I2 TECHNOLOGIES INC
Form 10-Q
November 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 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)

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

(469) 357-1000

(Registrant s telephone number, including area code)

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

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	x
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 x

As of November 2, 2009, the Registrant had 22,784,906 shares of $0.00025 par value Common Stock outstanding.

i2 TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q

September 30, 2009

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(unaudited)

	September 30, 2009	December 31, 2008 (as restated, see Note 10)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 185,513	$ 238,013
Restricted cash	6,737	5,777
Accounts receivable, net	21,127	25,846
Other current assets	8,663	9,477
Total current assets	222,040	279,113
Premises and equipment, net	3,230	4,915
Goodwill	16,684	16,684
Non-current deferred tax asset	5,624	7,289
Other non-current assets	3,842	5,024
Total assets	$ 251,420	$ 313,025
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,502	$ 4,855
Accrued liabilities	13,042	15,116
Accrued compensation and related expenses	15,810	18,679
Deferred revenue	43,796	53,028
Total current liabilities	76,150	91,678
Total long-term debt, net		64,520
Taxes payable	6,419	6,948
Total liabilities	82,569	163,146
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		
Series B 2.5% convertible preferred stock, $1,000 par value, 150 shares authorized 111 issued and outstanding at September 30, 2009 and 109 issued and outstanding at December 31, 2008	108,293	106,591

Common stock, $0.00025 par value, 2,000,000 shares authorized, 22,778 and 21,895 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	6	5
Additional paid-in capital	10,492,082	10,498,453
Accumulated other comprehensive income	3,456	1,509
Accumulated deficit	(10,434,986)	(10,456,679)
Net stockholders equity	168,851	149,879
Total liabilities and stockholders equity	$ 251,420	$ 313,025

See accompanying notes to consolidated financial statements.

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i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008 (as restated, see Note 10)	2009	2008 (as restated, see Note 10)
Revenues:				
Software solutions	$ 15,217	$ 10,562	$ 40,689	$ 34,802
Services	21,006	33,316	71,357	92,666
Maintenance	18,413	20,875	56,021	64,588
Total revenues	54,636	64,753	168,067	192,056
Costs and expenses:				
Cost of revenues:				
Software solutions	2,892	2,296	7,214	7,784
Services	13,221	22,218	45,797	68,313
Maintenance	2,126	2,368	6,749	7,866
Amortization of acquired technology				4
Sales and marketing	9,064	10,518	28,020	35,540
Research and development	6,360	7,384	20,124	22,558
General and administrative	8,432	9,402	25,695	29,830
Amortization of intangibles		25	25	75
Restructuring charges and adjustments	(20)		2,975	
Costs and expenses, subtotal	42,075	54,211	136,599	171,970
Intellectual property settlement, net	370		562	(79,860)
Total costs and expenses	42,445	54,211	137,161	92,110
Operating income	12,191	10,542	30,906	99,946
Non-operating income (expense), net:				
Interest income	65	1,212	261	3,339
Interest expense		(1,872)	(899)	(5,596)
Foreign currency hedge and transaction losses, net	(97)	(639)	(928)	(1,244)
Loss on extinguishment of debt			(892)	
Other expense, net	(96)	(5,575)	(175)	(5,094)
Total non-operating expense, net	(128)	(6,874)	(2,633)	(8,595)
Income before income taxes	12,063	3,668	28,273	91,351
Income tax expense	1,219	1,508	4,180	5,349

Net income	10,844	2,160	24,093	86,002
Preferred stock dividend and accretion of discount	814	794	2,400	2,346
Net income applicable to common stockholders	$ 10,030	$ 1,366	$ 21,693	$ 83,656
Net income per common share applicable to common stockholders:				
Basic	$ 0.37	$ 0.05	$ 0.80	$ 3.20
Diluted	$ 0.36	$ 0.05	$ 0.80	$ 3.15
Weighted-average common shares outstanding:				
Basic	27,305	26,337	26,951	26,175
Diluted	28,079	26,851	27,158	26,578

See accompanying notes to consolidated financial statements.

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i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008 (as restated, see Note 10)	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008 (as restated, see Note 10)
Comprehensive income (loss):				
Net income applicable to common stockholders	$ 10,030	$ 1,366	$ 21,693	$ 83,656
Other comprehensive income:				
Foreign currency translation adjustments	1,260	(5,321)	1,947	(5,634)
Total other comprehensive income (loss)	1,260	(5,321)	1,947	(5,634)
Total comprehensive income (loss)	$ 11,290	$ (3,955)	$ 23,640	$ 78,022

See accompanying notes to consolidated financial statements.

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i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended September 30, 2009	2008 (as restated, see Note 10)
Cash flows from operating activities:		
Net income	$ 24,093	$ 86,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of debt issuance expense	84	516
Debt discount accretion	389	2,358
Loss on extinguishment of debt	892	
Depreciation and amortization	2,133	2,738
Stock based compensation	7,166	8,661
Loss on disposal of premises and equipment	230	143
Provision for bad debts charged to costs and expenses	27	173
Deferred income taxes	1,539	1,526
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	4,781	(2,097)
Other assets	2,344	(8,420)
Accounts payable	(1,509)	559
Taxes payable	8	1,931
Accrued liabilities	(2,898)	3,622
Accrued compensation and related expenses	(3,184)	294
Deferred revenue	(9,223)	929
Net cash provided by operating activities	26,872	98,935
Cash flows (used in) provided by investing activities:		
Restrictions (placed) released on cash	(960)	1,810
Purchases of premises and equipment	(716)	(848)
Proceeds from sale of premises and equipment	72	13
Net cash (used in) provided by investing activities	(1,604)	975
Cash flows (used in) provided by financing activities:		
Repurchase of debt and equity conversion feature	(84,814)	
Net proceeds from common stock issuance from options and employee stock purchase plans	6,717	450
Net cash (used in) provided by financing activities	(78,097)	450
Effect of exchange rates on cash	329	(176)
Net change in cash and cash equivalents	(52,500)	100,184
Cash and cash equivalents at beginning of period	238,013	120,978

Cash and cash equivalents at end of period	$ 185,513	$ 221,162
Supplemental cash flow information		
Interest paid	$ 1,053	$ 2,156
Income taxes paid (net of refunds received)	$ 4,404	$ 3,309
Schedule of non-cash financing activities		
Preferred stock dividend and accretion of discount	$ 2,400	$ 2,346

See accompanying notes to consolidated financial statements.

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i2 TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Table dollars in thousands, except per share data)

(Unaudited)

1. Summary of Significant Accounting Policies

Nature of Operations. We operate our business in one segment, supply chain management solutions, which are designed to help enterprises optimize business processes both internally and among trading partners. We are a provider of supply chain management solutions, consisting of various software and service offerings. Our service offerings include business optimization and technical consulting, managed services, training, solution maintenance, software upgrades and software development. 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, and improving operational visibility. Our offerings are designed to help customers better achieve the following critical business objectives:

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

Planning supply chain optimization to match supply and demand while 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 a statement regarding Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) contained in Accounting Standards Codification (ASC) 470 - *Debt*. ASC 470 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. ASC 470 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 ASC 470 was not permitted.

Our 5% Senior Convertible Notes (Notes) were within the scope of ASC 470. 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 prior 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 September 30, 2008 was $0.5 million and was zero for the three months ended September 30, 2009 due to the repurchase of the Notes. The incremental non-cash expense associated with adoption for the nine months ended September 30, 2009 and 2008 was $0.3 million, and $1.6 million, respectively, see *Note 10, Restatement of Financial Statements.*

In March 2008, FASB issued a statement regarding, Disclosures about Derivative Instruments and Hedging Activities contained in ASC 815 *Derivatives and Hedging*. ASC 815 applies to non-derivative hedging instruments and all hedged items designated and qualifying as hedges ASC 815 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The

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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.*

In January 2009, the FASB issued a Staff Position regarding Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities contained in ASC 260 *Earnings Per Share*. Under ASC 260, unvested share-based payment awards which receive non-forfeitable dividend rights, or dividend equivalents, are considered participating securities and are required to be included in computing EPS under the two-class method. The adoption of this provision in the nine months ended 2009 had no effect on the Company s financial statements.

