

I2 TECHNOLOGIES INC  
Form 10-Q  
May 07, 2009  
Table of Contents

**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, 2009

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)

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|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)           | <b>75-2294945</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>11701 Luna Road</b><br><br><b>Dallas, Texas</b><br>(Address of principal executive offices) | <b>75234</b><br>(Zip code)                                   |
| <b>(469) 357-1000</b><br><br>(Registrant's telephone number, including area code)              |  |

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No  (not applicable to registrant)

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 4, 2009, the Registrant had 21,986,133 shares of \$0.00025 par value Common Stock outstanding.

**Table of Contents**

**i2 TECHNOLOGIES, INC.**

**QUARTERLY REPORT ON FORM 10-Q**

**March 31, 2009**

**TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <b>PART I</b>  |             |
| <b><u>FINANCIAL INFORMATION</u></b>  |             |
| Item 1. <u>Financial Statements (Unaudited)</u>  |             |
| <u>Condensed Consolidated Balance Sheets</u>   | 3           |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Income</u>                      | 4           |
| <u>Condensed Consolidated Statements of Cash Flows</u>   | 6           |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 7           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 18          |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | 28          |
| Item 4. <u>Controls and Procedures</u>   | 28          |
| <b>PART II</b>   |             |
| <b><u>OTHER INFORMATION</u></b>  |             |
| Item 1. <u>Legal Proceedings</u>   | 30          |
| Item 1A. <u>Risk Factors</u>   | 30          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 30          |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 30          |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>                                   | 30          |
| Item 5. <u>Other Information</u>   | 30          |
| Item 6. <u>Exhibits</u>  | 30          |
| <b><u>SIGNATURES</u></b>   | 32          |

**Table of Contents****PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****i2 TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except par value)****(unaudited)**

|  | <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008<br/>(as restated, see<br/>Note 10)</b> |
|--|---------------------------|---|
| <b>ASSETS</b>  |                           |   |
| Current assets:  |                           |   |
| Cash and cash equivalents  | \$ 157,659                | \$ 238,013  |
| Restricted cash  | 8,921                     | 5,777   |
| Accounts receivable, net   | 22,980                    | 25,846  |
| Other current assets   | 7,418                     | 9,477   |
| <b>Total current assets</b>  | <b>196,978</b>            | <b>279,113</b>  |
| Premises and equipment, net  | 4,035                     | 4,915   |
| Goodwill   | 16,684                    | 16,684  |
| Non-current deferred tax asset   | 5,846                     | 7,289   |
| Other non-current assets   | 3,371                     | 5,024   |
| <b>Total assets</b>  | <b>\$ 226,914</b>         | <b>\$ 313,025</b>   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                           |   |
| Current liabilities:   |                           |   |
| Accounts payable   | \$ 3,878                  | \$ 4,855  |
| Accrued liabilities  | 16,499                    | 15,116  |
| Accrued compensation and related expenses  | 11,489                    | 18,679  |
| Deferred revenue   | 58,597                    | 53,028  |
| <b>Total current liabilities</b>   | <b>90,463</b>             | <b>91,678</b>   |
| Total long-term debt, net  |                           | 64,520  |
| Taxes payable  | 5,292                     | 6,948   |
| <b>Total liabilities</b>   | <b>95,755</b>             | <b>163,146</b>  |
| Commitments and contingencies  |                           |   |
| Stockholders equity:   |                           |   |
| Preferred Stock, \$0.001 par value, 5,000 shares authorized, none issued and outstanding                               |                           |   |
| Series A junior participating preferred stock, \$0.001 par value, 2,000 shares authorized, none issued and outstanding |                           |   |

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|   |              |              |
|---|--------------|--------------|
| Series B 2.5% convertible preferred stock, \$1,000 par value, 150 shares authorized 109 issued and outstanding at March 31, 2009 and December 31, 2008                | 106,706      | 106,591      |
| Common stock, \$0.00025 par value, 2,000,000 shares authorized, 21,983 and 21,895 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively | 6            | 5            |
| Additional paid-in capital  | 10,480,786   | 10,498,453   |
| Accumulated other comprehensive (loss) income   | (1,531)      | 1,509        |
| Accumulated deficit   | (10,454,808) | (10,456,679) |
| Net stockholders' equity  | 131,159      | 149,879      |
| Total liabilities and stockholders' equity  | \$ 226,914   | \$ 313,025   |

See accompanying notes to consolidated financial statements.

**Table of Contents****i2 TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****(In thousands, except per share data)****(unaudited)**

|  | <b>Three Months Ended March 31,</b> |                                       |
|--|-------------------------------------|---------------------------------------|
|  | <b>2009</b>                         | <b>2008</b>                           |
|  |                                     | <b>(as restated, see<br/>Note 10)</b> |
| <b>Revenues:</b>                                   |                                     |                                       |
| Software solutions                                 | \$ 10,203                           | \$ 11,672                             |
| Services   | 26,753                              | 28,842                                |
| Maintenance  | 19,420                              | 22,063                                |
| <b>Total revenues</b>                              | <b>56,376</b>                       | <b>62,577</b>                         |
| <b>Costs and expenses:</b>                         |                                     |                                       |
| <b>Cost of revenues:</b>                           |                                     |                                       |
| Software solutions                                 | 1,697                               | 2,615                                 |
| Services   | 17,586                              | 22,471                                |
| Maintenance  | 2,486                               | 2,843                                 |
| Amortization of acquired technology                |                                     | 4                                     |
| Sales and marketing                                | 9,908                               | 11,950                                |
| Research and development                           | 7,075                               | 7,633                                 |
| General and administrative                         | 8,969                               | 9,509                                 |
| Amortization of intangibles                        | 25                                  | 25                                    |
| Restructuring charges and adjustments              | 3,006                               |                                       |
| <b>Costs and expenses, subtotal</b>                | <b>50,752</b>                       | <b>57,050</b>                         |
| Intellectual property settlement, net              |                                     | 1,455                                 |
| <b>Total costs and expenses</b>                    | <b>50,752</b>                       | <b>58,505</b>                         |
| <b>Operating income</b>                            | <b>5,624</b>                        | <b>4,072</b>                          |
| <b>Non-operating income (expense), net:</b>        |                                     |                                       |
| Interest income                                    | 129                                 | 1,194                                 |
| Interest expense                                   | (899)                               | (1,860)                               |
| Foreign currency hedge and transaction losses, net | (541)                               | (141)                                 |
| Loss on extinguishment of debt                     | (892)                               |                                       |
| Other (expense) income, net                        | (144)                               | 717                                   |
| <b>Total non-operating (expense), net</b>          | <b>(2,347)</b>                      | <b>(90)</b>                           |
| <b>Income before income taxes</b>                  | <b>3,277</b>                        | <b>3,982</b>                          |
| <b>Income tax expense</b>                          | <b>617</b>                          | <b>1,127</b>                          |

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|  |  |          |    |        |
|--|--|----------|----|--------|
| Net income   |  | 2,660    |    | 2,855  |
| Preferred stock dividend and accretion of discount             |  | 789      |    | 776    |
| Net income applicable to common stockholders                   |  | \$ 1,871 | \$ | 2,079  |
| Net income per common share applicable to common stockholders: |  |          |    |        |
| Basic  |  | \$ 0.07  | \$ | 0.08   |
| Diluted  |  | \$ 0.07  | \$ | 0.08   |
| Weighted-average common shares outstanding:                    |  |          |    |        |
| Basic  |  | 26,733   |    | 26,055 |
| Diluted  |  | 26,785   |    | 26,441 |

See accompanying notes to consolidated financial statements.

**Table of Contents****i2 TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****(In thousands, except per share data)**

|  | <b>Three Months Ended March 31,<br/>2009</b> | <b>2008<br/>(as restated, see<br/>Note 10)</b> |
|--|--|--|
| <b>Comprehensive income:</b>                   |  |  |
| Net income applicable to common stockholders   | \$ 1,871                                     | \$ 2,079                                       |
| <b>Other comprehensive income:</b>             |  |  |
| Foreign currency translation adjustments       | (3,040)                                      | 1,706  |
| <b>Total other comprehensive (loss) income</b> | <b>(3,040)</b>                               | <b>1,706</b>                                   |
| <b>Total comprehensive (loss) income</b>       | <b>\$ (1,169)</b>                            | <b>\$ 3,785</b>                                |

**See accompanying notes to consolidated financial statements.**



**Table of Contents****i2 TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

|  | <b>Three Months Ended March 31,</b> |                                       |
|--|-------------------------------------|---------------------------------------|
|  | <b>2009</b>                         | <b>2008</b>                           |
|  |                                     | <b>(as restated, see<br/>Note 10)</b> |
| <b>Cash flows from operating activities:</b>   |                                     |                                       |
| Net income   | \$ 2,660                            | \$ 2,855                              |
| Adjustments to reconcile net income to net cash provided by operating activities:      |                                     |                                       |
| Amortization of debt issuance expense  | 84                                  | 172                                   |
| Debt discount accretion  | 389                                 | 780                                   |
| Loss on extinguishment of debt   | 892                                 |                                       |
| Depreciation and amortization  | 787                                 | 935                                   |
| Stock based compensation   | 2,577                               | 2,903                                 |
| Loss on disposal of premises and equipment   | 94                                  | 147                                   |
| (Benefit) provision for bad debts charged to costs and expenses                        | (101)                               | 106                                   |
| Deferred income taxes  | 589                                 | 616                                   |
| Changes in operating assets and liabilities, excluding the effects of acquisitions:    |                                     |                                       |
| Accounts receivable  | 2,772                               | (2,223)                               |
| Other assets   | (788)                               | (2,302)                               |
| Accounts payable   | (956)                               | 720                                   |
| Taxes payable  | (1,034)                             | 1,320                                 |
| Accrued liabilities  | 900                                 | 1,077                                 |
| Accrued compensation and related expenses  | (6,915)                             | (5,198)                               |
| Deferred revenue   | 5,744                               | 6,988                                 |
| Net cash provided by operating activities  | 7,694                               | 8,896                                 |
| <b>Cash flows (used in) provided by investing activities:</b>                          |                                     |                                       |
| Restrictions (placed) released on cash   | (3,144)                             | 1,193                                 |
| Purchases of premises and equipment  | (57)                                | (152)                                 |
| Proceeds from sale of premises and equipment   | 5                                   | 12                                    |
| Net cash (used in) provided by investing activities                                    | (3,196)                             | 1,053                                 |
| <b>Cash flows (used in) provided by financing activities:</b>                          |                                     |                                       |
| Repurchase of debt and equity conversion feature                                       | (84,813)                            |                                       |
| Net proceeds from common stock issuance from options and employee stock purchase plans | 10                                  | 52                                    |
| Net cash (used in) provided by financing activities                                    | (84,803)                            | 52                                    |
| Effect of exchange rates on cash   | (49)                                | 620                                   |
| Net change in cash and cash equivalents  | (80,354)                            | 10,621                                |
| Cash and cash equivalents at beginning of period                                       | 238,013                             | 120,978                               |

