MANUGISTICS GROUP INC
Form 10-Q
January 14, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2003
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number 0-22154

MANUGISTICS GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	52-1469385
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

9715 Key West Avenue, Rockville, Maryland 20850
(Address of principal executive office) (Zip code)
(301) 255-5000
(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 is an accelerated filer (as defined in Rule 12b-2 of Exchange Act.)

Yes X No ____

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 75.6 million shares of common stock, $.002 par value, as of January 13, 2004.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

MANUGISTICS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands)

	November 30, 2003	February 28, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 124,615	$ 134,789
Marketable securities	2,638	2,946
Total cash, cash equivalents and marketable securities	127,253	137,735
Accounts receivable, net of allowance for doubtful accounts of $7,159 and $7,007 at November 30, 2003 and February 28, 2003, respectively	58,464	63,940
Other current assets	13,266	11,612
Total current assets	198,983	213,287
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation	23,944	31,230
Software development costs, net of accumulated amortization	13,556	13,428
Restricted cash		12,980
Long-term investments	9,807	
Goodwill	185,547	187,438
Acquired technology, net of accumulated amortization	30,569	41,232
Customer relationships, net of accumulated amortization	17,646	20,657
Other intangibles and non-current assets, net of accumulated amortization	11,852	9,121
TOTAL ASSETS	$ 491,904	$ 529,373
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 10,745	$ 9,738

Accrued compensation	5,557	7,156
Deferred revenue	34,931	43,388
Accrued restructuring	4,484	5,870
Other accrued liabilities	21,816	27,344
Total current liabilities	77,533	93,496
NON-CURRENT LIABILITIES:		
Convertible debt	227,500	250,000
Long-term debt and capital leases	3,116	4,795
Accrued restructuring	9,658	8,350
Other non-current liabilities	648	650
Total non-current liabilities	240,922	263,795
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS EQUITY:		
Preferred stock		
Common stock, $.002 par value per share; 300,000 shares authorized; 74,833 and 70,104 issued and outstanding at November 30, 2003 and February 28, 2003, respectively	150	140
Additional paid-in capital	677,566	633,801
Deferred compensation	(1,891)	(3,094)
Accumulated other comprehensive gain (loss)	1,579	(1,087)
Accumulated deficit	(503,955)	(457,678)
Total stockholders equity	173,449	172,082
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 491,904	$ 529,373

See accompanying notes to condensed consolidated financial statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share data)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2003	**2002**	**2003**	**2002**
REVENUE:				
Software	$ 17,079	$ 14,084	$ 54,790	$ 56,712
Services	18,332	25,132	58,249	79,614
Support	22,195	20,412	64,749	61,867
Reimbursed expenses	2,291	2,736	7,457	8,700
Total revenue	59,897	62,364	185,245	206,893
OPERATING EXPENSES:				
Cost of revenue:				
Cost of software	3,695	4,365	12,560	15,495
Amortization of acquired technology	3,546	3,576	10,664	10,064
Total cost of software	7,241	7,941	23,224	25,559
Cost of services and support	18,450	23,707	62,902	74,809
Cost of reimbursed expenses	2,291	2,736	7,457	8,700
Non-cash stock option compensation expense for cost of services and support	183	390	780	1,296
Total cost of services and support	20,924	26,833	71,139	84,805
Sales and marketing	16,326	20,593	49,209	75,849
Non-cash stock option compensation expense for sales and marketing	92	209	424	718
Total cost of sales and marketing	16,418	20,802	49,633	76,567

Product development	8,049	14,095	28,153	48,308
Non-cash stock option compensation expense for product development	27	59	110	244
Total cost of product development	8,076	14,154	28,263	48,552
General and administrative	5,912	7,056	18,158	21,338
Non-cash stock option compensation expense for general and administrative	92	96	292	418
Total cost of general and administrative	6,004	7,152	18,450	21,756
Amortization of intangibles	1,004	1,005	3,012	2,861
Restructuring and other impairment charges	67	8,159	10,549	16,996
Purchased research and development				3,800
Total operating expenses	59,734	86,046	204,270	280,896
INCOME (LOSS) FROM OPERATIONS	163	(23,682)	(19,025)	(74,003)
DEBT CONVERSION EXPENSE	(16,406)		(16,406)	
OTHER EXPENSE, NET	(3,374)	(1,629)	(9,997)	(5,348)
LOSS BEFORE INCOME TAXES	(19,617)	(25,311)	(45,428)	(79,351)
PROVISION FOR INCOME TAXES	230	692	849	21,450
NET LOSS	$ (19,847)	$ (26,003)	$ (46,277)	$ (100,801)
BASIC AND DILUTED LOSS PER SHARE	$ (0.27)	$ (0.37)	$ (0.65)	$ (1.45)
SHARES USED IN BASIC AND DILUTED LOSS PER SHARE COMPUTATION	72,753	69,876	71,088	69,683

See accompanying notes to condensed consolidated financial statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Nine Months Ended November 30,	
	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (46,277)	$ (100,801)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	27,961	31,718
Amortization of debt issuance costs	921	859
Restructuring and other impairment charges	10,549	16,996
Debt conversion expense	16,406	
Purchased research and development		3,800
Deferred income taxes		20,350
Non-cash stock option compensation expense	1,606	2,676
Other	291	292
Changes in assets and liabilities:		
Accounts receivable	5,475	15,491
Other current assets	(1,653)	1,373
Other non-current assets	(3,354)	103
Accounts payable	1,007	63
Accrued compensation	(1,599)	(7,612)
Other liabilities	(4,245)	(5,256)
Restructuring accrual	(7,941)	(5,160)
Deferred revenue	(8,457)	(11,802)
Net cash used in operating activities	(9,310)	(36,910)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions, net of cash acquired	1,968	(32,063)
Restricted cash	12,980	(14,096)
Sales and (purchases) of marketable securities, net	308	(1,056)
Purchases of long-term investments, net	(9,807)	
Purchases of property and equipment	(1,674)	(13,539)
Capitalization and purchases of software	(8,955)	(8,868)
Net cash used in investing activities	(5,180)	(69,622)

CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on line of credit		2,310
Payments of long-term debt and capital lease obligations	(2,359)	(2,118)
Proceeds from exercise of stock options and employee stock plan purchases	4,646	4,617
Net cash provided by financing activities	2,287	4,809
EFFECTS OF EXCHANGE RATES ON CASH BALANCES	2,029	390
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,174)	(101,333)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	134,789	228,801
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 124,615	$ 127,468

See accompanying notes to condensed consolidated financial statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
November 30, 2003

1. *The Company and Basis of Presentation*

The Company

Manugistics Group, Inc. (the Company) is a leading global provider of demand and supply chain management software. The Company also provides service & parts management and supplier relationship management software. The Company s software helps companies lower operating costs, improve customer service, increase revenue, enhance profitability and accelerate revenue and earnings growth.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company and its wholly-owned subsidiaries have been prepared in accordance with generally accepted accounting principles for interim reporting and in accordance with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments which are necessary for a fair presentation of the unaudited results for the interim periods presented have been included. The results of operations for the periods presented herein are not necessarily indicative of the results of operations for the entire fiscal year, which ends on February 29, 2004.

These financial statements should be read in conjunction with the financial statements and notes thereto for the fiscal year ended February 28, 2003 included in the Annual Report on Form 10-K of the Company for that year filed with the Securities and Exchange Commission.

Reclassification

Certain prior year information has been reclassified to conform to the current year presentation.

2. *New Accounting Pronouncements*

In January 2003, the Financial Accounting Standards Board (FASB) issued Statement No. 46, *Consolidation of Variable Interest Entities*, (FIN 46) that addresses the consolidation of variable interest entities. FIN 46 provides guidance for determining when a primary beneficiary should consolidate a variable interest entity, or equivalent structure that functions to support the activities of the primary beneficiary. The interpretation is effective after January 31, 2003 for newly created variable interest entities. For variable interest entities created before February 1, 2003, the interpretation is effective as of the beginning of the first interim or annual reporting period beginning after December 15, 2003. The Company believes the effect of adopting this statement will not have a material impact on its operating performance and financial position.

On May 15, 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* (SFAS 150). SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments as of September 1, 2003. The effect of adopting this statement did not have a material impact on its operating performance and financial position.

3. *Stock-Based Compensation Plans & Employee Stock Option Exchange Program*

Stock-Based Compensation Plans. The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations using the intrinsic value based method of accounting. If the Company accounted for its stock-based compensation plan using the fair value based method of accounting in accordance with the provisions as required by Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*, as amended by Statement of Financial Accounting Standards No. 148 (SFAS 148), *Accounting for Stock-Based Compensation Transition and Disclosure,* the Company s net loss and loss per basic and diluted share amounts would have been as follows, in thousands except per share amounts:

	Three Months Ended November 30,		**Nine Months Ended November 30,**	
	2003	**2002**	**2003**	**2002**
Net loss, as reported	$ (19,847)	$ (26,003)	$(46,277)	$(100,801)
Add: Stock option-based compensation expense included in reported net loss, net of tax	394	754	1,606	2,676
Less: Stock option-based compensation, net of tax (1)	(1,665)	(4,432)	(1,976)	(18,121)
Pro forma net loss	$ (21,118)	$ (29,681)	$(46,647)	$(116,246)
Basic and diluted loss per share, as reported	$ (0.27)	$ (0.37)	$ (0.65)	$ (1.45)
Basic and diluted loss per share, pro forma	$ (0.29)	$ (0.42)	$ (0.66)	$ (1.67)

(1) Includes the impact of stock option forfeitures related to employee terminations.

Consistent with the Company s accounting for deferred tax assets resulting from the exercise of employee stock options in the accompanying unaudited condensed consolidated financial statements, the Company has not provided a tax benefit or expense on the pro forma expense in the above table.

Stock options granted had weighted average fair values of $4.00 per share and $4.20 per share, respectively, during the three and nine months ended November 30, 2003, and $2.42 and $3.98 per share, respectively, during the three and nine months ended November 30, 2002, as calculated using the Black-Scholes option valuation model. The weighted average estimated fair value of the common stock purchase rights granted under our employee stock purchase plan during the nine months ended November 30, 2003 was $0.90 per share, and during the three and nine months ended November 30, 2002 was $2.18 and $4.27 per share, respectively. The employee stock purchase plan program was no longer active as of July 1, 2003.

