

I2 TECHNOLOGIES INC  
Form 10-Q  
November 14, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-28030

**i2 Technologies, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**One i2 Place**  
**11701 Luna Road**  
**Dallas, Texas**  
(Address of principal executive offices)

**75-2294945**  
(I.R.S. Employer  
Identification No.)

**75234**  
(Zip code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer (Do not check if a smaller reporting company)  Smaller reporting company   
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 3, 2008, the Registrant had 21,823,037 shares of \$0.00025 par value Common Stock outstanding.

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**i2 TECHNOLOGIES, INC.**

**QUARTERLY REPORT ON FORM 10-Q**

**September 30, 2008**

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

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 221,162	\$ 120,978
Restricted cash	6,646	8,456
Accounts receivable, net	26,991	25,108
Other current assets	8,306	7,746
Total current assets	263,105	162,288
Premises and equipment, net	5,381	7,559
Goodwill	16,684	16,684
Non-current deferred tax asset	6,890	8,454
Other non-current assets	6,284	7,168
Total assets	\$ 298,344	\$ 202,153
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,103	\$ 4,741
Accrued liabilities	18,523	14,631
Accrued compensation and related expenses	16,985	17,636
Deferred revenue	62,772	61,715
Total current liabilities	102,383	98,723
Total long-term debt, net	84,926	84,453
Taxes payable	6,155	4,484
Total liabilities	193,464	187,660
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, \$0.001 par value, 5,000 shares authorized, none issued and outstanding		
Series A junior participating preferred stock, \$0.001 par value, 2,000 shares authorized, none issued and outstanding		
Series B 2.5% convertible preferred stock, \$1,000 par value, 150 shares authorized, 108 issued and outstanding at September 30, 2008 and 107 issued and outstanding December 31, 2007	105,116	103,450
Common stock, \$0.00025 par value, 2,000,000 shares authorized, 21,814 and 21,448 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	5	5

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Additional paid-in capital	10,467,213	10,458,101
Accumulated other comprehensive income	4,328	9,963
Accumulated deficit	(10,471,782)	(10,557,026)
Net stockholders' equity	104,880	14,493
Total liabilities and stockholders' equity	\$ 298,344	\$ 202,153

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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenues:</b>				
Software solutions	\$ 10,562	\$ 10,522	\$ 34,802	\$ 35,367
Services	33,316	33,365	92,666	93,613
Maintenance	20,875	22,571	64,588	65,598
Contract				2,450
<b>Total revenues</b>	<b>64,753</b>	<b>66,458</b>	<b>192,056</b>	<b>197,028</b>
<b>Costs and expenses:</b>				
<b>Cost of revenues:</b>				
Software solutions	2,296	2,066	7,784	6,715
Services	22,218	24,752	68,313	73,062
Maintenance	2,368	2,668	7,866	8,405
Amortization of acquired technology		6	4	19
Sales and marketing	10,518	7,928	35,540	32,582
Research and development	7,384	8,224	22,558	25,779
General and administrative	9,402	8,808	29,830	29,691
Amortization of intangibles	25	25	75	53
Restructuring charges and adjustments		3,921		3,847
<b>Costs and expenses, subtotal</b>	<b>54,211</b>	<b>58,398</b>	<b>171,970</b>	<b>180,153</b>
Intellectual property settlement, net		456	(79,860)	501
<b>Total costs and expenses</b>	<b>54,211</b>	<b>58,854</b>	<b>92,110</b>	<b>180,654</b>
<b>Operating income</b>	<b>10,542</b>	<b>7,604</b>	<b>99,946</b>	<b>16,374</b>
<b>Non-operating (expense), net:</b>				
Interest income	1,212	1,413	3,339	4,061
Interest expense	(1,237)	(1,236)	(3,711)	(3,712)
Realized gains on investments, net				1
Foreign currency hedge and transaction losses, net	(639)	(107)	(1,244)	(298)
Other expense, net	(5,674)	(300)	(5,391)	(853)
<b>Total non-operating (expense), net</b>	<b>(6,338)</b>	<b>(230)</b>	<b>(7,007)</b>	<b>(801)</b>
<b>Income before income taxes</b>	<b>4,204</b>	<b>7,374</b>	<b>92,939</b>	<b>15,573</b>
Income tax expense	1,508	2,057	5,349	3,655
<b>Net income</b>	<b>\$ 2,696</b>	<b>\$ 5,317</b>	<b>\$ 87,590</b>	<b>\$ 11,918</b>
Preferred stock dividend and accretion of discount	794	773	2,346	2,297

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Net income applicable to common stockholders	\$ 1,902	\$ 4,544	\$ 85,244	\$ 9,621
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Net income per common share applicable to common stockholders:

Basic	\$ 0.07	\$ 0.18	\$ 3.26	\$ 0.37
Diluted	\$ 0.07	\$ 0.17	\$ 3.21	\$ 0.36

Weighted-average common shares outstanding:

Basic	26,337	25,900	26,175	25,760
Diluted	26,851	26,541	26,578	26,827

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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Comprehensive income (loss):				
Net income applicable to common stockholders	\$ 1,902	\$ 4,544	\$ 85,244	\$ 9,621
Other comprehensive income (expense):				
Foreign currency translation adjustments	(5,321)	3,280	(5,634)	6,923
Total other comprehensive income (expense)	(5,321)	3,280	(5,634)	6,923
Total comprehensive income (loss)	\$ (3,419)	\$ 7,824	\$ 79,610	\$ 16,544

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



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

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 87,590	\$ 11,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of debt issuance expense	813	773
Warrant accretion	473	473
Depreciation and amortization	2,738	3,631
Stock based compensation	8,661	9,668
Loss on disposal of premises and equipment	143	251
Expense (credit) for bad debts charged to costs and expenses	173	(88)
Deferred income taxes	1,526	(26)
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(2,097)	(2,579)
Other assets	(8,420)	5,885
Accounts payable	559	(1,128)
Taxes payable	1,931	
Accrued liabilities	3,622	(2,415)
Accrued compensation and related expenses	294	(9,561)
Deferred revenue	929	(8,811)
<b>Net cash provided by operating activities</b>	<b>98,935</b>	<b>7,991</b>
<b>Cash flows provided by (used in) investing activities:</b>		
Restrictions (placed) released on cash	1,810	(1,762)
Purchases of premises and equipment	(848)	(1,229)
Proceeds from sale of premises and equipment	13	24
Business acquisitions		(2,124)
<b>Net cash provided by (used in) investing activities</b>	<b>975</b>	<b>(5,091)</b>
<b>Cash flows provided by financing activities:</b>		
Cash dividends paid - preferred stock		(1,307)
Net proceeds from common stock issuance from options and employee stock purchase plans	450	3,201
<b>Net cash provided by financing activities</b>	<b>450</b>	<b>1,894</b>
Effect of exchange rates on cash	(176)	408
<b>Net change in cash and cash equivalents</b>	<b>100,184</b>	<b>5,202</b>
Cash and cash equivalents at beginning of period	120,978	109,419
<b>Cash and cash equivalents at end of period</b>	<b>\$ 221,162</b>	<b>\$ 114,621</b>

**Supplemental cash flow information**

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Interest paid	\$	2,156	\$	2,156
Income taxes paid (net of refunds received)	\$	3,309	\$	3,411
<b>Schedule of non-cash financing activities</b>				
Preferred stock dividend and accretion of discount	\$	2,346	\$	990

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

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**i2 TECHNOLOGIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**(Unaudited)**

**1. Summary of Significant Accounting Policies**

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

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

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

Collaboration interoperability with supply chain partners and elimination of functional silos

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

*Basis of Presentation.* Our unaudited condensed consolidated financial statements have been prepared by management and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2008. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted under the Securities and Exchange Commission's (SEC) rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, presented in our Annual Report on Form 10-K for the year ended December 31, 2007 filed on March 17, 2008 with the SEC (2007 Annual Report on Form 10-K).

*Recent Accounting Pronouncements* We adopted SFAS No. 157, *Fair Value Measurements*, on January 1, 2008. The statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair-value measurements required under other accounting pronouncements. It does not change existing guidance as to whether or not an instrument is carried at fair value. Adoption of SFAS No. 157 did not have a material impact on our financial statements.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1 (FSP FAS 157-1), which excludes SFAS No. 13, *Accounting for Leases* and certain other accounting pronouncements that address fair value measurements under SFAS 13, from the scope of SFAS 157. In February 2008, the FASB also issued FASB Staff Position No. 157-2 (FSP 157-2), which provides a one-year delayed application of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company is required to adopt SFAS 157 as amended by FSP FAS 157-1 and FSP FAS 157-2 on January 1, 2009. We are currently assessing the impact on our financial condition and results of operations.

We adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, on January 1, 2008. This statement permits but does not require entities to measure many financial instruments and certain other items at fair value. Once an entity has elected the fair value option for designated financial instruments and other items, changes in fair value must be recognized in the statement of operations. The election

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is irrevocable once made. Adoption of SFAS No. 159 did not have a material impact on the Company's financial statements.

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In December 2007, the FASB issued Statement No. 141R, Business Combinations ( SFAS No. 141R) which changes how an entity accounts for the acquisition of a business. When effective, SFAS No. 141R will replace existing SFAS No. 141 in its entirety, will amend SFAS No. 109 and Interpretation 48 and also will amend the goodwill impairment test requirements in SFAS No. 142. SFAS No. 141R is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. Early adoption is prohibited.

We currently record all changes to a valuation allowance for acquired deferred tax assets or the effect of changes in an acquired tax position that occur after the acquisition date by initially reducing the related goodwill to zero, next by reducing other noncurrent intangible assets related to the acquisition to zero and lastly by reducing income tax expense. However, SFAS No. 141R amends SFAS No. 109 and Interpretation 48 to require us to recognize changes to the valuation allowance for an acquired deferred tax asset or the effect of changes to an acquired tax position as adjustments to income tax expense or contributed capital, as appropriate, and not as adjustments to goodwill. This accounting will be required when SFAS No. 141R becomes effective (January 1, 2009) and applies to valuation allowances and tax positions related to acquisitions accounted for originally under SFAS No. 141 as well as those accounted for under SFAS No. 141R.

