I2 TECHNOLOGIES INC
Form 10-K/A
March 17, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2003

or

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

For the transition period from __________ to __________

Commission file number 0-28030

i2 Technologies, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**75-2294945**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One i2 Place	**75234**

11701 Luna Road	(Zip code)
Dallas, Texas (Address of principal offices)	

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.00025 par value

Preferred Share Purchase Rights

(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

As of June 30, 2003, the last business day of the Registrant s most recently completed second fiscal quarter, the aggregate market value of the shares of Common Stock held by non-affiliates, based upon the closing price of the Common Stock as reported in the Pink Sheets, was approximately $295.4 million (affiliates being, for these purposes only, directors, executive officers and holders of more than 5% of the Registrant s Common Stock).

As of March 2, 2004, the Registrant had 434,543,015 outstanding shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Selected designated portions of the Registrant s definitive Proxy Statement to be filed on or before April 30, 2004 in connection with the Registrant s 2004 Annual Meeting of stockholders are incorporated by reference into Part III of this Annual Report.

Table of Contents

Index to Financial Statements

i2 TECHNOLOGIES, INC.

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Table of Contents

Index to Financial Statements

ITEM 1. BUSINESS

The disclosures set forth in this report are qualified by the sections captioned Forward-Looking Statements and Factors That May Affect Future Results in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as other cautionary statements set forth elsewhere in this report.

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

Our Company

We are a provider of enterprise supply chain management solutions, including various supply chain software and service offerings. 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 help customers maximize efficiency in relation to sourcing, supply, demand, fulfillment and logistics performance. Our application software is often licensed in conjunction with other offerings including content and services we provide such as business optimization and technical consulting, training, solution maintenance, content management, software upgrades and development.

Globally, we have over 900 customers in a variety of industries including:

- Technology
  - Computer & Electronics
  - Telecommunications Equipment and Service
  - Semiconductor
  - Consumer Electronics & Consumer Durables
  - Contract Manufacturers

- Automotive and Industrial
  - Automotive OEMs
  - Suppliers
  - Industrial Manufacturers
- Process Industries
  - Pharmaceuticals
  - Energy & Chemicals
  - Metals
- Consumer Goods & Retail
  - Retailers
  - Consumer Packaged Goods
  - Soft Goods (Textiles/Apparel & Footwear)

No individual customer accounted for more than 10% of our total revenues during 2003.

Table of Contents

Index to Financial Statements

i2 was founded in 1988 and incorporated in Delaware in 1989. Our executive offices are located at One i2 Place, 11701 Luna Road, Dallas, Texas 75234, and our telephone number is (469) 357-1000.

2003 Developments

Financial Statement Adjustments

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2002, in 2003 we made adjustments to our accounting with respect to certain transactions we had previously recorded between January 1, 1999 and September 30, 2002. The revenue adjustments that were made mostly resulted in revenue being deferred and recognized in subsequent periods, although in certain situations the adjustments resulted in revenue reversals. The adjustments included amounts deferred and reversed as a result of our application of the principles of contract accounting and amounts reversed as a result of the presence of concurrent transactions. The net effect of these revenue adjustments was to increase total revenue by $385.8 million in 2002 and to decrease total revenue by $137.6 million, $477.0 million and $130.9 million in 2001, 2000 and 1999, respectively. We also made certain deferrals and reversals to our expenses in connection with these revenue adjustments and made certain other adjustments to our expenses. The net effect of these expense adjustments was to increase expense by $45.8 million in 2002 and to decrease expense by $195.6 million, $34.6 million and $5.4 million in 2001, 2000 and 1999, respectively. As a result of these adjustments to our revenues and expenses, we also made certain income tax-related adjustments which increased our tax expense by $235.2 million and $25.6 million in 2002 and 2001, respectively, and decreased our tax expense by $166.9 million, $51.5 million and $5.2 million in 2000, 1999 and 1998, respectively.

The statement of operations impact of the adjustments discussed above was to decrease our net loss by $104.8 million and $32.4 million in 2002 and 2001, respectively, increase our net loss by $275.5 million in 2000, decrease our net income by $74.0 million in 1999 and increase our net income by $5.2 million in 1998. The balance sheet impact of these adjustments was to decrease our stockholders equity by $204.7 million, $310.4 million, $328.2 million and $65.4 million at December 31, 2002, 2001, 2000 and 1999, respectively, and increase our stockholders equity by $6.7 million at December 31, 1998.

In sum, the cumulative impact of the revenue adjustments was to reduce revenue by $359.7 million, which was comprised of $127.3 million of revenue that was reversed and $232.4 million of revenue that was deferred for potential recognition in subsequent periods. The cumulative impact to net loss of the revenue and expense adjustments was to increase our net loss by $207.1 million.