The Company determined the assumptions used in computing the fair value of stock options and stock purchase plan shares by estimating the expected useful lives, giving consideration to the vesting and purchase periods, contractual lives, actual employee forfeitures, and the relationship between the exercise price and the fair market value of the Company s common stock, among other factors. The risk-free interest rate is the U.S. Treasury bill rate for the relevant expected life. The fair value of stock options and stock purchase plan shares was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	OPTIONS		ESPP		OPTIONS		ESPP	
	Three Months Ended November 30,		Three Months Ended November 30,		Nine Months Ended November 30,		Nine Months Ended November 30,	
	2003	2002	2003	2002	2003	2002	2003	2002
Risk-free interest rate	2.22%	3.02%	N/A	2.20%	2.49%	4.29%	1.45%	2.21%
Expected term	2.86 years	6.16 years	N/A	6 months	4.44 years	6.31 years	6 months	6 months
Volatility	.9403	.8657	N/A	.8561	.9430	.8556	.8814	.8534
Dividend Yield	0%	0%	N/A	0%	0%	0%	0%	0%

Employee Stock Option Exchange Program. On February 10, 2003, the Company announced a voluntary stock option exchange program for its employees. Under the program, the Company offered to exchange options to purchase an aggregate of approximately 6.1 million shares of Manugistics common stock held by eligible employees, vested or unvested, that have exercise prices equal to or greater than $7.0001 per share. All employees had the opportunity to exchange existing eligible options for a promise to grant new options at exchange ratios dependent on the exercise price of the exchanged options. Members of the Company s Board of Directors, including the Company s Chairman and Chief Executive Officer, were not eligible to participate in this program.

On March 10, 2003, the Company announced that it had accepted for cancellation and exchange, options to purchase approximately 4.8 million shares of its common stock in exchange for new options to purchase approximately 1.5 million shares of its common stock, to be granted on September 16, 2003. The Company granted approximately 1.2 million new options on September 16, 2003 as a result of the option exchange program. The number of new options granted to employees declined from the original expected amount as a result of voluntary and involuntary terminations since March 10, 2003. The new options have terms and conditions that are substantially the same as those of the cancelled options. The exercise price of the new options is $5.55 per share, which was the market value of a share of the Company s common stock on the date of grant as determined under the Company s option plans.

Options cancelled in the exchange program and the new options have been treated as fixed option awards for accounting purposes as the new options were granted six months and five days after the cancellation date and any options granted after August 9, 2002 (the look-back period) were required to be exchanged in order to participate in the program. Therefore, no compensation expense will be recorded as a result of the program.

Restricted Stock Program. In June 2003, the Company s Board of Directors approved an amendment to its 1998 stock option plan to issue restricted shares of Manugistics common stock to its employees. This amendment was approved by stockholders at the Company s Annual Meeting on July 29, 2003. On October 17, 2003, the Company issued 205,000 shares of restricted stock to certain key employees. The restricted stock awards granted to key employees have a vesting schedule pursuant to which the stock award vests in four equal increments over four years from the date of grant, with the first increment vesting on April 17, 2005. The quoted market price of the restricted stock awards granted of approximately $1.3 million was recorded as a component of deferred compensation and is amortized over the vesting period.

4. *Net Loss Per Share*

Basic net loss per share is computed using the weighted average number of shares of common stock outstanding. Diluted net loss per share is computed using the weighted average number of shares of common stock and, when dilutive, potential common shares from options, restricted stock and warrants to purchase common stock using the treasury stock method, the effect of the assumed conversion of the Company s convertible subordinated debt and the effect of the potential issuance of common stock in connection with acquisitions. The dilutive effect of options, restricted stock and warrants to acquire 1.9 million shares and 0.1 million shares for the three month periods ended November 30, 2003 and 2002, respectively, and to acquire 0.7 million shares and 2.7 million shares for the nine month periods ended November 30, 2003 and 2002, respectively, were excluded from the calculation of diluted net loss per share because including these shares would be anti-dilutive due to the Company s reported net loss. The assumed conversion of the Company s convertible debt was excluded from the computation of diluted net loss per share for the three and nine months ended November 30, 2003 and 2002 since it was anti-dilutive. The Company s convertible debt may be exchanged for up to approximately 5.2 million shares of the Company s common stock in future periods.

5. *Commitments and Contingencies*

Legal Actions. The Company is involved in disputes and litigation in the normal course of business. The Company does not believe that the outcome of existing disputes or litigation will have a material adverse effect on the Company s business, operating results, financial condition or cash flows. The Company has established accruals for losses related to such matters that are probable and reasonably estimable. However, an unfavorable outcome of some or all of these matters could have a material adverse effect on the Company s operating performance and financial condition.

Indemnification. The Company licenses software to its customers under contracts which the Company refers to as Software License Agreements (SLA). Each SLA contains the relevant terms of the contractual arrangement with the customer, and generally includes certain provisions for indemnifying the customer against losses, expenses, and liabilities from damages that may be awarded against the customer in the event the Company s software is found to infringe upon a patent, copyright, trademark or other proprietary right of a third party. The SLA generally limits the scope of and remedies for such indemnification obligations in a variety of industry-standard respects, including but not limited to certain time and geography-based scope limitations and a right to replace an infringing product or modify the product so that it is no longer infringing. If the Company cannot address the infringement by replacing the products or services, or modifying the products or services, the Company is allowed to cancel the software license and return the fees paid by the customer. The Company requires its employees to sign a proprietary information and inventions assignment agreement, which assigns the rights in its employees development work to the Company.

To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions and no material claims are outstanding as of November 30, 2003. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the SLAs, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions. There can be no assurance that potential future payments will not have a material adverse effect on the Company s operating performance or financial condition.

Product Warranty. The Company generally warrants its software products. The Company provides for the estimated cost of product warranties based on specific warranty claims, provided that it is probable that a liability exists and provided the amount can be reasonably estimated. To date, the Company has not had any material costs associated with these warranties.

6. *Intangible Assets and Goodwill*

Acquisition-related intangible assets subject to amortization as of November 30, 2003 and February 28, 2003 were as follows (amounts in thousands):

	Gross Assets	Accumulated Amortization	Net Assets
November 30, 2003			
Acquired technology	$64,739	$(34,170)	$30,569
Customer relationships	29,098	(11,452)	17,646
Total	$93,837	$(45,622)	$48,215
February 28, 2003			
Acquired technology	$65,454	$(24,222)	$41,232
Customer relationships	29,012	(8,355)	20,657
Total	$94,466	$(32,577)	$61,889

Amortization expense related to acquisition related intangible assets was $4.6 million for both the three months ended November 30, 2003 and 2002, and $13.7 million and $12.9 million for the nine months ended November, 2003 and 2002, respectively. Estimated aggregate future amortization expense for acquisition-related intangible assets for the three month period ending February 29, 2004 and future fiscal years are as follows (amounts in thousands):

	Three Months Ending February 29,	Fiscal Year Ending February 28 or 29,					
	2004	2005	2006	2007	2008	Thereafter	Total
Amortization expense	$ 4,550	$17,205	$10,760	$9,889	$4,727	$1,084	$48,215

The changes in the carrying amount of goodwill for the nine months ended November 30, 2003 are as follows (amounts in thousands):

	Net Assets
Balance as of February 28, 2003	$187,438
Proceeds from settlement of acquisition escrow	(2,170)
Foreign currency translation	279
Balance as of November 30, 2003	$185,547

7. *Comprehensive Income (Loss)*

Other comprehensive income (loss) relates primarily to foreign currency translation income (losses) and unrealized gains (losses) on investments. The following table sets forth the comprehensive income (loss) for the three and nine month periods ended November 30, 2003 and 2002, respectively (amounts in thousands):

	Three months ended November 30, 2003	2002	Nine months ended November 30, 2003	2002
Net loss	$ (19,847)	$ (26,003)	$ (46,277)	$ (100,801)
Other comprehensive income (loss)	2,072	(963)	2,666	567
Total comprehensive loss	$ (17,775)	$ (26,966)	$ (43,611)	$ (100,234)

8. *Restructuring*

Summary of Total Restructuring and Other Impairment Charges.

The following table sets forth a summary of total restructuring and other impairment charges, payments made against those charges and the remaining liabilities as of November 30, 2003 (amounts in thousands):

All Plans	Balance as of Feb. 28, 2003	Charges and adjustments to charges in three months ended May 31, 2003	Charges and adjustments to charges in three months ended Aug. 31, 2003	Charges and adjustments to charges in three months ended Nov. 30, 2003	Utilization of cash in nine months ended Nov. 30, 2003	Non-cash activity disposal losses in nine months ended Nov. 30, 2003	Balance as of Nov. 30, 2003	
Lease obligations and terminations	$ 11,637	$ 5,478	$ 210	$ 40	$ (4,490)	$	$ 12,875	(1)
Severance and related benefits	2,296	1,293	(76)		(2,778)		735	
Impairment charges and write-downs		3,190				(3,190)		
Other	287	176	211	27	(673)		28	
Subtotal	$ 14,220	$ 10,137	$ 345	$ 67	$ (7,941)	$ (3,190)	13,638	
Reclassification of deferred rent							504	

Total	$ 14,142

(1) Certain accrued lease obligations extend through fiscal year 2009.

Fiscal 2004 Restructuring and Other Impairment Charges.

Plan FY04 Q1 Restructuring and Other Impairment Charges (Plan FY04 Q1). During the three months ended May 31, 2003, the Company announced and implemented a restructuring plan designed to further align our cost structure with expected revenue. Actions taken included a reduction in the Company s employee workforce by approximately 8%, further consolidation of our U.S. product development functions to our corporate headquarters in Rockville, Maryland, further reduced discretionary spending and lease terminations. The reduction in workforce was achieved through a combination of attrition and involuntary terminations and totaled 94 employees, 72 of which were involuntary, across most business functions and geographic regions. Involuntary terminations by geographic region included 66 in the U.S., 3 in Mexico, 2 in Canada and 1 in Japan. All terminated employees were notified by May 31, 2003 and were not required to render service to the Company beyond the earlier of their termination date or minimum retention period of 60 days (as defined by SFAS No. 146 *Accounting for Exit or Disposal Activities* (SFAS 146)). The Company recorded a facility charge of approximately $5.9 million during the three months ended May 31, 2003 related to the Company vacating and subleasing approximately 26% of its corporate headquarters building in Rockville, Maryland, as well as further reductions of office space in San Carlos, California; Atlanta, Georgia; Irving, Texas and Detroit, Michigan. The costs associated with the facilities charge were recorded based on the present value of the sum of expected remaining lease commitments and include management s best estimates of expected sublease income and costs associated with subleasing the vacated space. During the nine months ended November 30, 2003, the Company recorded an adjustment to facility charges of approximately $0.1 million, as a result of finalizing the sublease of vacated space in its corporate headquarters building in Rockville, Maryland.