We intend to adopt SFAS No. 141R effective January 1, 2009 and apply its provisions prospectively. We are evaluating the impact that the adoption of SFAS No. 141R will have on our financial statements.

In May 2008, the FASB issued Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles . The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles ( GAAP ). The pronouncement mandates that the GAAP hierarchy reside in the accounting literature as opposed to audit literature. This pronouncement will become effective 60 days following SEC approval. The Company does not believe this pronouncement will impact its financial statements.

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

Our 5% Senior Convertible Notes ( Notes ) are within the scope of FSP APB 14-1. During the first quarter of 2009, we will be required to report the debt components of the Notes at fair value as of the date of issuance and amortize the discount as an increase to interest expense over the expected life of the debt. The implementation of this standard will result in a decrease to net income and earnings per share for all periods presented; however, there is no effect on our cash interest payments. We are currently assessing the impact of adopting FSP APB 14-1 on our financial condition and results of operations.

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

**2. Investment Securities**

Short-term time deposits and other liquid investments in debt securities with original maturities of less than three months when acquired are classified as available-for-sale and reported as cash and cash equivalents on our condensed consolidated balance sheet. Based on their maturities, interest rate movements do not affect the balance sheet valuation of these investments. Investment securities reported as cash and cash equivalents as of September 30, 2008 and December 31, 2007 were as follows:

	September 30, 2008	December 31, 2007
Short-term time deposits	\$ 587	5,143
	\$ 587	\$ 5,143



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We typically invest our cash in a variety of interest-earning financial instruments, including bank time deposits, money market funds and taxable and tax-exempt variable-rate and fixed-rate obligations of corporations and federal, state and local governmental entities and agencies. These investments are primarily denominated in U.S. Dollars. Due to economic volatility, at the end of the third quarter 2008, all of our short-term investments were invested in Treasury and Agency securities.

**3. Borrowings and Debt Issuance Costs**

The following table summarizes the outstanding debt and related capitalized debt issuance costs recorded on our condensed consolidated balance sheet at September 30, 2008 and December 31, 2007.

	September 30, 2008	December 31, 2007
Senior convertible notes, 5% annual rate payable semi-annually, due November 15, 2015	86,250	86,250
Unamortized discount on 5% notes	(1,324)	(1,797)
<b>Total debt</b>	<b>\$ 84,926</b>	<b>\$ 84,453</b>
Capitalized debt issuance costs, net	\$ 2,348	\$ 3,161

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

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

**4. Restructuring Charges and Adjustments**

*Restructuring Plans.* In prior periods, we implemented restructuring plans, which included the elimination of personnel as well as other targeted cost reductions. See *Note 11, Restructuring Charges and Adjustments*, in our Notes to Consolidated Financial Statements in our 2007 Annual Report on Form 10-K for a description of our previous restructuring plans.

The following table summarizes the changes to our restructuring accruals, as well as the components of the remaining restructuring accruals at September 30, 2008 and 2007.

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	Employee Severance and Termination		Office Closure and Consolidation		Total	
	2008	2007	2008	2007	2008	2007
January 1,	\$ 283	\$ 192	\$	\$ 123	\$ 283	\$ 315
Adjustments to restructuring plans		(8)		(17)		(25)
Cash payments	(108)			(32)	(108)	(32)
Remaining accrual balance at March 31,	\$ 175	\$ 184	\$	\$ 74	\$ 175	\$ 258
Adjustments to restructuring plans				(49)		(49)
Cash payments	(46)			10	(46)	10
Remaining accrual balance at June 30,	\$ 129	\$ 184	\$	\$ 35	\$ 129	\$ 219
Cash payments	(18)				(18)	
Remaining accrual balance at September 30,	\$ 111	\$ 184	\$	\$ 35	\$ 111	\$ 219

**5. Net Income Per Common Share**

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

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

The following is a reconciliation of the number of shares used in the calculation of basic income per share under the two-class method and diluted earnings per share and the number of anti-dilutive shares excluded from such computations for the three and nine months ended September 30, 2008 and September 30, 2007.



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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Common and common equivalent shares outstanding using two-class method - basic:				
Weighted average common shares outstanding	21,674	21,352	21,541	21,212
Participating convertible preferred stock	4,663	4,548	4,634	4,548
Total common and common equivalent shares outstanding using two-class method - basic	26,337	25,900	26,175	25,760
Effect of dilutive securities:				
Outstanding stock option and share right awards	514	624	403	954
Warrants associated with 5% debt		17		113
Weighted average common and common equivalent shares outstanding - diluted	26,851	26,541	26,578	26,827
Anti-dilutive shares excluded from calculation:				
Outstanding stock option and share right awards	3,293	1,313	3,451	1,013
Total anti-dilutive shares excluded from calculation	3,293	1,313	3,451	1,013

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30	
	2008	2007	2008	2007
United States	\$ 38,351	\$ 35,316	\$ 112,775	\$ 110,362
International revenue:				
Non-US Americas	1,454	1,811	3,731	5,118
Europe, Middle East and Africa	14,026	14,400	41,894	43,792
Greater Asia Pacific	10,922	14,931	33,656	37,756
Total international revenue	26,402	31,143	79,282	86,666
Total Revenue	\$ 64,753	\$ 66,458	\$ 192,056	\$ 197,028
International revenue as a percent of total revenue	41%	47%	41%	44%

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

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

	September 30, 2008	December 31, 2007
United States	\$ 26,606	\$ 29,251
Europe, Middle East, Africa	89	113
Greater Asia Pacific	1,654	2,047
Total Long Lived Assets	\$ 28,349	\$ 31,411

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

On March 7, 2007, a purported shareholder derivative lawsuit was filed in the Delaware Chancery Court against certain of our current and former officers and directors, naming the company as a nominal defendant. The complaint, entitled *George Keritsis and Mark Kert v. Michael E. McGrath, Michael J. Berry, Pallab K. Chatterjee, Robert C. Donohoo, Hiten D. Varia, M. Miriam Wardak, Sanjiv S. Sidhu, Stephen P. Bradley, Harvey B. Cash, Richard L. Clemmer, Lloyd G. Waterhouse, Jackson L. Wilson Jr., Robert L. Crandall and i2 Technologies, Inc.*, alleges breach of fiduciary duty and unjust enrichment in connection with stock option grants to certain of the defendant officers and directors on three dates in 2004 and 2005. The complaint states that those stock option grants were manipulated so as to work to the recipients' favor when material non-public information about the company was later disclosed to positive or negative effect. The complaint is derivative in nature and does not seek relief from the company, but does seek damages and other relief from the defendant officers and directors. We have entered into indemnification agreements in the ordinary course of business with certain of the defendant officers and directors and may be obligated throughout the pendency of this action to advance payment of legal fees and costs incurred by the defendants pursuant to our obligations under the indemnification agreements and/or applicable Delaware law. The Company reached a settlement agreement with Plaintiffs, which was approved by the Court on November 6, 2008. The settlement required the Company to adopt certain policies regarding the granting of stock options. These policies were implemented prior to the settlement. The settlement does not require the Company to pay any sum to the Plaintiffs except for \$200,000 in reasonable attorneys' fees and costs. These costs have been previously accrued and will be paid in the fourth quarter of 2008.

On October 23, 2007, a purported shareholder derivative lawsuit was filed in the Delaware Chancery Court against certain of our current and former officers and directors, naming the company as a nominal defendant. The complaint, entitled *John McPadden, Sr. v. Sanjiv S. Sidhu, Stephen Bradley, Harvey B. Cash, Richard L. Clemmer, Michael E. McGrath, Lloyd G. Waterhouse, Jackson L. Wilson, Jr., Robert L. Crandall and Anthony Dubreille and i2 Technologies, Inc.*, alleges breach of fiduciary duty and unjust enrichment based upon allegations that the

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company sold its wholly-owned subsidiary, Trade Services Corporation, for an inadequate price in 2005. The complaint is derivative in nature and does not seek relief from the company, but does seek damages and other relief from the defendant officers and directors. Defendants moved to dismiss the Complaint on December 28, 2007. On August 29, 2008, the Court granted the motion to dismiss as to all defendants but former i2 officer Dubreville.

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### *Shareholder Class Action Lawsuits*

On August 11, 2008, two suits were filed in state district court in Texas against (among others) the Company and certain members of its Board of Directors. Each of the two suits sought injunctive relief prohibiting the closing of the sale of the Company's common stock to an affiliate of JDA Software Group, Inc. ( JDA ), and each of the named plaintiffs purported to represent a class of holders of the Company's common stock. One of the two suits was thereafter dismissed by the plaintiff; the other, styled John D. Norsworthy, on Behalf of Himself and All Others Similarly Situated, v. i2 Technologies, Inc., et al., remains pending in the 134th District Court of Dallas County, Texas. In addition to a restraining order and/or an injunction prohibiting the Defendants from consummating the transaction with JDA, Plaintiff Norsworthy seeks rescission of the transaction, declaratory relief, and attorneys' fees and costs.

On November 5, 2008, the District Court held a hearing on Plaintiff Norsworthy's motion for a temporary restraining order, and at the conclusion of the hearing denied the motion in its entirety. To date, the Plaintiff has not requested monetary relief other than his attorneys' fees and costs. Based on the stage of the litigation, it is not known whether he may hereafter do so, nor is it possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

### *Indemnification Agreements*

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

Pursuant to these indemnification and cost-advancement agreements, we have advanced fees and expenses incurred by certain current and former directors, officers and employees in connection with the governmental investigations and actions related to the 2003 restatement of our consolidated financial statements and other matters. We incurred no such expenses during the three months ended September 30, 2008 and incurred approximately \$0.1 million of such expense during the three months ended September 30, 2007, and incurred no such expense in the nine months ended September 30, 2008 and incurred approximately \$0.2 million of such expenses during the nine months ended September 30, 2007.

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

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

### *India Tax Examinations and Assessments*

We currently are under income tax examinations in India primarily related to our intercompany pricing for services rendered by our Indian subsidiary to other i2 companies, the taxability of certain payments received from our

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Indian customers, and our statutory qualification for a tax holiday. An aggregate of approximately \$6.4 million has been assessed by the tax authorities for the Indian statutory fiscal years ended March 31, 2002, 2003 and 2004. We believe the Indian tax authorities' positions regarding these matters to be without merit, that all intercompany transactions were conducted at arm's length pricing levels, all payments received from our Indian customers have been properly treated for tax purposes, and that our operations qualify for the tax holiday claimed. Accordingly, we appealed all of these assessments and sought assistance from the United States competent authority under the mutual agreement procedure of the income tax treaty between the United States and the Republic of India. This provides us with an opportunity to resolve these matters in a forum that includes governmental representatives of both countries.