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|   |            |            |
|---|------------|------------|
| Cash and cash equivalents at end of period                          | \$ 157,659 | \$ 131,599 |
| <b>Supplemental cash flow information</b>                           |            |            |
| Interest paid   | \$ 1,053   | \$         |
| Income taxes paid (net of refunds received)                         | \$ 1,457   | \$ (435)   |
| <b>Schedule of non-cash financing activities</b>                    |            |            |
| Preferred stock dividend and accretion of discount                  | \$ 789     | \$ 776     |
| <b>See accompanying notes to consolidated financial statements.</b> |            |            |

**Table of Contents**

**i2 TECHNOLOGIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Table dollars in thousands, except per share data)**

**(Unaudited)**

**1. Summary of Significant Accounting Policies**

*Nature of Operations.* We are a provider of supply chain management solutions, consisting of various software and service offerings. Our service offerings include business optimization and licensed technical consulting, managed services, training, solution maintenance, software upgrades and development. We operate our business in one business segment. Supply chain management is the set of processes, technology and expertise involved in managing supply, demand and fulfillment throughout divisions within a company and with its customers, suppliers and partners. The business goals of our solutions include increasing supply chain efficiency and enhancing customer and supplier relationships by managing variability, reducing complexity, improving operational visibility, and increasing operating velocity. Our offerings are designed to help customers better achieve the following critical operational objectives:

Visibility a clear and unobstructed view up and down the supply chain

Planning supply chain optimization to match supply and demand considering system-wide constraints

Collaboration interoperability with supply chain partners and elimination of functional silos

Control management of data and business processes across the extended supply chain

*Basis of Presentation.* Our unaudited condensed consolidated financial statements have been prepared by management and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2009. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted under the Securities and Exchange Commission's (SEC) rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, presented in our Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 12, 2009 with the SEC (2008 Annual Report on Form 10-K).

*Recent Accounting Pronouncements.* In May 2008, the FASB issued FASB staff position (FSP) APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer's nonconvertible debt borrowing rate. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and shall be applied retrospectively to all periods presented. Early adoption of FSP APB 14-1 was not permitted.

Our 5% Senior Convertible Notes (Notes) are within the scope of FSP APB 14-1. In the accompanying condensed financial statements, we reported the debt component of the Notes at fair value as of the date of issuance and amortized the discount as an increase to interest expense over the expected life of the debt. The implementation of this standard resulted in a decrease to net income and earnings per share for all periods presented; however, there is no effect on our cash interest payments. The incremental non-cash expense associated with adoption for the three months ended March 31, 2009 and 2008 was \$0.3 and \$0.5 million, respectively, see Note 3, Borrowings and Debt Issuance Costs.

In March 2008, FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 applies to all derivative instruments within the scope of SFAS No. 133, Accounting for Derivative

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*Instruments and Hedging Activities* ( SFAS 133 ). It also applies to non-derivative hedging instruments and all hedged items designated and qualifying as hedges under SFAS 133. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this statement in the first quarter of 2009 did not have a material impact on the Company's financial statements, see *Note 7, Commitments and Contingencies*.

**Table of Contents**

From time to time, new accounting pronouncements applicable to the Company are issued by the FASB or other standards setting bodies, which we will adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

**2. Investment Securities**

Short-term time deposits and other liquid investments in debt securities with original maturities of less than three months when acquired by us are reported as cash and cash equivalents on our condensed consolidated balance sheet. Based on their maturities, interest rate movements do not affect the balance sheet valuation of these investments.

Historically, we have invested our cash in a variety of interest-earning financial instruments, including bank time deposits, money market funds, taxable and tax-exempt variable-rate, fixed-rate obligations of corporations, federal, state and local governmental entities, and agencies. These investments are primarily denominated in U.S. Dollars.

Due to current economic volatility, we have elected to keep our cash balances in overnight funds comprised of a combination of Treasury and government agency obligations. At the end of 2008 and during the first quarter of 2009, substantially all of our cash was held in Treasury and agency funds. We also held time deposits reported as cash and cash equivalents of \$2.7 million and \$1.8 million as of March 31, 2009, and December 31, 2008, respectively.

**3. Borrowings and Debt Issuance Costs**

The following table summarizes the outstanding debt and related capitalized debt issuance costs recorded on our condensed consolidated balance sheet at March 31, 2009 and December 31, 2008.

|   | March 31,<br>2009 | December 31,<br>2008<br>(as restated, see<br>Note 10) |
|---|-------------------|---|
| Senior convertible notes, 5% annual rate payable semi-annually, due November 15, 2015 | \$                | \$ 86,250   |
| Unamortized discount on 5% notes  |                   | (21,730)  |
| <b>Total debt</b>   | <b>\$</b>         | <b>\$ 64,520</b>                                      |
| Capitalized debt issuance costs, net  | \$                | \$ 1,322  |

We recorded capitalized debt issuance costs, net of accumulated amortization, in other non-current assets. Prior to the repurchase of our 5% notes, these costs were being amortized over a five-year period beginning in November 2005.

In connection with the issuance of our 5% senior convertible notes, we issued certain warrants to purchase our common stock. We assessed the characteristics of the warrants and determined that they should be included in additional paid in capital in the stockholders' equity portion of our condensed consolidated balance sheet, valued using a Black-Scholes model. The effect of recording the warrants as equity is that the 5% senior convertible notes were recorded at an original discount to their face value. The discount recorded was originally \$3.1 million, and this discount was being accreted through earnings over five years. We determined a five-year life to be appropriate due to the conversion features of the 5% senior convertible notes and our assessment of the probability that the debt would be converted prior to the scheduled maturity.

We were required to adopt FASB staff position (FSP) APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) in the three months ended March 31, 2009. FSP APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer's nonconvertible debt borrowing rate. Based on our analysis of comparable nonconvertible debt issuances by similar-sized technology companies at or near the time of our debt issuance, we determined our borrowing rate would have been 9.5% for nonconvertible debt versus the stated 5% coupon rate of the Notes.



**Table of Contents**

Upon adoption, we allocated the original debt proceeds between debt and the debt's conversion feature based on the fair value of the conversion feature at issuance. This results in the debt being recorded at a discount to its face value. This discount is amortized as additional interest expense using the effective interest method over the 10-year life of the debt. The effect on our financial statements is to record additional non-cash interest expense in each historical period in which our Notes were outstanding. We also were required to reallocate our capitalized debt issuance costs between cost of debt and cost of equity based on the relative values of the debt and the conversion feature. The result of this change is to reduce the original balance of capitalized debt issuance costs, as well as to reduce the amortization of such costs in each historical period in which our Notes were outstanding. The accompanying condensed consolidated financial statements have been restated to reflect the net increase to non-cash expense and balance sheet reclassifications. See *Note 10, Restatement of Financial Statements*, for the effect of FSP APB 14-1 on the historical financial statements included herein.

On February 6, 2009, we entered into a Consent and Purchase Agreement ( "Purchase Agreement" ) with the beneficial owner (the "Holder" ) of \$58.1 million in aggregate principal amount of our outstanding 5% Senior Convertible Notes ( "Notes" ). Pursuant to the Purchase Agreement, we agreed to purchase all of the Notes owned by the Holder as of February 6, 2009 (the "Holder's Notes" ) for a purchase price of \$997.50 per \$1,000.00 of original principal amount plus all accrued and unpaid interest thereon and the Holder irrevocably consented to eliminate certain covenants associated with the Notes. Subsequent to purchasing the Holder's Notes, we entered into a series of repurchase transactions at various prices with other holders. As of March 31, 2009, \$875 of Notes remained outstanding, which was repurchased on April 21, 2009 and is included in accounts payable on our condensed consolidated balance sheet as of March 31, 2009.

At the time of repurchase, we were required by FSP APB 14-1 to assess the current fair value of the notes and the conversion feature and allocate the cost of repurchasing cost accordingly. Due to the lack of comparable issuances in the market at the time of repurchase, we looked to the average yield on Triple-B-rated US Corporate bonds and the yield on our bonds to their contractual put date in May 2010 based on the discounted repurchase price of the bonds to determine the current fair value of the Notes. The resulting fair value of the Notes approximates the restated carrying value of the Notes resulting in no reallocation of the repurchase cost between debt and equity.

The total cash paid for the debt repurchase of \$84.8 million was allocated, based on respective fair values as required by FSP APB 14-1, \$64.5 million to the repurchased debt and \$20.3 million to the conversion feature included in equity.