Revenue of $107.8 million that was deferred as a result of the changes discussed above was subsequently recognized in 2003, thereby reducing the cumulative impact of the adjustments to net income. As of December 31, 2003, $124.6 million of deferred revenue remains on our balance sheet and may be recognized in the future.

For additional information regarding the previously completed restatement of our consolidated financial statements, see our Annual Report on Form 10-K for the year ended December 31, 2002 that was filed July 21, 2003. For information concerning the formal investigation being conducted by the United States Securities and Exchange Commission (SEC) and the various legal actions commenced against us in connection with matters relating to the previously completed restatement, see the sections captioned Securities and Exchange Commission Investigation, Class Action Litigation and Derivative Litigation in Item 3, Legal Proceedings. For information concerning the de-listing of our common stock from The NASDAQ National Market as a result of our inability to timely file our annual report on Form 10-K for the year ended December 31, 2002, see Item 5, Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities.

Executive Appointments

Janet Eden-Harris was appointed Executive Vice President, Strategy and Chief Marketing Officer, and Adrianne Court was appointed Senior Vice President, Human Resources, effective January 1, 2004. Both

Table of Contents

Index to Financial Statements

Ms. Eden-Harris and Ms. Court joined the Executive Management Committee effective January 1, 2004. On December 31, 2003, Bill Beecher resigned from the position of Chief Financial Officer, retaining his Executive Vice President title. On January 1, 2004, Mary K. Murray was appointed Chief Financial Officer and Executive Vice President, and joined our Executive Management Committee. On January 8, 2004, we announced that Shigeru Nakane had been named President, i2 Greater Asia-Pacific Region, and that Mr. Nakane was no longer serving as our Chief Operating Officer.

Industry Background

Today s competitive business environment has led many companies in diverse industries to seek greater operating efficiency while improving flexibility and responsiveness to changing market conditions. In addition to facing higher competitive standards with respect to meeting customer demands for product quality, variety and price, businesses also recognize the need to improve asset utilization, reduce the cost of goods, reduce inventories, shorten lead times and reduce the cost of fulfilling orders. Furthermore, a company s extended supply chain may span multiple continents, requiring suppliers in one part of the world to collaborate with a plant in another to serve customers in yet a third location. These forces are prompting companies to collaborate with a broad range of suppliers and customers to improve efficiencies across multi-enterprise supply chains.

We believe that traditional enterprise resource planning (ERP) systems do not provide both the forward visibility across divisions or enterprises and the high-speed decision-support capabilities that we believe are necessary to quickly plan and execute decisions. To increase competitiveness, we believe companies are looking for solutions that can be integrated with their existing systems to provide tools for managing the variability in their supply chains, allowing them to monitor events in order, inventory and transportation, evaluate tradeoffs for fast and accurate decision-making and execute their plans across the critical processes in their supply chains.

The growth of the Internet and the proliferation of software applications have accelerated many companies efforts to increase efficiencies by leveraging information technology based on open standards. We believe this has prompted demands for a dynamic, open and integrated environment among customers, suppliers and designers. In response to these evolving market forces, many companies have sought to re-engineer their business processes to reduce manufacturing cycle times, shift from mass production to order-driven manufacturing, increase the use of outsourcing and share information more readily with vendors and customers.

Integration has become an increasingly important issue for enterprises to lower costs and realize value from their diverse environment of applications and distributed systems. Customers seek integration at several levels business process, applications, user interface, data and technology. A wide variety of companies are pursuing the integration market opportunity, including ERP companies, leading Independent Software Vendors (ISVs), Enterprise Application Integration (EAI) vendors, Systems Integrators (SIs) and other information technology (IT) services organizations, but no single company has demonstrated a complete solution to the various requirements sought by customers.

Leading software and technology companies are developing offshore (global) workforces, in part to take advantage of the technical talent and lower costs of human resources in India, China and other locations. This has led many companies to initiate their own offshore operations or outsource some run and maintain processes, as well as development and implementation activities, to Offshore IT Services (OIS) firms.

Development of the i2 Solution

Advanced Planning and Scheduling. We have offered an expanding set of supply chain management solutions since the company was founded nearly 16 years ago. Our founders, Sanjiv Sidhu and Ken Sharma, sought to expand enterprise application software beyond traditional ERP systems, which were basically transaction accounting and processing systems that did not consider production constraints or offer more sophisticated monitoring, decision-support and execution capabilities. We took the first step beyond ERP with the development of an advanced planning and scheduling application that took into account actual constraints to

5

Table of Contents

Index to Financial Statements

improve the flow of materials within a factory. That solution, i2 Factory Planner, has assisted many of our customers in improving the efficiency and profitability of their factories while reducing their materials and inventory costs.