Pending resolution of these matters, we have paid approximately \$3.2 million of the assessed amount and have arranged for \$2.4 million in bank guarantees in favor of the Indian government in respect of a portion of the balance as required. The bank guarantees are supported by letters of credit issued in the United States and are reflected on our condensed consolidated balance sheet as restricted cash.

On November 10, 2008, we received notification from the Indian transfer pricing authorities of a proposed adjustment to our India fiscal year end March 31, 2005 results. No tax assessment has been issued regarding this period; however, we expect an assessment to be issued in due course. We expect that the tax assessment will not result in a material adjustment to the amounts we have accrued for this issue and will appeal the assessment consistent with previous assessments received. Similar to previous assessments, if we appeal as part of the appeal process, it is expected that we will have to provide a letter of credit equal to the assessment amount plus accrued interest.

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

*SAP Litigation*

On June 23, 2008 we entered into a settlement agreement with SAP America, Inc., a Delaware corporation, and SAP AG, a German corporation and the parent of SAP America, Inc., to settle existing patent litigation between us and the SAP companies.

Under the terms of the settlement agreement, each party licenses to the other party certain patents in exchange for a one-time cash payment to i2 of \$83.3 million, which was received in the third quarter of 2008. In addition, each party has agreed not to pursue legal action against the other party for its actions taken to enforce any of the licensed patents prior to the effective date of the agreement. The agreement also provides for general releases, indemnification for its violation, and dismisses the existing litigations between the parties with prejudice. We have satisfied all our obligations under the agreement and no additional contingencies exist with respect to receipt of the settlement proceeds.

During the nine months ended September 30, 2008, we recorded income from an intellectual property lawsuit settlement. The settlement was for \$83.3 million and was recorded net of external litigation expenses of \$3.5 million for the nine-month period ending September 30, 2008. The patent licenses received in the settlement have no significant value.

*Certain Accruals*

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

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

**Table of Contents****8. Stock-Based Compensation Plans.**

For a description of our stock-based compensation plans, see *Note 10, Stock-Based Compensation*, in our Notes to Consolidated Financial Statements filed in our 2007 Annual Report on Form 10-K.

Stock-based compensation expense for the three-month and nine-month periods ended September 30, 2008 and September 30, 2007 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Services	\$ 266	\$ 482	\$ 1,309	\$ 1,669
Maintenance	50	55	181	185
Sales and marketing	779	425	2,165	2,199
Research and development	556	721	1,938	2,325
General and administrative	1,137	639	3,068	3,290
Total	\$ 2,788	\$ 2,322	\$ 8,661	\$ 9,668

Included in stock-based compensation expense was restricted stock expense of \$1.1 million and \$0.5 million for the three-month periods ended September 30, 2008 and September 30, 2007, respectively, and \$3.0 million and \$1.7 million for the nine-month periods ended September 30, 2008 and September 30, 2007, respectively.

In February 2007, we granted Restricted Stock Units ( RSUs ) to certain key employees that vest based on specified performance over a two-year performance period. This performance period is from January 1, 2008 to December 31, 2009. We are required to assess whether the performance criteria is probable of being achieved, and only recognize compensation expense if the vesting is considered probable. On a quarterly basis, we assess whether vesting is probable and based on that assessment record the appropriate expense. Based on our third quarter 2008 and prior assessments, no compensation expense associated with these performance-based RSUs is reflected in our results of operations in the three-month periods or nine-month periods ended September 30, 2008 and September 30, 2007.

Fair values of stock options and employee stock purchase plan (ESPP) shares are estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Stock Options		Stock Options		ESPP	
	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Expected term (years)	4	4	4	4	*	0.5
Volatility factor	61%	70%	67%	81%	*	32%
Risk-free interest rate	2.85%	4.15%	2.74%	4.69%	*	4.67%
Dividend yield	0%	0%	0%	0%	*	0%

\* ESPP plan was discontinued during the second quarter of 2007.

**9. Income Taxes**

Income taxes are provided using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes* ( SFAS 109 ). In accordance with Accounting Principles Board Opinion No. 28, *Interim Financial Reporting* ( APB 28 ), and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods – an interpretation of APB Opinion No. 28* ( FIN 18 ), the provision for income taxes reflects the Company's estimate of the effective rate expected to be applicable for the full fiscal year, adjusted by any discrete events which are reported in the period in which they occur. This estimate is re-evaluated each quarter based on our estimated tax expense for the year.



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We recorded income tax expense of approximately \$1.5 million for the three months ended September 30, 2008 and \$2.1 million for the three months ended September 30, 2007, representing effective income tax rates of 35.9% and 27.9%, respectively. Various factors affect our effective income tax rate including, among others, changes in our valuation allowance, the effect of foreign operations, state income taxes (net of federal income tax benefits), certain non-deductible meals and entertainment expenses, research and development tax credits, and the effect of foreign withholding taxes. Our effective income tax rates during the three months ended September 30, 2008 and September 30, 2007 differ from the U.S. statutory rate primarily due to the effect these items have on our valuation allowance.

Income tax expense included the effect of foreign withholding taxes of \$0.6 million for the three months ended September 30, 2008 and \$0.6 million for the three months ended September 30, 2007 and \$1.7 million for the nine months ended September 30, 2008 and \$1.9 million for the nine months ended September 30, 2007. Foreign withholding taxes are incurred on certain payments from international customers and are recorded upon receipt of such payments that are received net of the withheld taxes. Foreign withholding taxes generally are available to reduce domestic income tax. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these withholding taxes increase our income tax expense.

During the nine months ended September 30, 2008 we recorded a benefit to operating expense of approximately \$83.3 million related to the settlement of the SAP patent litigation. We utilized net operating loss carryforwards and other tax attributes to reduce taxes on the settlement. We recorded federal and state alternative minimum tax (AMT) of approximately \$1.0 million and \$0.1 million, respectively, and other state income taxes of approximately \$0.2 million in income tax expense during the nine months ended September 30, 2008 related to the settlement. Alternative minimum tax generally is available to reduce regular income tax in the future. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these AMT amounts increase our income tax expense.

Income tax expense during the nine months ended September 30, 2007 included a benefit of approximately \$0.8 million resulting from the favorable resolution of our United Kingdom tax examination related to the 2003 tax year.

Estimated potential interest and penalties related to our unrecognized tax benefits within our global organization are recorded in income tax expense and totaled approximately \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2008, respectively. Accrued interest and penalties were approximately \$2.1 million at September 30, 2008. Management believes recording interest and penalties related to income tax uncertainties as income tax expense better reflects income tax expense and provides better information reporting.

We or one of our subsidiaries file income tax returns in the United States (U.S.) federal jurisdiction and various state and foreign jurisdictions. We have open tax years for the U.S. federal return back to 1992 with respect to our net operating loss ( NOL ) carryforwards, where the IRS may not raise tax for these years, but can reduce NOLs. Otherwise, with few exceptions, we are no longer subject to federal, state, local or foreign income tax examinations for years prior to 2003.

We are subject to potential challenges and assessments by various tax jurisdictions to the inter-company pricing at which we have conducted business within our global related group of companies or our tax treatment of certain types of revenue generated in the conduct of business with our international customers. Additional tax examinations may be opened or existing examinations may be resolved within the next 12 months. We closely monitor developments in these areas and make changes as necessary in the accruals we have recorded for what we believe will be the ultimate outcome of any tax adjustments resulting from such examinations. It is not possible to reasonably estimate a range of potential increases or decreases of such changes.

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



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**10. Pending i2 Merger with JDA Software**

On August 10, 2008, we entered into a Merger Agreement with JDA and the Merger Sub. Under the Merger Agreement, the Merger Sub will be merged with and into i2 (the Merger ), with i2 continuing after the Merger as a wholly-owned subsidiary of JDA. At the effective time of the Merger, each issued and outstanding share of our Common Stock, par value \$0.00025 per share, will be converted into the right to receive \$14.86 in cash, without interest. At the effective time of the Merger, each issued and outstanding share of our Series B Preferred Stock will be converted into the right to receive \$1,095.3679 plus all accrued and unpaid dividends thereon through the effective time, in cash, without interest.

Late in the evening of November 4, 2008, we received a written request from JDA to adjourn the previously scheduled special meeting of our stockholders to allow the two companies to negotiate a reduced purchase price to close the merger. In its request, JDA stated that available credit terms would result in unacceptable risks and costs to the combined company. Our board of directors considered the request and, based on a number of factors, including that JDA's obligation to complete the merger is not subject to any financing contingency, did not believe adjourning the special meeting was in the best interests of our stockholders. As of November 5, 2008, proxies in favor of the merger had been received from stockholders representing more than 80 percent of all votes eligible to be cast at the special meeting.

On November 6, 2008, we held the previously scheduled special stockholder meeting and our stockholders voted to approve the merger with JDA pursuant to the Merger Agreement. The number of shares voted in favor of the merger represented more than 80 percent of the total shares outstanding and entitled to vote at the meeting. More than 99 percent of the shares voted at the special meeting were cast in favor of the merger.

Following the stockholder meeting, we received a written proposal from JDA to amend the common share consideration in the merger agreement significantly below \$14.86 per share. Our board of directors has reviewed JDA's proposal and concluded that it is not in the best interest of i2's stockholders to pursue it.

With the successful stockholder vote of November 6, 2008, we completed all of our conditions to closing the existing merger agreement and have requested that JDA fulfill its obligations under the agreement. Despite the approval by i2's stockholders, there can be no assurance that the parties will close the Merger stipulated by the merger agreement.

