUTURE REGULATION OF THE INTERNET MAY SLOW ITS GROWTH, RESULTING IN DECREASED DEMAND FOR OUR PRODUCTS AND SERVICES AND INCREASED COSTS OF DOING BUSINESS.

Due to increasing popularity and use of the Internet, it is possible that state, federal and international regulators could adopt laws and regulations that impose additional burdens on companies conducting business online. For example, the growth and development of the market for Internet-based services may prompt calls for more stringent consumer protection laws. Moreover, the applicability to the Internet of existing laws in various jurisdictions governing issues such as property ownership, sales tax, libel and personal privacy is uncertain and may take years to resolve. Any new legislation or regulation, the application of laws and

regulations from jurisdictions whose laws do not currently apply to our

business, or the application of existing laws and regulations to the Internet and other online services could inhibit the expansion of the Internet, causing our costs to increase and our growth to be harmed.

CONCERNS THAT OUR PRODUCTS DO NOT ADEQUATELY PROTECT THE PRIVACY OF CONSUMERS COULD INHIBIT SALES OF OUR PRODUCTS.

One of the features of our customer management software applications is the ability to develop and maintain profiles of consumers for use by businesses. Typically, these products capture profile information when consumers, business customers and employees visit an Internet web-site and volunteer information in response to survey questions concerning their backgrounds, interests and preferences. Our products augment these profiles over time by collecting usage data. Although our customer management products are designed to operate with applications that protect user privacy, privacy concerns may nevertheless cause visitors to resist providing the personal data necessary to support this profiling capability. If we cannot adequately address consumers' privacy concerns, these concerns could seriously harm our business, financial condition and operating results.

IF OUR ENCRYPTION TECHNOLOGY FAILS TO ENSURE THE SECURITY OF OUR CUSTOMERS ONLINE TRANSACTIONS, SERIOUS HARM TO OUR BUSINESS COULD RESULT.

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

RAPID GROWTH IN OUR OPERATIONS COULD INCREASE DEMANDS ON OUR MANAGERIAL AND OPERATIONAL RESOURCES.

If rapid growth in the scope of our operating and financial systems and the geographic distribution of our operations and customers continues, it may increase demands on our management and operations. Our officers and other key employees will need to implement and improve our operational, customer support and financial control systems and effectively expand, train and manage our employee base. Further, we expect we will be required to manage an increasing number of relationships with various customers and other third parties. We may not be able to manage future expansion successfully, and our inability to do so could harm our business, operating results and financial condition.

WE MAY NOT SUCCESSFULLY INTEGRATE OR REALIZE THE INTENDED BENEFITS OF OUR ACQUISITIONS.

We have made various acquisitions of businesses and products to help broaden and strengthen our product portfolio. Continued success of acquisitions will depend primarily on our ability to:

- Retain, motivate and integrate the acquired personnel.

- Integrate multiple information systems.

- Integrate acquired products and services with our existing products and services.

We may encounter difficulties in integrating our operations and products with companies we acquire and we may not realize the benefits that we

anticipated when we make acquisitions. Our failure to successfully integrate our operations and products with companies we acquire could seriously harm our business, operating results and financial condition.

WE MAY MAKE FUTURE ACQUISITIONS OR ENTER INTO JOINT VENTURES THAT MAY NOT BE SUCCESSFUL.

In the future, we may acquire additional businesses, products and technologies, or enter into joint venture arrangements, that could complement or expand our business. Management's negotiations of potential acquisitions or joint ventures and management's integration of acquired businesses, products or technologies could divert their time and resources. Future acquisitions could cause us to issue dilutive equity securities, incur debt or contingent liabilities, negatively impact operating results through amortization of goodwill and other intangibles, or write off in-process research and development and other acquisition-related expenses. Further, we may not be able to properly integrate acquired businesses, products or technology with our existing operations or train, retain and motivate personnel from the acquired business. If we are unable to fully integrate an acquired business, product or technology or train, retain and motivate personnel from the acquired business, we may not receive the intended benefits of that acquisition. In addition, integration of our acquisitions may involve employee issues such as changing job roles, titles, duties, compensation and benefits, terminations, etc., which could lead to increased exposure to employee claims and litigation.

WE FACE RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS THAT COULD HARM OUR COMPANY.

Our international operations are subject to risks inherent in international business activities. In addition, we may expand our international operations in the future, which would increase our exposure to these risks. The risks we face internationally include:

- Difficulties and costs of staffing and managing geographically disparate operations.

- Longer accounts receivable payment cycles in certain countries.

- Compliance with a variety of foreign laws and regulations.

- Unexpected changes in regulatory requirements.

- Overlap of different tax structures.

- Greater difficulty in safeguarding intellectual property.