In accordance with SFAS 146, in periods subsequent to the initial recording of the Plan FY04 Q1 facilities charge, the Company will recognize accretion expense due to the passage of time. Accretion expense will be recorded as an additional restructuring-related expense and increase to restructuring liabilities.

In accordance with SFAS 144, the Company recorded a write-down relating to the restructuring of approximately $3.2 million during the three months ended May 31, 2003. The write-down consisted of the abandonment of certain furniture, fixtures, computer equipment and leasehold improvements related to permanently vacating office space in the previously mentioned facilities.

The following table sets forth a summary of Plan FY04 Q1 restructuring and other impairment charges, payments made and the remaining liabilities as of November 30, 2003 (amounts in thousands):

Plan FY04 Q1	Balance as of Feb. 28, 2003	Charges in three months ended May 31, 2003	Adjustments to charges in three months ended Aug. 31, 2003	Adjustments to charges in three months ended Nov. 30, 2003	Utilization of cash in nine months ended Nov. 30, 2003	Non-cash activity disposal losses in nine months ended Nov. 30, 2003	Balance as of Nov. 30, 2003
Lease obligations and terminations (1)	$	$ 5,858	$ 161	$ 40	$ (2,085)	$	$ 3,974
Severance and related benefits		1,348	60		(1,244)		164
Impairment charges and write-downs		3,190				(3,190)	
Subtotal	$	$ 10,396	$ 221	$ 40	$ (3,329)	$ (3,190)	4,138
Reclassification of deferred rent							504
Total							$ 4,642

(1) Includes $58 and $39 of accretion expense in adjustments and charges in the three months ended August 31, 2003 and November 30, 2003, respectively.

Fiscal 2003 Restructuring and Other Impairment Charges.

Plan FY03 Q4 Restructuring Charges (Plan FY03 Q4   ). During the three months ended February 28, 2003, the Company announced and implemented a restructuring plan designed to further align our cost structure with expected revenue. Actions taken included a reduction in the Company   s employee workforce by approximately 10%, consolidation of most of our U.S. product development functions to our corporate headquarters in Rockville, Maryland, further reduced discretionary spending and lease termination costs. The reduction in workforce was achieved through a combination of attrition and involuntary terminations and totaled 123 employees, 76 of which were involuntary, across most business functions and geographic regions. Involuntary terminations by geographic region included 68 in the U.S., 7 in Europe and 1 in Canada. All terminated employees were notified by February 28, 2003 and were not required to render service to the Company beyond the earlier of their termination date or minimum retention period of 60 days (as defined by SFAS 146). The Company recorded a charge for severance and related benefits of approximately $1.4 million during the three months ended February 28, 2003. The Company also recorded a facility charge of approximately $0.4 million during the three months ended February 28, 2003, related to closure of the Milan, Italy office and the expected loss of sublease rental income from a previously closed office in London, England. These costs include management s best estimates of expected sublease income. The Company also recorded other charges of approximately $0.2 million related to relocation costs during the three months ended February 28, 2003. During the nine months ended November 30, 2003, the Company incurred adjustments to charges of approximately $0.5 million related to our initiative in the three months ended February 28, 2003 to relocate certain employees under the consolidation of our U.S. product development functions.

The following table sets forth a summary of Plan FY03 Q4 restructuring and other impairment charges, payments made against those charges and the remaining liabilities as of November 30, 2003 (amounts in thousands):

Plan FY03 Q4	**Balance as of Feb. 28, 2003**	**Adjustments to Plan FY03 Q4 charges in three months ended May 31, 2003**	**Adjustments to Plan FY03 Q4 charges in three months ended Aug. 31, 2003**	**Adjustments to Plan FY03 Q4 charges in three months ended Nov. 30, 2003**	**Utilization of cash in nine months ended Nov. 30, 2003**	**Balance as of Nov. 30, 2003**
Lease obligations and terminations	$ 267	$	$ 19	$	$ (286)	$
Severance and related benefits	1,061	60	5		(781)	345
Other	187	176	211	27	(601)	
Total	$ 1,515	$ 236	$ 235	$ 27	$ (1,668)	$ 345

Plan FY03 Q3 Restructuring Charges (Plan FY03 Q3). During the three months ended November 30, 2002, the Company announced and implemented a restructuring plan designed to further align our cost structure with expected revenue. Actions taken included a reduction in the Company s employee workforce by approximately 12%, a reduction in contractors, further reductions in discretionary spending, the planned closure of our office in Ratingen, Germany and relocation of our German operations to Munich and reduction of office space in London, England and San Carlos, California. The reduction in workforce was achieved through a combination of attrition and involuntary terminations and totaled 163 employees, 144 of which were involuntary, across most business functions and geographic regions. Terminations by geographic region included 96 in the U.S., 42 in Europe, 3 in Asia-Pacific, 2 in Canada and 1 in Mexico. All terminated employees were notified by November 30, 2002. The

Company recorded a charge for severance and related benefits of approximately $3.6 million during the three months ended November 30, 2002. The Company also recorded a facility charge of approximately $3.3 million during the three months ended November 30, 2002, related to the planned abandonment of leased office space in Ratingen, Germany and the reduction of office space in London, England and San Carlos, California. These costs include management s best estimates of expected sublease income. The Company also recorded other charges of approximately $0.3 million related to contract termination costs during the three months ended November 30, 2002. During the six months ended August 31, 2003, the Company recorded an adjustment to facility charges of approximately $(0.4) million. The adjustment was the result of finalizing the sublease of a portion of its abandoned leased office space in San Carlos, California as well as management s best estimate of the likely outcome of recent negotiations to sublease the remaining abandoned space in the same facility.

In accordance with SFAS 144, the Company recorded a write-down relating to the restructuring of approximately $1.0 million during the three months ended November 30, 2002. The write-down consisted of the abandonment of certain furniture, fixtures, computer equipment and leasehold improvements related to the closure of certain facilities.

The following table sets forth a summary of Plan FY03 Q3 restructuring and other impairment charges, payments made against those charges and the remaining liabilities as of November 30, 2003 (amounts in thousands):

Plan FY03 Q3	**Balance as of Feb. 28, 2003**	**Adjustments to Plan FY03 Q3 charges in three months ended May 31, 2003**	**Adjustments to Plan FY03 Q3 charges in three months ended Aug. 31, 2003**	**Utilization of cash in nine months ended Nov. 30, 2003**	**Balance as of Nov. 30, 2003**
Lease obligations and terminations	$ 3,162	$ (380)	$ 30	$ (1,065)	$ 1,747
Severance and related benefits	1,011	(56)	13	(742)	226
Other	20			(20)	
Total	$ 4,193	$ (436)	$ 43	$ (1,827)	$ 1,973

Plan FY03 Q2 Restructuring Charges (Plan FY03 Q2). During the three months ended August 31, 2002, the Company announced and implemented a restructuring plan designed to further align our cost structure with expected revenue. Actions taken included a reduction in the Company s employee workforce by approximately 9%, a reduction in the number of contractors, reductions in discretionary spending and the closure of our remaining office space in Denver, Colorado and reduction of office space in Atlanta, Georgia and Chicago, Illinois. The reduction in workforce was achieved through a combination of attrition and involuntary terminations and totaled 238 employees, 123 of which were involuntary, across most business functions and geographic regions. Terminations by geographic region included 83 in the U.S., 37 in Europe, 2 in Mexico and 1 in Canada. All terminated employees were notified by August 31, 2002. The Company recorded a charge for severance and related benefits of approximately $2.8 million during the three months ended August 31, 2002. The Company also recorded a facility charge of approximately

$4.9 million during the three months ended August 31, 2002, related to the abandonment of leased office space in Denver and the reduction of office space in Atlanta, offset by a credit of approximately $0.7 million related to the reduction of a previously recorded office space liability assumed as part of the Talus Solutions, Inc. (Talus) acquisition where the landlord subsequently agreed to reduce the remaining office space and lease obligation held by the Company. These costs include management s best estimates of expected sublease income. The Company also recorded a charge of approximately $0.3 million during the three months ended August 31, 2002, related to contract termination costs. During the six months ended August 31, 2003, the Company recorded an adjustment to severance charges of approximately ($0.2) million from prior restructuring charges.

In accordance with SFAS 144, the Company recorded a write-down relating to the restructuring of approximately $0.2 million during the three months ended August 31, 2002. The write-down consisted of the abandonment of certain furniture, fixtures, computer equipment and leasehold improvements related to the closure of certain facilities.

Plan FY03 Q2 Other Impairment Charges. In accordance with SFAS 144, the Company recorded an impairment charge of approximately $1.2 million during the three months ended August 31, 2002 related to the discontinued use of a portion of the Company s sales force automation software, which is being replaced with another tool. The remaining net book value at August 31, 2002 of $0.7 million was fully amortized over its remaining useful life.

The following table sets forth a summary of Plan FY03 Q2 restructuring and other impairment charges, payments made against those charges and the remaining liabilities as of November 30, 2003, (amounts in thousands):

Plan FY03 Q2	Balance as of Feb. 28, 2003	Adjustments to Plan FY03 Q2 charges in three months ended Aug. 31, 2003	Utilization of cash in nine months ended Nov. 30, 2003	Balance as of Nov. 30, 2003
Lease obligations and terminations	$ 4,016	$	$ (458)	$ 3,558
Severance and related benefits	165	(154)	(11)	
Total	$ 4,181	$ (154)	$ (469)	$ 3,558

Fiscal 2002 Restructuring Charges.