During the third quarter of 2008 we incurred approximately \$5.3 million related to the pending merger. These costs are included in other expense, net.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**Forward-Looking Statements**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical or current facts, including, without limitation, statements about our business strategy, plans, objectives and future prospects, are forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from these expectations, which could have a material adverse effect on our business, results of operations, cash flow and financial condition. Such risks and uncertainties include, without limitation, the following:

On August 10, 2008, we entered into an Agreement and Plan of Merger (the Merger Agreement ) with JDA Software Group, Inc., a Delaware corporation ( JDA ), and Iceberg Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of JDA (the Merger Sub ). Under the Merger Agreement, the Merger Sub will be merged with and into i2 (the Merger ), with i2 continuing after the Merger as a wholly-owned subsidiary of JDA. At the effective time of the Merger, each issued and outstanding share of our Common Stock, par value

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\$0.00025 per share will be converted into the right to receive \$14.86 in cash, without interest. At the effective time of the Merger, each issued and outstanding share of the Company's Series B 2.5% Convertible Preferred Stock, par value \$0.001 per share (the Series B Preferred Stock), will be converted into the right to receive \$1,095.3679 plus all accrued and unpaid dividends thereon through the effective time, in cash, without interest. Also at the effective time of the Merger, each \$1,000.00 principal amount of the Company's 5% Senior Convertible Notes (Notes) will be converted, based on the indenture agreement governing the Notes, into the right to receive \$960.72426 as a conversion obligation and \$144.10782 as a make-whole premium. Additionally, the Company will also pay to the holders of the Notes \$86.9565 for each \$1,000.00 principal amount of the Notes as a consent premium. Approximately \$1.7 million of the consent premium has been paid to the majority holder of the Notes. Late in the evening on November 4, 2008, JDA notified us in writing that they wished to renegotiate the price of the sale and desired that we adjourn our previously scheduled special stockholder meeting, the purpose of which was to vote on the Merger. We proceeded to hold the previously scheduled meeting and received stockholder approval for the Merger. Following the stockholder meeting, we received a written proposal from JDA to amend the common share consideration in the merger agreement significantly below \$14.86 per share. Our board of directors has reviewed JDA's proposal and concluded that it is not in the best interest of i2's stockholders to pursue it. There can be no assurance that the Merger will occur. If the Merger is not effected, we could experience downward pressure on our stock, lawsuits and continued uncertainty for our management, sales staff and other employees and existing and potential customers. Such distractions and uncertainty could harm our business, results of operations, cash flow and financial condition. Further, certain costs, such as legal and accounting fees and reimbursement of certain expenses, are payable by us whether or not the Merger is completed.

Beginning in the third quarter and continuing into the fourth quarter we have experienced purchasing delays by some customers attributable to the Merger and the customers' desire to have a better understanding of the combined companies product roadmap and related product support. Continued uncertainty will cause additional customer delays, potential customer losses, lower bookings, revenue, and cash flow and continued employee attrition.

We have recently implemented restructuring and reorganization initiatives. Failure to achieve the desired results of our restructuring and reorganization initiatives could harm our business, results of operations, cash flow and financial condition.

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

We experienced negative cash flows for the quarters ended March 31, 2007, September 30, 2006 and March 31, 2006, and for each of the five years ended December 31, 2005. A failure to maintain profitability and achieve consistent positive cash flows would have a significant adverse effect on our business, impair our ability to support our operations and adversely affect our liquidity.

Holders of the Notes may convert the Notes upon the occurrence of certain events prior to May 15, 2010, and at any time on or after May 15, 2010, and have the right to require us to repurchase all or any portion of the Notes on November 15, 2010. There is no assurance that at the time of conversion or required repurchase, we will have the ability to satisfy the cash portion of any such conversion obligation or to make any such required repurchase.

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

The indenture governing the Notes contains a debt incurrence covenant that places restrictions on the amount and type of additional indebtedness that we can incur other than as part of the Merger. The debt incurrence restrictions imposed by the indenture could restrict or impede our ability to incur additional debt, which in turn could impair our ability to support our operations, adversely affect our liquidity and threaten our ability to repay our debts when they become due.

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

We may not be competitive, and increased competition could seriously harm our business. Our focus on a solutions-oriented approach may not be successful.

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

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

We face other risks indicated in Item 1A, Risk Factors, in our 2007 Annual Report on Form 10-K.

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

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

## **Overview**

### **Merger of i2 with JDA Software**

On August 10, 2008, we entered into a Merger Agreement with JDA and the Merger Sub. Under the Merger Agreement, the Merger Sub will be merged with and into i2 (the Merger), with i2 continuing after the Merger as a wholly-owned subsidiary of JDA. At the effective time of the Merger, each issued and outstanding share of our Common Stock, par value \$0.00025 per share, will be converted into the right to receive \$14.86 in cash, without interest. At the effective time of the Merger, each issued and outstanding share of our Series B Preferred Stock will be converted into the right to receive \$1,095.3679 plus all accrued and unpaid dividends thereon through the effective time, in cash, without interest.

Late in the evening of November 4, 2008, we received a written request from JDA to adjourn the previously scheduled special meeting of our stockholders to allow the two companies to negotiate a reduced purchase price to close the merger. In its request, JDA stated that available credit terms would result in unacceptable risks and costs to the combined company. Our board of directors considered the request and, based on a number of factors, including that JDA's obligation to complete the merger is not subject to any financing contingency, did not believe adjourning the special meeting was in the best interests of our stockholders. As of November 5, 2008, proxies in favor of the merger had been received from stockholders representing more than 80 percent of all votes eligible to be cast at the special meeting.

On November 6, 2008, we held the previously scheduled special stockholder meeting and our stockholders voted to approve the merger with JDA pursuant to the Merger Agreement. The number of shares voted in favor of the merger represented more than 80 percent of the total shares outstanding and entitled to vote at the meeting. More than 99 percent of the shares voted at the special meeting were cast in favor of the merger.

Following the stockholder meeting, we received a written proposal from JDA to amend the common share consideration in the merger agreement significantly below \$14.86 per share. Our board of directors has reviewed JDA's proposal and concluded that it is not in the best interest of i2's stockholders to pursue it.

With the successful stockholder vote of November 6, 2008, we completed all of our conditions to closing the existing merger agreement and have requested that JDA fulfill its obligations under the agreement. Despite the approval by i2's stockholders, there can be no assurance that the parties will close the Merger stipulated by the merger agreement.

### **Nature of Operations**

We are a provider of supply chain management solutions, consisting of various software and service offerings. In addition to application software, we offer hosted software solutions, such as business optimization and technical consulting, managed services, training, solution maintenance, software upgrades and development. We operate our business in one business segment. Supply chain management is the set of processes, technology and expertise involved in managing supply, demand and fulfillment throughout divisions within a company and with its customers, suppliers

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and partners. The goals of our solutions include increasing supply chain efficiency and enhancing customer and supplier relationships by managing variability, reducing complexity, improving operational visibility, increasing operating velocity and integrating planning and execution. Our offerings are designed to help customers better achieve the following critical business objectives:

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

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

Collaboration interoperability with supply chain partners and elimination of functional silos

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

### Revenue Categories

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

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

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

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

*Contract Revenue.* As explained in more detail below, we do not consider contract revenue to be an indication of the current performance of our business. We collected the cash associated with contract revenue in prior periods and recorded the revenue as we fulfilled the contract obligations. As of March 31, 2007 our deferred contract revenue balance was zero.

### **Transition to a Solutions-Oriented Provider**

Our software and service offerings have changed in recent years in response to market demands as well as the introduction of new technology and products. We are transitioning our business approach to being a solutions-oriented provider, and accordingly have experienced a shift to a greater level of services revenue versus software solutions revenue.

Beginning in 2006, we increased our hiring of services personnel based on our expectations regarding the demand for our services and our existing services backlog. In addition to generating increased services revenue from the increased headcount, we have also increased the utilization of our services personnel so more revenue is generated for each person and have been successful at strategically placing certain of our research and development staff on billable services projects when their skill sets are appropriate.



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The focus on services impacts our mix of revenues and profitability because services will typically earn a lower margin than software solutions. These changes also influence the proportion of revenue recognized on a percentage of completion basis or subscription basis. We now expect a higher proportion of our software solutions revenue will be recognized under a percentage of completion basis or subscription basis, rather than being recognized in the period the contract is signed.

### Key Performance Indicators and Operating Metrics

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

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

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

Total bookings for the three months ended September 30, 2008 and September 30, 2007 were \$46.5 million in each period. Total bookings for the nine months ended September 30, 2008 and September 30, 2007 were \$177.0 million and \$183.0 million, respectively, a decline of approximately 3% or \$6.0 million.

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

*Revenue.* In our internal analysis of revenue, we focus on operating revenue (total revenue excluding contract revenue). Contract revenue is the result of the recognition of certain revenue that was carried on our balance sheet as a portion of deferred revenue and was a result of our 2003 financial restatement. Inclusion of contract revenue in the evaluation of our performance would skew comparisons of our periodic results since recognition of that revenue was based on fulfillment of contractual obligations which often required only minimal cash outlays and generally did not involve any significant activity in the period of recognition. Additionally, the cash associated with contract revenue had been collected in prior periods. All remaining contract revenue was recognized by March 31, 2007, so it is not relevant to our on-going operations and we exclude it from comparisons to prior period results.

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For the three months ended September 30, 2008 operating revenue (total revenue excluding contract revenue) was down 2.6% or \$1.7 million compared to the same period in 2007, and for the nine months ended September 30, 2008 operating revenue was down 1.3% or \$2.5 million compared to the same period in 2007. Our annual operating revenue was approximately \$257.9 million, \$275.6 million and \$294.3 million in 2007, 2006 and 2005, respectively. These declines represent annual declines of 6% for each period. As part of our transition to being a solutions-oriented provider, we have experienced a shift to a greater level of services revenue, which has partially offset our decline in software solutions and maintenance revenue.

Software solutions revenue was relatively unchanged for the three months ended September 30, 2008 compared to the same period in 2007, and declined 2% or \$0.6 million for the nine months ended September 30, 2008 compared to the same period in 2007. During the 12 months ended December 31, 2006 and the nine months ended September 30, 2008, we have recognized more revenue from backlog than from new software solutions bookings. We monitor whether we are recognizing more or less revenue in each period compared to the amount we book in that period as an indicator of whether we are adding to or subtracting from our backlog and deferred revenue. We have generally been recognizing more revenue in each quarter than the corresponding amount of bookings, leading to a decline in our backlog. As a result, in order to increase future revenues, our future bookings need to increase and consistently exceed our recognized revenue.