In April 2009, the FASB issued a statement concerning, Interim Disclosures about Fair Value of Financial Instruments contained in ASC 270 *Interim Reporting*, which requires public entities to disclose in their interim financial statements the fair value of all financial instruments, as well as the method(s) and significant assumptions used to estimate the fair value of those financial instruments. The Company has adopted the provisions of ASC 270. The adoption of ASC 270 had no impact on the Company s financial position or results of operations.

In May 2009, the FASB issued a statement regarding *Subsequent Events* contained in ASC 855 *Subsequent Events*. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. ASC 855 requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. Accordingly, the Company adopted ASC 855 as of June 30, 2009 and for the period ended September 30, 2009 evaluated its financial statements for subsequent events through November 6, 2009, the filing date of our financial statements. The Company is not aware of any such events, which would require recognition in the financial statements, see *Note 11, Subsequent Events*.

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, *Measuring Liabilities at Fair Value* , to clarify how entities should estimate the fair values of liabilities contained in ASC 820, *Fair Value Measurements and Disclosures*. This update provides clarifying guidance for circumstances in which a quoted price in an active market is not available, the effect of the existence of liability transfer restrictions and the effect of quoted prices for the identical liability, including when the identical liability is traded as an asset. The amended guidance in ASC 820 on measuring liabilities at fair value is effective for the first interim or annual reporting period beginning after August 28, 2009, with earlier application permitted. The Company is in the process of evaluating the impact ASU 2009-05 will have on its financial statements and does not believe the amended guidance will have a significant effect on its financial statements.

In October 2009, the FASB issued ASU 2009-13, *Revenue Recognition Multiple Deliverable Revenue Arrangements* contained in ASC 605 *Revenue Recognition.* This update removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether certain arrangements involving multiple deliverables contains more than one unit of accounting and replaces references to fair value with selling price to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance. The update also provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements for certain arrangements. This update is effective for the company beginning January 1, 2011 and can be applied prospectively or retrospectively. Management is currently evaluating the effect that adoption of ASU 2009-13 will have on the Company.

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 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.

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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 government 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 US Treasury and US government agency money market mutual funds (MMMF). These MMMF have the stated goal of maintaining a net asset value of $1 per share and their interest rate resets daily to achieve this goal. These MMMF are considered Level 1 securities because they are actively traded and they are valued on our condensed consolidated balance sheets at quoted market prices. The balances held as MMMF reported as cash and cash equivalents were $174.3 million and $230.0 million as of September 30, 2009 and December 31, 2008, respectively. The balances held as time deposits reported as cash and cash equivalents were $1.3 million and $1.8 million as of September 30, 2009 and December 31, 2008, respectively. The remaining balances in cash and cash equivalents were held in operating cash accounts.

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 September 30, 2009 and December 31, 2008.

	September 30, 2009	December 31, 2008 (as restated, see Note 10)
Senior convertible notes, 5% annual rate payable semi-annually, due November 15, 2015		86,250
Unamortized discount on 5% notes		(21,730)
Total debt	$	$ 64,520
Capitalized debt issuance costs, net	$	$ 1,322

We recorded capitalized debt issuance costs, net of accumulated amortization, in other non-current assets and were amortizing these costs over a five-year period, beginning in November 2005.

We were required to adopt a FASB staff position contained in ASC 470 *Debt* regarding the method to account for convertible debt instruments that may be settled in cash upon conversion including partial cash settlement on January 1, 2009. ASC 470 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.

Upon adoption, we allocated the original debt proceeds between debt and the debt s conversion feature based on the fair value of the liability component 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, which is the estimated life of a similar debt instrument without a related equity conversion feature. We determined that absent the equity component, there were no other terms of the debt at the time of its issuance that would have caused us to consider the life of the debt to be shorter than the stated maturity 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

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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 ASC 470 on the historical financial statements included herein.

As of September 30, 2009, all Notes have been repurchased, the majority of which occurred in the first quarter of 2009. The total cash paid for the debt repurchase of $84.8 million was allocated, based on the fair values of the liability component as required by ASC 470, $64.5 million to the repurchased debt and $20.3 million to the conversion feature included in equity.

In connection with the issuance of our 5% senior convertible notes, we issued 484,449 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 was 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. All of the warrants remain outstanding as of September 30, 2009.

4. Restructuring Charges and Adjustments

Restructuring Plans. In prior periods, we implemented restructuring plans, which included the elimination of personnel as well as other targeted cost reductions. See *Note 11, Restructuring Charges and Adjustments*, in our Notes to Consolidated Financial Statements in our 2008 Annual Report on Form 10-K for a description of our previous restructuring plans. In the first quarter of 2009, we eliminated approximately 80 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 September 30, 2009 and September 30, 2008.

	Employee Severance and Termination	
	2009	**2008**
January 1	$ 6	$ 283
Restructuring charges	3,006	
Cash payments	(1,776)	(108)
Remaining accrual balance at March 31	$ 1,236	$ 175
Adjustments to restructuring plans	(11)	
Cash payments	(1,101)	(46)
Remaining accrual balance at June 30	$ 124	$ 129
Adjustments to restructuring plans	(20)	
Cash payments	(47)	(18)
Remaining accrual balance at September 30	$ 57	$ 111

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. Our Series B Convertible Preferred Stock is a participating security because in

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the event dividends are declared on our common stock it participates in those dividends on a 1:1 ratio on an as-converted basis. 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. We present our Earnings Per Share (EPS) calculation combined for common and preferred stock under the two-class method due to the fact the calculation yields the same result as if presented separately.

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 preferred stock using the two-class 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. ASC 260 *Earnings Per Share* 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 preferred stock is included in basic earnings per share under the two-class method per ASC 260; 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 and nine months ended September 30, 2009 and September 30, 2008.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Common and common equivalent shares outstanding using two-class method - basic:				
Weighted average common shares outstanding	22,525	21,674	22,156	21,541
Unissued vested RSUs to be included in basic			54	
Participating convertible preferred stock	4,780	4,663	4,741	4,634
Total common and common equivalent shares outstanding using two-class method - basic	27,305	26,337	26,951	26,175
Effect of dilutive securities:				
Outstanding stock option and share right awards	774	514	207	403
Weighted average common and common equivalent shares outstanding - diluted	28,079	26,851	27,158	26,578
Anti-dilutive shares excluded from calculation:				
Outstanding stock option and share right awards	1,257	3,293	2,793	3,451
Total anti-dilutive shares excluded from calculation	1,257	3,293	2,793	3,451

6. Segment Information, International Operations and Customer Concentrations

We operate our business in one segment, supply chain management solutions, which are designed to help enterprises optimize business processes both internally and among trading partners. ASC 280 *Segment Reporting*, 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.

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We market our software and services primarily through our worldwide sales organization augmented by other service providers, including both domestic and international systems consulting and integration firms and other industry-related partners. Our 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.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
United States	$ 30,114	$ 38,351	$ 88,294	$ 112,775
International revenue:				
Non-US Americas	1,702	1,454	5,107	3,731
Europe, Middle East and Africa	9,470	14,026	31,809	41,894
Greater Asia Pacific	13,350	10,922	42,857	33,656
Total international revenue	24,522	26,402	79,773	79,281
Total Revenue	$ 54,636	$ 64,753	$ 168,067	$ 192,056
International revenue as a percent of total revenue	45%	41%	47%	41%

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:

	September 30, 2009	December 31, 2008 (as restated, see Note 10)
United States	$ 18,851	$ 21,344
Europe, Middle East and Africa	120	137
Greater Asia Pacific	4,786	5,140
Total Long-lived Assets	$ 23,757	$ 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, originally *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. Since the filing of the complaint, Eugene Singer has been substituted for John McPadden as plaintiff. 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 complaint, derivative in nature, does not seek relief from the Company, but does seek damages and other relief from the sole remaining defendant, Mr. Dubreville. On June 23, 2009, a related derivative action was filed in the Superior Court for the State of California, County of San Diego, styled *Eugene Singer v. Sunrise Ventures, LLC; James A. Simpson; Trade Service Holdings LLC; Trade Service Holdings, Inc.; Steven Borgardt; and Does 1-50*; *and i2 Technologies, Inc* as a nominal defendant. This action purports to arise out of the same set of facts as the aforementioned *Singer v. Dubreville* action pending in Delaware, and asserts a claim for

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aiding and abetting breach of fiduciary duty. The complaint, derivative in nature, does not seek relief from the Company, but does seek damages and other relief from the named defendants.