The repurchase of the notes resulted in a loss on extinguishment of debt as follows:

|                                       | <b>Three months ended<br/>March 31, 2009</b> |
|---------------------------------------|--|
| Face value of debt repurchased        | \$ 86,250                                    |
| Unamortized discount                  | (1,090)                                      |
| Debt issuance costs                   | (1,239)                                      |
| Cash paid to repurchase debt          | (84,813)                                     |
| <b>Loss on extinguishment of debt</b> | <b>\$ (892)</b>                              |

**4. Restructuring Charges and Adjustments**

*Restructuring Plans.* In current and prior periods, we implemented restructuring plans, which included the elimination of personnel as well as other targeted cost reductions. In the first quarter of 2009, we eliminated 79 positions, resulting in severance costs of \$3.0 million.

The following table summarizes the changes to our restructuring accruals, as well as the components of the remaining restructuring accruals at March 31, 2009 and March 31, 2008.

**Table of Contents**

|  | <b>Employee Severance and Termination</b> |             |
|--|---|-------------|
|  | <b>2009</b>                               | <b>2008</b> |
| January 1,                             | \$ 6                                      | \$ 283      |
| Restructing plan expense               | 3,006                                     |             |
| Cash payments                          | (1,776)                                   | (108)       |
| Remaining accrual balance at March 31, | \$ 1,236                                  | \$ 175      |

**5. Net Income Per Common Share**

*Net Income Per Common Share.* Basic net income per common share was computed by dividing net income applicable to common stockholders by the weighted average number of common shares outstanding for the reporting period following the two-class method. Under the two-class method, participating convertible securities are required to be included in the calculation of basic net income per common share when the effect is dilutive. Accordingly, for the periods presented, the effect of the convertible preferred stock is included in the calculation of basic net income per common share.

Diluted net income per common share includes the dilutive effect of stock options, share rights awards, and warrants granted using the treasury stock method, and the effect of contingently issuable shares earned during the period and shares issuable under the conversion feature of our convertible debt and convertible preferred stock using the if-converted method. A loss causes all common stock equivalents to be anti-dilutive due to an increase of the weighted average shares from the potential dilution that could occur if securities or other contracts were exercised or converted into common stock. EITF 04-8 requires the inclusion of the effect of contingently convertible instruments in the calculation of diluted income per share including when the market price of our common stock is below the conversion price of the convertible security and the effect is not anti-dilutive. Accordingly, the effect of our convertible debt is included in the calculation of diluted Earnings per Share (EPS). Convertible instruments are anti-dilutive when conversion would cause diluted earnings per share to be greater than basic earnings per share. The effect of our convertible preferred stock is included in basic earnings per share under the two-class method per EITF 03-6, *Participating Securities and the Two-Class Method* under FASB No. 128 *Earnings per Share*; therefore, it is similarly included in diluted income per share when the effect is dilutive.

The following is a reconciliation of the number of shares used in the calculation of basic income per share under the two-class method and diluted earnings per share and the number of anti-dilutive shares excluded from such computations for the three months ended March 31, 2009 and March 31, 2008.



**Table of Contents**

|   | <b>March 31,</b> |               |
|---|------------------|---------------|
|   | <b>2009</b>      | <b>2008</b>   |
| Common and common equivalent shares outstanding using two-class method - basic:             |                  |               |
| Weighted average common shares outstanding  | 21,931           | 21,450        |
| Unissued vested RSUs to be included in basic  | 80               |               |
| Participating convertible preferred stock   | 4,722            | 4,605         |
| <b>Total common and common equivalent shares outstanding using two-class method - basic</b> | <b>26,733</b>    | <b>26,055</b> |
| Effect of dilutive securities:  |                  |               |
| Outstanding stock option and share right awards   | 52               | 386           |
| Weighted average common and common equivalent shares outstanding - diluted                  | 26,785           | 26,441        |
| Anti-dilutive shares excluded from calculation:   |                  |               |
| Outstanding stock option and share right awards   | 3,618            | 3,145         |
| <b>Total anti-dilutive shares excluded from calculation</b>                                 | <b>3,618</b>     | <b>3,145</b>  |

**6. Segment Information, International Operations and Customer Concentrations**

We operate our business in one segment, supply chain management solutions designed to help enterprises optimize business processes both internally and among trading partners. SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, establishes standards for the reporting of information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, who is our Chief Executive Officer (CEO), in deciding how to allocate resources and in assessing performance.

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

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

|   | <b>Three Months Ended March 31,</b> |                  |
|---|-------------------------------------|------------------|
|   | <b>2009</b>                         | <b>2008</b>      |
| United States                                       | \$ 29,614                           | \$ 38,366        |
| International revenue:                              |                                     |                  |
| Non-US Americas                                     | 1,883                               | 979              |
| Europe, Middle East and Africa                      | 10,851                              | 12,574           |
| Greater Asia Pacific                                | 14,028                              | 10,658           |
| <b>Total international revenue</b>                  | <b>26,762</b>                       | <b>24,211</b>    |
| <b>Total Revenue</b>                                | <b>\$ 56,376</b>                    | <b>\$ 62,577</b> |
| International revenue as a percent of total revenue | 47%                                 | 39%              |

**Table of Contents**

No individual customer accounted for more than 10% of our total revenues during the periods presented.

Long-lived assets by geographic region excluding deferred taxes, as reported to our CEO, were as follows:

|                             | March 31,<br>2009 | December 31,<br>2008<br>(as restated, see<br>Note 10) |
|-----------------------------|-------------------|---|
| United States               | \$ 19,392         | \$ 21,344   |
| Europe, Middle East, Africa | 124               | 137   |
| Greater Asia Pacific        | 4,574             | 5,140   |
| Total Long-lived Assets     | \$ 24,090         | \$ 26,621   |

**7. Commitments and Contingencies***Derivative Action*

On October 23, 2007, a purported shareholder derivative lawsuit was filed in the Delaware Chancery Court against certain of our current and former officers and directors, naming the company as a nominal defendant. The complaint, *entitled John McPadden, Sr. v. Sanjiv S. Sidhu, Stephen Bradley, Harvey B. Cash, Richard L. Clemmer, Michael E. McGrath, Lloyd G. Waterhouse, Jackson L. Wilson, Jr., Robert L. Crandall and Anthony Dubreville and i2 Technologies, Inc.*, alleges breach of fiduciary duty and unjust enrichment based upon allegations that the company sold its wholly-owned subsidiary, Trade Services Corporation, for an inadequate price in 2005. The complaint is derivative in nature did not seek relief from the company, but did seek damages and other relief from the defendant officers and directors. The defendants moved to dismiss the complaint on December 28, 2007. On August 29, 2008, the court granted the motion to dismiss as to all defendants but Mr. Dubreville (one of our former officers). The case is still pending against Mr. Dubreville, and the Company remains as a nominal defendant.

*Shareholder Class Action Lawsuits*

On August 11, 2008, two suits were filed in state district court in Texas against (among others) the Company and certain members of its Board of Directors. Each of the two suits sought injunctive relief prohibiting the closing of the sale of the Company's common stock to an affiliate of JDA Software Group, Inc. ( JDA ), and each of the named plaintiffs purported to represent a class of holders of the Company's common stock. One of the two suits was thereafter dismissed by the plaintiff; the other, styled John D. Norsworthy, on Behalf of Himself and All Others Similarly Situated, v. i2 Technologies, Inc., et al., remains pending in the 134th District Court of Dallas County, Texas. On November 5, 2008, the District Court held a hearing on Plaintiff Norsworthy's motion for a temporary restraining order, and at the conclusion of the hearing denied the motion in its entirety. To date, the Plaintiff has not requested monetary relief other than his attorneys' fees and costs. Based on the stage of the litigation, it is not known whether he may hereafter do so, nor is it possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter. Despite the termination of the Merger Agreement with JDA, the plaintiff has not dismissed nor amended his petition as of the date of this report.

## **Table of Contents**

### *Indemnification Agreements*

We have indemnification agreements with certain of our officers, directors and employees that may require us, among other things, to indemnify such officers, directors and employees against certain liabilities that may arise by reason of their status or service as directors, officers or employees and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. We have also entered into agreements regarding the advancement of costs with certain other officers and employees.

Pursuant to these indemnification and cost-advancement agreements, we have advanced fees and expenses incurred by certain current and former directors, officers and employees in connection with the governmental investigations and actions related to the 2003 restatement of our consolidated financial statements and other matters. We incurred no such expenses during the three months ended March 31, 2009 and 2008.

We may continue to advance fees and expenses incurred by certain current and former directors, officers and employees in the future. The maximum potential amount of future payments we could be required to make under these indemnification and cost-advancement agreements is unlimited. Additionally, our corporate by-laws allow us to choose to indemnify any employee for certain events or occurrences while the employee is, or was, serving at our request in such capacity.

Under the terms of our software license agreements with our customers, we agree that in the event the licensed software infringes upon any patent, copyright, trademark, or any other proprietary right of a third-party, we will indemnify our customer licensees against any loss, expense, or liability from any damages that may be awarded against our customer. We include this infringement indemnification in substantially all of our software license agreements and selected managed service arrangements. In the event the customer cannot use the software or service due to infringement and we cannot obtain the right to use, replace or modify the software or service in a commercially feasible manner so that it no longer infringes, then we may terminate the license and provide the customer a pro-rata refund of the fees paid by the customer for the infringing software or service. We believe the estimated fair value of these intellectual property indemnification clauses is minimal.

### *India Tax Assessments*

We currently are under income tax examinations in India primarily related to our intercompany pricing for services rendered by our Indian subsidiary to other i2 companies, the taxability of certain payments received from our Indian customers, and our statutory qualification for a tax holiday. The tax authorities have assessed an aggregate of approximately \$7.6 million for the Indian statutory fiscal years ended March 31, 2002 through March 31, 2005.

We believe the Indian tax authorities' positions regarding these matters to be without merit, that all intercompany transactions were conducted at arm's length pricing levels, all payments received from our Indian customers have been properly treated for tax purposes, and that our operations qualify for the tax holiday claimed. Accordingly, we appealed all of these assessments and sought assistance from the United States competent authority under the mutual agreement procedure of the income tax treaty between the United States and the Republic of India. This provides us with an opportunity to resolve these matters in a forum that includes governmental representatives of both countries.