- Meeting import and export licensing requirements.

- Trade restrictions.

- Changes in tariff rates.

- Political instability.

- Changes in economic conditions in international markets.

CHANGES IN THE VALUE OF THE U.S. DOLLAR, AS COMPARED TO THE CURRENCIES OF FOREIGN COUNTRIES WHERE WE TRANSACT BUSINESS, COULD HARM OUR OPERATING RESULTS.

To date, our international revenues have been denominated primarily in U.S. Dollars. The majority of our international expenses and some revenues have been denominated in currencies other than the U.S. Dollar. Therefore, changes in the value of the U.S. Dollar as compared to these other currencies may adversely affect our operating results. As our international operations expand, we will use an increasing number of foreign currencies, causing our exposure to currency exchange rate fluctuations to increase. Although we have implemented hedging programs to mitigate our exposure to currency fluctuations, currency exchange rate fluctuations have caused, and will continue to cause, currency transaction gains and losses. Future currency transaction gains and losses may adversely affect our business, results of operations or financial condition in the future.

THE LOSS OF ANY OF OUR KEY PERSONNEL OR OUR FAILURE TO ATTRACT ADDITIONAL PERSONNEL COULD SERIOUSLY HARM OUR COMPANY.

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

IF WE FAIL TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS OR FACE A CLAIM OF INTELLECTUAL PROPERTY INFRINGEMENT BY A THIRD PARTY, WE COULD LOSE OUR INTELLECTUAL PROPERTY RIGHTS OR BE LIABLE FOR SIGNIFICANT DAMAGES.

We rely primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect our proprietary rights. In addition, we generally license enterprise products to end users in object code (machine-readable) format, and our license agreements generally allow the use of enterprise products solely by the customer for internal purposes without the right to sublicense or transfer the enterprise products. However, these measures afford only limited protection. Unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Software piracy may be a problem. We are not able to determine the extent to which piracy of our software products exists, if any. Policing unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology. This is particularly true in foreign countries where the laws may not protect proprietary rights to the same extent as the laws of the United States and may not provide us with an effective remedy against piracy.

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

condition.

We resell some software that we license from third parties. Although we may continue this practice, third-party software licenses may not continue to be available to us on commercially reasonable terms or as a result of infringement claims. Our inability to maintain or obtain any of these software licenses will delay or reduce our product shipments until we can identify, license and integrate equivalent software. Any loss of these licenses or delay or reduction in product shipments could harm our business, operating results and financial condition.

OUR PRODUCTS' FAILURE TO REMAIN COMPATIBLE WITH EXISTING AND NEW COMPUTERS AND SOFTWARE OPERATING SYSTEMS WOULD SERIOUSLY HARM OUR BUSINESS.

Our i2 TradeMatrix software can operate on a variety of hardware platforms including Digital Equipment/Compaq, Hewlett-Packard, IBM and Sun Microsystems, and operating systems from Sun Microsystems and Microsoft. i2 TradeMatrix can access data from most widely-used structured query language databases, including Informix, Oracle and Sybase. If additional hardware or software platforms gain significant market acceptance, we may be required to attempt to adapt i2 TradeMatrix to those platforms in order to remain competitive. However, those platforms may not be architecturally compatible with i2 TradeMatrix software product design, and we may not be able to adapt i2 TradeMatrix to those additional

28

29

platforms on a timely basis, or at all. Any failure to maintain compatibility with existing platforms or to adapt to new platforms that achieve significant market acceptance would seriously harm our business, operating results and financial condition.

OUR SOFTWARE IS COMPLEX AND MAY CONTAIN UNDETECTED ERRORS.

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

RELEASES OF AND PROBLEMS WITH NEW PRODUCTS MAY CAUSE PURCHASING DELAYS, WHICH WOULD HARM OUR REVENUES.

Customers may delay their purchasing decisions in anticipation of our new or enhanced products, or products of competitors. Delays in customer purchasing decisions could seriously harm our business and operating results. Moreover, significant delays in the general availability of new releases, significant problems in the installation or implementation of new releases, or customer dissatisfaction with new releases could seriously harm our business, operating results and financial condition.

OUR FAILURE TO SUCCESSFULLY RECRUIT AND RETAIN TECHNICAL AND IMPLEMENTATION PERSONNEL COULD REDUCE OUR LICENSE REVENUES OR LIMIT THE GROWTH OF OUR LICENSE REVENUES.

A shortage of qualified technical sales support personnel could harm our

ability to expand sales and enter into new vertical markets. We depend on our trained implementation personnel or those of independent consultants to implement our products and services. A shortage in the number of trained implementation personnel could limit our ability to implement our software and services on a timely and effective basis. Delayed or ineffective implementation of our software and services may limit our ability to expand our revenues and may result in customer dissatisfaction and harm to our reputation. Any of these events could seriously harm our business, operating results and financial condition.