	Twelve Months Ended		Nine Months Ended September 30, 2008
	December 31, 2006	December 31, 2007	
<b>Additions to Backlog:</b>			
Software Solutions Bookings	\$ 49,540	\$ 54,556	\$ 22,039
Platform Technology/Source Code Bookings	10,480	500	
Net Additions to Backlog	60,020	55,056	22,039
Less: Software Solutions Revenue Recognized	76,243	47,721	34,802
Increase/(Decrease) in Backlog	\$ (16,223)	\$ 7,335	\$ (12,763)

Services revenue was relatively unchanged for the three months ended September 30, 2008 when compared to the same period in 2007, and decreased 1% or \$0.9 million for the nine months ended September 30, 2008 when compared to the same period in 2007. This decline in services revenue is primarily due to a mix shift in the type of services work performed in 2008. We expect services revenue to continue to be a larger percentage of our total revenue than it has been in previous years. Services revenue generally earns a lower margin than our other revenue types.

Maintenance revenue declined 8% or \$1.7 million for the three months ended September 30, 2008 when compared to the same period in 2007, and decreased 2% or \$1.0 million for the nine months ended September 30, 2008 when compared to the same period in 2007. Declines in maintenance revenue occur when customers fail to renew their maintenance agreements or renew them at lower rates.

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

Our operating cash flow for the nine months ended September 30, 2008 was approximately \$98.9 million compared to operating cash flow of \$8.0 million in the nine months ended September 30, 2007. Included in operating cash flow for the nine months ended September 30, 2008, is \$83.3 million related to the SAP litigation settlement we received in July 2008.

Our working capital was approximately \$160.7 million at September 30, 2008, an improvement from the \$63.6 million at December 31, 2007. The increase in current assets includes the effect of the SAP litigation settlement for \$83.3 million. The chart below shows the components of our working capital and the dollar changes from period to period for 2006 and 2007 and the first, second and third quarters of 2008.



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	December 31, 2006	December 31, 2007	September 30, 2008
Total cash	\$ 114,045	\$ 129,434	\$ 227,808
Accounts receivable	25,677	25,108	26,991
Other current assets, net	9,231	7,746	8,306
 Total current assets	 148,953	 162,288	 263,105
Current liabilities	57,538	37,008	39,611
Deferred revenue	74,047	61,715	62,772
Current portion long-term debt			
 Total current liabilities	 131,585	 98,723	 102,383
 Working capital	 \$ 17,368	 \$ 63,565	 \$ 160,722
 Dollar change from previous period	 \$ 51,704	 \$ 46,197	 \$ 1,521
Net cash	\$ 30,223	\$ 44,981	\$ 142,882

In addition to assessing our liquidity based on operating cash flow and working capital, management also considers our cash balances and our net cash balance, which we define as the sum of our total cash and cash equivalents and restricted cash minus our total short-term and long-term debt. As the table above indicates, our cash position and net cash position have improved during the periods presented.

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

There have been no changes during the third quarter of 2008 to the critical accounting policies or the areas that involve the use of significant judgments and estimates we described in our 2007 Annual Report on Form 10-K.

**Analysis of Financial Results Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007.**Summary of Third Quarter 2008 Results

Total revenue decreased \$1.7 million from the same period in 2007

Total costs and expenses decreased \$4.6 million from the same period in 2007

Net income applicable to common stockholders was \$1.9 million compared to \$4.5 million in the same period in 2007

Diluted earnings per share were \$0.07 for the third quarter of 2008 and \$0.17 for the third quarter of 2007

Cash flow from operations was \$78.5 million reflecting the receipt of \$83.3 million from the SAP litigation settlement versus cash flow from operations of \$2.9 million in the same period of 2007

Total bookings were \$46.5 in the 2008 and the 2007 periods

Revenues

The following table sets forth revenues and the percentages of total revenues of selected items reflected in our condensed consolidated statements of operations and comprehensive income for the three months ended September 30, 2008 and September 30, 2007. The

period-to-period comparisons of financial results are not necessarily indicative of future results.

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	Three Months Ended		Three Months Ended		Change 2008 versus 2007 Three months ended September 30	
	September 30, 2008	Percent of Revenue	September 30, 2007	Percent of Revenue	\$ Change	% Change
SOP 97-2 recognition	\$ 907	1%	\$ 1,897	3%	\$ (990)	-52%
SOP 81-1 recognition	3,694	6%	3,199	5%	495	15%
Recurring items	5,961	9%	5,426	8%	535	10%
Total Software solutions	10,562	16%	10,522	16%	40	
Services	33,316	52%	33,365	50%	(49)	
Maintenance	20,875	32%	22,571	34%	(1,696)	-8%
<b>Total revenues</b>	<b>\$ 64,753</b>	<b>100%</b>	<b>\$ 66,458</b>	<b>100%</b>	<b>\$ (1,705)</b>	<b>-3%</b>

*Software Solutions Revenue.* Total software solutions revenue was relatively unchanged for the three months ended September 30, 2008 compared to the same period in 2007. The components of the changes in software solutions revenue are explained below.

The primary cause of the decline in revenue recognized under SOP 97-2 for the three months ended September 30, 2008 is due to declines in the number and size of deals being recognized from current quarter bookings as well as a decrease in the number and size of deals recognized from backlog. During the three months ended September 30, 2008 we recognized revenue related to 7 contracts at an average of \$0.1 million per contract compared to 14 contracts at an average of \$0.1 million per contract in the comparable period of 2007.

Revenue recognized under SOP 81-1 is dependent upon the amount of work performed on software solutions projects and milestones met during the applicable period on projects booked in both current and prior periods and typically has a longer recognition period than revenue recognized under SOP 97-2. During the three months ended September 30, 2008 we recognized revenue related to 18 projects at an average of \$0.2 million per project compared to 13 projects at an average of \$0.2 million in the comparable period of 2007.

Revenue from recurring items increased \$0.5 million for the three months ended September 30, 2008 when compared to the same period in 2007 based on the recognition of revenue from transactions booked after September 30, 2007 resulting from the shift in our business to more recurring transactions.

*Services Revenue.* Services revenue was relatively unchanged for the three months ended September 30, 2008 compared to the same period in 2007.

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

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

the mix of our projects between services projects and software solutions (81-1) projects,

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

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

the timing of cash payments when collectibility is uncertain

*Maintenance Revenue.* Maintenance revenue decreased 8% or \$1.7 million for the three months ended September 30, 2008 compared to the same period in 2007. This decrease is mainly attributable to the non-renewals a few large maintenance agreements.

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

initial maintenance from new Software solutions bookings,

the timing of negotiating and signing of maintenance renewals,

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

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

customers that do not renew their maintenance agreements.

*International Revenue.* Our international revenues included in the categories discussed above are primarily generated from customers located in Europe, Asia, Latin America and Canada. International revenue totaled \$26.4 million, or 41% of total revenue, in the three months ended September 30, 2008 compared to \$31.1 million, or 47% of total revenue, in the same period in 2007.

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

**Impact of Indian Rupee on Expenses**

Assuming a constant level of rupee expenditure in 2007 as we experienced in 2008, the impact of the change in the value of the rupee when compared to the dollar was approximately \$0.6 million less expense for the three months ended September 30, 2008.

**Cost of Revenues**

The following table sets forth cost of revenues and the gross margins of selected items reflected in our condensed consolidated statements of operations and comprehensive income for the three months ended September 30, 2008 and September 30, 2007. The period-to-period comparisons of financial results are not necessarily indicative of future results.

	Three Months Ended		Three Months Ended		Change 2008 versus 2007 Three months ended September 30	
	September 30, 2008	Gross Margin	September 30, 2007	Gross Margin	\$ Change	% Change
Software solutions	\$ 2,296	78%	\$ 2,066	80%	\$ 230	11%
Services	22,218	33%	24,752	26%	(2,534)	-10%
Maintenance	2,368	89%	2,668	88%	(300)	-11%
Amortization of acquired technology			6		(6)	-100%
<b>Total cost of revenues</b>	<b>\$ 26,882</b>		<b>\$ 29,492</b>		<b>\$ (2,610)</b>	<b>-9%</b>

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

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

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

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

The cost of user product documentation

The cost of delivery of software

Provisions for the estimated costs of servicing customer claims, which we accrue on a case-by-case basis

Cost of software solutions increased 11% or \$0.2 million for the three months ended September 30, 2008 compared to the same period in 2007 primarily because of an increase in the number of hours worked on projects requiring essential services.

During the three months ended September 30, 2008 and September 30, 2007, the costs attributable to the performance of essential services related to SOP 81-1 was \$1.6 million and \$0.8 million, respectively. The remaining costs of software solutions are not directly attributable to specific arrangements, so we do not believe there is a reasonable basis to calculate the cost of each type of software solutions transaction or the resulting contribution margin.

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*Cost of Services.* These costs consist of expenses associated with the delivery of non-essential services, such as implementation, integration, process consulting and training. Cost of services decreased 10% or \$2.5 million for the three months ended September 30, 2008 compared to the same period in 2007. This decrease was related primarily to a decrease in personnel-related costs of \$2.1. The decrease in personnel-related costs was driven by a shift of approximately 28 associates from the services organization to the sales organization. This shift was done as a part of our refocus in late 2007 to a sales approach centered on customer business units.

*Cost of Maintenance.* These costs consist of expenses including support services such as telephone support and unspecified upgrades/enhancements provided on a when-and-if-available basis. Cost of maintenance decreased 11% or \$0.3 million for the three months ended September 30, 2008 compared to the same period in 2007. This decrease was related to a decrease in personnel-related costs of \$0.2 million.

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

**Operating Expenses**

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

	Three Months Ended		Three Months Ended		Change 2008 versus 2007 Three months ended September 30	
	September 30, 2008	Percent of Revenue	September 30, 2007	Percent of Revenue	\$ Change	% Change
Sales and marketing	\$ 10,518	16%	\$ 7,928	12%	\$ 2,590	33%
Research and development	7,384	11%	8,224	12%	(840)	-10%
General and administrative	9,402	15%	8,808	13%	594	7%
Amortization of intangibles	25		25			
Restructuring charges and adjustments			3,921	6%	(3,921)	-100%
<b>Total operating expense</b>	<b>\$ 27,329</b>		<b>\$ 28,906</b>		<b>\$ (1,577)</b>	<b>-5%</b>

*Sales and Marketing Expense.* These expenses consist primarily of personnel costs, commissions, office facilities, travel and promotional events such as trade shows, seminars, technical conferences, advertising and public relations programs. For the three months ended September 30, 2008, sales and marketing expense increased 33% or \$2.6 million when compared to the same period in 2007. Personnel-related costs increased approximately \$2.2 million. This increase in personnel-related costs is driven by the shift of approximately 28 associates from the services organization to the sales organization.