Proprietary Rights and Licenses SAP

On June 23, 2008, we entered into a settlement agreement to settle existing patent litigation with the SAP companies. Under the terms of the settlement agreement, each party licensed to the other party certain patents in exchange for a one-time cash payment to i2 of $83.3 million, which was received in the third quarter of 2008. In addition, each party agreed not to pursue legal action against the other party for its actions taken to enforce any of the licensed patents prior to the effective date of the agreement. As part of the settlement agreement, SAP received rights to all of the Company s patents issued and patent applications filed as of the effective date of the settlement. The agreement also provides for general releases, indemnification for its violation, and dismisses the existing litigations between the parties with prejudice. The agreement also contains certain limitations on the patent licenses in the event of a change in control. We have satisfied all our obligations under the agreement and no additional contingencies exist. Consideration was made in regards to the bifurcation of the proceeds among the various elements of the settlement agreement by reviewing the nature of both the patent rights received as well as the covenant not to sue. We determined that the patent licenses we received in the settlement have no significant value. Due to the fact all obligations of the agreement were met as of the agreement date, allocation of value among deliverables was not necessary.

During the twelve months ended December 31, 2008, we recorded $79.9 million as Intellectual property settlement, net; representing the cash payment received by us of $83.3 million net of directly related external litigation expenses of $3.5 million.

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.*, remained 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. On May 29, 2009, Mr. Norsworthy non-suited this action as to all defendants.

Oracle Litigation

On April 29, 2009, the Company filed a lawsuit for patent infringement against Oracle Corporation (NASDAQ: ORCL). The lawsuit, filed in the United States District Court for the Eastern District of Texas, alleges infringement of 11 patents related to supply chain management, available to promise software and other enterprise software applications. We incurred expenses related to this matter of $0.4 million and $0.6 million for the three and nine months ended September 30, 2009, respectively.

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.

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. We incurred $0.2 million of expenses during the nine months ended September 30, 2009.

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 $8.1 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 $3.0 million of the assessed amount and have arranged for $4.2 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.

Derivative Financial Instruments

On January 1, 2009, we adopted a FASB statement related to *Disclosures about Derivative Instruments and Hedging Activities,* contained in ASC 815 *Derivatives and Hedging*. The adoption of the statement had no financial impact on our consolidated financial statements and only required additional financial statement disclosures. We have applied the requirements of ASC 815 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, maturing at month end. We do not use these forward contracts for trading purposes. We do not designate these forward contracts as hedging instruments pursuant to ASC 815. 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

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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 tables below summarize the Company s outstanding forward contracts held in USD functional currency.

	September 30, 2009		December 31, 2008	
	Notional	Estimated Fair Value*	Notional	Estimated Fair Value*
Commitments to purchase foreign currency	$ 34,796	$	$ 41,399	$
Commitments to sell foreign currency	1,639		1,133	
Total	$ 36,435	$	$ 42,532	$

		Amount of Gain (Loss) Recognized in Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives Not Designated as Hedging Instruments	Classification	2009	2008	2009	2008
Foreign Currency Forward Contracts	Other Income(Expense)	$ 29	$ (3,269)	$ 496	$ (4,926)

* *Estimated fair value is zero due to contracts maturing at end of reporting period.*

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.

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Stock-based compensation expense for the three and nine months ended September 30, 2009 and September 30, 2008 is as follows:

	Three Months Ended Sept 30, 2009	Three Months Ended Sept 30, 2008	Nine Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2008
Services	$ 162	$ 266	$ 543	$ 1,309
Maintenance	40	50	136	181
Sales and marketing	496	779	1,843	2,165
Research and development	399	556	1,334	1,938
General and administrative	1,024	1,137	3,310	3,068
Total	$ 2,121	$ 2,788	$ 7,166	$ 8,661

Included in stock-based compensation expense was restricted stock expense of $1.1 million for the three-month periods ended September 30, 2009 and September 30, 2008 and $3.3 million and $3.0 million for the nine-month periods ended September 30, 2009 and September 30, 2008, respectively.

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 GAAP 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 $1.20 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 the remaining unvested portion of this award in its 2008 or 2009 annual financial statements.

In February 2009, we granted RSUs to two key executives 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. In April 2009, we granted RSUs to additional key employees that contain vesting provisions based on achieving specified performance criteria. The RSUs vest upon completion of the defined objectives for each year as determined by the Board s Compensation Committee in its sole discretion as to one-third of the shares per year on or before December 31, 2009, 2010 and 2011. Based on our assessment that vesting of the awards is probable as of September 30, 2009, we recognized compensation expense in the nine-month period ended September 30, 2009 for the performance-based 2009 RSUs based on the period such awards were outstanding.

Fair values of stock options are estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended September 30, 2009*	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009*	Nine Months Ended September 30, 2008
Expected term (years)		4	4	4
Volatility factor	0%	66%	65%	67%
Risk-free interest rate	0.00%	2.85%	1.97%	2.74%
Dividend yield	0%	0%	0%	0%

* *No grants were issued during the three months ended September 30, 2009.*

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9. Income Taxes

Income taxes are provided using the liability method in accordance with ASC 740 *Income Taxes*. 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 $1.2 million and $1.5 million for the three months ended September 30, 2009 and 2008, respectively, representing effective income tax rates of 10.1% and 41.1%, for the corresponding periods. We recognized income tax expense of approximately $4.2 million and $5.3 million for the nine months ended September 30, 2009 and 2008, respectively, representing effective income tax rates of 14.8% and 5.9% for the corresponding periods. Various factors affect our effective income tax rate including, 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 expenses, research and development tax credits, and the effect of foreign withholding taxes. Our effective income tax rates during the three months and nine months ended September 30, 2009 and September 30, 2008 differ from the U.S. statutory rate primarily due to the effect these items have on our valuation allowance.

Income tax expense included the effect of foreign withholding taxes of $0.4 million for the three months ended September 30, 2009 and $0.6 million for the three months ended September 30, 2008 and $0.9 million for the nine months ended September 30, 2009 and $1.7 million for the nine months ended September 30, 2008. Foreign withholding taxes are incurred on certain payments from international customers and are recorded upon receipt of such payments that are received net of the withheld taxes. Foreign withholding taxes generally are available to reduce domestic income tax. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these withholding taxes increase our income tax expense.

During the nine months ended September 30, 2008, we recorded a benefit to operating expense of approximately $83.3 million related to the settlement of the SAP patent litigation. We utilized net operating loss carryforwards and other tax attributes to reduce taxes on the settlement. We recorded federal and state alternative minimum tax (AMT) of approximately $1.1 million and $0.1 million, respectively, and other state income taxes of approximately $0.2 million in income tax expense during the three months and nine months ended September 30, 2008 related to the settlement. Alternative minimum tax generally is available to reduce regular income tax in the future. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these AMT amounts increase our income tax expense.