Supply Chain Planning/Supply Chain Management. Our applications evolved into solutions for supply chain planning that encompassed constraint-based planning and scheduling for multiple factories, distribution centers and warehouses. With the addition of supply chain design and execution capabilities for logistics, demand planning and fulfillment, we became a leader in enterprise solutions for supply chain management.

Supplier Relationship Management. We continued to expand our product base by applying our solutions for the extended supply chain to the supplier relationship processes and functions. To facilitate cost-effective sourcing and product design, we acquired and developed technologies that help customers to more efficiently source, negotiate the pricing of and procure materials and components from suppliers, thereby enabling them to make design decisions while cognizant of the effect on the supply chain of existing products and the total product portfolio.

Fulfillment and Revenue Management. Our distributed order execution technology has enabled us to develop planning and execution solutions. We continue to invest in this technology, which provides a scalable and flexible toolkit for creating new solutions and helps customers to leverage transaction processing, visibility and event management capabilities. We have also invested in solutions that help customers optimize merchandising, revenue and pricing.

Products

Our solutions bundles of software products, technology services and/or content are designed to help customers address various supply chain problems and opportunities, including:

- Linking certain aspects of planning and decision-making to execution of such plans and the monitoring of changing conditions across the supply chain;
- Improving current business processes, return on assets and profitability;
- Improving customer service levels and delivering on commitments to customers;
- Enhancing competitive advantage; and
- Increasing market share.

Our primary products are contained in the following suites: Supply Optimization, Sourcing Optimization, Demand Optimization, Fulfillment Optimization and Logistics Optimization. These suites are complemented by our content, technology and services offerings that together form customer solutions.

Supply Optimization: The i2 Supply Optimization suite helps businesses coordinate the production and distribution of goods and materials through the supply chain, to product delivery and to the customer. This suite of products can provide multi-enterprise visibility, collaboration, decision-support and execution capabilities. Using i2 Supply Optimization, a business may estimate future demand for its products to help planners more accurately estimate future supply needs. As a result, businesses can make better decisions about how much of what products to make, when to make them, and what parts to utilize to make those products. Our Supply Optimization products include the Supply Chain Management (SCM) suite featuring solutions such as Factory Planner, Supply Chain Planner and various Scheduling products.

Sourcing Optimization: The Sourcing Optimization suite helps companies and their suppliers collaborate on sourcing and procurement for supply management. This suite bridges product development, sourcing, supply planning and procurement across the supply chain, providing the ability to create, execute and sustain global sourcing strategies. i2 Sourcing Optimization provides decision-support and optimization tools that are designed

Table of Contents

Index to Financial Statements

to help companies improve decision-making on supplies and the parts to use in products. During product development, these products can help to optimize designs by considering sourcing and supply chain constraints, as well as allowing design collaboration when outsourcing manufacturing or custom parts. During procurement, Sourcing Optimization helps companies to define sourcing strategies to reduce supply risks and costs, negotiate terms and streamline the requisitioning and buying of materials. Our Sourcing Optimization products include the i2 Supplier Relationship Management (SRM) suite featuring solutions such as Catalog Management, Product Sourcing, Contracts Management, Strategic Sourcing and Negotiate.

Demand Optimization: The Demand Optimization suite helps businesses manage their revenues with merchandising, planning and pricing tools. This suite provides tools to forecast and continuously manage demand, plan merchandising strategies, manage markdowns and promotions pricing, and optimize price quoting. Using these products, companies can begin to optimize their revenues by selling products at prices set by sophisticated analytic products. Our Demand Optimization products include Demand Manager, Markdown Optimizer and Merchandise Planner.

Fulfillment Optimization: The Fulfillment Optimization suite helps businesses integrate planning and execution in fulfillment solutions, such as Service Parts Management and Vendor Managed Inventory. This suite provides tools to stage inventory, plan replenishment, manage orders and provide visibility to lower fulfillment costs, improve on-time delivery performance and enhance customer satisfaction. The Distributed Order Execution solution that is the backbone of i2 s Fulfillment Optimization suite provides transaction processing, visibility, event management, integration and workflow capabilities. Our Fulfillment Optimization products include solutions such as Distributed Order Management, Replenishment Planner, Demand Fulfillment, Inventory Management, Service Budget Optimizer and Service Parts Planner.