Plan FY02 Restructuring Charges (Plan FY02). During fiscal 2002, the Company adopted two restructuring plans in order to (i) centralize certain of its product development functions in Rockville, Maryland from other locations in North America; and (ii) reduce expenses as a result of expected reduction in revenue caused by client concerns about committing to large capital projects in the face of weakening global economic conditions. Implementation of these plans resulted in facility charges of approximately $3.7 million related to the closure and abandonment of leased office space, a charge for severance and related benefits of approximately $2.3 million related to the involuntary termination of 163 employees across most business functions and geographic regions, a charge of approximately $0.5 million related to the relocation of 10 employees and an impairment charge of approximately $0.1 million related to the closure and abandonment of certain leased facilities.

The following table sets forth a summary of Plan FY02 restructuring charges, payments made against those charges and the remaining liabilities as of November 30, 2003 (amounts in thousands):

	Adjustments to Plan	Utilization of

Plan FY02	Balance as of Feb. 28, 2003	FY02 charges in three months ended May 31, 2003	cash in nine months ended Nov. 30, 2003	Balance as of Nov. 30, 2003
Lease obligations and terminations	$ 1,016	$	$ (101)	$ 915
Severance and related benefits	59	(59)		
Total	$ 1,075	$ (59)	$ (101)	$ 915

Fiscal 1999 Restructuring Charges

Plan FY99 Restructuring Charges (Plan FY99). During the third and fourth quarters of fiscal 1999, the Company implemented a restructuring plan aimed at reducing costs and returning the Company to profitability. Actions taken included a reduction in the Company s workforce of 412 employees across all business functions in the United States, the abandonment of future lease commitments on office facilities that were closed and write-downs of operating assets, goodwill and capitalized software made in accordance with SFAS 121.

The following table sets forth a summary of Plan FY99 restructuring charges, payments made against those charges and the remaining liabilities as of November 30, 2003 (amounts in thousands):

Plan FY99	**Balance as of Feb. 28, 2003**	**Utilization of cash in nine months ended Nov. 30, 2003**	**Balance as of Nov. 30, 2003**
Lease obligations and terminations	$ 3,176	$ (495)	$ 2,681
Other	80	(52)	28
Total	$ 3,256	$ (547)	$ 2,709

9. *Income Taxes*

Income tax expense of $230,000 and $849,000 was recorded for the three and nine months ended November 30, 2003, respectively. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. Management assesses the likelihood that its deferred tax assets will be recovered from future taxable income, and to the extent management believes that recovery is not likely, it establishes a valuation allowance. The Company considers historical taxable income, estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the amount of the valuation allowance. Adjustments could be required in the future if management determines that the amount to be realized is greater or less than the valuation allowance recorded. Based on various factors, including our cumulative losses for fiscal 2001, 2002 and 2003 when adjusted for non-recurring items, the size of the Company s loss for fiscal 2003 and estimates of future profitability, management has concluded that future taxable income will, more likely than not, be insufficient to recover its net deferred tax assets. Based on the weight of positive and negative evidence regarding recoverability of the Company s deferred tax assets, management recorded a valuation allowance for the full amount of its net deferred tax assets, which resulted in a $20.4 million charge to income tax expense in fiscal 2003. Management will continue to monitor its estimates of future profitability and realizability of its net deferred tax assets based on evolving business conditions.

10. *Credit Facility and Restricted Cash*

The Company has a one year unsecured revolving credit facility with Silicon Valley Bank (SVB) for $20.0 million which will expire on March 31, 2004, unless renewed. Under the terms of this credit facility, the Company may request cash advances, letters of credit, or both. The credit facility requires the Company to comply with the following financial covenants: (i) minimum tangible net worth (defined as stockholders equity plus convertible debt less goodwill, capitalized software costs and other intangible assets) must be greater than $120.0 million; and (ii) a ratio of (a) unrestricted cash, cash equivalents, marketable securities and long-term investments deposited with SVB and its affiliates plus net accounts receivable to (b) current liabilities plus, long-term indebtedness to SVB and outstanding letters of credit, minus deferred revenue, of at least 2.0 to 1.0.

The SVB credit facility requires the Company to maintain $70.0 million in funds with SVB and its affiliates. The credit facility also restricts the amount of additional debt the Company can incur and restricts the amount of cash that the Company can use for acquisitions and for the repurchase of convertible debt. Under the terms of the SVB credit facility, the Company retains the right to terminate the facility at any time upon repayment of any advances and the posting of cash collateral for any outstanding letters of credit. Under the credit facility, SVB has the right to obtain a lien on all of the Company s assets, other than intellectual property, upon an occurrence of default, unless the Company terminates the facility as provided above. The credit facility also provides that, upon an event of default, the Company is prohibited from paying a cash dividend to its shareholders. As of November 30, 2003, the Company had $9.9 million in letters of credit outstanding under this line to secure its lease obligations for certain office space. The Company was in compliance with all financial covenants as of November 30, 2003.

Prior to entering into the credit facility agreement with SVB, the Company had a credit facility agreement with Bank of America (BOA) that expired on February 26, 2003. As of August 31, 2003, the Company had a $4.0 million letter of credit outstanding with BOA which was fully collateralized. The letter of credit was used to secure a lease obligation for certain international office space. The cash collateral was presented as restricted cash in the condensed consolidated balance sheet as of August 31, 2003. During the three months ended August 31, 2003, the Company was informed by BOA that BOA would not renew the letter of credit and the holder would not accept a replacement for the letter of credit from another bank on terms that were favorable to the Company. During the three months ended November 30, 2003, the holder requested a cash draw for the full amount on the letter of credit. Accordingly, $3.3 million of the $4.0 million was recorded as a deposit in non-current assets and $0.7 million was recorded as cash in the condensed consolidated balance sheet as of November 30, 2003.

The Company has an additional credit agreement with SVB, as amended, under which the Company was able to borrow up to $5.0 million for the purchase of equipment. Amounts borrowed under the facility accrue interest at a rate equal to the greater of the three year treasury note rate plus 5% or 8.25%, and are repaid monthly over a 36 month period. During fiscal 2003, the Company borrowed $2.9 million under this credit facility. The facility allowed for borrowings through March 31, 2003. The principal balance remaining as of November 30, 2003 was approximately $2.0 million. The Company was in compliance with all financial covenants as of November 30, 2003.

11. *Debt Conversion*

In October 2003, the Company exchanged $22.5 million of its 5% Convertible Subordinated Notes due in 2007 (the Notes) for 3,045,000 shares of its common stock in two privately negotiated transactions with a group of affiliated note holders. The offer and issuance of the common stock underlying these transactions are exempt from registration under Section 3(a) (9) of the Securities Act of 1933 and may be freely traded upon issuance.

At the conversion price of $44.0625 per share, the $22.5 million of Notes exchanged would have been convertible into 510,638 shares of common stock. For accounting purposes, the additional 2,534,362 shares of common stock that the Company issued in these transactions are considered an inducement for the holders to convert their Notes, which required the Company to record a non-operating expense equal to the fair value of the additional shares issued to the holders. Accordingly, the Company recorded a non-cash debt conversion expense of approximately $16.4 million during the three months ended November 30, 2003. These transactions resulted in a $22.5 million reduction of the Notes outstanding and increased stockholders equity by $22.5 million. The 3,045,000 shares of common stock represent 4.1% of the shares outstanding as of November 30, 2003.

12. *Supplemental Cash Flow Information*

The Company paid total interest of $13.1 million and $12.7 million during the nine months ended November 30, 2003 and 2002, respectively.

Supplemental information of non-cash financing activities is as follows:

- In connection with the debt conversion during the three months ended November 30, 2003, the Company exchanged $22.5 million of the Notes for 3,045,000 shares of its common stock (See Note 11).

- The Company recorded approximately $4.5 million in capital leases during the nine months ended November 30, 2002.

13. *Subsequent Event*

In January 2004, the Company exchanged $10.0 million of the Notes for 1,425,000 shares of its common stock in two privately negotiated transactions with a group of affiliated note holders. The offer and issuance of the common stock underlying these transactions are exempt from registration under Section 3(a)(9) of the Securities Act of 1933 and may be freely traded upon issuance.

At the conversion price of $44.0625 per share, the $10.0 million of Notes exchanged would have been convertible into 226,950 shares of common stock. For accounting purposes, the additional 1,198,050 shares of common stock that we issued in these transactions are considered an inducement for the holders to convert their Notes, which requires the Company to record a non-operating expense equal to the fair value of the additional shares issued to the holders. Accordingly, the Company will record a non-cash debt conversion expense of approximately $8.2 million during the quarterly period ended February 29, 2004. These transactions will also result in a $10.0 million reduction of the Notes outstanding and will increase stockholder equity by $10.0 million. The 1,425,000 shares of common stock represent approximately 2.0% of the shares outstanding at January 13, 2004.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements:

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes and other financial information included elsewhere in this report. The discussion and analysis contains forward-looking statements and are made in reliance upon safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from those anticipated in these forward-looking statements and other forward-looking statements made elsewhere in this report as a result of specified factors, including those set forth under the caption Factors that May Affect Future Results.

Overview*:*

We are a leading global provider of demand and supply chain management software. We also provide software for service & parts management and supplier relationship management. We have a solutions-based approach to client delivery selling configured sets of our software products that address the specific demand and supply chain business processes that our clients want to improve. Our software enables companies to lower operating costs, improve customer service, increase revenue, enhance profitability and accelerate revenue and earnings growth. Our software does this by creating efficiencies in how goods and services are brought to market, how they are priced and sold and how they are serviced and maintained. Our software solutions and solutions delivery approach, which combine the proven cost-reducing power of our supply chain management software solutions with the revenue-enhancing capability of demand and revenue management software, provide additional benefits by providing businesses with the ability to simultaneously optimize cost and revenue to enhance profitability on an enterprise-wide basis. These solutions integrate pricing, forecasting, and operational planning and execution to help companies enhance margins across their enterprises and extended trading networks.