Estimated potential interest and penalties related to our unrecognized tax benefits within our global organization are recorded in income tax expense and totaled approximately $0.1 million for the three months ended September 30, 2009 and resulted in a benefit of approximately $0.2 million for the nine months ended September 30, 2009. Accrued interest and penalties were approximately $2.2 million at September 30, 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 affect 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

The accompanying condensed consolidated financial statements have been restated to reflect the resulting increase to non-cash expense and balance sheet reclassifications as discussed in *Note 3, Borrowings and Debt Issuance Costs.*

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

Condensed Consolidated Balance Sheet

	As of December 31, 2008		
	As Previously Reported	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 (Loss) Income

	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
Non-operating income (expense), net:						
Interest expense	(1,237)	(635)	(1,872)	(3,711)	(1,885)	(5,596)
Other (expense) income, net	(5,674)	99	(5,575)	(5,391)	297	(5,094)
Total non-operating income (expense), net	(6,338)	(536)	(6,874)	(7,007)	(1,588)	(8,595)
Income before income taxes	4,204	(536)	3,668	92,939	(1,588)	91,351
Net income	2,696	(536)	2,160	87,590	(1,588)	86,002
Net income applicable to common stockholders	1,902	(536)	1,366	85,244	(1,588)	83,656
Net income per common share applicable to common stockholders:						
Basic	$ 0.07	$ (0.02)	$ 0.05	$ 3.26	$ (0.06)	$ 3.20
Diluted	$ 0.07	$ (0.02)	$ 0.05	$ 3.21	$ (0.06)	$ 3.15
Total comprehensive (loss) income	(3,419)	(536)	(3,955)	79,610	(1,588)	78,022

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Condensed Consolidated Statement of Cash Flows

	Nine Months Ended September 30, 2008		
	As Previously Reported	Adjustment	As Restated
Net income	87,590	(1,588)	86,002
Amortization of debt issuance expense	813	(297)	516
Debt discount accretion	473	1,885	2,358
Net cash provided by operating activities	98,935		98,935

11. Subsequent Events

On November 5, 2009, we announced that we entered into an Agreement and Plan of Merger relating to the acquisition of i2 by JDA. The Board of Directors of each company has approved the transaction. Consummation of the transaction, which is expected to close in first quarter 2010, is subject to several closing conditions, including the approval and adoption of the merger agreement by i2 s stockholders, expiration or termination of the applicable Hart-Scott-Rodino waiting periods and regulatory and other customary conditions.

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:

On November 4, 2009, i2 entered into an Agreement and Plan of Merger (the Merger Agreement) with JDA Software Group, Inc., a Delaware corporation (JDA), and Alpha Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of JDA (Merger Sub), under which Merger Sub will be merged with and into i2 (the Merger), with i2 continuing after the Merger as the surviving corporation and a wholly-owned subsidiary of JDA. The Merger Agreement has been approved by the Boards of Directors of both JDA and i2. Consummation of the transaction, which is expected to close in first quarter 2010, is subject to several closing conditions, including the approval and adoption of the merger agreement by i2 s stockholders, expiration or termination of the applicable Hart-Scott-Rodino waiting periods and regulatory and other customary conditions. In certain circumstances, the approval by JDA stockholders will also be required. On November 5, 2009, we filed a Current Report on Form 8-K with the SEC containing additional information regarding the Merger Agreement and the proposed Merger. There can be no assurance that the parties will be able to close the Merger as contemplated by the Merger Agreement. In the event that the Merger is not completed or is delayed, we may experience, among other things, downward pressure on our stock; lawsuits; uncertainty for our management, sales staff, and other employees; and uncertainty for existing and potential customers regarding our ability to meet our contractual obligations. Such distractions could harm our business, the results of operations, cash flow, and our overall financial condition.

Beginning in the third quarter of 2008 and continuing through and beyond our third 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, and continued speculation about our future strategic direction. The current

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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 historical volatility in our quarterly cash flows. 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 or develop new 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.

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

References in this report to the terms optimal and optimization and words to that effect are not 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 operate our business in one segment, supply chain management solutions, that are designed to help enterprises optimize business processes both internally and among trading partners. We are a provider of supply chain management solutions, consisting of various software and service offerings. Our service offerings include business optimization and technical consulting, managed services, training, solution maintenance, software upgrades and software development. 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, and improving operational visibility. Our offerings are designed to help customers better achieve the following critical business objectives:

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

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Planning supply chain optimization to match supply and demand while 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 ASC 605 *Revenue Recognition* and ASC 985 - *Software.*

Software Solutions. Software solutions revenue includes core and recurring license revenue, and revenue to develop the licensed functionality. We recognize these revenues under ASC 605 or ASC 985 based on our evaluation of whether the associated services are essential to the licensed software as described within ASC 985. If the services are considered essential, revenue is generally recognized on a percentage of completion basis under ASC 605. Services are considered essential to the software when they involve significant modifications or additions to the software features and functionality. 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, consulting, hosting, and managed services, 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.

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.

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 products where services are more critical increase 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 revenue 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.

In 2009, in connection with a management change and reorganization, we returned to a traditional sales approach focused on selling our licensed software, with add-on services as needed. Under our previous management, we had focused more heavily on selling our services as a means to generate demand for our licensed software. The reorganization was focused on our sales approach and effectiveness, and places a stronger emphasis on software and delivery excellence so that our customers see a strong return on their investment. Our software sales force has been reoriented to be more flexible and focused on the development of new accounts while teaming with our delivery organization to capitalize on opportunities in existing accounts. We expect the restructuring and reorganization will set the stage for our future growth as a software company. This change has caused a shift in the mix of our bookings and revenue in 2009 as compared to our prior period results.

Total bookings for the three months ended September 30, 2009 and September 30, 2008 were $53.8 million and $46.5 million, respectively, an increase of 16% or $7.3 million. Included in total bookings are $7.5 million and $4.2 million of multi-year contracts, respectively. Total bookings for the nine months ended September 30, 2009 and September 30, 2008 were $181.9 million and $177.0 million, respectively, an increase of approximately 3% or $4.9 million. This includes $39.7 million and $12.1 million of multi-year contracts, respectively. The multi-year contracts in the three months ended September 30, 2009 include approximately $5.5 million in maintenance agreements and $2.0 million in software solutions. The average term of these multi-year agreements is approximately 2.5 years.

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	
	September 30, 2009	**June 30, 2009**	**March 31, 2009**	**December 31, 2008**	**December 31, 2007**
Additions to Backlog:					
Software Solutions Bookings	$ 8,161	$ 14,363	$ 24,062	$ 29,812	$ 54,556
Platform Technology/Source Code Bookings					500
Net Additions to Backlog	8,161	14,363	24,062	29,812	55,056
Less: Software Solutions Revenue Recognized	15,217	15,269	10,203	46,852	47,721
Increase/(Decrease) in Backlog	$ (7,056)	$ (906)	$ 13,859	$ (17,040)	$ 7,335

Revenue. For the three months ended September 30, 2009, total revenue decreased by 16% or $10.1 million compared to the same period in 2008 and decreased by 12% or $24.0 million for the nine months ended September 30, 2009 compared to the same period in 2008. The changes in each category of our revenue are described below.

Software solutions revenue increased 44% or $4.7 million for the three months ended September 30, 2009 compared to the same period in 2008, and increased 17% or $5.9 million for the nine months ended September 30, 2009 compared to the same period in 2008 due to revenue recognized from our transactions where the contract accounting provisions of ASC 605 are applied. The increase primarily resulted from the significant software solutions bookings in the first quarter of 2009.

Services revenue decreased 37% or $12.3 million for the three months ended September 30, 2009 when compared to the same period in 2008 and decreased 23% or $21.3 million for the nine months ended September 30, 2009 when compared to the same period in 2008. The decrease was driven by a decline in demand for our services due to our customers economic constraints, resulting in a reduction in total billable hours of 26% for the three months ended September 30, 2009 and a 17% reduction for the nine months ended September 30, 2009 with the rate per hour essentially flat. We adjusted our services capacity accordingly through cost reductions including decreasing our average services personnel headcount inclusive of contractors by 20% for the three months ended September 30, 2009 and 15% for the nine months ended September 30, 2009 compared to the same periods in 2008. The remaining decrease in services revenue was due to a reduction in reimbursable travel and entertainment expense.