Logistics Optimization: The i2 Logistics Optimization suite helps businesses optimize the flow of goods between suppliers, enterprise supply chain locations and customers. This suite provides integrated products for planning and executing transportation and distribution activities, as well as tools for strategic supply chain design and transportation modeling. Using i2 Logistics Optimization, a business can procure, plan, execute and monitor freight movements across multiple modes, borders and enterprises. As a result, businesses can make better decisions about where and how to ship products, reducing their transportation costs while executing supply chain plans and achieving customer service objectives. Our Logistics Optimization products include the i2 Transportation and Distribution Management (TDM) suite featuring products such as Supply Chain Strategist, Transportation Bid Collaboration, Transportation Planner, Transportation Modeler, Transportation Manager and Warehouse Manager.

Content: Content is information about items and suppliers that can be used to describe, search, compare, buy, sell or select an item. The i2 Content solution consists of content management software, content services and reference content. Our content management software provides publication, subscription, management and syndication functionality for enterprises and helps identify parts or services that match both technical and price criteria and the delivery of content services via the Internet. Additionally, our content management software provides a standards-based method for content exchange and collaboration among trading partners. Content services provided with i2 Content include legacy data conversion services and custom content creation capabilities that help enterprises to access needed part, component and supplier data. Our reference content contains part, component and item-specific records as well as technical and pricing information about available products.

Integration: Integration links our products with the customer s IT environment, focusing on ERP and legacy operational systems. Our integration tools are designed to enable customers to integrate data, systems and processes, and are based on a combination of internally-developed software and third-party software.

Table of Contents

Index to Financial Statements

Product Development

We focus our ongoing product development efforts on meeting the requests of, and delivering on our commitments to, our current customers, enhancing our solutions and the underlying technology across our products, and developing or enhancing products that will enable us to enter new markets. In order to address customer recommendations, we have developed a User Enhancement Voting Process in collaboration with the i2 User Group. This process allows customers to provide input so that our solutions evolve to meet our customers business challenges and opportunities. In addition, we invest in solutions that help us more fully complete our solution offerings and enable cross-product workflows. We have continued to invest in products and technologies that we anticipate will be important and differentiated in the future, such as our Distributed Order Execution platform. Using this platform in conjunction with certain third party products, we are also developing data management and business workflow management capabilities under the umbrella of Supply Chain Operating Services (SCOS). We are also developing closed-loop solutions which would provide customers with an integrated planning and execution environment. We maintain our primary development centers in North America and India. Research and development expenses totalled $80.8 million in 2003, $173.1 million in 2002 and $288.9 million in 2001.

Our Solution Operations activities are primarily conducted in North America and India and are organized into Solutions Business Units (SBUs). Most SBU management, product management and product marketing employees are based in North America, but many development and services teams are based in India. The India location offers many benefits to i2, including centralization of development efforts and cost structure advantages. Our India-based Solutions Center provides services such as upgrades, implementations and development services that heavily leverage other organizations based in India. We also provide content and data services out of India.

Customer Service and Support

We maintain a technical support team that operates through our global service and support centers. Our customer service and support activities consist of the following:

Consulting. We offer our customers on-site consulting services for assisting in the implementation of our products and services and integration with the customers existing systems. We and our customers also use third-party consulting firms.

Training. We offer education and training programs for our customers and third-party implementation providers with classes offered at our offices or at customer locations. We also offer web-based and self-paced learning programs. These classes focus on the fundamental principles of our software products as well as their implementation and use.

Maintenance and Product Updates. We provide ongoing support services for our product suites. Maintenance contracts are typically sold to customers at the time of the initial license and may be renewed for additional periods. Our maintenance agreements with our customers provide the right to receive most product updates and enhancements to the products purchased by the customer, as well as telephone and online support. Our support services are packaged into three tiers (silver, gold and platinum), which offer customers the ability to choose the level of service they desire.

Development Services. Customers may also contract for services to provide custom development of our applications. In some cases, the modifications or additions to the software may be incorporated into future releases of our products.

Sales and Marketing

We sell our software and services through a direct customer facing organization that is augmented by other sales channels, including systems consulting and integration firms and other industry-related partners. Our direct customer facing organization consists of account representatives and client managers that are supported by a team of personnel that includes solution and industry specialists.

8

Table of Contents

Index to Financial Statements

We currently have joint marketing agreements with software vendors and other industry-related businesses. Additionally, we have alliances with top global and regional systems consulting and integration firms, including Accenture, EDS, IBM Global Services, Tata Consulting Services and webMethods, among others. These joint marketing agreements and alliances generally provide the vendors with non-exclusive rights to market our products and access our marketing materials and product training. By using these indirect sales channels, we seek to capitalize on the installed base of other companies and obtain favorable product recommendations from the business partners, thereby increasing the market coverage of our products.