*Research and Development Expense.* These expenses consist of costs related to software development and product enhancements to existing software. Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the establishment of technological feasibility of our products and general release of such software has substantially coincided. As a result, software development costs qualifying for capitalization have been insignificant; therefore, we have not capitalized any software development costs other than those recorded in connection with our acquisitions. The primary component of research and development expense is employee-related cost. For the three months ended September 30, 2008, the decrease in research and development expense included a \$0.5 million decrease in employee-related costs and a decrease of \$0.4 million in contractor costs. The decrease in employee-related expenses is due to a 12% decrease in average headcount when compared to the same period in 2007.

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*General and Administrative Expense.* These expenses include the personnel and other costs of our finance, legal, accounting, human resources, information systems and executive departments, as well as external legal costs. General and administrative expense for the three months ended September 30, 2008 increased 7% or \$0.6 million compared to the same period in 2007.

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

*Restructuring Expense.* During the three months ended September 30, 2008 we incurred no restructuring expense. During the three months ended September 30, 2007, we initiated a reorganization and eliminated approximately 50 positions. The purpose of the restructuring was to reduce management layers to both decrease cost and increase speed around decision-making and internal processes. The realignment included the elimination of certain management levels as well as other targeted cost reductions. We recorded a charge of \$3.9 million, primarily related to severance costs.

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

For the three months ended September 30, 2008 and September 30, 2007, non-operating (expense), net, was as follows:

	Three Months Ended	Three Months Ended	Change 2008 versus 2007	
	September 30, 2008	September 30, 2007	Three months ended September 30	
			\$ Change	% Change
Interest income	\$ 1,212	\$ 1,413	(201)	-14%
Interest expense	(1,237)	(1,236)	1	
Foreign currency hedge and transaction losses, net	(639)	(107)	532	497%
Other expense, net	(5,674)	(300)	5,374	1791%
<b>Total non-operating (expense), net</b>	<b>\$ (6,338)</b>	<b>\$ (230)</b>	<b>6,108</b>	<b>2656%</b>

Interest income decreased in the three-month period ended September 30, 2008 compared to the same period in 2007 due to lower investment yields on average cash balances, offset partially by significantly higher average cash balances. For the three months ended September 30, 2008, average invested cash balances increased 78% from the three months ended September 30, 2007. The average rate earned for the three months ended September 30, 2008 was 2.1%, and for September 30, 2007 was 4.5%.

Interest expense was flat for the three months ended September 30, 2008 as compared to the same period in 2007.

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

Other expense, net increased \$5.4 million including the \$5.3 million of external expense related to the JDA merger. These merger expenses include investment banker fees, convertible debt consent fees, cost sharing fees and transaction related legal expenses.



**Table of Contents****Provision for Income Taxes**

We recorded income tax expense of approximately \$1.5 million for the three months ended September 30, 2008 and \$2.1 million for the three months ended September 30, 2007, representing effective income tax rates of 35.9% and 27.9%, respectively. Various factors affect our effective income tax rate including, among others, changes in our valuation allowance, the effect of foreign operations, state income taxes (net of federal income tax benefits), certain non-deductible meals and entertainment expenses, research and development tax credits, and the effect of foreign withholding taxes. Our effective income tax rates during the three months ended September 30, 2008 and September 30, 2007 differ from the U.S. statutory rate primarily due to the effect these items have on our valuation allowance.

Income tax expense included the effect of foreign withholding taxes of \$0.6 million for the three months ended September 30, 2008 and \$0.6 million for the three months ended September 30, 2007. Foreign withholding taxes are incurred on certain payments from international customers and are recorded upon receipt of such payments which are received net of the withheld taxes. Foreign withholding taxes generally are available to reduce domestic federal regular income tax. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these withheld taxes increase our income tax expense.

**Analysis of Financial Results - Nine Months Ended September 30, 2008 Compared to the Nine Months Ended September 30, 2007****Summary of Year-to-Date September 30, 2008 Results**

Total revenue decreased \$5.0 million from the same period in 2007

Total costs and expenses decreased \$88.5, reflecting the SAP litigation settlement of \$79.9 net of \$3.5 million of external litigation expenses, from the same period in 2007

Net income applicable to common stockholders was \$85.2 million, reflecting the SAP litigation settlement of \$79.9 million net of \$3.5 million of external litigation expense, compared to \$9.6 million in the same period in 2007

Diluted earnings per share were \$3.21 for the nine months ended September 30, 2008 and \$0.36 for the same period in 2007

Cash flow from operations was \$98.9 million versus cash flow from operations of \$8.0 million in the 2007 period

Total bookings were \$177.0 million versus \$183.0 million in the same period of 2007

**Revenues**

The following table sets forth revenues and the percentages of total revenues of selected items reflected in our condensed consolidated statements of operations and comprehensive income for the nine months ended September 30, 2008 and September 30, 2007. The period-to-period comparisons of financial results are not necessarily indicative of future results.

	Nine Months Ended September 30, 2008	Percent of Revenue	Nine Months Ended September 30, 2007	Percent of Revenue	Change 2008 versus 2007 Nine months ended September 30	
					\$ Change	% Change
SOP 97-2 recognition	\$ 2,710	1%	\$ 7,682	4%	\$ (4,972)	-65%
SOP 81-1 recognition	14,154	7%	10,656	5%	3,498	33%

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Recurring items	17,938	9%	17,029	9%	909	5%
Total Software solutions	34,802	18%	35,367	18%	(565)	-2%
Services	92,666	48%	93,613	48%	(947)	-1%
Maintenance	64,588	34%	65,598	33%	(1,010)	-2%
Contract			2,450	1%	(2,450)	-100%
<b>Total revenues</b>	<b>\$ 192,056</b>	<b>100%</b>	<b>\$ 197,028</b>	<b>100%</b>	<b>\$ (4,972)</b>	<b>-3%</b>

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*Software Solutions Revenue.* Total software solutions revenue decreased 2% or \$0.6 million for the nine months ended September 30, 2008 compared to the same period in 2007. The components of the changes in software solutions revenue are explained below.

The primary cause of the decline in revenue recognized under SOP 97-2 for the nine months ended September 30, 2008 is due to declines in the number and size of deals being recognized from current quarter bookings as well as a decrease in the number and size of deals recognized from backlog. During the nine months ended September 30, 2008 we recognized revenue related to 26 contracts at an average of \$0.1 million per contract compared to 40 contracts at an average of \$0.2 million per contract in the comparable period of 2007.

Revenue recognized under SOP 81-1 is dependent upon the amount of work performed on software solutions projects and milestones met during the applicable period on projects booked in prior periods. During the nine months ended September 30, 2008 we recognized revenue under 28 projects at an average of \$0.5 million per project compared to 30 projects at an average of \$0.3 million per project in the comparable period of 2007.

Revenue from recurring items increased \$0.9 million for the nine months ended September 30, 2008 when compared to the same period in 2007 based on the recognition of revenue from transactions booked after September 30, 2007 resulting from the shift in our business to more recurring transactions.

*Services Revenue.* Services revenue decreased 1% or \$0.9 million for the nine months ended September 30, 2008 compared to the same period in 2007.

*Maintenance Revenue.* Maintenance revenue decreased 2% or \$1.0 million for the nine months ended September 30, 2008 compared to the same period in 2007.

*International Revenue.* Our international revenues included in the categories discussed above are primarily generated from customers located in Europe, Asia, Latin America and Canada. International revenue totaled \$79.3 million, or 41% of total revenue, in the nine months ended September 30, 2008 compared to \$86.7 million, or 44% of total revenue, in the same period in 2007. International revenue remained relatively consistent in the nine-month periods ended September 30, 2008 and September 30, 2007.

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

**Impact of Indian Rupee on Expenses**

If we assume the same currency exchange rate for our rupee expenditures in 2007 as we experienced in 2008, the impact of the change in the rupee appreciation was minimal for the nine months ended September 30, 2008.

**Cost of Revenues**

The following table sets forth cost of revenues and the gross margins of selected items reflected in our condensed consolidated statements of operations and comprehensive income for the nine months ended September 30, 2008 and September 30, 2007. The period-to period comparisons of financial results are not necessarily indicative of future results.

	Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007		Change 2008 versus 2007 Nine months ended September 30	
		Margin		Margin	\$ Change	% Change
Software solutions	\$ 7,784	78%	\$ 6,715	81%	\$ 1,069	16%
Services	68,313	26%	73,062	22%	(4,749)	-6%
Maintenance	7,866	88%	8,405	87%	(539)	-6%
Amortization of acquired technology	4		19		(15)	-79%
<b>Total cost of revenues</b>	<b>\$ 83,967</b>		<b>\$ 88,201</b>		<b>\$ (4,234)</b>	<b>-5%</b>



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*Cost of Software Solutions.* Cost of software solutions increased 16% or \$1.1 million for the nine months ended September 30, 2008 compared to the same period in 2007 primarily because of an increase in the number of hours worked on projects requiring essential services.

During the nine months ended September 30, 2008 and September 30, 2007, the costs attributable to the performance of essential services related to software solutions projects recognized under SOP 81-1 was \$5.4 million and \$2.5 million, respectively, an increase of 116%. The remaining costs of software solutions are not directly attributable to specific arrangements, so we do not believe there is a reasonable basis to calculate the cost of each type of software solutions transaction or the resulting contribution margin.

*Cost of Services.* These costs consist of expenses associated with the delivery of non-essential services, such as implementation, integration, process consulting and training. Cost of services decreased 6% or \$4.7 million for the nine months ended September 30, 2008 compared to the same period in 2007. This decrease was primarily related to a decrease in employee related costs of \$6.3 million partially offset by an increase in travel and entertainment of \$1.1 million. The decrease in employee related costs was driven by a shift of approximately 28 associates from the services organization to the sales organization. This shift was done as part of our refocus in late 2007 to a sales approach centered on customer business units.