Our supply chain management software helps companies plan, optimize and execute their supply chain processes. These processes include manufacturing, distribution and service operations and collaboration with a company s extended trading network of suppliers and customers. Our demand and revenue management software helps optimize a company s demand chain, including pricing and promotions to all customers through all channels, with the aim of balancing the trade-offs between profitability and other strategic objectives such as market share. Our service & parts management solutions help companies optimize and manage their service and parts operations by effectively planning and scheduling maintenance programs, parts, materials, tools, manpower and repair facilities to profitably provide the highest levels of customer service. Our supplier relationship management software helps improve the activities required to design, source, and procure goods and to collaborate more effectively with key suppliers of direct materials. We also provide strategic consulting, implementation and customer support services to our clients as part of our overall solution.

Increasing global competition, shortening product life cycles and more demanding customers are forcing businesses to provide improved levels of customer service while shortening the time it takes to bring their products and services to market. We focus the development of our software on addressing the changing needs of companies in the markets we serve, including the need to do business in extended trading networks. We offer solutions to companies in many industries including automotive; chemical & energy; communications; consumer packaged goods; food & beverage; government, aerospace & defense; high technology; industrials; life sciences; retail; third-party logistics; and travel, transportation & hospitality. Our customer base of approximately 1,200 clients includes large, multinational enterprises such as 3Com Corporation; AT&T Corporation; Boeing Co.; BP Amoco Corporation; Brown & Williamson Tobacco Corp.; Caterpillar Mexico S.A. de C.V.; Cisco Systems Inc.; Coca-Cola Bottling Co. Consolidated; Continental Airlines, Inc.; Delta Air Lines, Inc.; DHL Aviation NV/SA; E.I duPont de Nemours and

Company; Fairchild Semiconductor Corporation; Ford Motor Company; Harley-Davidson, Inc.; Hormel Foods Corp.; Kraft Foods, Inc.; Levi Strauss & Co.; Nestlé USA, Inc.; RadioShack Corporation; Texas Instruments Incorporated; and Unilever Home & Personal Care, USA, as well as mid-sized enterprises.

During fiscal 2002 and fiscal 2003, we faced challenges in our ability to stabilize revenue and operating performance and to expand market share as the progressive weakening of global economic conditions resulted in deterioration in the markets for our products and services. The weak macroeconomic environment over this time included a recession in the United States economy that was fueled by substantial reductions in capital spending by corporations world-wide, especially spending on information technology. We believe that the primary reasons for the decrease in information technology spending in fiscal 2002 and 2003 related to concerns of our clients and prospects about committing to large capital projects in the face of uncertain global economic conditions and the impact of these conditions on their respective businesses. As a result, organizations intensified their efforts to identify and realize potential cost savings, in part, by sharply restricting their software procurement to well-defined current needs. In addition, in the years preceding the global economic slowdown, many corporations made capital expenditures in anticipation of future growth that did not materialize, thereby reducing their capital expenditure needs in our fiscal 2002 and fiscal 2003 years.

In response to these weak economic conditions, we enacted a number of cost containment and cost reduction measures during fiscal 2003 to better align our cost structure with expected revenue, including:

- reducing our employee workforce by 26% across the organization, from 1,529 employees at May 31, 2002 to 1,133 employees at February 28, 2003;

- implementing mandatory unpaid leave programs for all U.S. employees during the first week in July and September of fiscal 2003 and a voluntary week of unpaid leave during our second and third quarters of fiscal 2003 for our European employees;

- reducing our office space; and

- increasing the proportion of product development work performed by third party contractors in India in order to take advantage of cost efficiencies associated with India s lower wage scale.

As we entered fiscal 2004, market conditions continued to be challenging. Geopolitical concerns and uncertainties, such as the war on terrorism, the events leading up to, and the subsequent war with Iraq and other hostilities in various parts of the world, as well as an unclear global economic picture, continued to influence corporations willingness to make significant capital expenditures. Demand for our solutions designed to optimize pricing and revenue management, a component of our demand management solutions, and our supplier relationship management solutions have been impacted more severely than our other solutions for which there are more mature markets. Although our markets in most industries and geographies deteriorated, industries most severely impacted include, among others, chemical & energy, high technology and travel, transportation & hospitality. Industries less affected include automotive, communications, consumer packaged goods, food & beverage, government, aerospace & defense, life sciences and retail, as consumer spending, especially in the United States, has remained relatively stable. Our clients and prospects in these markets continued to invest in application software, including our offerings, although at reduced levels in most cases. Customers are generally licensing fewer software modules than in past years. We have not lost any major customers or contracts in recent quarters that had a negative material impact on revenue.

Recently, there have been indications that the end of the economic and capital spending slow-down appears to be forthcoming and we believe demand levels for our solutions have stabilized and are showing some signs of improvement as evidenced by:

- increased demand in certain commercial sectors, including automotive, chemical & energy, consumer packaged goods, high technology and industrials during the quarters ended August 31, 2003 and November 30, 2003;

- our closing the largest number of significant software transactions during the quarter ended November 30, 2003, since our quarter ended May 31, 2001; and

29.6% and 35.5% of our software license transactions during the quarters ended August 31, 2003 and November 30, 2003, respectively, having come from new clients, as compared to 26.3% and 26.3% during the quarters ended May 31, 2003 and February 28, 2003, respectively

Our cost containment and cost reduction measures enacted in fiscal 2003 and fiscal 2004 have lessened the adverse impact on our financial performance of our declining revenue resulting from sustained depressed levels of capital spending on information technology. During nine months ended November 30, 2003, we reduced our employee workforce from 1,133 employees at February 28, 2003 to 943 employees at November 30, 2003 or 16.8% across the organization. Although total revenue decreased 10.5%, or $21.6 million, during the nine months ended November 30, 2003 compared to the same period in fiscal 2003, our aggregate cost of software, cost of services and support, cost of reimbursed expenses, cost of sales and marketing, product development and general and administrative expenses, excluding amortization of acquired technology and non-cash stock option compensation expense, decreased 27.0%, or $66.1 million, over the same period. Substantially all of the decline in total revenue for the three and nine months ended November 30, 2003 compared to the same periods in the prior year resulted from decreases in services revenue, which has historically represented our lowest gross margin source of revenue. During the quarter ended November 30, 2003, product-related revenue (software and support) increased 4.8 million, or 13.9%, while services-related revenue (services and reimbursed expenses) declined $7.2 million, or 26.0%, as compared to the prior year quarter. Other information related to software license transactions through and during the quarter ended November 30, 2003 include:

31 significant software transactions closed in our third quarter of fiscal 2004, the most since our first quarter in fiscal 2002;

quarterly software revenue grew year over year for the first time since our first quarter of fiscal 2002; and

average selling price (ASP) decreased to $513,000 in the three months ended November 30, 2003.

During the nine months ended November 30, 2003, international revenue as a percentage of total revenue and software revenue was 34.4% and 40.6%, respectively, as compared to 24.5% and 23.8% in the comparable prior year period. Within the Americas region, a significant portion of our software revenue was derived from our government, aerospace & defense (GAD) customers, particularly in the first quarter of fiscal 2004, offsetting softness in the remainder of the Americas. We also received the final installment under a large multi-year government contract during our first quarter of fiscal 2004.

The following table shows the number of significant software transactions, ASP for the past seven fiscal quarters (ASP in thousands), and software transactions of $1.0 million or greater:

Quarter Ended	Significant Software Transactions (1)	ASP	Software Transactions $1.0 Million or Greater
May 31, 2002	21	$1,101	8
August 31, 2002	27	614	4
November 30, 2002	22	596	3
February 28, 2003	19	896	4
May 31, 2003	14	1,279	5
August 31, 2003	27	556	6
November 30, 2003	31	513	4

(1) Significant software transactions are those with a value of $100,000 or greater recognized within the fiscal quarter.

Our ASP for software license transactions declined for the second consecutive quarter from the level achieved in the quarter ended May 31, 2003 as a result of lower concentration of software revenue from the GAD sector and an increase in the number of smaller transactions with existing customers. Software license transactions in the GAD sector tend to be larger in size than other market sectors due to the relative size of the customers and scope of use.

During the quarter ended May 31, 2003, we announced and implemented a restructuring plan designed to further align our cost structure with expected revenue, because we expected market conditions to be challenging for us through our second quarter of fiscal 2004 and possibly beyond. Actions taken included a reduction in the Company s employee workforce of approximately 8%, the vacating of and negotiations to sublease approximately 26% of our corporate headquarters space for an amount less than our current rent obligation (the sublease was finalized during the quarter ended August 31, 2003), the further consolidation of our U.S. product development functions to our corporate headquarters in Rockville, Maryland, further reduced discretionary spending and lease terminations. In December 2003, we announced an additional restructuring plan designed to further align our cost structure and resource allocation to increase efficiencies and better serve our customers. We expect to record a restructuring charge of approximately $7 million in the quarter ending February 29, 2004 as a result of reductions in office space, closing a product development facility and relocating employees to our headquarters in Rockville, Maryland . No significant changes in employee headcount are expected as a result of these actions.

The following table includes the condensed consolidated statements of operations data for the three and nine months ended November 30, 2003 and 2002 expressed as a percentage of revenue:

	Three months ended November 30,		Nine months ended November 30,	
	2003	**2002**	**2003**	**2002**
REVENUE:				
Software	28.5%	22.6%	29.6%	27.4%
Services	30.6%	40.3%	31.4%	38.5%
Support	37.1%	32.7%	35.0%	29.9%
Reimbursed expenses	3.8%	4.4%	4.0%	4.2%
Total revenue	100.0%	100.0%	100.0%	100.0%
OPERATING EXPENSES:				
Cost of software	6.2%	7.0%	6.8%	7.5%
Amortization of acquired technology	5.9%	5.7%	5.8%	4.9%
Cost of services and support	30.8%	38.0%	34.0%	36.2%
Cost of reimbursed expenses	3.8%	4.4%	4.0%	4.2%
Sales and marketing	27.3%	33.0%	26.6%	36.7%
Product development	13.4%	22.6%	15.2%	23.3%
General and administrative	9.9%	11.3%	9.8%	10.3%
Amortization of intangibles	1.7%	1.6%	1.6%	1.4%
Restructuring and other impairment charges	0.1%	13.1%	5.7%	8.2%
Purchased research and development				1.8%
Non-cash stock option compensation expense	0.7%	1.2%	0.9%	1.3%
Total operating expenses	99.7%	138.0%	110.3%	135.8%
Income (loss) from operations	0.3%	(38.0%)	(10.3)%	(35.8%)
Debt conversion expense	(27.4)%		(8.9)%	
Other expense, net	(5.6)%	(2.6)%	(5.4)%	(2.6)%

Loss before income taxes	(32.8%)	(40.6%)	(24.5%)	(38.4%)
Provision for income taxes	0.4%	1.1%	0.5%	10.4%
Net loss	(33.1)%	(41.7%)	(25.0)%	(48.7%)

The percentages shown above for cost of services and support, sales and marketing, product development and general and administrative expenses have been calculated excluding non-cash stock option compensation expense as follows (in thousands):

	Three months ended November 30,		**Nine months ended November 30,**	
	2003	**2002**	**2003**	**2002**
Cost of services and support	$ 183	$ 390	$ 780	$1,296
Sales and marketing	92	209	424	718
Product development	27	59	110	244
General and administrative	92	96	292	418
	$ 394	$ 754	$1,606	$2,676

See Non-Cash Stock Option Compensation Expense for further detail.