International Operations

We have international offices in Australia, Belgium, Canada, China, Finland, France, Germany, India, Japan, Korea, Malaysia, Netherlands, Singapore, South Africa, Spain, Taiwan and the United Kingdom. Total assets related to our international operations accounted for 30% and 21% of our total consolidated assets as of December 31, 2003 and 2002. International revenue totalled $166.3 million, or 34% of total revenue, in 2003; $314.8 million, or 35% of total revenue, in 2002; and $336.0 million, or 38% of total revenue, in 2001. See *Note 14 Segment Information, International Operations and Customer Concentrations* in the accompanying Notes to Consolidated Financial Statements.

Competition

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 compete with suites of applications, while most offer solutions designed specifically to target particular functions or industries. We believe our principal competitors are as follows:

ERP Software Vendors. These include companies such as Oracle, SAP and PeopleSoft, which have added or are attempting to add capabilities for supply chain planning or collaboration to their transaction system products.

Other Software Vendors. These include companies such as Adexa and Manugistics, which compete principally with our production, logistics and fulfilment optimization products; companies such as Agile and Ariba, which compete principally with our supplier relationship management applications; and companies such as Trilogy and Yantra, which compete principally with our fulfillment and certain of our demand optimization products.

Custom and Offshore Development. We also compete with independent developers of enterprise application software such as Infosys, Satyam, Wipro and other entities in countries with relatively low wage structures, as well as internal development efforts by corporate information technology departments.

Proprietary Rights and Licenses

We regard our trademarks, copyrights, patents, trade secrets, technology and other proprietary rights as critical to our business. To protect our proprietary rights, we primarily rely on a combination of copyright, patent, trademark and trade secret laws, confidentiality procedures and contractual provisions. We license our software products in object code (machine-readable) format to customers under license agreements and we generally do not sell or otherwise transfer title of our software products to our customers. Our non-exclusive license agreements generally allow the use of our software products solely by the customer for specified purposes without the right to sublicense or transfer our software products.

Trademarks are important to our business as we use them in our marketing and promotional activities as well as with the delivery of our software products. Our registered trademarks include i2, RHYTHM, PLANET, TRADEMATRIX and GLOBAL SUPPLY CHAIN MANAGEMENT. Other trademarks of i2 include POWERING THE BOTTOM LINE.

Table of Contents

Index to Financial Statements

We hold a number of U.S. patents that predominantly relate to planning, scheduling optimization, demand fulfilment, collaboration, e-commerce and data management and reporting. These patents expire at various times through 2021. We also depend on trade secrets and proprietary know-how for certain unpatented aspects of our business. To protect our proprietary information, we enter into confidentiality agreements with our employees, consultants and licensees, and generally control access to and distribution of our proprietary information. We sublicense some software that we license from third parties and incorporate in, or license in conjunction with, our products.

Employees

At December 31, 2003, we had approximately 2,452 full-time employees, including approximately 1,107 employees primarily engaged in research and development activities primarily located in India and the U.S. and approximately 300 employees primarily engaged in sales and marketing activities. Our future success depends in significant part upon the continued service of our key technical, sales and managerial personnel and our ability to attract and retain highly qualified technical, sales and managerial personnel. Except for employees represented by a Worker s Council in Germany, none of our employees is represented by a collective bargaining agreement and we have never experienced a work stoppage. We believe employee relations are good.

Available Information

Under the Securities Exchange Act of 1934, we are required to file annual, quarterly and current reports, proxy and information statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC maintains a web site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We file electronically with the SEC.

We make available, free of charge, through our investor relations web site, our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. The address for our investor relations web site is http://www.i2.com/investor.

In June 2003, we adopted a Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics applies to, among others, our Chief Executive Officer and Chief Financial Officer. The full text of the Code of Business Conduct and Ethics is available at our investor relations web site, http://www.i2.com/investor. We intend to disclose any amendment to, or waiver from, a provision of the Code of Business Conduct and Ethics that applies to our Chief Executive Officer or Chief Financial Officer on our investor relations web site.

The information contained on our website is not part of, and is not incorporated in, this or any other report we file with or furnish to the SEC.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Dallas, Texas and is held under a lease contract that expires in 2010. This facility houses our executive and primary administrative offices as well as sales, marketing, research and development and consulting personnel. We also lease space for our other offices in the U.S., Australia, Belgium, Canada, China, Finland, France, Germany, India, Japan, Korea, Netherlands, Singapore, South Africa, Spain, Taiwan and the United Kingdom primarily to provide sales, customer support, consulting services and research and development activities. We consider our properties to be suitable and adequate for our present needs and do not anticipate leasing additional properties at this time.