Pending resolution of these matters, we have paid approximately \$3.1 million of the assessed amount and have arranged for \$4.0 million in bank guarantees in favor of the Indian government in respect of a portion of the balance as required. The bank guarantees are supported by letters of credit issued in the United States. Cash that is collateralizing these letters of credit is reflected on our condensed consolidated balance sheet as restricted cash.

We expect subsequent tax years to be examined, assessments made similar to those discussed above, and no assurances can be given that these issues ultimately will be resolved in our favor. We continue to monitor and assess these issues as they progress through the relevant processes and believe that the ultimate resolution of these matters will not exceed the tax contingency reserves we have established for them.

**Table of Contents***Derivative Financial Instruments*

On January 1, 2009, we adopted FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement 133*. The adoption of Statement 161 had no financial impact on our consolidated financial statements and only required additional financial statement disclosures. We have applied the requirements of Statement 161 on a prospective basis. Accordingly, disclosures related to interim periods prior to the date of adoption have not been presented.

The Company utilizes a foreign currency risk mitigation program that uses foreign currency forward exchange contracts (Contracts) to economically reduce exposure to various amounts denominated in nonfunctional currencies. These foreign currency exposures typically arise from intercompany transactions, cash balances and accounts receivable held in non-functional currencies. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Although the Company does not designate these Contracts as hedges for accounting purposes, the objective of the program is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the Contracts.

Our Contracts generally settle within 30 days. We do not use these forward contracts for trading purposes. We do not designate these forward contracts as hedging instruments pursuant to Statement 133. Accordingly, we record the fair value of these contracts as of the end of our reporting period to our consolidated balance sheet with changes in fair value recorded in our consolidated statement of operations. The balance sheet classification for the fair values of these forward contracts is to other current assets for unrealized gains and to accrued liabilities for unrealized losses. The statement of operations classification for the fair values of these forward contracts is to other income(expense), net for both realized and unrealized gains and losses.

The US dollar equivalent amount of foreign currency forward contracts that were outstanding as of March 31, 2009 and 2008 was \$34.2 million and \$46.0 million, respectively. The net cash paid to counterparties for the Contracts settled during the period ended March 31, 2009 and 2008 was \$0.8 million and \$0.2 million, respectively. For the three month periods ended March 31, 2009 and 2008, the Company recorded realized losses on these contracts of \$1.9 million and \$0.2 million, respectively.

*Certain Accruals*

We have accrued for estimated losses in the accompanying condensed consolidated financial statements for matters where we believe the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable.

We are subject to various claims and legal proceedings that arise in the ordinary course of our business from time to time, including claims and legal proceedings that have been asserted against us by former employees and certain customers, and have been in negotiations to settle certain of those contingencies. The adverse resolution of any one or more of those matters or the matters described above, over and above the amount, if any, that has been estimated and accrued in our condensed consolidated financial statements could have a material adverse effect on our business, financial condition, results of operations and/or cash flows.

**8. Stock-Based Compensation Plans.**

For a description of our stock-based compensation plans, see *Note 10, Stock-Based Compensation*, in our Notes to Consolidated Financial Statements filed in our 2008 Annual Report on Form 10-K.

Stock-based compensation expense for the three-month periods ended March 31, 2009 and March 31, 2008 is as follows:

|                            | <b>Three Months Ended March 31,</b> |             |
|----------------------------|-------------------------------------|-------------|
|                            | <b>2009</b>                         | <b>2008</b> |
| Services                   | \$ 180                              | \$ 611      |
| Maintenance                | 46                                  | 69          |
| Sales and marketing        | 798                                 | 626         |
| Research and development   | 457                                 | 756         |
| General and administrative | 1,096                               | 841         |
| Total                      | \$ 2,577                            | \$ 2,903    |



**Table of Contents**

Included in stock-based compensation expense was restricted stock expense of \$0.9 million for the three-month periods ended March 31, 2009 and March 31, 2008.

In February 2007, we granted Restricted Stock Units ( RSUs ) to certain key employees that contain vesting provisions based on specified performance over a two-year performance period. This performance period is from January 1, 2008 to December 31, 2009. The grant vested 33% on February 19, 2009 based on the increase of our Generally Accepted Accounting Principles (GAAP) EPS of more than 40% over the 2-year period from the close of calendar year 2006 to the close of calendar year 2008. The remaining 67% of the performance RSU grant shares are scheduled to vest on February 19, 2010, subject to the Company's EPS as of the close of the 2009 calendar year increasing by 60% or more over the 2006 calendar year GAAP EPS. This would require achieving GAAP EPS of more than \$1.31 in 2009.

We are required to assess whether the performance criteria are probable of being achieved, and only recognize compensation expense if the vesting is considered probable. On a quarterly basis, we assess whether vesting is probable and based on that assessment record the appropriate expense, if any. Based on our current assessment of 2009 GAAP EPS vesting is not probable; therefore, the Company has not recorded compensation expense for this portion of this award in its 2008 or 2009 annual financial statements. Compensation expense of \$0.2 million associated with the performance-based RSUs that vested on February 19, 2009 is reflected in our results of operations in the three-month period ended March 31, 2009.

In February 2009, we granted RSUs to two key employees that contain vesting provisions based on achieving specified performance criteria. The RSUs vest upon completion of the defined objectives as determined by the Board's Compensation Committee in its sole discretion on or before December 31, 2010. Based on our assessment that vesting of the awards is probable as of March 31, 2009, we recognized compensation expense in the three-month period ended March 31, 2009 for the February 2009 RSUs based on the time period such awards were outstanding.

Fair values of stock options and shares are estimated at the date of grant using the Black-Scholes option-pricing model with the weighted-average assumptions in the below table.

|                         | Three Months Ended<br>March 31, |       |
|-------------------------|---------------------------------|-------|
|                         | 2009                            | 2008  |
| Expected term (years)   | *                               | 4     |
| Volatility factor       | *                               | 67%   |
| Risk-free interest rate | *                               | 2.62% |
| Dividend yield          | *                               | 0%    |

\* No stock options were issued in the three months ended March 31, 2009

**9. Income Taxes**

Income taxes have been provided using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes* ( SFAS 109 ). In accordance with Accounting Principles Board Opinion No. 28, *Interim Financial*

**Table of Contents**

*Reporting* ( APB 28 ), and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods – an interpretation of APB Opinion No. 28* ( FIN 18 ), the provision for income taxes reflects the Company's estimate of the effective rate expected to be applicable for the full fiscal year, adjusted by any discrete events which are reported in the period in which they occur. This estimate is re-evaluated each quarter based on our estimated tax expense for the year.

We recognized income tax expense of approximately \$0.6 million for the three months ended March 31, 2009 and \$1.1 million for the three months ended March 31, 2008, representing effective income tax rates of 18.8% and 28.3%, respectively. The three months ended March 31, 2009 include a benefit resulting from adjustments to our global transfer pricing accruals, including the expiration of certain tax years related to international operations. The three months ended March 31, 2008 include the effect of a tax refund of approximately \$1.0 million related to our international operations. Other factors that affect income tax expense include, among others, changes in our valuation allowance, the effect of foreign operations, state income taxes (net of federal income tax benefits), non-deductible meals and entertainment, research and development tax credits, and the effect of foreign withholding taxes. Income tax expense included the effect of foreign withholding taxes of \$0.3 million for the three months ended March 31, 2009 and \$0.5 million for the three months ended March 31, 2008. Foreign withholding taxes are recorded when incurred, normally upon receipt of payments from certain non-US customers, and affect our income tax expense due to our domestic valuation allowance. Accordingly, our effective income tax rates during the three months ended March 31, 2009 and March 31, 2008 differ from the U.S. statutory rate primarily due to the discrete items discussed above and changes in our valuation allowance.

Estimated potential interest and penalties related to our unrecognized tax benefits within our global organization is recorded in income tax expense. As a result of the expiration of the statute of limitations for assessing tax in certain foreign jurisdictions, during the period ended March 31, 2009, we recorded a net benefit related to accrued interest of approximately \$0.3 million for the three months ended March 31, 2009. Accrued interest and penalties was approximately \$1.9 million at March 31, 2009. Management believes recording interest and penalties related to income tax uncertainties as income tax expense better reflects income tax expense and provides better information reporting.

We or one of our subsidiaries file income tax returns in the United States (U.S.) federal jurisdiction and various state and foreign jurisdictions. We have open tax years for the U.S. federal return back to 1993 with respect to our net operating loss ( NOL ) carryforwards, where the IRS may not raise tax for these years, but can reduce NOLs. Otherwise, with few exceptions, we are no longer subject to federal, state, local or foreign income tax examinations for years prior to 2004.

We are subject to potential change by various tax jurisdictions in the inter-company pricing at which we have conducted business within our global related group of companies. Additional tax examinations may be opened or existing examinations may be resolved within the next 12 months. We closely monitor developments in this area and make changes as necessary in the accruals we have made for what we believe will be the ultimate outcome of any tax adjustments. It is not possible to reasonably estimate a range of potential increases or decreases of such changes.

As part of the process of preparing unaudited condensed consolidated financial statements, we are required to estimate our full-year income and the related income tax expense in each jurisdiction in which we operate. Changes in the geographical mix or estimated level of annual pre-tax income can impact our effective tax rate. This process involves estimating our current tax liabilities in each jurisdiction in which we operate, including the impact, if any, of additional taxes resulting from tax examinations, as well as making judgments regarding the recoverability of deferred tax assets. To the extent recovery of deferred tax assets is not likely based on, among other things, our estimation of future taxable income in each jurisdiction, a valuation allowance is established. Tax controversies often involve complex issues across multiple jurisdictions and may require an extended period to resolve.