Use of Estimates and Critical Accounting Policies:

The accompanying discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates made by management with respect to these and other items that require management s estimates.

We have identified the accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management s judgments and estimates. These critical accounting policies relate to revenue recognition and deferred revenue, allowance for doubtful accounts, capitalized software, valuation of long-lived assets, including intangible assets and impairment review of goodwill, income taxes, restructuring-related expenses and stock-based compensation plans. These policies, and our procedures related to these policies, are described in detail below. In addition, please refer to the audited financial statements and notes included in the Annual Report on Form 10-K of the Company for the fiscal year ended February 28, 2003 for further discussion of our accounting policies.

Revenue Recognition and Deferred Revenue

Our revenue consists of software license revenue, services revenue, support revenue and reimbursed expenses. Software license revenue is recognized in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as modified by SOP 98-9, *Modification SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions (SOP 98-9"*), and Securities and Exchange Commission (SEC) Staff Accounting Bulletin 101 (SAB 101), *Revenue Recognition*. Software license revenue, services revenue and support revenue are generally recognized when the four basic criteria of SOP 97-2 and SAB 101 are met as follows:

<u>Persuasive evidence of an arrangement exists</u>: We consider a non-cancelable agreement signed by us and the customer to be evidence of an arrangement.

<u>Delivery has occurred or services have been rendered</u>: Delivery occurs when media containing the licensed program is provided to a common carrier FOB shipping point or, in the case of electronic delivery, the customer is given access to the licensed programs.

<u>Fixed or determinable fee</u>: We consider the license fee to be fixed or determinable if the fee is not subject to refund or adjustment and is payable within 12 months of the agreement date. If the arrangement fee is not fixed or determinable, we recognize the revenue as amounts become due and payable. We consider services fees to be fixed or determinable if the services fee or rates for time and material contracts are not subject to refund or adjustment.

<u>Collection is probable</u>: We perform a credit review for all significant transactions at the time the arrangement is executed to determine the credit-worthiness of the customer. Collection is deemed probable if we expect that the customer will be able to pay amounts under the arrangement as they become due. If we determine that collection is not probable, we defer recognition of the revenue until collection.

If a software license contains customer acceptance criteria or a cancellation right, recognition of the software revenue is deferred until the earlier of customer acceptance or the expiration of the acceptance period or cancellation right. Fees are allocated to the various elements of software license agreements using the residual method, based on vendor specific objective evidence (VSOE) of fair value of any undelivered elements of the arrangement. VSOE of fair value for support services is provided by the renewal rate. VSOE of fair value for implementation services is based upon separate sales of services at stated hourly rates by level of consultant. Under the residual method, we defer revenue for the fair value of its undelivered elements based on VSOE of fair value, and the remaining portion of the arrangement fee is allocated to the delivered elements and recognized as revenue when the basic criteria in SOP 97-2 and SAB 101 have been met.

Typically, payments for software licenses are due within twelve months of the agreement date. When software license agreements call for payment terms of twelve months or more from the agreement date, software revenue is recognized as payments become due and all other conditions for revenue recognition have been satisfied. When we provide services that are considered essential to the functionality of software products licensed or if the licensed software requires significant production, modification or customization, we recognize revenue on a percentage-of-completion basis in accordance with SOP 81-1, "*Accounting for Performance of Construction Type and Certain*

Production Type Contracts. In these cases, software revenue is deferred and recognized based on labor hours incurred to date compared to total estimated labor hours for the contract.

Implementation services are separately priced and sold, are generally available from a number of suppliers and typically are not essential to the functionality of our software products. Implementation services, which include project management, systems planning, design and implementation, customer configurations and training are billed on an hourly basis (time and materials) or under fixed price contracts. Implementation services are recognized as the work is performed. On fixed price contracts, services revenue is recognized using the percentage-of-completion method of accounting by relating labor hours incurred to date to total estimated labor hours. In the event services are billed in advance of work being performed, the billed amount is initially recorded as deferred services revenue and recognized as services revenue when the work is performed.

Recently, the proportion of services engagements under fixed-fee arrangements has increased relative to prior periods. We expect the proportion of services engagements under fixed-fee arrangements to fluctuate in future periods. Accordingly, our reported revenue and operating performance may be subject to increased levels of estimates and uncertainties in future periods.

The process of estimation inherent in the application of the percentage-of-completion method of accounting for revenue is subject to judgments and uncertainties and may affect the amounts of software and services revenue under certain contracts and related expenses reported in our Condensed Consolidated Financial Statements. A number of internal and external factors can affect our estimates to complete client engagements including skill level and experience of project managers, staff assigned to engagements and continuity and attrition level of implementation consulting staff. Changes in the estimated stage of completion of a particular project could create variability in our revenue and results of operations if we are required to increase or decrease previously recognized revenue related to a particular project or we expect to incur a loss on the project.

Support revenue includes post-contract customer support and the rights to unspecified software upgrades and enhancements. Customer support is generally billed annually, initially recorded as deferred revenue and recognized as support revenue ratably over the support period.

Allowance for Doubtful Accounts

For each of the three years in the period ended February 28, 2003, our provision for doubtful accounts has ranged between approximately 2% and 3% of total revenue. For the nine months ended November 30, 2003, our provision for doubtful accounts was less than 1% of revenue. The decrease as a percentage of revenue from prior periods resulted from improved collections experience. We initially record the provision for doubtful accounts based on our historical experience of write-offs and adjust our allowance for doubtful accounts at the end of each reporting period based on a detailed assessment of our accounts receivable and related credit risks. In estimating the allowance for doubtful accounts, management considers the age of the accounts receivable, historical write-off experience, the credit-worthiness of the customer, the economic conditions of the customer s industry and general economic conditions, among other factors. Should any of these factors change, the estimates made by management will also change, which could affect the level of the Company s future provision for doubtful accounts. If the assumptions we used to calculate these estimates do not properly reflect future collections, there could be an impact on future reported results of operations. Based on our total revenue reported for the quarter ended November 30, 2003, our provision for doubtful accounts would change by approximately $2.4 million annually for a 1% change in proportion of total revenue. The provision for doubtful accounts is included in sales and marketing expense (for software license receivables) and cost of services and support (for services and support fees receivable), in the condensed consolidated statement of operations.

Capitalized Software Development Costs

We capitalize the development cost of software, other than internal use software, in accordance with Statement of Financial Accounting Standards No. 86 (SFAS 86), *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed.* 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 clients. Software development costs are amortized using the straight-line method over the estimated economic life of the product, commencing with the date the product is first available for general release. Generally, an economic life of two years is used to amortize capitalized software development costs.

When we determine that technological feasibility occurs at a later date, such as coincident with general product release to clients, we do not capitalize any software development costs. This would increase our reported operating expenses in the short-term by the amounts we do not capitalize. The amounts of software development costs that we have capitalized have ranged between $2.1 million and $3.6 million per quarter during fiscal 2001, fiscal 2002 and fiscal 2003, and our first three quarters in fiscal 2004. The estimated economic life of our capitalized software development costs is subject to change in future periods based on our experience with the length of time our products or enhancements are being or are expected to be used. A change in the expected economic life of our capitalized software development costs of six months would change our quarterly operating expenses by approximately $(0.5) million to $0.9 million.

Valuation of Long-Lived Assets, Including Intangible Assets and Impairment Review of Goodwill

We assess the impairment of long-lived assets, including intangible assets and software developed for internal use, whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. When we determine that the carrying value of such assets may not be recoverable, we generally measure any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in our current business model. In addition, at each reporting date, we compare the net realizable value of capitalized software development costs to the unamortized capitalized costs. To the extent the unamortized capitalized costs exceed the net realizable value, the excess amount is written off. Other intangible assets, including acquired technology, are amortized over periods ranging from two to seven years.

Evaluating long-lived assets for impairment involves judgments as to when an asset may potentially be impaired. We consider there to be a risk of impairment if there is a significant decrease in the market value of an asset, if there is a significant change in the extent or intended use of an asset, or if actual or projected operating losses indicate continuing losses from an asset used to produce revenue.

As of November 30, 2003 our net book value of long-lived assets consisted of the following (in thousands):

Property and equipment	$ 23,944
Software development costs	13,556
Software developed for internal use	3,118
Goodwill	185,547
Acquired technology	30,569
Customer relationships	17,646
Total	$274,380

The estimated economic useful lives of our long-lived and intangible assets are subject to change in future periods based upon the intended use of the asset or period of time revenues are expected to be generated. We test goodwill for impairment on an annual basis, coinciding with our fiscal year end, or on an interim basis if circumstances change that would more likely than not reduce our implied fair value (which includes factors such as, but not limited to, the Company s market capitalization, control premium and recent stock price volatility) below our carrying value. Please see Factors That May Affect Future Results Risks Related to Our Business. We performed impairment reviews during our second and third quarters of fiscal 2003 due to a decrease in market capitalization, and no impairment losses were recognized.