As of May 15, 2003, we entered into a termination agreement with the owner of Two Colinas Crossing, a building in Dallas, Texas, that we vacated in January 2003 as part of a formal restructuring plan. This lease,

Table of Contents

Index to Financial Statements

originally scheduled to expire in October 2011, would have required us to pay approximately $43.4 million through the lease s original date of termination. In consideration for the early termination of the lease, we paid approximately $7.6 million in cash and issued a $6.8 million non-negotiable promissory note. The senior note bears interest at a rate of 5.25% per annum, payable semi-annually in arrears, and matures on December 15, 2006.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various claims and legal proceedings that arise in the ordinary course of our business, including claims and legal proceedings which have been asserted against us by former employees and certain customers, and have been in negotiations to settle certain of those contingencies. In addition, a formal investigation is being conducted by the SEC and various legal actions have been commenced against us in connection with matters relating to the previously completed restatement of our consolidated financial statements. As discussed below, we are also attempting to settle or otherwise resolve those proceedings.

Securities and Exchange Commission Investigation

On or about March 26, 2003, we were advised that the SEC had issued a formal order of investigation to determine whether there have been violations of the federal securities laws by the company and/or others involved with the company in connection with matters relating to the restatement of our consolidated financial statements. Our Board of Directors had previously directed our Audit Committee to conduct an internal investigation of certain allegations made during the fall of 2001 by a former officer relating to revenue recognition and financial reporting, among other things. In November 2002, we reported to the SEC and publicly disclosed the results of that investigation, as well as certain related allegations made during the fall of 2002 by the former officer and another former officer. Thereafter, the staff of the SEC opened an informal inquiry into these allegations and other matters relating to our financial reporting, and the SEC issued its formal order of investigation.

We continue to be in discussions with the SEC staff and intend to continue to fully cooperate with the SEC. We cannot predict when this investigation will be completed or its outcome. However, we may face sanctions in connection with any resolution of the SEC investigation, including but not limited to significant monetary penalties and injunctive relief.

Class Action Litigation

Beginning in March 2001, a number of purported class action complaints were filed in the United States District Court for the Northern District of Texas (Dallas Division) against the company and certain of our officers and directors. The cases were consolidated, and in August 2001 plaintiffs filed a consolidated amended complaint. The consolidated amended complaint alleges that we and certain of our officers and directors violated the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, by making purportedly false and misleading statements concerning the characteristics and implementation of certain of our software products. The consolidated amended complaint seeks unspecified damages on behalf of a purported class of purchasers of our common stock during the period from May 4, 2000 to February 26, 2001. By stipulation, in December 2002, the court certified the plaintiff class.

Beginning in April 2003, additional purported class action complaints were filed in the United States District Court for the Northern District of Texas (Dallas Division) against the company and certain of our current and former officers and directors. The complaints brought claims under the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, relating to our announcement that we would re-audit certain of our consolidated financial statements and that there would be material adjustments to our financial statements. Specifically, these actions allege that we issued a series of false or misleading statements to the market during the class period that failed to disclose that (i) we had materially overstated our revenue by

11

Table of Contents

Index to Financial Statements

improperly recognizing revenue on certain customer contracts, (ii) we lacked adequate internal controls and were therefore unable to ascertain our true financial condition, and (iii) as a result of the foregoing, our financial statements issued during the class period were materially false and misleading. Plaintiffs contend that such statements caused our stock price to be artificially inflated. The complaints seek unspecified damages on behalf of a purported class of purchasers of our common stock during the period from April 18, 2000 to January 24, 2003.

In July 2003, all of these class action complaints were consolidated for purposes of pre-trial matters only. Although we have vigorously defended against these lawsuits, we have recently entered negotiations to settle the actions.

Derivative Litigation

In April 2001, a purported shareholder derivative lawsuit was filed in Dallas County, Texas, against certain of our officers and directors, naming the company as a nominal defendant. The complaint alleged that certain of our officers and directors breached their fiduciary duties to the company and our stockholders by (i) selling shares of our common stock while in possession of material adverse non-public information regarding our business and prospects, and (ii) disseminating inaccurate information regarding our business and prospects to the market and/or failing to correct such inaccurate information. This lawsuit was removed to the United States District Court for the Northern District of Texas (Dallas Division). A motion to dismiss the action was filed, and on October 8, 2002, the motion was granted. Plaintiffs filed an appeal of that decision on October 15, 2002 and, following oral arguments, plaintiffs moved for voluntary dismissal of their appeal. On January 5, 2004, the appellate court granted plaintiffs voluntary dismissal motion and judgment against the plaintiffs became final.