*Cost of Maintenance.* These costs consist of expenses including support services such as telephone support and unspecified upgrades/enhancements provided on a when-and-if-available basis. Cost of maintenance decreased 6% or \$0.5 million for the three months ended September 30, 2008 compared to the same period in 2007. This decrease was primarily related to a decrease in personnel-related costs of \$0.2 million and a decrease in travel and entertainment of \$0.2 million.

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

**Operating Expenses**

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

	Nine Months Ended		Nine Months Ended		Change 2008 versus 2007 Nine months ended September 30	
	September 30, 2008	Percent of Revenue	September 30, 2007	Percent of Revenue	\$ Change	% Change
Sales and marketing	\$ 35,540	19%	\$ 32,582	17%	\$ 2,958	9%
Research and development	22,558	12%	25,779	13%	(3,221)	-12%
General and administrative	29,830	16%	29,691	15%	139	
Amortization of intangibles	75		53		22	42%
Restructuring charges and adjustments			3,847	2%	(3,847)	-100%
Costs and expenses, subtotal	88,003		91,952		(3,949)	-4%
Intellectual property settlement, net	(79,860)				(79,860)	
<b>Total operating expense</b>	<b>\$ 8,143</b>		<b>\$ 91,952</b>		<b>\$ (83,809)</b>	<b>-91%</b>

*Sales and Marketing Expense.* For the nine months ended September 30, 2008, the increase in sales and marketing expense included an increase in personnel-related costs of \$1.8 million and an increase in commissions of \$1.9 million. These increases were partially offset by a decrease in marketing program expense of \$0.4 million and administrative and executive expense of \$0.4 million. The increase in personnel-related costs is a result of the previously discussed transfer of employees from services to sales and marketing.

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*Research and Development Expense.* For the nine months ended September 30, 2008, the decrease in research and development expense included a decrease in employee-related costs \$1.2 million, a decrease in subcontractor cost of \$1.1 million, a decrease in equipment cost of \$0.3 million and a decrease in travel and entertainment of \$0.2 million.

*General and Administrative Expense.* General and administrative expense for the nine months ended September 30, 2008 was relatively unchanged compared to the same period in 2007.

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

*Restructuring Expense.* During the nine months ended September 30, 2008 we had no restructuring expense. During the three months ended September 30, 2007, we initiated a reorganization and eliminated approximately 50 positions. The purpose of the restructuring was to reduce management layers to both decrease cost and increase speed around decision-making and internal processes. The realignment included the elimination of certain management levels as well as other targeted cost reductions. We recorded a charge of \$3.9 million, primarily related to severance costs.

*Intellectual Property Settlement, Net.* On June 23, 2008, we reached a settlement with SAP to settle existing patent litigation between i2 and SAP. Under the terms of the settlement, SAP agreed to pay i2 \$83.3 million. We recorded the \$83.3 million net of legal expense of \$3.5 million for the nine months ended September 30, 2008.

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

For the nine months ended September 30, 2008 and September 30, 2007, non-operating (expense), net, was as follows:

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Change 2008 versus 2007 Nine months ended September 30	
			\$ Change	% Change
Interest income	\$ 3,339	\$ 4,061	(722)	-18%
Interest expense	(3,711)	(3,712)	(1)	
Realized gains (losses) on investments, net		1	(1)	-100%
Foreign currency hedge and transaction losses, net	(1,244)	(298)	946	317%
Other expense, net	(5,391)	(853)	4,538	532%
<b>Total non-operating (expense), net</b>	<b>\$ (7,007)</b>	<b>\$ (801)</b>	<b>6,206</b>	<b>775%</b>

Interest income decreased in the nine-month period ended September 30, 2008 compared to the same period in 2007 due to lower yields on average cash balances, partially offset by significantly higher average cash balances. For the nine months ended September 30, 2008, average invested cash balances increased 47%. The average rate earned for the nine months ended September 30, 2008 was 2.51%, and for September 30, 2007 was 4.59%.

Interest expense was unchanged for the three months ended September 30, 2008 as compared to the same period in 2007.

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

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Other expense, net increased \$4.5 million including the \$5.3 million of external expense related to the JDA merger. These merger expenses include investment banker fees, convertible debt consent fees, cost sharing fees and transaction related legal expenses.

### **Provision for Income Taxes**

We recorded income tax expense of approximately \$5.3 million for the nine months ended September 30, 2008 and \$3.7 million for the nine months ended September 30, 2007, representing effective income tax rates of 5.8% and 23.5%, respectively. Various factors affect our effective income tax rate including, among others, changes in our valuation allowance, the effect of foreign operations, state income taxes (net of federal income tax benefits), certain non-deductible meals and entertainment expenses, research and development tax credits, and the effect of foreign withholding taxes. Our effective income tax rates during the nine months ended September 30, 2008 and September 30, 2007 differ from the U.S. statutory rate primarily due to the effect these items have on our valuation allowance.

Income tax expense included the effect of foreign withholding taxes of \$1.7 million for the nine months ended September 30, 2008 and \$1.9 million for the nine months ended September 30, 2007. Foreign withholding taxes are incurred on certain payments from international customers and are recorded upon receipt of such payments which are received net of the withheld taxes. Foreign withholding taxes generally are available to reduce domestic federal regular income tax. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these withheld taxes increase our income tax expense.

During the nine months ended September 30, 2008 we recorded a benefit to operating expense of approximately \$83.3 million related to the settlement of the SAP patent litigation. We utilized net operating loss carryforwards and other tax attributes to reduce taxes on the settlement. Accordingly, we recorded federal and state alternative minimum tax (AMT) of approximately \$1.0 million and \$0.1 million, respectively, and other state income taxes of approximately \$0.2 million in income tax expense during the nine months ended September 30, 2008 related to the settlement. Alternative minimum tax generally is available to reduce regular income tax in the future. Due to our net operating loss carryforwards and associated valuation allowance against our domestic deferred tax assets, these amounts increase our income tax expense.

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

### **Contractual Obligations**

During the three-month and nine-month periods ended September 30, 2008, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in our 2007 Annual Report on Form 10-K.

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

As of September 30, 2008, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### **Liquidity and Capital Resources**

Our working capital was \$160.7 million at September 30, 2008 compared to \$63.6 million at December 31, 2007, an improvement of \$97.1 million or 152.7%. The improvement resulted from a \$100.8 million increase in current assets, comprised of an increase of \$98.4 million in cash, including restricted cash, an increase of \$1.9 million in accounts receivable and an increase of \$0.6 million in other current assets. The increase in cash reflects the receipt of the cash settlement in the SAP litigation of \$83.3 million. This increase in current assets was partially offset by an increase in current liabilities of \$3.7 million (comprised of an increase in accrued liabilities of \$3.9 million and an increase in deferred revenue of \$1.1 million, partially offset by a decrease in accrued compensation and related expenses of \$0.7 million and a decrease in accounts payable of \$0.6 million).

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Our working capital balance at September 30, 2008 and December 31, 2007 included deferred revenue. At September 30, 2008 and December 31, 2007, we had approximately \$62.8 million and \$61.7 million, respectively, of deferred revenue recorded as a current liability, representing pre-paid revenue for all of our different revenue categories. Our deferred revenue balance includes a margin to be earned when it is recognized, so the conversion of the liability to revenue will require cash outflows that are less than the amount of the liability.

Our cash and cash equivalents increased \$100.2 million during the nine months ended September 30, 2008. This increase is primarily the result of \$98.9 million of cash provided by operating activities and \$1.0 million of cash provided by investing activities. The increase in cash provided by operating activities reflects the receipt of \$83.3 million for the SAP litigation settlement. Due to economic volatility, at the end of the third quarter 2008, all of our short-term investments were invested in Treasury and Agency securities.

During the nine months ended September 30, 2008, cash provided by operating activities was approximately \$98.9 million. Management tracks projected cash collections and projected cash outflows to monitor short-term liquidity requirements and to make decisions about future resource allocations and take actions to adjust our expenses with the goal of remaining cash flow positive from operations on an annual basis.

Cash provided by investing activities was approximately \$1.0 million during the nine months ended September 30, 2008. We had a decrease in restricted cash of approximately \$1.8 million partially offset by purchases of premises and equipment of \$0.8 million.

During the nine months ended September 30, 2008, cash provided by financing activities was minimal and related to proceeds for the issuance of common stock related to the exercise of stock options.

At September 30, 2008, we had a net cash balance of \$142.9 million compared to a net cash balance of \$45.0 million at December 31, 2007. We define net cash as the sum of our total cash and cash equivalents and restricted cash minus our total short-term and long-term debt.

We maintain a \$15.0 million letter of credit line. Under this line, we are required to maintain restricted cash (in an amount equal to 125% of the outstanding letters of credit) in a depository account maintained by the lender to secure letters of credit issued in connection with the line. The line has no financial covenants and expires on December 15, 2008. As of September 30, 2008, \$4.1 million in letters of credit were outstanding under this line and \$5.6 million in restricted cash was pledged as collateral.

We had \$86.3 million in face value of our 5% senior convertible notes outstanding at September 30, 2008. Holders of our senior convertible notes have the right to require us to repurchase all or any portion of the senior convertible notes on November 15, 2010 and may convert the senior convertible notes at any time on or after May 15, 2010. In addition, holders of the senior convertible notes may convert the senior convertible notes prior to May 15, 2010 upon the occurrence of any of the following events:

if the senior convertible notes have been called for redemption;

upon certain dividends or distributions to all holders of our common stock;

upon the occurrence of specified corporate transactions constituting a fundamental change (the occurrence of a change in control or a termination of trading, each as defined in the indenture governing our senior convertible notes);

if the average of the trading prices for the senior convertible notes during any five consecutive trading-day period is less than 98% of the average of the conversion values for the senior convertible notes (the product of the last reported sale price of our common stock and the conversion rate) during that period; or

at any time after May 15, 2008 if the closing sale price of our common stock is equal to or greater than \$23.21 for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the immediately preceding fiscal quarter.





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Upon conversion of the senior convertible notes, we will be required to satisfy our conversion obligation with respect to the principal amount of the senior convertible notes to be converted in cash, with any remaining amount to be satisfied in shares of our common stock.