We performed a test for goodwill impairment as of February 28, 2003, our annual date for goodwill impairment review, and determined that our implied fair value was less than stockholders equity, including goodwill, an indication that goodwill may be impaired. Therefore, we performed the second step of the goodwill impairment test. As a result, we recorded a goodwill impairment charge of $96.3 million to reduce goodwill associated with our acquisitions to their estimated fair value as of that date. The goodwill impairment loss was determined by calculating the difference between: a) our implied fair value as of February 28, 2003 less the fair value of our net assets and b) the carrying value of goodwill. The fair value of the identifiable intangible assets of the Company were determined by an independent valuation. Our implied fair value was estimated based on the closing quoted market price of our common stock on February 28, 2003 multiplied by the number of outstanding common shares (market capitalization) plus an implied control premium as if we were 100% owned by a single stockholder. The implied control premium used for purposes of measuring the implied fair value of the Company was determined by review of the premiums paid by other companies in past public technology and software acquisitions.

Determining the implied fair value of goodwill involves judgments as to when an impairment may exist, as well as estimates used to compute the implied fair value. If the estimates used to calculate the implied fair value of goodwill were to change such that the fair value dropped below stockholders equity, this could result in an impairment charge for some or all of our goodwill balance in future periods.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. We assess the likelihood that our deferred tax assets will be recovered from our future taxable income, and to the extent we believe that recovery is not likely, we establish a valuation allowance. We consider historical taxable income, estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the amount of the valuation allowance. Adjustments could be required in the future if we determine that the amount to be realized is greater or less than the valuation allowance we have recorded. Based on various factors, including our cumulative losses for fiscal 2001, 2002 and 2003 when adjusted for non-recurring items, the size of our loss for fiscal 2003 and estimates of future profitability, management has concluded that future taxable income will, more likely than not, be insufficient to recover our net deferred tax assets. Based on the weight of positive and negative evidence regarding recoverability of our deferred tax assets, we recorded a valuation allowance for the full amount of our net deferred tax assets, which resulted in a $20.4 million charge to income tax expense in the fiscal year ended February 28, 2003. Management will continue to monitor its estimates of future profitability and realizability of our net deferred tax assets based on evolving business conditions.

Also, as part of the process of preparing our 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 pretax income can impact our overall income tax expense. This process involves estimating our current tax liabilities in each jurisdiction in which we operate.

Restructuring-Related Expenses

Our restructuring charges are comprised primarily of: (i) severance and associated employee benefits related to the involuntary reduction of our workforce; (ii) lease termination costs, costs associated with permanently vacating facilities (abandonment) or both; and (iii) impairment costs related to certain long-lived assets and leasehold improvements abandoned.

Prior to December 31, 2002, we accounted for the costs associated with the reduction of our workforce in accordance with Emerging Issues Task Force No. 94-3 *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring*) (EITF 94-3). Accordingly, we recorded the liability related to involuntary termination costs when the following conditions were met: (i) management with the appropriate level of authority approved a termination plan that committed us to such plan and established the benefits the employees would receive upon termination; (ii) the benefit arrangement was communicated to the employees in sufficient detail to enable the employees to determine the termination benefits; (iii) the plan specifically identified the number of employees to be terminated, their locations, and their job classifications; and (iv) the period of time to implement the plan did not indicate changes to the plan were likely. The termination costs we record are not associated with, nor do they benefit, continuing activities. Prior to December 31, 2002, we accounted for lease termination costs in accordance with EITF 94-3. Accordingly, we recorded the costs associated with lease termination, abandonment or both when the following conditions were met: (i) management with the appropriate level of authority approved a termination plan that committed us to such plan; (ii) the plan specifically identified all activities that would not be continued, including the method of disposition and location of those activities, and the expected date of completion; (iii) the period of time to implement the plan does not indicate changes to the plan were likely; and (iv) the leased property had no substantive future use or benefit to us. We recorded the liability associated with lease termination, abandonment or both as the sum of the total remaining lease costs and related exit costs, less probable sublease income or the expected lease termination fees or penalties. We accounted for costs related to long-lived assets abandoned in accordance with Statement of Financial Accounting

Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets,* (SFAS 144) and, accordingly, charged to expense the net carrying value of the long-lived assets when we ceased to use the assets.

We adopted Statement of Financial Accounting Standards No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146) on January 1, 2003. SFAS 146 nullifies EITF 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of a company s commitment to an exit plan. SFAS 146 eliminates the definition and requirements for recognition of exit costs in EITF 94-3 and also establishes that fair value is the objective for initial measurement of the liability. Accordingly, for exit or disposal activities undertaken after December 31, 2002, we recorded the liability related to involuntary termination costs, lease costs, abandonment costs and relocation costs as they were incurred.

Inherent in the estimation of the costs related to our restructuring efforts are assessments related to the most likely expected outcome of the significant actions to accomplish lease abandonments. Changing business and real estate market conditions may affect the assumptions related to the timing and extent of our ability to sublease vacated space. We review the status of restructuring liabilities on a quarterly basis and, if appropriate, we record changes to our restructuring liabilities based on management s most current estimates.

Stock-Based Compensation Plans

We account for our stock-based compensation plans in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations using the intrinsic value based method of accounting. If we accounted for our stock-based compensation plan using the fair value based method of accounting in accordance with the provisions as required by Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*, as amended by Statement of Financial Accounting Standards No. 148 (SFAS 148), *Accounting for Stock-Based Compensation Transition and Disclosure,* our net loss and loss per basic and diluted share amounts would have been as follows, in thousands except per share amounts:

	Three Months Ended November 30, 2003	2002	Nine Months Ended November 30, 2003	2002
Net loss, as reported	$(19,847)	$(26,003)	$(46,277)	$(100,801)
Add: Stock option-based compensation expense included in reported net loss, net of tax	394	754	1,606	2,676
Less: Stock option-based compensation, net of tax (1)	(1,665)	(4,432)	(1,976)	(18,121)
Pro forma net loss	$(21,118)	$(29,681)	$(46,647)	$(116,246)
Basic and diluted loss per share, as reported	$ (0.27)	$ (0.37)	$ (0.65)	$ (1.45)
Basic and diluted loss per share, pro forma	$ (0.29)	$ (0.42)	$ (0.66)	$ (1.67)

(1) Includes the impact of stock option forfeitures related to employee terminations.

Consistent with our accounting for deferred tax assets resulting from the exercise of employee stock options in the accompanying unaudited condensed consolidated financial statements, we have not provided a tax benefit or expense on the pro forma expense in the above table.

Stock options granted had weighted average fair values of $4.00 and $4.20 per share, respectively, for the three and nine months ended November 30, 2003, and $2.42 and $3.98 per share, respectively, during the three and nine months ended November 30, 2002, as calculated using the Black-Scholes option valuation model. The weighted average estimated fair value of the common stock purchase rights granted under our employee stock purchase plan during the nine months ended November 30, 2003 was $0.90 per share, and during the three and nine months ended November 30, 2002 was $2.18 and $4.27 per share, respectively. The employee stock purchase plan program was no longer active as of July 1, 2003.

We determined the assumptions used in computing the fair value of stock options and stock purchase plan shares by estimating the expected useful lives, giving consideration to the vesting and purchase periods, contractual lives, actual employee forfeitures, and the relationship between the exercise price and the fair market value of our common stock, among other factors. The risk-free interest rate is the U.S. Treasury bill rate for the relevant expected life. The fair value of stock options and stock purchase plan shares was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	OPTIONS		ESPP		OPTIONS		ESPP	
	Three Months Ended November 30,		Three Months Ended November 30,		Nine Months Ended November 30,		Nine Months Ended November 30,	
	2003	2002	2003	2002	2003	2002	2003	2002
Risk-free interest rate	2.22%	3.02%	N/A	2.20%	2.49%	4.29%	1.45%	2.21%
Expected term	2.86 years	6.16 years	N/A	6 months	4.44 years	6.31 years	6 months	6 months
Volatility	.9403	.8657	N/A	.8561	.9430	.8556	.8814	.8534
Dividend Yield	0%	0%	0%	0%	0%	0%	0%	0%

Results of Operations:

***Revenue**:*

Software Revenue. Software revenue increased 21.3%, or $3.0 million, and decreased 3.4%, or $1.9 million, for the three and nine months ended November 30, 2003, respectively, compared to the same periods in 2002.

The following tables summarize our software transactions for the three and nine months ended November 30, 2003 and 2002:

<u>**Significant Software Transactions (1)**</u>	Three Months Ended November 30,		Nine Months Ended November 30,	
	2003	2002	2003	2002
Total number of transactions existing customers	20	14	50	40
Total number of transactions new customers	11	8	22	30
Total customers	31	22	72	70
<u>**Number of Customers**</u>				
Number of transactions $100,000 to $999,999	27	19	57	55
Number of transactions $1.0 million and greater	4	3	15	15
Total number of significant software transactions	31	22	72	70
Average selling price (in thousands)	$ 513	$ 596	$ 678	$ 754

(1) Significant software transactions are those with a value of $100,000 or greater recognized within the fiscal quarter.

The increase in software revenue for the quarter ended November 30, 2003 compared to the prior year quarter was due to an increase in the total number of software transactions. ASP for new customers decreased 10% to $601,000 for the quarter ended November 30, 2003 compared to the prior year quarter, and ASP for existing customers decreased 16% to $465,000 compared to the prior year quarter, as a result of a larger number of software transactions between $100,000 and $300,000.

The slight decrease in software revenue for the nine months ended November 30, 2003 was due to a decline in ASP as a result of a larger number of software transactions with existing customers between $100,000 and $300,000, offset by increased software revenue from transactions accounted for on a percentage-of-completion (POC) basis. We signed one software license transaction during the quarter ended May 31, 2003 in excess of $1 million that is being accounted for on a percentage-of-completion POC basis over the implementation period which is expected to be completed during the first quarter of fiscal 2005. For more details on our software revenue during the three and nine months ended November 30, 2003 and 2002, see Overview in Management s Discussion and Analysis of Financial Condition and Results of

Operations included elsewhere in this Report.

Services Revenue. Services revenue decreased 27.1%, or $6.8 million, and decreased 26.8%, or $21.4 million, during the three and nine months ended November 30, 2003, respectively, compared to the same periods in the prior year. The decrease in services revenue during the three and nine months ended November 30, 2003 resulted from the decrease in the number of completed software license transactions in fiscal 2002, fiscal 2003 and the first half of fiscal 2004 and resulting lower demand for implementation services and, to some extent, pricing pressure and changes in geographic mix in overall services revenue to regions with lower service rates. Services revenue tends to track software license revenue in prior periods. See Forward-Looking Statements and Factors That May Affect Future Results.