In April and May 2003, two additional purported shareholder derivative lawsuits were filed in the United States District Court for the Northern District of Texas (Dallas Division) against certain of our officers and directors, naming the company as a nominal defendant. The complaints alleged that certain of our officers and directors breached their fiduciary duties to the company and our stockholders by (i) causing us to improperly recognize revenue in violation of generally accepted accounting principles to artificially inflate our stock price in order to complete acquisitions in which our stock was used as consideration, (ii) selling shares of our common stock while in possession of material adverse non-public information regarding our financial statements and (iii) securing personal loans using our allegedly artificially inflated stock price. In July 2003, these lawsuits were consolidated for all purposes. Plaintiffs amended their consolidated complaint to add a claim that our Chief Executive Officer and our former Chief Financial Officer violated Section 304 of the Sarbanes-Oxley Act of 2002, seeking recovery from them of bonuses, equity-based compensation and profits realized from sales of securities of the company. A motion to dismiss the actions was filed, and on January 26, 2004, the motion was granted and judgment was entered against the plaintiffs. An appeal of that decision was filed on February 24, 2004.

In May 2003, another purported shareholder derivative lawsuit was filed in the United States District Court for the Northern District of Texas (Dallas Division) against our Chief Executive Officer, our former Chief Financial Officer and our directors, naming the company as a nominal defendant. The complaint alleges that our Chief Executive Officer and our former Chief Financial Officer violated Section 304 of the Sarbanes-Oxley Act of 2002, and seeks recovery from them of bonuses, equity-based compensation and profits realized from sales of securities of the company. The lawsuit also names our directors for failing to seek recovery of the aforementioned bonuses, equity-based compensation and trading profits. A motion to dismiss was filed, and on February 26, 2004, the motion was granted and judgment was entered against the plaintiffs. The deadline by which the plaintiffs must file a notice of appeal is March 29, 2004.

As stated, these lawsuits are or were derivative in nature; they do not and did not seek relief from the company. However, we have entered into indemnification agreements in the ordinary course of business with certain of the defendant officers and directors, and have advanced payment of legal fees and costs incurred by the

Table of Contents

Index to Financial Statements

defendants pursuant to our obligations under the indemnification agreements and/or applicable Delaware law. In addition, we may be obligated to continue to advance payment of legal fees and costs incurred by the individual defendants in the remaining lawsuits throughout the pendency of those actions. Although we have vigorously defended against these lawsuits we have recently entered into negotiations to settle these actions.

Certain Accruals

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

Although we do not believe it is possible at this time to estimate the amount of monetary penalties we may face in connection with any resolution of the SEC investigation, based on the stage of the class action and derivative litigation and the status of our settlement negotiations with the plaintiffs we have determined to establish an accrual of $42.0 million in the accompanying consolidated financial statements for estimated losses relating to a possible settlement of the class action and derivative litigation. The accrual represents our estimate of the amount, in excess of expected payments from our insurance carriers, that will be required to be paid by us if a settlement of the lawsuits is achieved. We anticipate that we will obtain proceeds of approximately half of the accrued amount from the sale of common stock to certain of the individual defendants in the lawsuits in connection with any settlement of that litigation.

Negotiations to reach a final and definitive settlement of the class action and derivative lawsuits are continuing. There can be no assurance that these negotiations will result in a settlement of the lawsuits. Any settlement would be subject to numerous conditions, including the execution of a settlement agreement and court approval. If achieved, any settlement will involve significant cash payments from i2. Such cash payments could be more than the amount currently estimated and accrued for in our consolidated financial statements for the year ended December 31, 2003.

The adverse resolution of any one or more of the matters described in this Item 3 over and above the amount, if any, that has been estimated and accrued in the accompanying consolidated financial statements could have a material adverse effect on our business, financial condition or results of operations. See *Note 8 Commitments and Contingencies* in the accompanying Notes to Consolidated Financial Statements.

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

On December 22, 2003, we held an annual meeting of our stockholders to re-elect Sanjiv S. Sidhu and Robert L. Crandall, our Class III directors, to our board. Mr. Sidhu was elected with 355,491,278 shares voting for his election, 14,807,271 shares withholding their vote and no shares abstaining or broker non-votes. Mr. Crandall was elected with 367,697,406 shares voting for his election, 2,601,243 shares withholding their vote and no shares abstaining or broker non-votes.

The term of office of Harvey B. Cash and Michael H. Jordan, our Class II and Class I directors, respectively, continued after the stockholders meeting held on December 22, 2003. However, as we announced on December 29, 2003, Mr. Jordan subsequently resigned from our board. We are currently seeking additional members for our board.