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Maintenance revenue decreased 12% or $2.5 million for the three months ended September 30, 2009 when compared to the same period in 2008 and decreased 13% or $8.6 million for the nine months ended September 30, 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. In addition, a significant maintenance-paying customer decided not to renew maintenance in the second quarter of 2009, which resulted in a $1.0 million and $2.0 million, respectively, reduction in maintenance revenue for the three and nine months ended September 30, 2009 when compared to the same periods in 2008. This trend of lower renewal rates and customer losses 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 by foreign subsidiaries.

Our operating cash flow for the nine months ended September 30, 2009 was $26.9 million compared to operating cash flow of $98.9 million in the nine months ended September 30, 2008. Included in operating cash flow for the nine months ended September 30, 2008, is $83.3 million related to the SAP litigation settlement we received in July 2008.

Our working capital was $145.9 million at September 30, 2009, compared to the $124.9 million balance at June 30, 2009, $106.5 million balance at March 31, 2009 and the $187.4 million at 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 quarterly working capital and the face value of our long-term debt from December 31, 2008 through the third quarter of 2009.

	Working Capital September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Total cash	$ 192,250	$ 181,532	$ 166,580	$ 243,790
Accounts receivable	21,127	20,989	22,980	25,846
Other current assets, net	8,663	7,203	7,418	9,477
Total current assets	222,040	209,724	196,978	279,113
Current liabilities	32,354	32,594	31,865	38,650
Deferred revenue	43,796	52,202	58,597	53,028
Total current liabilities	76,150	84,796	90,462	91,678
Working capital	$ 145,890	$ 124,928	$ 106,516	$ 187,435
Long-term Debt (Face value)				86,250

Application of Critical Accounting Policies and Accounting Estimates

There have been no changes during the third 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.

Analysis of Financial Results Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008.

Summary of Third Quarter 2009 Results

Total revenue decreased $10.1 million from the same period in 2008

Total costs and expenses decreased $11.8 million from the same period in 2008.

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Net income applicable to common stockholders was $10.0 million compared to $1.4 million in the same period in 2008.

Diluted earnings per share were $0.36 for the third quarter of 2009 and $0.05 for the third quarter of 2008

Cash flow from operations was $4.5 million versus cash flow from operations of $78.5 million in the 2008 period reflecting the receipt of $83.3 million from the SAP litigation settlement.

Total bookings were $53.8 million versus $46.5 million in the same period in 2008. Total bookings include $7.5 million and $4.2 million of multi-year contracts, respectively.

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 September 30, 2009 and September 30, 2008. The period-to-period comparisons of financial results are not necessarily indicative of future results.

	Three Months Ended September 30, 2009	Percent of Revenue	Three Months Ended September 30, 2008	Percent of Revenue	Change 2009 versus 2008 Three months ended September 30	
					$ Change	% Change
ASC 985 recognition	$ 436	1%	$ 907	1%	$ (471)	-52%
ASC 605 recognition	10,324	19%	3,694	6%	6,630	179%
Recurring items	4,457	8%	5,961	9%	(1,504)	-25%
Total Software solutions	15,217	28%	10,562	16%	4,655	44%
Services	21,006	38%	33,316	52%	(12,310)	-37%
Maintenance	18,413	34%	20,875	32%	(2,462)	-12%
Total revenues	$ 54,636	100%	$ 64,753	100%	$ (10,117)	-16%

Software Solutions Revenue. Total software solutions revenue increased 44% or $4.7 million for the three months ended September 30, 2009 compared to the same period in 2008. The components of the changes in software solutions revenue are explained below.

Revenue recognized under the software revenue recognition provisions of ASC 985 for the three months ended September 30, 2009 decreased 52% or $0.5 million compared to the same period in 2008.

Revenue recognized under the contract accounting provisions of ASC 605 increased 179% or $6.6 million for the three months ended September 30, 2009 when compared to the same period in 2008, primarily due to a significant increase in ASC 605 bookings in the first quarter of 2009. During the three months ended September 30, 2009, we recognized revenue related to 17 projects at an average of $0.6 million per project compared to 18 projects at an average of $0.2 million in the same period of 2008. This amount was impacted by the significant software solutions bookings recorded in the first quarter of 2009.

Revenue from recurring items decreased by 25% or $1.5 million for the three months ended September 30, 2009 when compared to the same period in 2008. This decrease resulted primarily from a license arrangement that was required to be recognized ratably over the 12-month term in 2008, which is subject to a maintenance agreement in 2009 as well as a lower amount of recurring revenue from one of our Supply Chain Leader deals that was renewed at a lower rate.

Services Revenue. Services revenue decreased 37% or $12.3 million for the three months ended September 30, 2009 compared to the same period in 2008. The decrease was driven by a decline in demand for our services due to our customers economic constraints, resulting in a reduction in total billable hours of 26% with the rate per hour essentially flat. We adjusted our services capacity accordingly through cost reductions including decreasing our average services personnel headcount inclusive of contractors by 20%. The remaining decrease in services revenue was due to a reduction in reimbursable travel and entertainment expense.

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 services 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 by 12% or $2.5 million for the three months ended September 30, 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 and customer losses may continue if our customers reduce their expenditures during the current economic downturn. In addition, a significant maintenance-paying customer decided not to renew maintenance in the second quarter of 2009, which resulted in a $1.0 million reduction in maintenance revenue for the three months ended September 30, 2009 when compared to the same period in 2008.

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 of 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 $24.5 million, or 45% of total revenue, in the three months ended September 30, 2009 compared to $26.4 million, or 41% of total revenue, in the same period in 2008.

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

Impact of Indian Rupee on Expenses

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. The impact of the depreciation in the value of the rupee was approximately $0.5 million less expense for the three months ended September 30, 2009, when compared to current period rupee expenditures at the prior year foreign exchange rates.

Cost of Revenues

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 September 30, 2009 and September 30, 2008. The period-to period comparisons of financial results are not necessarily indicative of future results.

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	Three Months Ended September 30, 2009	Margin	Three Months Ended September 30, 2008	Margin	Change 2009 versus 2008 Three months ended September 30 $ Change	% Change
Software solutions	$ 2,892	81%	$ 2,296	78%	$ 596	26%
Services	13,221	37%	22,218	33%	(8,997)	-40%
Maintenance	2,126	88%	2,368	89%	(242)	-10%
Total cost of revenues	$ 18,239	67%	$ 26,882	58%	$ (8,643)	-32%

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 increased by 26% or $0.6 million for the three months ended September 30, 2009 compared to the same period in 2008. The increase was primarily caused by an increase in costs associated with hours worked on projects requiring essential services of $0.8 million partially offset by a reduction of $0.2 million in third-party commission and royalty expense.

During the three months ended September 30, 2009 and September 30, 2008, the costs attributable to the performance of essential services related to ASC 605 were $2.4 million and $1.6 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 40% or $9.0 million for the three months ended September 30, 2009 compared to the same period in 2008. This decrease was related primarily to a decrease in employee-related costs of $3.0 million attributable to a 12% decrease in average headcount, a decrease in usage of shared resources of $1.6 million primarily from our research and development group, a decrease in contractor related costs of $1.6 million and by a decrease in travel and entertainment expense of $1.6 million.

Cost of Maintenance. These costs consist of expenses for support services such as telephone support and unspecified upgrades/enhancements provided on a when-and-if-available basis. Cost of maintenance decreased 10% or $0.2 million for the three months ended September 30, 2009 compared to the same period in 2008. This decrease was primarily related to a decrease in employee-related costs attributable to a decrease in average headcount of 9%.

Total gross margin in the third quarter of 2009 was 67%, up 9 percentage points from the third quarter of 2008. This margin improvement was a result of significant focus on cost reductions in 2009. The year over year decline in total cost of revenues was primarily due to the decrease in cost of services as explained above. Unless we are able to grow our revenues, our current gross margin level is not sustainable. Due to variations from period to period depending on the mix of revenues, the Company will continue to focus on our consolidated gross margin when evaluating efficiency metrics.