WE MAY BECOME SUBJECT TO PRODUCT LIABILITY CLAIMS.

Our license agreements typically seek to limit our exposure to product liability claims from our customers. However, these contract provisions may not preclude all potential claims. Additionally, our general liability insurance may be inadequate to protect us from all liability that we may face. Product liability claims could require us to spend significant time and money in litigation or to pay significant damages. As a result, any claim, whether or not successful, could harm our reputation and business, operating results and financial condition.

OUR EXECUTIVE OFFICERS AND DIRECTORS HAVE SIGNIFICANT INFLUENCE OVER STOCKHOLDER VOTES.

On April 30, 2001, our executive officers and directors together beneficially owned approximately 31.9% of the total voting power of our company. Accordingly, these stockholders have significant influence in determining the composition of our Board of Directors and will continue to have significant influence over our affairs.

FUTURE SALES OF OUR COMMON STOCK COULD DEPRESS OUR STOCK PRICE.

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market after the closing of our acquisition of RightWorks by us or by our executive officers, directors, employees or other affiliates. The perception among investors that these sales will occur could also produce this effect. All of the shares of our common stock to be exchanged for shares of

RightWorks capital stock in the merger will be freely transferable without restriction or further registration under the Securities Act of 1933, except for any shares that RightWorks' "affiliates," as defined in Rule 145 of the Securities Act of 1933, receive in the merger.

OUR CHARTER AND BYLAWS HAVE ANTI-TAKEOVER PROVISIONS.

Provisions of our Certificate of Incorporation and our Bylaws as well as Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. We are subject to the provisions of Section 203 of the Delaware General Corporation Law, which restricts certain business combinations with interested stockholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination.

OUR STOCK PRICE HISTORICALLY HAS BEEN VOLATILE, WHICH MAY MAKE IT MORE DIFFICULT FOR YOU TO RESELL COMMON STOCK WHEN YOU WANT AT PRICES YOU FIND ATTRACTIVE.

The market price of our common stock has been highly volatile in the past, and may continue to be volatile in the future. The following factors may significantly affect the market price of our common stock:

- Quarterly variations in our results of operations.

- Announcement of new products, product enhancements, joint ventures and other alliances by our competitors or us.

- Technological innovations by our competitors or us.

- General market conditions or market conditions specific to particular industries.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

An employee of a company we acquired in 1998 is currently disputing the cancellation of stock options received at the time of the acquisition. Vesting of these options was dependent upon continued employment; however, the employment was terminated in 2000. We maintain the former employee was not entitled to unvested stock options.

Since March 2, 2001, several class action lawsuits have been filed in the United States District Court, Northern District of Texas, Dallas Division, alleging that we and certain of our officers have violated federal securities laws. All of the complaints are virtually identical and allege that we issued a series of false and misleading statements which failed to disclose, among other things, that we were experiencing software implementation difficulties with Nike, Inc. and that these problems were material, severe and damaging our relationship with Nike. The potential class consists of all persons who purchased our stock during the period from October 18, 2000 to February 26, 2001. As these suits have just been filed, we have not had the opportunity to adequately review the claims or respond. Although the ultimate outcome and liability, if any, cannot be determined, we believe the facts in these class actions do not support the plaintiffs' claims and we and our officers have meritorious defenses.

We are subject to various other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on our business, financial condition or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the first quarter of 2001, we issued an aggregate of 110,000 shares of our common stock to employees pursuant to exercises of stock options that were granted prior to April 26, 1996 with exercise prices ranging from $0.0063 to $1.51 per share. These issuances were deemed exempt from registration under

Section 5 of the Securities Act of 1933 in reliance upon Rule 701 thereunder. The recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and not with a view to, or for sale in connection with, any distribution thereof and appropriate legends were affixed to the share certificates issued in each such transaction.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

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

(a) Exhibits

None

(b) Reports on Form 8-K

During the quarter ended March 31, 2001, we filed no reports on Form 8-K. After March 31, 2001, we filed the following:

- Report on Form 8-K (Item 5) on April 4, 2001, which contained a press release announcing preliminary financial results for the quarter ended March 31, 2001.

- Report on Form 8-K (Item 5) on April 19, 2001, which contained a press release announcing financial results for the quarter ended March 31, 2001.

SIGNATURES

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

i2 TECHNOLOGIES, INC.

May 4, 2001 (Date)	/s/ WILLIAM M. BEECHER William M. Beecher Executive Vice President and Chief Financial Officer (Principal financial officer)
May 4, 2001 (Date)	/s/ NANCY F. BRIGHAM

Nancy F. Brigham
Controller (Principal accounting offi