Support Revenue. Support revenue increased 8.7%, or $1.8 million, and increased 4.7%, or $2.9 million, during the three and nine months ended November 30, 2003, respectively, compared to the same periods in 2002. The increase in support revenue during the nine months ended November 30, 2003 was due to the increase in the base of clients that have licensed our software products and entered into annual support arrangements coupled with renewals of annual support agreements by our existing client base. In the past, we have experienced high rates of renewed annual support contracts. There can be no assurance that our historical renewal rate will continue. See Forward-Looking Statements and Factors That May Affect Future Results.

International Revenue. We market and sell our software and services internationally, primarily in Europe, Asia Pacific, Canada and Central and South America. Revenue outside of the United States was 39.2% and 27.8% of total revenue, or $23.5 million and $17.3 million, during the three months ended November 30, 2003 and 2002, respectively, and 34.4% and 24.5% of total revenue, or $63.8 million and $50.6 million, during the nine months ended November 30, 2003 and 2002, respectively. The increase in international revenue was due to improved sales execution in Europe and growth in the emerging markets of Asia Pacific.

During the three and nine months ended November 30, 2003, revenue in Europe increased 44.0% to $18.0 million, and 29.5% to $44.1 million, respectively, over the same periods in the prior year. Revenue in Asia-Pacific increased 19.1% to $4.1 million, and 30.5% to $15.9 million, respectively, over the same periods in the prior year.

Operating Expenses*:*

Cost of Software. Cost of software consists primarily of amortization of capitalized software development costs and royalty fees associated with third-party software either embedded in our software or resold by us. The following table sets forth amortization of capitalized software development costs and other costs of software for the three and nine months ended November 30, 2003 and 2002 (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2003	2002	2003	2002
Amortization of capitalized software	$2,095	$2,911	$ 7,303	$ 9,323
Percentage of software revenue	12.3%	20.7%	13.3%	16.4%
Other costs of software	1,600	1,454	5,257	6,172
Percentage of software revenue	9.4%	10.3%	9.6%	10.9%
Total cost of software	$3,695	$4,365	$12,560	$15,495
Percentage of software revenue	21.6%	31.0%	22.9%	27.3%

The decrease in cost of software during the three months ended November 30, 2003 compared to the same period in 2002 was a result of decreased amortization of capitalized software, offset by an increase in royalties paid to third parties as a result of increased software revenue. The decrease in cost of software during the nine months ended November 30, 2003 compared to the same period in 2002 was a result of decreased amortization of capitalized software and decreases in royalties paid to third parties as a result of the mix of software sold and lower software revenue. Amortization of capitalized software development costs does not vary with software revenue while royalty fees do.

Amortization of Acquired Technology. In connection with our acquisitions of the assets and business of Western Data Systems of Nevada, Inc. (WDS) and Digital Freight Exchange, Inc. (DFE) in fiscal 2003 and certain previous acquisitions, we acquired developed technology that we offer as part of our integrated solutions. Acquired technology is amortized over periods ranging from four to six years. We expect annual amortization of acquired technology to be approximately $14.2 million in fiscal 2004. See Forward-Looking Statements and Factors That May Affect Future Results.

Cost of Services and Support. Cost of services and support includes primarily personnel and third party contractor costs. Cost of services and support as a percentage of related revenue was 45.5% and 52.1% in the three months ended November 30, 2003 and 2002, respectively, and 51.1% and 52.9% during the nine months ended

November 30, 2003 and 2002, respectively. Cost of services and support decreased 22.2%, or $5.3 million, and 15.9%, or $11.9 million, during the three and nine months ended November 30, 2003, respectively, compared to the same periods in 2002. The decrease in cost of services and support was attributable to an overall decrease in the average number of services and support employees to 359 and 378 during three and nine months ended November 30, 2003, respectively, compared to 458 and 464 in the same periods of 2002. This was a result of the implementation of our cost containment and cost reduction initiatives during fiscal 2003 and fiscal 2004 and improved utilization rates for consulting services employees in fiscal 2004. The decrease in cost of services and support as a percentage of related revenue in the three months ended November 30, 2003 reflects an increase in the proportion of this revenue derived from support services, which historically have higher margins than implementation services.

Sales and Marketing. Sales and marketing expense consists primarily of personnel costs, sales commissions, promotional events such as user conferences, trade shows and technical conferences, advertising and public relations programs. Sales and marketing expense decreased 20.7%, or $4.3 million, and 35.1%, or $26.6 million, during the three and nine months ended November 30, 2003, respectively, compared to the same periods of fiscal 2003. The decreases during the three and nine months ended November 30, 2003 were due to:

an overall decrease in the average number of sales, marketing and business development employees to 216 and 223 during the three and nine months ended November 30, 2003, respectively, compared to 312 and 349 in the same periods of fiscal 2003. This was the result of cost containment and cost reduction measures implemented during fiscal 2003 and fiscal 2004; and

a decrease in promotional spending, travel, advertising and public relations spending resulting from cost containment and cost reduction measures implemented in fiscal 2003 and fiscal 2004. The decrease in the three months ended November 30, 2003 was partially offset as a result of our annual United States user conference called enVISION being held in the third quarter of fiscal 2004, compared to the first quarter of fiscal 2003.

Product Development. Product development expenses include costs associated with the development of new software products, enhancements of existing products and quality assurance activities and are reported net of capitalized software development costs. Such costs are primarily for employees and, to a lesser extent, third party contractors. The following table sets forth product development costs for the three and nine months ended November 30, 2003 and 2002 (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2003	2002	2003	2002
Gross product development costs	$10,717	$16,202	$35,647	$56,636
Percentage of total revenue	17.9%	26.0%	19.2%	27.4%
Less: Capitalized product development costs	2,668	2,107	7,494	8,328
Percentage of total revenue	4.5%	3.4%	4.0%	4.0%
Product development costs, as reported	$ 8,049	$14,095	$28,153	$48,308
Percentage of total revenue	13.4%	22.6%	15.2%	23.3%

Gross product development costs decreased 33.9%, or $5.5 million, and 37.1%, or $21.0 million, during the three and nine months ended November 30, 2003, respectively, compared to the same periods in fiscal 2003. The decrease in gross product development costs was due to:

an overall decrease in the average number of product development employees to 263 and 295 during the three and nine months ended November 30, 2003, respectively, compared to 417 and 421 in the same periods of fiscal 2003. This was the result of cost containment and cost reduction measures implemented during fiscal 2003 and fiscal 2004;

an increase in the proportion of our product development work being performed by contractors in India to take advantage of cost efficiencies associated with India s lower wage scale; and

an overall decrease in the average number of product development contractors in the United States to 12 and 20 during the three and nine months ended November 30, 2003, respectively, compared to 52 and 67 in the same periods of 2002. This was the result of cost containment and cost reduction measures implemented during fiscal 2003 and fiscal 2004.

General and Administrative. General and administrative expenses include personnel and other costs of our legal, finance, accounting, human resources, facilities and information systems functions. General and administrative expenses decreased 16.2%, or $1.1 million, and 14.9%, or $3.2 million, during the three and nine months ended November 30, 2003 compared to the same periods in 2002. The decrease was due to a decrease in the average number of general and administrative employees resulting from cost containment and cost reduction measures implemented during fiscal 2003 and fiscal 2004.

Amortization of Intangibles. Our acquisition of WDS and DFE in our first quarter of fiscal 2003 and certain previous acquisitions were accounted for under the purchase method of accounting. As a result, we recorded goodwill and other intangible assets that represent the excess of the purchase price paid over the fair value of the net tangible assets acquired. Other intangible assets are amortized over periods ranging from four to seven years. Amortization of intangibles was flat during the three months ended November 30, 2003 compared to the same period in 2002 and increased by $0.2 million during the nine months ended November 30, 2003 compared to the same period in 2002 due to the WDS and DFE acquisitions late in our first quarter of fiscal 2003.

Restructuring and Other Impairment Charges. We adopted a restructuring plan in our first quarter of fiscal 2004 and in our second and third quarters of fiscal 2003. Details of our restructuring plans and how we account for them are included in Note 8 in the Notes to Condensed Consolidated Financial Statements and in Use of Estimates and Critical Accounting Policies in Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Report.

The following table sets forth a summary of restructuring and other impairment charges for the three and nine months ended November 30, 2003 (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2003	2002	2003	2002
Lease obligations and terminations	$ 40	$ 3,273	$ 5,728	$ 7,484
Severance and related benefits		3,633	1,217	6,520
Impairment charges		1,035	3,190	2,484
Other	27	218	414	508
Total restructuring and other impairment charges	$ 67	$ 8,159	$ 10,549	$ 16,996

The impact to reported basic and diluted loss per share as a result of the restructuring and other impairment charges was $(0.00) and $(0.15) in the three and nine months ended November 30, 2003, respectively, and $(0.12) and $(0.24) in the three and nine months ended November 30, 2002, respectively.

As a result of the adoption of our restructuring plans and cost containment initiatives in fiscal 2003, we reduced our operating expenses by approximately $100 million annually from the cost structure in our quarter ended May 31, 2002. As a result of the adoption of our restructuring plan during the three months ended May 31, 2003, we reduced our cost structure by an additional $15.0 million annually. We realized the cost savings associated with our restructuring and cost containment efforts in the quarters following implementation of the respective plans. We do not expect our cost savings to be offset by increases in other expense areas. Details of our restructuring and other impairment charges are included in Note 8 in the Notes to our Condensed Consolidated Financial Statements included elsewhere in this Report.

A summary of approximate annual cost savings associated with our restructuring plans is as follows (in thousands):

	Fiscal Year Ended February 28 or 29,	
	2004 Restructuring Plan	2003 Restructuring Plans
Functional Expense		
Cost of services and support	$ 4,500	$ 15,000
Sales & marketing	3,500	50,000
Product development	6,000	30,000
General and administrative	1,000	5,000
Total	$ 15,000	$ 100,000
Expense Type		
Salaries & benefits	$ 7,500	$ 55,000
Contractors	2,000	15,000
Promotion		5,000
Travel	1,500	15,000