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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 September 30, 2009	Percent of Revenue	Three Months Ended September 30, 2008	Percent of Revenue	Change 2009 versus 2008 Three months ended September 30 $ Change	% Change
Sales and marketing	$ 9,064	17%	$ 10,518	16%	$ (1,454)	-14%
Research and development	6,360	12%	7,384	11%	(1,024)	-14%
General and administrative	8,432	15%	9,402	15%	(970)	-10%
Amortization of intangibles		0%	25	0%	(25)	-100%
Restructuring charges and adjustments	(20)	0%		0%	(20)	-100%
Costs and expenses, subtotal	23,836		27,329		(3,493)	-13%
Intellectual property settlement, net	370				370	100%
Total operating expense	$ 24,206		$ 27,329		$ (3,123)	-11%

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 September 30, 2009, sales and marketing expense decreased 14% or $1.5 million when compared to the same period in 2008. The decrease was primarily related to a decrease in employee-related costs of $1.2 million resulting from our restructuring and reorganization efforts, which occurred in the first quarter of 2009.

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 cost.

Research and development expense for the three months ended September 2009 decreased 14% or $1.0 million compared to the same period in 2008. The decrease in research and development expense included a $1.1 million decrease in employee-related costs and a $0.5 million decrease in facilities costs partially offset by a decrease in shared resources loaned to Services for Services projects of $0.7 million. The decrease in employee-related expenses is due to a 10% decrease in average headcount when compared to the same period in 2008.

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 September 30, 2009 decreased 10% or $1.0 million compared to the same period in 2008 primarily due to a reduction in employee related costs of $0.8 million attributable to a 10% reduction in average headcount.

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 and when it is deemed to be impaired.

Intellectual Property Settlement, Net. For the three months ended September 30, 2009, we incurred $0.4 million of costs related the Oracle patent suit.

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Non-Operating (Expense), Net

For the three months ended September 30, 2009 and September 30, 2008, non-operating (expense), net, was as follows:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008 (as restated, see Note 10)	Change 2009 versus 2008 Three months ended September 30 $ Change	% Change
Interest income	$ 65	$ 1,212	$ (1,147)	-95%
Interest expense		(1,872)	(1,872)	-100%
Foreign currency hedge and transaction losses, net	(97)	(639)	(542)	-85%
Other expense , net	(96)	(5,575)	(5,479)	-98%
Total non-operating expense, net	$ (128)	$ (6,874)	$ (6,746)	-98%

Total non-operating expense decreased $6.7 million for the three months ended September 30, 2009 as compared to the same period in 2008.

Interest income decreased in the three-month period ended September 30, 2009, compared to the same period in 2008 due to lower yields on average cash balances and lower average cash balances. For the three months, ended September 30, 2009, average cash balances decreased 11%. The average rate earned for the three months ended September 30, 2009, was 0.13%, and for September 30, 2008, was 2.50%. The lower interest rates are due to changes in the 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 2.00% at September 30, 2008, to between 0.00% and 0.25% at September 30, 2009. Substantially all of our cash was held in US Treasury and US government agency MMMF.

Interest expense decreased $1.9 million in the period ended September 30, 2009 as compared to the same period in 2008. The decline is due to our Convertible Notes repurchases; see *Note 3, Borrowings and Debt Issuance Cost.* The incremental non-cash interest expense associated with ASC 470 for the three months ended September 30, 2008 was $0.6 million.

The decrease in other expense is primarily due to external expenses of $5.3 million in the three months ended September 30, 2008, related to the terminated merger with JDA. These merger expenses included investment banker fees, convertible debt consent fees, cost sharing fees and transaction related legal expenses. The incremental non-cash other income associated with the ASC 470 for the three months ended September 30, 2008 was $0.1 million.

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 $1.2 and $1.5 million for the three months ended September 30, 2009 and 2008, respectively, representing effective income tax rates of 10.1% and 41.1% for the corresponding periods. Various factors affect our effective income tax rate including, among others, changes in our valuation

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allowance, the effect of foreign operations, state income taxes (net of federal income tax benefits), certain non-deductible meals and entertainment expenses, research and development tax credits, and the effect of foreign withholding taxes. Our effective income tax rates during the three months ended September 30, 2009 and 2008 differ from the U.S. statutory rate primarily due to the effect these items have on our valuation allowance.

Income tax expense included the effect of foreign withholding taxes of $0.4 million for the three months ended September 30, 2009 and $0.6 million for the three months ended September 30, 2008. Foreign withholding taxes are incurred on certain payments from international customers and are recorded upon receipt of such payments that are received net of the withheld taxes. Foreign withholding taxes generally are available to reduce domestic income tax. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these withholding taxes increase our income tax expense.

During the three months ended September 30, 2008, we recorded a benefit to operating expense of approximately $83.3 million related to the settlement of the SAP patent litigation. We utilized net operating loss carryforwards and other tax attributes to reduce taxes on the settlement. Accordingly, we recorded federal and state alternative minimum tax (AMT) of approximately $1.1 million and $0.1 million, respectively, and other state income taxes of approximately $0.2 million in income tax expense during the three months ended September 30, 2008 related to the settlement. Alternative minimum tax generally is available to reduce regular income tax in the future. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these amounts increase our income tax expense.

Estimated potential interest and penalties related to our unrecognized tax benefits within our global organization are recorded in income tax expense and totaled approximately $0.1 million for the three months ended September 30, 2009. Accrued interest and penalties were approximately $2.2 million at September 30, 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.

Analysis of Financial Results - Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

Summary of Year-to-Date September 30, 2009 Results

- Total revenue decreased $24.0 million from the same period in 2008
- Total costs and expenses increased $45.1 million. The nine months ended September 30, 2008 amount reflects a benefit of $79.9 million related to the company s intellectual property settlement.
- Net income applicable to common stockholders was $21.7 million compared to $83.7 from the same period in 2008. The 2008 year-to-date amount includes the SAP litigation settlement of $78.4 million, net of external litigation expense and taxes.
- Diluted earnings per share were $0.80 for the nine months ended September 30, 2009 and $3.15 for the same period in 2008
- Cash flow from operations was $26.9 million versus cash flow from operations of $98.9 million in the 2008 period reflecting the receipt of $83.3 million from the SAP litigation settlement.
- Total bookings were $181.9 million versus $177.0 million in the same period in 2008. Total bookings include $39.7 million and $12.1 million of multi-year contracts, respectively.

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 nine months ended September 30, 2009 and September 30, 2008. The period-to-period comparisons of financial results are not necessarily indicative of future results.

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	Nine Months Ended September 30, 2009	Percent of Revenue	Nine Months Ended September 30, 2008	Percent of Revenue	Change 2009 versus 2008 Nine months ended September 30	
					$ Change	% Change
ASC 985 recognition	$ 1,990	1%	$ 2,710	1%	$ (720)	-27%
ASC 605 recognition	24,330	14%	14,154	7%	10,176	72%
Recurring items	14,369	9%	17,938	9%	(3,569)	-20%
Total Software solutions	40,689	24%	34,802	18%	5,887	17%
Services	71,357	43%	92,666	48%	(21,309)	-23%
Maintenance	56,021	33%	64,588	34%	(8,567)	-13%
Total revenues	$ 168,067	100%	$ 192,056	100%	$ (23,989)	-12%

Software Solutions Revenue. Total software solutions revenue increased 17% or $5.9 million for the nine months ended September 30, 2009 compared to the same period in 2008. The components of the changes in software solutions revenue are explained below.

Revenue recognized under the software revenue recognition provisions of ASC 985 decreased 27% or $0.7 million for the nine months ended September 30, 2009 compared to the same period of 2008. During the nine months ended September 30, 2009 we recognized revenue related to 16 contracts at an average of $0.1 million per contract compared to 26 contracts at an average of $0.1 million in the same period of 2008.