**10. Restatement of Financial Statements**

As discussed in *Note 3, Borrowings and Debt Issuance Costs*, we adopted FSP APB 14-1 in the three months ended March 31, 2009. The accompanying condensed consolidated financial statements have been restated to reflect the resulting increase to non-cash expense and balance sheet reclassifications.

Following is a summary of the effects of the restatement described above (in thousands, except per share data).

**Table of Contents****Condensed Consolidated Balance Sheet**

|                            | As Previously<br>Reported | As of December 31, 2008 |              |
|----------------------------|---------------------------|-------------------------|--------------|
|                            |                           | Adjustment              | As Restated  |
| Other non-current assets   | 5,775                     | (751)                   | 5,024        |
| Total assets               | 313,776                   | (751)                   | 313,025      |
| Total long-term debt, net  | 85,084                    | (20,564)                | 64,520       |
| Total liabilities          | 183,710                   | (20,564)                | 163,146      |
| Additional paid-in capital | 10,472,323                | 26,130                  | 10,498,453   |
| Accumulated deficit        | (10,450,362)              | (6,317)                 | (10,456,679) |

**Condensed Consolidated Statement of Operations and Comprehensive Income**

|  | As Previously<br>Reported | As of March 31, 2008 |             |
|--|---------------------------|----------------------|-------------|
|  |                           | Adjustment           | As Restated |
| Non-operating income (expense), net:                           |                           |                      |             |
| Interest expense   | (1,238)                   | (622)                | (1,860)     |
| Other income, net  | 619                       | 98                   | 717         |
| Total non-operating income (expense), net                      | 434                       | (524)                | (90)        |
| Income before income taxes                                     | 4,506                     | (524)                | 3,982       |
| Net income   | 3,379                     | (524)                | 2,855       |
| Net income applicable to common stockholders                   | 2,603                     | (524)                | 2,079       |
| Net income per common share applicable to common stockholders: |                           |                      |             |
| Basic  | \$ 0.10                   | \$ (0.02)            | \$ 0.08     |
| Diluted  | \$ 0.10                   | \$ (0.02)            | \$ 0.08     |
| Total comprehensive income                                     | 4,309                     | (524)                | 3,785       |

**Condensed Consolidated Statement of Cash Flows**

|   | As Previously<br>Reported | As of March 31, 2008 |             |
|---|---------------------------|----------------------|-------------|
|   |                           | Adjustment           | As Restated |
| Net income                                | 3,379                     | (524)                | 2,855       |
| Amortization of debt issuance expense     | 270                       | (98)                 | 172         |
| Debt discount accretion                   | 158                       | 622                  | 780         |
| Net cash provided by operating activities | 8,896                     |                      | 8,896       |



**Table of Contents**

**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 statements of historical or current facts, including, without limitation, statements about our business strategy, plans, objectives and future prospects, are forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from these expectations, which could have a material adverse effect on our business, results of operations, cash flow and financial condition. Such risks and uncertainties include, without limitation, the following:

Beginning in the third quarter of 2008 and continuing through and beyond our first quarter of 2009, we have experienced purchasing delays and a reduction in maintenance services by some customers and prospects attributable to the current economic environment, uncertainties caused by the termination of our planned merger in the fourth quarter of 2008 and continued speculation about our future strategic direction. The current economic downturn may result in customers and prospects reducing their capital and maintenance expenditures, filing for bankruptcy protection or ceasing operations, which would negatively affect our bookings, revenue and cash flows.

We have implemented and continue to evaluate restructuring and reorganization initiatives, including a reduction in our workforce in the first quarter of 2009 and reorganization of our sales force. Failure to achieve the desired results of our restructuring and reorganization initiatives could harm our business, results of operations, cash flow and financial condition.

Our financial results have varied and may continue to vary significantly from quarter-to-quarter. We may fail to meet analysts and investors' expectations.

We experienced negative cash flows for the quarters ended March 31, 2007, September 30, 2006 and March 31, 2006. A failure to maintain profitability and achieve consistent positive cash flows would have a significant adverse effect on our business, impair our ability to support our operations and adversely affect our liquidity.

We may require additional private or public debt or equity financing. Such financing may only be available on disadvantageous terms, or may not be available at all. Any new financing could have a substantial dilutive effect on our existing stockholders.

If we are unable to develop and generate additional demand for our products, serious harm could result to our business.

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

We face risks related to product quality and performance claims and other litigation that could have a material adverse effect on our relationships with customers and our business, results of operations, cash flow and financial condition. We may face other claims and litigation in the future that could harm our business and impair our liquidity.

Loss of key personnel or our failure to attract, train, and retain certain additional personnel could negatively affect our operating results and revenues and seriously harm our company.

We face other risks indicated in Item 1A, Risk Factors, in the 2008 Annual Report on Form 10-K.

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

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## Table of Contents

References in this report to the terms “optimal” and “optimization” and words to that effect are not 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**

#### Nature of Operations

We are a provider of supply chain management solutions, consisting of various software and service offerings. Our service offerings include business optimization and licensed technical consulting, managed services, training, solution maintenance, software upgrades and development. We operate our business in one business segment. Supply chain management is the set of processes, technology and expertise involved in managing supply, demand and fulfillment throughout divisions within a company and with its customers, suppliers and partners. The business goals of our solutions include increasing supply chain efficiency and enhancing customer and supplier relationships by managing variability, reducing complexity, improving operational visibility, and increasing operating velocity. Our offerings are designed to help customers better achieve the following critical operational objectives:

Visibility – a clear and unobstructed view up and down the supply chain

Planning – supply chain optimization to match supply and demand considering system-wide constraints

Collaboration – interoperability with supply chain partners and elimination of functional silos

Control – management of data and business processes across the extended supply chain

#### Revenue Categories

We recognize revenue for software and our related service offerings in accordance with *Statement of Position (SOP) 81-1, Accounting for Certain Construction Type and Certain Production Type Contracts, SOP 97-2, Software Revenue Recognition, as modified by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions, SEC Staff Accounting Bulletin (SAB) 104, Revenue Recognition, and SAB 103, Update of Codification of Staff Accounting Bulletins, and SEC Staff Accounting Bulletin Topic 13, Revenue Recognition.*

*Software Solutions.* Software solutions revenue includes core license revenue, recurring license revenue, and fees received to develop the licensed functionality (for example, the provision of essential services). We recognize our software solutions revenues under SOP 97-2 or SOP 81-1 based on our evaluation of whether the associated services are essential to the licensed software as described within SOP 97-2. If the services are considered essential, revenue is generally recognized on a percentage of completion basis under SOP 81-1. Services are considered essential to the software when they involve significant modifications or additions to the software features and functionality. In such arrangements, the software license fees as well as the fees received for the performance of essential services are recognized as software solutions revenue. In addition, we have several subscription and other recurring revenue transactions, which are recognized ratably over the life of each contract.

*Services.* Services revenue is primarily derived from fees for services that are not essential to the software, including implementation, integration, training and consulting, and is generally recognized when services are performed. In addition, services revenue may include fees received from arrangements to customize or enhance previously purchased licensed software, when such services are not essential to the previously licensed software. Services revenue also includes reimbursable expense revenue, with the related costs of reimbursable expenses included in cost of services. Services revenue typically earns a lower margin than software solutions and other revenue types.

*Maintenance.* Maintenance revenue consists of fees generated by providing support services, such as telephone support, and unspecified upgrades/enhancements on a when-and-if available basis. A customer typically prepays maintenance and support fees for an initial period, and the related revenue is deferred and generally recognized over the term of such initial period. Maintenance is renewable by the customer on an annual basis thereafter. Rates for maintenance, including subsequent renewal rates, are typically established based upon a specified percentage of net license fees as set forth in the contract.



**Table of Contents****Key Performance Indicators and Operating Metrics**

The markets in which we operate are highly competitive. Our competitors are diverse and offer a variety of solutions targeting various segments of the extended supply chain as well as the enterprise as a whole. Some competitors offer suites of applications, while most offer solutions designed to target specific processes or industries. We believe our principal competitors continue to strengthen, in part based on consolidation within the industry. In addition, our solutions-oriented approach, where services are more critical, increases our exposure to competition from offshore providers and consulting companies. All of these factors are creating pricing pressure for our software and service offerings. However, we believe our focus on a solutions-oriented approach that leverages our deep supply chain expertise differentiates us from our competitors.

In managing our business and reviewing our results, management focuses most intently on our cash generation process, including bookings, backlog, revenue, cash flow from operations and liquidity.

*Bookings.* We define bookings as the total value of non-contingent fees payable to the company pursuant to the terms of duly executed contracts. Bookings are expected to result in revenue as products are delivered or services are performed, and may reflect contracts from which revenue will be recognized over multi-year periods, however there can be no assurance that bookings will result in future revenue. Bookings do not include amounts subject to contingencies, such as optional renewal periods, amounts subject to a customer's internal approvals, amounts subject to customer specific cancellation provisions and amounts that are refundable for reasons outside of our standard warranty provisions. Based on the nature of the transactions, certain of our subscription bookings have termination provisions upon payment of a penalty. Because our revenues are recognized under several different accounting standards and thus are subject to period-to-period variability, we closely monitor our bookings as a leading indicator of future revenues and the overall performance of our business.

Total bookings for the three months ended March 31, 2009 and March 31, 2008 were \$66.5 million and \$66.4 million, respectively. The software solutions component of our bookings for the three months ended March 31, 2009 and March 31, 2008 were \$24.1 million and \$8.6 million, respectively, an increase of \$15.5 million, or 180%. The increase from the first quarter of 2008 was driven by increased bookings associated with the performance of essential services, which are the services required to deliver and implement the contracted functionality associated with license agreements that will be accounted for under SOP 81-1. The essential services portion of software solutions bookings were \$11.9 million higher in the first quarter of 2009 than in the first quarter of 2008.