The indenture governing the 5% senior convertible notes contains a debt incurrence covenant that places restrictions on the amount and type of additional indebtedness that we can incur other than with respect to the Merger. Such covenant specifies that we shall not, and that we shall not permit any of our subsidiaries to, directly or indirectly, incur or guarantee or assume any indebtedness other than permitted indebtedness. Permitted indebtedness is defined in the indenture to include, among others, the following categories of indebtedness: (i) all indebtedness outstanding on November 23, 2005; (ii) indebtedness under the senior convertible notes; (iii) indebtedness under our \$15.0 million letter of credit line; (iv) between \$25.0 million and \$50.0 million of additional senior secured indebtedness (the maximum permitted amount to be determined by application of a formula contained in the indenture); and (v) at least \$100.0 million of additional subordinated indebtedness (the maximum permitted amount to be determined by application of a formula contained in the indenture).

**Sensitivity to Market Risks**

*Foreign Currency Risk.* Revenues originating outside of the United States, a portion of which are denominated in foreign currencies, totaled 41% and 47% for the three months ended September 30, 2008 and September 30, 2007, respectively, and totaled 41% and 44% for the nine months ended September 30, 2008 and September 30, 2007, respectively. Since we conduct business on a global basis in various foreign currencies, we are exposed to movements in foreign currency exchange rates. We utilize a foreign currency-hedging program that uses foreign currency forward exchange contracts to hedge various nonfunctional currency exposures. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts. Our hedging activities cannot completely protect us from the risk of foreign currency losses as our currency exposures are constantly changing and not all of these exposures are hedged. A large portion of our employee base is located in India, and as a result, a significant portion of our fixed expenses are denominated in the Indian Rupee (INR). Therefore, as the INR exchange rate fluctuates against the U.S. Dollar (USD), the resulting impact on our consolidated USD expenses can be significant.

*Interest Rate Risk.* Our investments are subject to interest rate risk. Interest rate risk is the risk that our financial condition and results of operations could be adversely affected due to movements in interest rates. We typically invest our cash in a variety of interest-earning financial instruments, including bank time deposits, money market funds and taxable and tax-exempt variable-rate and fixed-rate obligations of corporations and federal, state and local governmental entities and agencies. These investments are primarily denominated in U.S. Dollars. Cash balances in foreign currencies overseas are primarily operating balances and are generally invested in short-term time deposits of the local operating bank. Due to the demand nature of our money market funds and the short-term nature of our time deposits and debt securities portfolio, these assets are sensitive to changes in interest rates. The Federal Reserve Board influences the general direction of market interest rates in the U.S. where the majority of our cash and investments are held. As of September 30, 2008 and 2007, the weighted-average yield on cash and cash equivalent balances was 1.3% and 4.4%, respectively. The lower yields at September 30, 2008, were due to lower inter-bank borrowing rates, which heavily affect yields on investments, and a change in the company's investment mix to reduce risk. If overall interest rates fell by 100 basis points in the third quarter of 2008, our interest income would decline approximately \$0.5 million for the quarter, assuming cash and cash equivalent levels consistent with September 30, 2008 levels.

*Credit Risk.* Financial assets that potentially subject us to a concentration of credit risk consist principally of investments and accounts receivable. During the third quarter of 2007, we shifted our investments from commercial paper into money-market instruments due to the volatility in the commercial paper markets. Cash on deposit is held with financial institutions with high credit standings. Debt security investments are generally in highly-rated corporations and municipalities as well as agencies of the U.S. government; however, a significant portion of these investments are in corporate debt securities, which carry a higher level of risk compared to municipal and U.S. government-backed securities. Our customer base consists of large numbers of geographically diverse enterprises dispersed across many industries. As a result, concentration of credit risk with respect to accounts receivable is not significant. However, we periodically perform credit evaluations for most of our customers and maintain reserves for potential losses. In certain situations we may seek letters of credit to be issued on behalf of some customers to mitigate our exposure to credit risk.

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We currently use foreign exchange contracts to hedge the risk associated with receivables denominated in foreign currencies. Risk of non-performance by counterparties to such contracts is minimal due to the size and credit standings of the financial institutions involved.

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

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

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

### **ITEM 4. CONTROLS AND PROCEDURES**

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

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

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

During the quarter ended March 31, 2008, we did not timely file an Item 5.02 Form 8-K related to the resignation of an officer of the Company. We have implemented improvements to our disclosure controls, including a notification process which is designed to provide for the timely disclosure of executive resignations. We plan to formalize these improvements with the audit committee during the quarter ending December 31, 2008. We have re-evaluated our internal controls in light of these matters and concluded the late filing did not occur as a result of a material weakness.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

Except for the risk factors set forth below, there have been no material changes from the risk factors disclosed under the heading *Risk Factors* in Item 1A of our 2007 Annual Report on Form 10-K.

**Additional Delays in Completing or the Failure to Complete the Announced Merger Among i2, JDA Software Group, Inc. and Igloo Acquisition Corp. Poses a Significant Risk to Our Business.**

On August 10, 2008, we entered into an Agreement and Plan of Merger (the *Merger Agreement*) with JDA Software Group, Inc. (*JDA*) and Igloo Acquisition Corp. (*Merger Sub*), under which i2 would merge with and into Merger Sub, with i2 being the surviving entity (the *Merger*). We cannot provide any assurance that the Merger will be consummated. If the Merger is consummated, we cannot assure you of the timing of the closing.

On November 4, 2008, JDA notified us in writing that they wished to renegotiate the price of the consideration to be paid under the Merger Agreement and requested that we adjourn our stockholder meeting, previously scheduled for November 6, 2008, the purpose of which was to approve and adopt the Merger Agreement (the *Special Meeting*). We proceeded to hold the Special Meeting and the Merger Agreement was approved and adopted by our stockholders. Following the Special Meeting, we received a written proposal from JDA to amend the consideration to be paid to the common stockholders to an amount significantly below \$14.86. Our board of directors reviewed JDA's proposal and concluded that it was not in the best interests of i2's stockholders to pursue it.

In light of the foregoing, there can be no assurance that the parties will be able to close the Merger as contemplated by the existing Merger Agreement. In the event that the Merger is not completed or is delayed, we may experience, among other things, downward pressure on our stock; lawsuits; continued uncertainty for our management, sales staff, and other employees; and uncertainty for existing and potential customers regarding our ability to meet our contractual obligations. Such distractions could harm our business, the results of operations, cash flow, and our overall financial condition. Further, certain costs associated with the Merger have already been paid, such as the \$5.3 million in external expenses included in our third quarter results. Certain other costs, such as additional investment banker and additional consent fees will be payable by us upon closing of the Merger. Certain other costs such as legal and accounting fees and reimbursement of certain expenses, are payable by us whether or not the Merger is completed.

**General Economic Conditions May Affect Our Business, Results of Operations and Financial Condition.**

Demand for our products depends in large part upon the level of capital and maintenance expenditures by many of our customers. Decreased capital and maintenance spending could have a material adverse effect on the demand for our products and our business, results of operations, cash flow and overall financial condition.

Disruptions in the financial markets may adversely impact the availability of credit already arranged and the availability and cost of credit in the future, which could result in the delay or cancellation of projects or capital programs on which our business depends. In addition, the disruptions in the financial markets may also have an adverse impact on regional economies or the world economy, which could negatively impact the capital and maintenance expenditures of our customers. These conditions may reduce the willingness or ability of our customers and prospective customers to commit funds to purchase our products and services, or their ability to pay for our products and services after purchase. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and other countries.

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

None

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**Table of Contents****ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

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

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS.**(a) *Exhibits***Exhibit****Number Description**

- |      |   |
|------|---|
| 2.1  | Agreement and Plan of Merger among i2 Technologies, Inc., JDA Software Group, Inc. and Igloo Acquisition Corp., dated August 10, 2008 (filed as Exhibit 2.1 to the 8-K filed by i2 on August 12, 2008).   |
| 4.1  | Third Amendment to Rights Agreement between i2 Technologies, Inc. and Mellon Investor Services LLC, dated as of August 10, 2008 (filed as Exhibit 4.1 to the 8-K filed by i2 on August 12, 2008).   |
| 4.2  | First Supplemental Indenture, dated as of September 11, 2008 to 5% Senior Convertible Notes due 2015 Indenture, dated as of November 23, 2005, between i2 Technologies, Inc. and The Bank of New York Mellon Trust Company, N.A. (filed as Exhibit 4.1 to the 8-K filed by i2 on September 18, 2008). |
| 99.1 | Form of Voting Agreement for Officers and Directors of i2 Technologies, Inc., dated August 10, 2008 (filed as Exhibit 99.1 to the 8-K filed by i2 on August 12, 2008).  |
| 99.2 | Form of Voting Agreement for Holder of Series B Preferred Stock (filed as Exhibit 99.2 to the 8-K filed by i2 on August 12, 2008).  |
| 99.3 | Consent and Conversion Agreement between i2 Technologies, Inc. and Highbridge International LLC entered into as of August 10, 2008 (filed as Exhibit 99.3 to the 8-K filed by i2 on August 12, 2008).   |
| 99.4 | Consent provided as of September 8, 2008 to i2 Technologies, Inc. and The Bank of New York Mellon Trust Company, N.A., as successor in interest to JPMorgan Chase Bank, National Association, by Highbridge International LLC, Credit-Suisse Securities (USA) LLC and UBS Securities LLC.             |
| 99.5 | Form of Consent and Conversion Agreement between i2 Technologies, Inc. and all holders of its 5% Senior Convertible Notes due 2015 other than Highbridge International LLC.   |
| 31.1 | Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of Pallab K. Chatterjee, Chief Executive Officer (Principal Executive Officer) of i2.   |
| 31.2 | Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of Michael J. Berry, Executive Vice President, Finance and Accounting, and Chief Financial Officer (Principal Accounting and Financial Officer) of i2.  |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Pallab K. Chatterjee, Chief Executive Officer (Principal Executive Officer) of i2.   |
| 32.2 |   |

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Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Michael J. Berry, Executive Vice President, Finance and Accounting, and Chief Financial Officer (Principal Accounting and Financial Officer) of i2.

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**SIGNATURES**

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

November 14, 2008

**i2 TECHNOLOGIES, INC.**

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