Revenue recognized under the contract accounting provisions of ASC 605 is dependent upon the amount of work performed on software solutions projects and milestones met during the applicable period on projects booked in prior periods. Revenue recognized under ASC 605 increased 72% or $10.2 million for the nine months ended September 30, 2009 when compared to the same period in 2008. During the nine months ended September 30, 2009, we recognized revenue related to 25 projects at an average of $1.0 million per project compared to 28 projects at an average of $0.5 million per project in the same period of 2008. The increase primarily resulted from the significant software solutions bookings in the first quarter of 2009.

Revenue from recurring items decreased by 20% or $3.6 million for the nine months ended September 30, 2009 when compared to the same period in 2008. This decrease resulted primarily from a license arrangement that was required to be recognized ratably over the 12-month term in 2008, which is subject to a maintenance agreement in 2009 as well as a lower amount of recurring revenue from one of our Supply Chain Leader deals that was renewed at a lower rate.

Services Revenue. Services revenue decreased 23% or $21.3 million for the nine months ended September 30, 2009 compared to the same period in 2008. The decrease was driven by a decline in demand for our services due to our customers economic constraints, resulting in a reduction in total billable hours of 17% with the rate per hour essentially flat. We adjusted our services capacity accordingly through cost reductions including decreasing our average services personnel headcount inclusive of contractors by 15%. The remaining decrease in services revenue was due to a reduction in reimbursable travel and entertainment expense.

Maintenance Revenue. Maintenance revenue decreased 13% or $8.6 million for the nine months ended September 30, 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 and customer losses may continue if our customers reduce their expenditures during the current economic downturn. In addition, a significant maintenance-paying customer decided not to renew maintenance in the second quarter of 2009, which resulted in a $2.0 million reduction in maintenance revenue for the nine months ended September 30, 2009 when compared to the same period in 2008.

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 $79.8 million, or 47% of total revenue, in the nine months ended September 30, 2009 compared to $79.3 million, or 41% of total revenue, in the same period in 2008.

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

Impact of Indian Rupee on Expenses

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. The impact of the depreciation in the value of the rupee was approximately $2.7 million less expense for the nine months ended September 30, 2009, when compared to current period rupee expenditures at the prior year foreign exchange rates.

Cost of Revenues

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 nine months ended September 30, 2009 and September 30, 2008. The period-to period comparisons of financial results are not necessarily indicative of future results.

	Nine Months Ended September 30, 2009	Margin	Nine Months Ended September 30, 2008	Margin	Change 2009 versus 2008 Nine months ended September 30 $ Change	% Change
Software solutions	$ 7,214	82%	$ 7,784	78%	$ (570)	-7%
Services	45,797	36%	68,313	26%	(22,516)	-33%
Maintenance	6,749	88%	7,866	88%	(1,117)	-14%
Amortization of acquired technology			4		(4)	-100%
Total cost of revenues	$ 59,760	64%	$ 83,967	56%	$ (24,207)	-29%

Cost of Software Solutions. Cost of software solutions decreased 7% or $0.6 million for the nine months ended September 30, 2009 compared to the same period in 2008. This decrease was primarily caused by a reduction in third-party commission and royalty expense.

During the nine months ended September 30, 2009 and September 30, 2008, the costs attributable to the performance of essential services related to software solutions projects recognized under ASC 605 was $5.5 million and $5.4 million, respectively.

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 33% or $22.5 million for the nine months ended September 30, 2009 compared to the same period in 2008. This decrease was primarily caused by a decrease in employee related costs of $8.4 million attributable to a decrease in average headcount of 10% , a decrease in usage of shared resources primarily from the research and development group of $3.1 million, a decrease in contractor costs of $3.7 million and a decrease in travel and entertainment of $4.2 million.

Cost of Maintenance. These costs consist of expenses for support services such as telephone support and unspecified upgrades/enhancements provided on a when-and-if-available basis. Cost of maintenance decreased 14% or $1.1 million for the nine months ended September 30, 2009 compared to the same period in 2008. This decrease was primarily related to a decrease in employee-related costs attributable to a decrease in average headcount of 8%.

Amortization of Acquired Technology. In connection with our business acquisitions, we acquired developed technology that we offer as a part of our solutions. In accordance with applicable accounting standards, the amortization of acquired technology is included as a part of our cost of revenues because it relates to software products that are marketed to potential customers.

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Total gross margin for the nine months ended September 30, 2009 was 64%, up 8 percentage points compared to the same period in 2008. This margin improvement was a result of significant focus on cost reductions in 2009. The year over year decline in total cost of revenues was primarily due to the decrease in cost of services as explained above. Unless we are able to grow our revenues, our current gross margin level is not sustainable. Due to variations from period to period depending on the mix of revenues, the Company will continue to focus on our consolidated gross margin when evaluating efficiency metrics.

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.

	Nine Months Ended September 30, 2009	Percent of Revenue	Nine Months Ended September 30, 2008	Percent of Revenue	Change 2009 versus 2008 Nine months ended September 30	
					$ Change	% Change
Sales and marketing	$ 28,020	17%	$ 35,540	19%	$ (7,520)	-21%
Research and development	20,124	12%	22,558	12%	(2,434)	-11%
General and administrative	25,695	15%	29,830	16%	(4,135)	-14%
Amortization of intangibles	25	0%	75	0%	(50)	-67%
Restructuring charges and adjustments	2,975	2%		0%	2,975	100%
Costs and expenses, subtotal	76,839		88,003		(11,164)	-13%
Intellectual property settlement, net	562		(79,860)		80,422	-101%
Total operating expense	$ 77,401		$ 8,143		$ 69,258	851%

Sales and Marketing Expense. For the nine months ended September 30, 2009, sales and marketing expense decreased 21% or $7.5 million when compared to the same period in 2008. The decrease in sales and marketing expense included a decrease in employee related costs of $4.5 million, a decrease in travel and entertainment expense of $1.4 million and a decrease in trade show and events of $1.3 million. The decrease in trade show events is due to the cancellation of our 2009 Planet event typically held in the second quarter. The Company will continue to evaluate Planet and other customer events in the future in light of then-current economic conditions. The decrease in employee-related costs is associated with our restructuring and reorganization efforts. The decrease in travel and entertainment is attributable to the implementation of cost control initiatives.

Research and Development Expense. For the nine months ended September 30, 2009, research and development expense decreased 11% or $2.4 million. The decrease includes a reduction in employee-related costs of $3.4 million and a decrease in facilities cost of $1.1 million partially offset by a decrease in shared resources loaned to Services for Services projects of $2.4 million. The decrease in employee-related expenses is due to a 7% decrease in average headcount when compared to the same period in 2008.

General and Administrative Expense. General and administrative expense for the nine months ended September 30, 2009 decreased 14% or $4.1 million compared to the same period in 2008. The decrease is primarily due to a decrease in employee related expense of $1.0 million, a decrease in travel and entertainment expenses of $0.3 million, a decrease in temporary labor of $0.3 million, a decrease in facilities related costs of $0.3 million and a decrease in legal and litigation related expenses of $1.8 million related to the resolution of certain non-patent litigation activities, which date back to 2005.

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.

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Restructuring Expense. During the nine months ended September 30, 2009 we had $3.0 million in restructuring expense related to the involuntary termination of approximately 80 associates and no expense in the nine months ended September 30, 2008.

Intellectual Property Settlement, Net. For the nine months ended September 30, 2009, we incurred $0.6 million of costs related the Oracle patent suit. On June 23, 2008, we reached a settlement with SAP to settle existing patent litigation between i2 and SAP. Under the terms of the settlement, SAP agreed to pay i2 $83.3 million. We recorded the $83.3 million net of external patent litigation expense of $3.5 million for the nine months ended September 30, 2008.