*Backlog.* Backlog represents the balance of bookings that has not been recognized as revenue. The amount of backlog for which we have received payment is recorded as deferred revenue on our condensed consolidated balance sheet. We review our backlog to assess future revenue that may be recognized from bookings in previous fiscal periods. This review allows us to determine whether we are recognizing more or less revenue compared to the bookings in that period and whether our backlog is increasing or decreasing.

|   | Three Months Ended |                | Twelve Months Ended |                   |
|---|--------------------|----------------|---------------------|-------------------|
|   | March 31, 2009     | March 31, 2008 | December 31, 2008   | December 31, 2007 |
| <b>Additions to Backlog:</b>                |                    |                |                     |                   |
| Software Solutions Bookings                 | \$ 24,062          | \$ 8,611       | \$ 29,812           | \$ 54,556         |
| Platform Technology/Source Code Bookings    |                    |                |                     | 500               |
| Net Additions to Backlog                    | 24,062             | 8,611          | 29,812              | 55,056            |
| Less: Software Solutions Revenue Recognized | 10,203             | 11,672         | 46,852              | 47,721            |
| Increase/(Decrease) in Backlog              | \$ 13,859          | \$ (3,061)     | \$ (17,040)         | \$ 7,335          |

*Revenue.* For the three months ended March 31, 2009, total revenue was down 10% or \$6.2 million compared to the same period in 2008. As part of being a solutions-oriented provider, we have experienced a shift to a greater level of services revenue, which has partially offset our decline in software solutions and maintenance revenue. The changes in each category of our revenue are described below.

**Table of Contents**

Software solutions revenue declined 13% or \$1.5 million for the three months ended March 31, 2009 compared to the same period in 2008. The primary reason for the decline is a reduction in our recurring revenue, due to a license arrangement that was required to be recognized ratably over the 12 months ended December 31, 2008 based on its terms. That arrangement is subject to a maintenance agreement in 2009. Our software solutions revenue is heavily dependent on the amount of backlog at the beginning of each quarter. Our software solutions backlog increased in the first quarter of 2009, which was the first such increase since 2007. In order to increase our software solutions revenue in the future, we need to continue to increase our software solutions bookings.

Services revenue decreased 7% or \$2.1 million for the three months ended March 31, 2009 when compared to the same period in 2008, which resulted from a 7% reduction in billable hours.

Maintenance revenue decreased 12% or \$2.6 million for the three months ended March 31, 2009 when compared to the same period in 2008. This decrease was primarily due to the impact of lower renewal rates as well as cancellations of certain contracts by customers who previously had multiple maintenance agreements. This trend of lower renewal rates may continue if our customers reduce their expenditures during the current economic downturn.

*Operating Cash Flow and Liquidity.* We closely monitor our operating cash flow, working capital and cash levels. In doing so, we attempt to limit our restricted cash and cash balances held in foreign subsidiaries.

Our operating cash flow for the three months ended March 31, 2009 was approximately \$7.7 million compared to cash flow from operations of \$8.9 million in the three months ended March 31, 2008.

Our working capital was approximately \$106.5 million at March 31, 2009 compared to \$187.4 million for the period ended December 31, 2008. In the first quarter of 2009, we used \$84.8 million to repurchase debt, see *Note 3, Borrowings and Debt Issuance Cost*.

The chart below shows the components of our working capital for the twelve months ended 2008 and the first quarter of 2009.

**WORKING CAPITAL**

|                                | <b>March 31, 2009</b> | <b>December 31, 2008</b> |
|--------------------------------|-----------------------|--------------------------|
| Total cash                     | \$ 166,580            | \$ 243,790               |
| Accounts receivable            | 22,980                | 25,846                   |
| Other current assets, net      | 7,418                 | 9,477                    |
| <br>Total current assets       | <br>196,978           | <br>279,113              |
| Current liabilities            | 31,865                | 38,650                   |
| Deferred revenue               | 58,597                | 53,028                   |
| Current portion long-term debt |                       |                          |
| <br>Total current liabilities  | <br>90,462            | <br>91,678               |
| <br>Working capital            | <br>\$ 106,516        | <br>\$ 187,435           |
| <br>Net cash                   | <br>\$ 166,579        | <br>\$ 157,540           |

In addition to assessing our liquidity based on operating cash flow and working capital, management also considers our cash balances and our net cash balance, which we define as the sum of our total cash and cash equivalents and restricted cash minus the face value of our debt.

**Application of Critical Accounting Policies and Accounting Estimates**

There have been no changes during the first quarter of 2009 to the critical accounting policies or the areas that involve the use of significant judgments and estimates we described in our 2008 Annual Report on Form 10-K.



**Table of Contents****Analysis of Financial Results Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008.****Summary of First Quarter 2009 Results**

Total revenue decreased \$6.2 million from the same period in 2008

Total costs and expenses decreased \$7.8 million from the same period in 2008

Net income applicable to common stockholders was \$1.9 million compared to \$2.1 million in the same period in 2008

Diluted earnings per share were \$0.07 for the first quarter of 2009 and \$0.08 for the first quarter of 2008

Cash flow from operations was \$7.7 million versus cash flow from operations of \$8.9 million in the 2008 period

Total bookings were \$66.5 compared to \$66.4 million from the same period in 2008

**Revenues**

The following table sets forth revenues and the percentages of total revenues of selected items reflected in our condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2009 and March 31, 2008. The period-to-period comparisons of financial results are not necessarily indicative of future results.

|                          | Three Months Ended |                    | Three Months Ended |                    | Change 2009 versus 2008 |             |
|--------------------------|--------------------|--------------------|--------------------|--------------------|-------------------------|-------------|
|                          | March 31, 2009     | Percent of Revenue | March 31, 2008     | Percent of Revenue | \$ Change               | % Change    |
| SOP 97-2 recognition     | \$ 574             | 1%                 | \$ 376             | 1%                 | \$ 198                  | 53%         |
| SOP 81-1 recognition     | 4,318              | 8%                 | 5,068              | 8%                 | (750)                   | -15%        |
| Recurring items          | 5,311              | 9%                 | 6,228              | 10%                | (917)                   | -15%        |
| Total Software solutions | 10,203             | 18%                | 11,672             | 19%                | (1,469)                 | -13%        |
| Services                 | 26,753             | 48%                | 28,842             | 46%                | (2,089)                 | -7%         |
| Maintenance              | 19,420             | 34%                | 22,063             | 35%                | (2,643)                 | -12%        |
| <b>Total revenues</b>    | <b>\$ 56,376</b>   | <b>100%</b>        | <b>\$ 62,577</b>   | <b>100%</b>        | <b>\$ (6,201)</b>       | <b>-10%</b> |

*Software Solutions Revenue.* Total software solutions revenue decreased 13% or \$1.5 million for the three months ended March 31, 2009 compared to the same period in 2008. The components of the changes in software solutions revenue are explained below.

The primary cause of the increase in revenue recognized under SOP 97-2 for the three months ended March 31, 2009 is due to an increase in the size of contracts recognized from our backlog. During the three months ended March 31, 2009 we recognized revenue related to 4 contracts at an average of \$ 0.14 million per contract compared to 7 contracts at an average of \$0.05 million per contract in the comparable period of 2008.

Revenue recognized under SOP 81-1 is dependent upon the amount of work performed and milestones met during the applicable period on projects booked in both current and prior periods. During the three months ended March 31, 2009, we recognized revenue related to 16 projects at an average of \$0.27 million per project compared to 16 projects at an average of \$0.32 million in the comparable period of 2008.



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Revenue from recurring items decreased by \$0.9 million for the three months ended March 31, 2009 when compared to the same period in 2008. This decrease resulted from a license arrangement that was required to be recognized ratably over the 12 months ended December 31, 2008 based on its terms. That arrangement is subject to a maintenance agreement in 2009.

*Services Revenue.* Services revenue decreased 7% or \$2.1 million for the three months ended March 31, 2009 compared to the same period in 2008 primarily as a result of a 7% decline in overall billable hours.

## Table of Contents

Services revenue is dependent upon a number of factors, including:

the number, value and rate per hour of services transactions booked during the current and preceding periods,

the number and availability of service resources actively engaged on billable projects,

the timing of milestone acceptance for engagements contractually requiring customer sign-off, and

the timing of cash payments when collectability is uncertain

*Maintenance Revenue.* Maintenance revenue decreased 12% or \$2.6 million for the three months ended March 31, 2009 compared to the same period in 2008. This decrease was primarily due to the impact of lower renewal rates as well as cancellations of certain contracts by customers who previously had multiple maintenance agreements. This trend of lower renewal rates may continue if our customers reduce their expenditures during the current economic downturn.

Maintenance revenue varies from period-to-period based on several factors, including:

initial maintenance from new software solutions bookings,

the timing of negotiating and signing maintenance renewals,

completing a renewal several months into the annual maintenance period resulting in a one-time catch up for the period that maintenance services were performed prior to signature of the contract. A similar catch-up of revenue occurs due to the timing of cash receipts for cash basis customers when cash is not received until several months into the maintenance period,

renewals that occur on less favorable terms than in the prior period, and

customers that do not renew their maintenance agreements.

*International Revenue.* Our international revenues included in the categories discussed above are primarily generated from customers located in Europe, Asia, Latin America and Canada. International revenue totaled \$26.8 million, or 47% of total revenue, in the three months ended March 31, 2009 compared to \$24.2 million, or 39% of total revenue, in the same period in 2008. In the three months ended March 31, 2009, we signed and began generating revenue on multiple agreements with customers in Japan.

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

## Impact of Indian Rupee on Expenses

Assuming a constant level of rupee expenditures in 2009 as we experienced in 2008, the impact of the depreciation in the value of the rupee when compared to the dollar was approximately \$1.3 million less expense for the three months ended March 31, 2009.