Non-Operating (Expense), Net

For the nine months ended September 30, 2009 and September 30, 2008, non-operating (expense), net, was as follows:

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008 (as restated, see Note 10)	Change 2009 versus 2008 Nine months ended September 30 $ Change	% Change
Interest income	$ 261	$ 3,339	$ (3,078)	-92%
Interest expense	(899)	(5,596)	(4,697)	-84%
Foreign currency hedge and transaction losses, net	(928)	(1,244)	(316)	-25%
Loss on extinguishment of debt	(892)		892	100%
Other expense, net	(175)	(5,094)	(4,919)	97%
Total non-operating expense, net	$ (2,633)	$ (8,595)	$ (5,962)	-69%

Total non-operating expense decreased $6.0 million for the nine months ended September 30, 2009 as compared to the same period in 2008.

Interest income decreased in the nine-month period ended September 30, 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 nine months, ended September 30, 2009, average cash balances increased 15%. The average rate earned for the nine months ended September 30, 2009, was 0.16%, and for September 30, 2008, was 2.51%. The lower interest rates are due to changes in the 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 2.00% at September 30, 2008, to between 0.00% and 0.25% at September 30, 2009. For the majority of 2009, substantially all of our cash was held in money market accounts invested in US Treasury and US government agency MMMF.

Interest expense decreased $4.7 million in the period ended September 30, 2009 as compared to the same period in 2008. The decline is due to our Convertible Notes repurchases; see *Note 3, Borrowings and Debt Issuance Cost.* The incremental non-cash interest expense associated with ASC 470 for the nine months ended September 30, 2009 and 2008 is $0.3 million and $1.9 million respectively.

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

The decrease in other expense is primarily due to external expenses of $5.3 million in the nine months ended September 30, 2008, related to the terminated merger with JDA. These merger expenses included investment banker fees, convertible debt consent fees, cost sharing fees and transaction related legal expenses. The incremental non-cash other income associated with ASC 470 for the nine months ended September 30, 2009 and 2008 is $0.05 million and $0.3 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 $4.2 million and $5.3 million for the nine months ended September 30, 2009 and 2008, respectively, representing effective income tax rates of 14.8% and 5.9% for the corresponding periods. Various factors affect our effective income tax rate including, among others, changes in our valuation allowance, the effect of foreign operations, state income taxes (net of federal income tax benefits), certain non-deductible meals and entertainment expenses, research and development tax credits, and the effect of foreign withholding taxes. Our effective income tax rates during the nine months ended September 30, 2009 and September 30, 2008 differ from the U.S. statutory rate primarily due to the effect these items have on our valuation allowance.

Income tax expense included the effect of foreign withholding taxes of $0.9 million for the nine months ended September 30, 2009 and $1.7 million for the nine months ended September 30, 2008. Foreign withholding taxes are incurred on certain payments from international customers and are recorded upon receipt of such payments which are received net of the withheld taxes Foreign withholding taxes generally are available to reduce domestic federal regular income tax. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these withheld taxes increase our income tax expense.

The nine months ended September 30, 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 nine months ended September 30, 2008 amount includes the effect of a tax refund of approximately $1.0 million related to our international operations.

During the nine months ended September 30, 2008, we recorded a benefit to operating expense of approximately $83.3 million related to the settlement of the SAP patent litigation. We utilized net operating loss carryforwards and other tax attributes to reduce taxes on the settlement. Accordingly, we recorded federal and state alternative minimum tax (AMT) of approximately $1.1 million and $0.1 million, respectively, and other state income taxes of approximately $0.2 million in income tax expense during the nine months ended September 30, 2008 related to the settlement. Alternative minimum tax generally is available to reduce regular income tax in the future. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these amounts increase our income tax expense.

Estimated potential interest and penalties related to our unrecognized tax benefits within our global organization are recorded in income tax expense and resulted in a benefit of approximately $0.2 million for the nine months ended September 30, 2009. The benefit resulted from the reduction in interest and penalties associated with the adjustments to our global transfer pricing accruals mentioned above. Accrued interest and penalties were approximately $2.2 million at September 30, 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.

Contractual Obligations

During the three-month and nine-month periods ended September 30, 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 September 30, 2009, we did not have any off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Liquidity and Capital Resources

Our working capital was $145.9 million at September 30, 2009 compared to $187.4 million at December 31, 2008, a reduction of $41.5 million or 22%. The reduction in working capital was principally attributable to the cash required for the convertible note repurchases during the first quarter of 2009 offset by an increase in cash flows due to our restructuring and reorganization in the first quarter of 2009. The reduction resulted from a $57.1 million decrease in current assets (comprised of a decrease of $51.6 million in cash, including restricted cash, a decrease of $0.8 million in other current assets and a decrease of $4.7 million in accounts receivable). This decrease in current assets was partially offset by a decrease in current liabilities of $15.5 million.

Our working capital balance at September 30, 2009 and December 31, 2008 included deferred revenue. At September 30, 2009 and December 31, 2008, we had approximately $43.8 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 $52.5 million during the nine months ended September 30, 2009. This decrease is primarily the result of cash used in the repurchase of the Notes of $84.8 million; see *Note 3, Borrowings and Debt Issuance Cost* partially offset by the cash flow from operations of $26.9 million.

During the nine months, ended September 30, 2009, cash provided by operating activities was approximately $26.9 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. We believe that, as of September 30, 2009, the Company s cash resources will be sufficient to meet our operating requirements for the next twelve months.

Cash used in investing activities was approximately $1.6 million during the nine months ended September 30, 2009. We had an increase in restricted cash of approximately $1.0 million and purchases of property, plant and equipment of $0.7 million.

During the nine months, ended September 30, 2009, cash used in financing activities was $78.1 million. The cash used is related to the $84.8 million used to repurchase our convertible notes partially offset by the $6.7 million received from the exercise of stock options.

At September 30, 2009, we had a net cash balance of $192.3 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 the face value of our debt. As of September 30, 2009, we had a total of $6.7 million in restricted cash of which $5.7 million was pledged as collateral for letters of credit outstanding. The remaining $1.0 million in restricted cash was held primarily for bank guarantees.

Sensitivity to Market Risks

Foreign Currency Risk. Revenues originating outside of the United States, a portion of which are denominated in foreign currencies, totaled 45% and 41% for the three months ended September 30, 2009 and September 30, 2008, respectively, and totaled 47% and 41% for the nine months ended September 30, 2009 and September 30, 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-hedging program that uses foreign currency forward exchange contracts to reduce the effect of various nonfunctional currency exposures. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts. Our risk activities cannot completely protect us from the risk of foreign currency losses as our currency exposures are constantly changing and we do not attempt to mitigate foreign currency risks of all our exposures. 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 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. The Federal Funds rate decreased from 2.00% at September 30, 2008, to between 0.00% and 0.25% at September 30, 2009. As of September 30, 2009 and 2008, the weighted-average yield on cash and cash equivalent balances was 0.13% and 2.50%, 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 recent and continuing 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

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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.

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.

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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

Other than as described below, 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.

Delays in Completing or the Failure to Complete the Announced Merger with JDA Software Group, Inc. Poses a Significant Risk to Our Business.

On November 4, 2009, we entered into the Merger Agreement with JDA relating to the acquistion of i2 by JDA. We cannot provide any assurance that the Merger will be consummated. If the Merger is consummated, we cannot assure you of the timing of the closing. As we have previously disclosed, a proposed merger with JDA in 2008 was not successfully completed and was terminated in December 2008. In light of the foregoing factors, there can be no assurance that the parties will be able to close the currently proposed Merger as contemplated by the Merger Agreement. In the event that the Merger is not completed or is delayed, we may experience, among other things, downward pressure on our stock; lawsuits; uncertainty for our management, sales staff, and other employees; and uncertainty for existing and potential customers regarding our ability to meet our contractual obligations. Such distractions could harm our business, the results of operations, cash flow, and our overall financial condition.

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

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ITEM 6. EXHIBITS.

(a) *Exhibits*

Exhibit Number	Description
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., Chairman and 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, Finance and Accounting, 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., Chairman and 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, Finance and Accounting, and Chief Financial Officer of i2.

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SIGNATURES

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

i2 TECHNOLOGIES, INC.

November 6, 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)