## Cost of Revenues

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The following table sets forth cost of revenues and the gross margins of selected items reflected in our condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2009 and March 31, 2008. The period-to period comparisons of financial results are not necessarily indicative of future results.

|                                     | Three Months Ended |              | Three Months Ended |              | Change 2009 versus 2008 |             |
|-------------------------------------|--------------------|--------------|--------------------|--------------|-------------------------|-------------|
|                                     | March 31, 2009     | Gross Margin | March 31, 2008     | Gross Margin | \$ Change               | % Change    |
| Software solutions                  | \$ 1,697           | 83%          | \$ 2,615           | 78%          | \$ (918)                | -35%        |
| Services                            | 17,586             | 34%          | 22,471             | 22%          | (4,885)                 | -22%        |
| Maintenance                         | 2,486              | 87%          | 2,843              | 87%          | (357)                   | -13%        |
| Amortization of acquired technology |                    |              | 4                  |              | (4)                     | -100%       |
| <b>Total cost of revenues</b>       | <b>\$ 21,769</b>   |              | <b>\$ 27,933</b>   |              | <b>\$ (6,164)</b>       | <b>-22%</b> |

**Table of Contents**

*Cost of Software Solutions.* These costs consist of:

Salaries and other related costs of employees who provide essential services to customize or enhance the software for the customer

Commissions paid to non-customer third parties in connection with joint marketing and other related agreements, which are generally expensed when they become payable

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

The cost of user product documentation

The cost of delivery of software

Provisions for the estimated costs of servicing customer claims, which we accrue on a case-by-case basis  
Cost of software solutions decreased 35% or \$0.9 million for the three months ended March 31, 2009 compared to the same period in 2008 primarily because of a decrease in the number of hours worked on projects requiring essential services.

During the three months ended March 31, 2009 and March 31, 2008, the costs attributable to the performance of essential services related to SOP 81-1 was \$1.2 million and \$1.9 million, respectively. The remaining costs of software solutions are not directly attributable to specific arrangements, so we do not believe there is a reasonable basis to calculate the cost of each type of software solutions transaction or the resulting contribution margin.

*Cost of Services.* These costs consist of expenses associated with the delivery of non-essential services, such as implementation, integration, process consulting and training. Cost of services decreased 22% or \$4.9 million for the three months ended March 31, 2009 compared to the same period in 2008. This decrease was primarily related to implementing cost savings measures focused on our non-billable expenses, including a decrease in employee related costs of \$2.2 million, travel and entertainment of \$1.1 million and contractor costs of \$0.8 million.

*Cost of Maintenance.* These costs consist of expenses including support services such as telephone support and unspecified upgrades and enhancements provided on a when-and-if-available basis. Cost of maintenance decreased 13% or \$0.4 million for the three months ended March 31, 2009 compared to the same period in 2008. This decrease was primarily related to a decrease in employee-related costs.

**Operating Expenses**

The following table sets forth operating expenses and the percentages of total revenue for those operating expenses as reported in our condensed consolidated statements of operations and comprehensive income. The period-to-period comparisons of financial results are not necessarily indicative of future results.

|                            | Three Months Ended |                    | Three Months Ended |                    | Change 2009 versus 2008 |          |
|----------------------------|--------------------|--------------------|--------------------|--------------------|-------------------------|----------|
|                            | March 31, 2009     | Percent of Revenue | March 31, 2008     | Percent of Revenue | \$ Change               | % Change |
| Sales and marketing        | \$ 9,908           | 18%                | \$ 11,950          | 19%                | \$ (2,042)              | -17%     |
| Research and development   | 7,075              | 13%                | 7,633              | 12%                | (558)                   | -7%      |
| General and administrative | 8,969              | 16%                | 9,509              | 15%                | (540)                   | -6%      |

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|                                       |                  |                  |                   |            |
|---------------------------------------|------------------|------------------|-------------------|------------|
| Amortization of intangibles           | 25               | 25               |                   | 0%         |
| Restructuring charges and adjustments | 3,006            |                  | 3,006             | 100%       |
| Costs and expenses, subtotal          | 28,983           | 29,117           | (134)             | 0%         |
| Intellectual property settlement, net |                  | 1,455            | (1,455)           | -100%      |
| <b>Total operating expense</b>        | <b>\$ 28,983</b> | <b>\$ 30,572</b> | <b>\$ (1,589)</b> | <b>-5%</b> |

*Sales and Marketing Expense.* These expenses consist primarily of personnel costs, commissions, office facilities, travel and promotional events such as trade shows, seminars, technical conferences, advertising and public relations programs. For the three months ended March 31, 2009, the decrease in sales and marketing expense consists of a decrease in employee related costs of \$1.5 million and a decrease in travel and entertainment of \$0.5 million.

**Table of Contents**

*Research and Development Expense.* These expenses consist of costs related to software development and product enhancements to existing software. Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the establishment of technological feasibility of our products and general release of such software has substantially coincided. As a result, software development costs qualifying for capitalization have been insignificant; therefore, we have not capitalized any software development costs other than those recorded in connection with our acquisitions. The primary component of research and development expense is employee-related and facility related costs. For the three months ended March 31, 2009, our average research and development headcount decreased 5% compared to the same period in 2008, resulting in a \$0.2 million decrease in employee-related costs. This contributed to the 6% or \$0.5 million decrease in research and development expense.

*General and Administrative Expense.* These expenses include the personnel and other costs of our finance, legal, accounting, human resources, information systems and executive departments, as well as external legal costs. General and administrative expense for the three months ended March 31, 2009 decreased 6% or \$0.5 million compared to the same period in 2008. A reduction in professional fees of \$0.3 million contributed to this decrease.

*Amortization of Intangible Assets and Impairment of Intangible Assets.* From time to time, we have sought to enhance our product offerings through technology and business acquisitions. When an acquisition of a business is accounted for using the purchase method, the amount of the purchase price is allocated to the fair value of assets acquired, net of liabilities assumed. Any excess purchase price is allocated to goodwill. Intangible assets are amortized over their estimated useful lives, while goodwill is only written down if it is deemed to be impaired.

*Restructuring Expense.* During the three months ended March 31, 2009 we had \$3.0 million in restructuring expense related to the involuntary termination of 79 associates and no expense in the three months ended March 31, 2008.

**Non-Operating Income (Expense), Net**

For the three months ended March 31, 2009 and March 31, 2008, non-operating income (expense), net, was as follows:

|  | Three Months Ended<br>March 31,<br>2009 | Three Months Ended<br>March 31,<br>2008<br>(as restated, see<br>Note 10) | Change 2009 versus 2008<br>Three months ended March 31 |              |
|--|---|--|--|--------------|
|  |   |  | \$<br>Change   | %<br>Change  |
| Interest income                                    | \$ 129                                  | \$ 1,194   | \$ (1,065)   | -89%         |
| Interest expense                                   | (899)                                   | (1,860)  | (961)  | -52%         |
| Foreign currency hedge and transaction losses, net | (541)                                   | (141)  | (400)  | 284%         |
| Loss on extinguishment of debt                     | (892)                                   |  | (892)  | 100%         |
| Other income (expense), net                        | (144)                                   | 717  | (861)  | 120%         |
| <b>Total non-operating (expense), net</b>          | <b>\$ (2,347)</b>                       | <b>\$ (90)</b>   | <b>\$ (2,257)</b>                                      | <b>2515%</b> |

Total non-operating (expense) increased \$2.3 million for the three months ended March 31, 2009 as compared to the same period in 2008.

Interest income decreased in the three-month period ended March 31, 2009, compared to the same period in 2008 due to lower yields on average cash balances, partially offset by higher average cash balances. For the three months ended March 31, 2009, average cash balances increased 50.6%. The average rate earned for the three months ended March 31, 2009, was 0.19%, and for March 31, 2008, was 3.21%. The lower interest rates are due to changes in the

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## **Table of Contents**

general direction of market interest rates in the U.S., where the majority of our cash is held, and a change in the mix of our holdings. 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 sensitive to changes in the Federal Funds rate. The Federal Funds rate decreased from 2.25% at March 31, 2008, to between 0.00% and 0.25% at March 31, 2009. Additionally, due to volatility in the capital markets, beginning in the third quarter of 2008 we chose not to invest in commercial paper and instead held our cash in money market instruments, comprised of a combination of Treasury and government agency obligations. At the end of 2008 and during the first quarter of 2009, substantially all of our cash was held in Treasury and agency securities.

Interest expense decreased \$1.0 million in the period ended March 31, 2009 as compared to the same period in 2008. The decline is primarily due to the Convertible Notes repurchases; see *Note 3, Borrowings and Debt Issuance Cost*. The incremental non-cash interest expense associated with the adoption of FSP APB 14-1 for the three months ended March 31, 2009 and 2008 is \$0.3 million and \$0.6 million respectively.

The repurchase of the notes resulted in a \$0.9 million loss on extinguishment of debt.

The change in other income (expense) is primarily related to a refund of payroll tax interest of \$0.7 million received in the first quarter of 2008. The incremental non-cash other income associated with the adoption of FSP APB 14-1 for the three months ended March 31, 2009 and 2008 is \$0.05 million and \$0.1 million respectively.

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

### **Provision for Income Taxes**

We recognized income tax expense of approximately \$0.6 million for the three months ended March 31, 2009 and \$1.1 million for the three months ended March 31, 2008, representing effective income tax rates of 18.8% and 28.3%, respectively. The three months ended March 31, 2009 include a benefit resulting from adjustments to our global transfer pricing accruals, including the expiration of certain tax years related to international operations. The three months ended March 31, 2008 include the effect of a tax refund of approximately \$1.0 million related to our international operations. Other factors that affect income tax expense include, among others, changes in our valuation allowance, the effect of foreign operations, state income taxes (net of federal income tax benefits), non-deductible meals and entertainment, research and development tax credits, and the effect of foreign withholding taxes. Income tax expense included the effect of foreign withholding taxes of \$0.3 million for the three months ended March 31, 2009 and \$0.5 million for the three months ended March 31, 2008. Foreign withholding taxes are recorded when incurred, normally upon receipt of payments from certain non-US customers, and affect our income tax expense due to our domestic valuation allowance. Our effective income tax rates during the three months ended March 31, 2009 differs from the U.S. statutory rate primarily due to changes in our valuation allowance and the aforementioned expiration of the statute of limitations in certain foreign jurisdictions. Our effective tax rate during the three months ended March 31, 2008 differed from the U.S. statutory rate primarily due to the discrete items discussed above and changes in our valuation allowance and the tax refund received related to our foreign operations.

### **Contractual Obligations**

During the three-month period ended March 31, 2009, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in our 2008 Annual Report on Form 10-K.

### **Off-Balance-Sheet Arrangements**

As of March 31, 2009, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

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**Table of Contents****Liquidity and Capital Resources**

Our working capital was \$106.5 million at March 31, 2009 compared to \$187.4 million at December 31, 2008, a reduction of \$80.9 million or 43%. The reduction in working capital was principally attributable to the cash required for the convertible note repurchases during the first quarter of 2009. The reduction resulted from an \$82.1 million decrease in current assets (comprised of a decrease of \$77.2 million in cash, including restricted cash, a decrease of \$2.1 million in other current assets and a decrease of \$2.9 million in accounts receivable). This decrease in current assets was partially offset by a decrease in current liabilities of \$1.2 million (comprised of an increase in deferred revenue of \$5.6 million and an increase in accrued liabilities of \$1.4 million offset by a decrease in accounts payable of \$1.0 million and a decrease in accrued compensation and related expenses of \$7.2 million).

Our working capital balance at March 31, 2009 and December 31, 2008 included deferred revenue. At March 31, 2009 and December 31, 2008, we had approximately \$58.6 million and \$53.0 million, respectively, of deferred revenue recorded as a current liability, representing pre-paid revenue for all of our different revenue categories. Our deferred revenue balance includes a margin to be earned when it is recognized, so the conversion of the liability to revenue will require cash outflows that are less than the amount of the liability.

Our cash and cash equivalents decreased \$80.4 million during the three months ended March 31, 2009. This decrease is primarily the result of cash used in financing activities of \$84.8 million; see *Note 3, Borrowings and Debt Issuance Cost*.

During the three months ended March 31, 2009, cash provided by operating activities was approximately \$7.7 million. Management tracks projected cash collections and projected cash outflows to monitor short-term liquidity requirements and to make decisions about future resource allocations and take actions to adjust our expenses with the goal of remaining cash flow positive from operations on an annual basis.

Cash used in investing activities was approximately \$3.2 million during the three months ended March 31, 2009 due to an increase in restricted cash of approximately \$3.1 million.

During the three months ended March 31, 2009, cash used in financing activities was \$84.8 million. The cash used is related to the convertible note repurchases during the first quarter of 2009.

At March 31, 2009, we had a net cash balance of \$166.6 million compared to a net cash balance of \$157.5 million at December 31, 2008. We define net cash as the sum of our total cash and cash equivalents and restricted cash minus our total short-term and long-term debt. As of March 31, 2009, \$6.5 million in letters of credit were outstanding and \$8.9 million in restricted cash was pledged as collateral.

**Sensitivity to Market Risks**

*Foreign Currency Risk.* Revenues originating outside of the United States, a portion of which are denominated in foreign currencies, totaled 47% and 39% for the three months ended March 31, 2009 and March 31, 2008, respectively. Since we conduct business on a global basis in various foreign currencies, we are exposed to movements in foreign currency exchange rates. We utilize a foreign currency risk mitigation program that uses foreign currency forward exchange contracts to reduce the exposure to various amounts denominated in non-functional currencies. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts. Our hedging activities cannot completely protect us from the risk of foreign currency losses as our currency exposures are constantly changing and not all of these exposures are hedged. A large portion of our employee base is located in India, and as a result, a significant portion of our fixed expenses is denominated in the Indian Rupee (INR). Therefore, as the INR exchange rate fluctuates against the U.S. Dollar (USD), the resulting impact on our consolidated USD expenses can be significant.

*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 typically invest



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**Table of Contents**

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 and federal, state and local governmental entities and agencies. These investments are primarily denominated in U.S. Dollars. Cash balances in foreign currencies overseas are primarily operating balances and are generally invested in short-term time deposits of the local operating bank. Due to the demand nature of our money market funds and the short-term nature of our time deposits and debt securities portfolio, these assets are sensitive to changes in interest rates. The Federal Reserve Board influences the general direction of market interest rates in the U.S. where the majority of our cash and investments are held. As of March 31, 2009 and 2008, the weighted-average yield on cash and cash equivalent balances was 0.19% and 3.21%, respectively.

*Credit Risk.* Financial assets that potentially subject us to a concentration of credit risk consist principally of investments and accounts receivable. Cash on deposit is held with financial institutions with high credit standings. Investments are generally in money market funds comprised of a combination of Treasury and government agency obligations. We limit our investment in individual funds and with individual financial institutions to mitigate risk. We attempt to limit our restricted cash and cash balances held in foreign locations.

Our customer base consists of large numbers of geographically diverse enterprises dispersed across many industries. As a result, concentration of credit risk with respect to accounts receivable is not significant. However, we periodically perform credit evaluations for significant customers and maintain reserves for potential losses. In certain situations we may seek letters of credit to be issued on behalf of some customers to mitigate our exposure to credit risk. We currently use foreign exchange contracts to reduce the effects of the foreign exchange risks associated with receivables denominated in non-functional currencies. Risk of non-performance by counterparties to such contracts is minimal due to the size and credit standings of the financial institutions involved. One of our large customers filed for bankruptcy and began liquidation proceedings in the three months ended March 31, 2009. We did not have a bad debt exposure associated with this customer because we had previously identified the potential collection risk and consequently only recognized revenue upon receipt of cash.

The current unprecedented disruptions in the financial markets may adversely affect the availability of credit already arranged and the availability and cost of credit in the future, which could result in bankruptcy or insolvency for customers, which would affect our cash collections from our accounts receivable. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and globally.

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (Exchange Act), our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of our company that are designed to ensure that information required to be disclosed by our company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by our company in the reports we file or submit under the Exchange Act is accumulated and communicated to our company's management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

**Table of Contents**

Based on this evaluation, our CEO and CFO concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by our company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to provide reasonable assurance that such information is accumulated and communicated to our company's management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. It should be noted that any system of controls, however well designed and operated, is based in part upon certain assumptions and can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

*Changes in Internal Control over Financial Reporting.* As required by Rule 13a-15(d) under the Exchange Act, our management, including our CEO and CFO, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on our evaluation, during our most recent fiscal quarter there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The information set forth in *Note 7 Commitments and Contingencies* in our Notes to Condensed Consolidated Financial Statements is incorporated herein by reference.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors disclosed under the heading *Risk Factors* in Item 1A of our 2008 Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

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

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS.**

(a) *Exhibits*

**Exhibit**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 3.1(ii)*      | Amended and Restated Bylaws of i2 Technologies, Inc., as amended through January 26, 2009 (filed as Exhibit 3.1 to i2's Current Report on Form 8-K filed on January 27, 2009).  |
| 4.1*          | Second Supplemental Indenture, dated as of February 6, 2009 to 5% Senior Convertible Notes due 2015 Indenture, dated as of November 23, 2005, between i2 Technologies, Inc. and The Bank of New York Mellon Trust Company, N.A. (filed as Exhibit 99.2 to i2's Current Report on Form 8-K filed on February 6, 2009). |
| 10.1*         | Employment Agreement dated January 19, 2009 between i2 Technologies, Inc. and Jackson L. Wilson, Jr. (filed as Exhibit 10.1 to i2's Current Report on Form 8-K filed on January 21, 2009).  |

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- 10.2\* Consent and Purchase Agreement between i2 Technologies, Inc. and Highbridge International LLC entered into as of February 6, 2009 (filed as Exhibit 99.1 to i2 s Current Report on Form 8-K filed on February 6, 2009).
- 10.3\* Form of Executive Retention Amendment Agreement between i2 and certain of its executive officers (filed as Exhibit 10.42 to i2 s Annual Report on Form 10-K for the year ended December 31, 2008).
- 10.4\* Third Amendment to Executive Retention Agreement between the Company and Michael J. Berry (filed as Exhibit 10.43 to i2 s Annual Report on Form 10-K for the year ended December 31, 2008).

**Table of Contents**

- 10.5\* Form of Amendment Agreement to the Restricted Stock Unit Issuance Agreement (filed as Exhibit 10.45 to i2's Annual Report on Form 10-K for the year ended December 31, 2008).
- 10.6\* Restricted Stock Unit Issuance Agreement dated February 17, 2009 with Jackson L. Wilson, Jr. (filed as Exhibit 10.1 to i2's Current Report on Form 8-K filed on February 20, 2009).
- 10.7\* Restricted Stock Unit Issuance Agreement dated February 17, 2009 with Michael J. Berry (filed as Exhibit 10.2 to i2's Current Report on Form 8-K filed on February 20, 2009).
- 31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Jackson L. Wilson, Jr., Chief Executive Officer of i2.
- 31.2 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Michael J. Berry, Executive Vice President and Chief Financial Officer of i2.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Jackson L. Wilson, Jr., Chief Executive Officer of i2.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Michael J. Berry, Executive Vice President and Chief Financial Officer of i2.

\* Incorporated herein by reference to the indicated filing.

**Table of Contents**

**SIGNATURES**

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

**i2 TECHNOLOGIES, INC.**

May 7, 2009

By: /s/ Michael J. Berry  
Michael J. Berry  
Executive Vice President, Finance and Accounting, and Chief  
Financial Officer  
(On behalf of the Registrant and as Principal Accounting and  
Financial Officer)

32