Table of Contents

Index to Financial Statements

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock previously traded on The NASDAQ National Market under the symbol ITWO. On May 9, 2003, our common stock was delisted from The NASDAQ National Market. As support for its decision to delist our stock, a NASDAQ Listing Qualifications Panel cited our failure to timely file our annual report on Form 10-K for the year ended December 31, 2002. Since May 9, 2003, our common stock has been quoted in the over-the-counter Pink Sheets under the OTC symbol ITWO. See *Note 9 Stockholders Equity (Deficit) and Loss Per Common Share* in the accompanying Notes to Consolidated Financial Statements.

The following table lists the high and low per share intra-day sales prices for our common stock as reported by the NASDAQ National Market or as quoted in the over-the-counter Pink Sheets, as applicable, for the periods indicated.

	High	Low
2003		
Fourth quarter	$ 2.16	$ 1.26
Third quarter	1.61	0.92
Second quarter	1.19	0.53
First quarter	1.45	0.71
2002		
Fourth quarter	$ 1.93	$ 0.41
Third quarter	1.70	0.49
Second quarter	5.48	1.30
First quarter	9.58	5.00

As of March 2, 2004, there were 434,543,015 shares of our common stock outstanding held by 1,445 holders of record.

Dividends

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future. Future dividends, if any, will be determined by our board of directors.

Stock Option Plans

In October 2001, we announced a voluntary cash compensation for stock options program whereby employees were given the opportunity to elect, by November 15, 2001, to receive a reduction in base salary for a twelve-month period starting on November 16, 2001 in exchange for stock options. The options were granted on November 16, 2001 and on December 21, 2001. The options were to vest in 24 equal monthly increments from the grant date. No compensation charge related to this program was required. In July 2002, the Compensation Committee of the Board of Directors approved the acceleration of the vesting of options granted under this program. Effective July 23, 2002, all unvested options issued under this program were immediately vested. No compensation charge was recorded in connection with the acceleration of vesting because the market value of our stock on the modification date was less than the exercise price of the modified options.

During the fourth quarter of 2002, we issued an aggregate of 59,000 shares of our common stock to employees pursuant to exercises of stock options that were granted prior to April 26, 1996 with exercise prices ranging from $0.0675 to $1.09 per share. These issuances were deemed exempt from registration under Section 5 of the Securities Act of 1933 in reliance upon Rule 701 thereunder, and appropriate legends were affixed to the share certificates issued in each such transaction.

Table of Contents

Index to Financial Statements

Information regarding stock-based compensation awards (including both stock options and stock rights awards) outstanding and available for future grants as of December 31, 2003, segregated between stock-based compensation plans approved by stockholders and stock-based compensation plans not approved by stockholders, is presented in the table below. Included in the table are stock options granted to former employees of acquired companies that were assumed by us. We do not intend to grant additional stock options under any of the assumed plans of acquired companies. While our stockholders approved certain of our acquisitions of the companies from which these plans were assumed, our stockholders have not approved any of the assumed plans (in thousands, except per share amounts):

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Awards	Weighted-Average Exercise Price of Outstanding Awards	Number of Shares Available for Future Grants
Plans approved by stockholders:			
1995 Plan	95,807	$ 5.47	94,919
Plans not approved by stockholders:			
2001 Plan	14,163	4.26	5,743
Assumed plans of acquired companies	2,550	13.05	27,873
Total	112,520	$ 5.49	128,535

Stock Rights Plan

On January 17, 2002, our Board of Directors approved adoption of a stockholder rights plan and declared a dividend of one preferred share purchase right for each outstanding share of common stock. Stockholders of record on January 28, 2002 received, for each share of common stock then owned, one right to purchase a unit of one one-thousandth of a share of Series A junior participating preferred stock at a price of $75.00 per unit. The rights, which expire on January 17, 2012, will only become exercisable upon distribution. Distribution of the rights will not occur until ten days after the earlier of (i) the public announcement that a person or group has acquired beneficial ownership of 15.0% or more of our outstanding common stock or (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer that would result in a person or group acquiring the beneficial ownership of 15.0% or more of our outstanding common stock.

Shares of Series A preferred stock purchasable upon exercise of the rights are not redeemable. Each share of Series A preferred stock will be entitled to a dividend of 1,000 times the dividend declared per share of common stock. In the event of liquidation, each share of Series A preferred stock will be entitled to a payment of the greater of (i) 1,000 times the payment made per share of common stock or (ii) $1,000. Each share of Series A preferred stock will have 1,000 votes, voting together with the common stock. Finally, in the event of any merger, consolidation or other transaction in which shares of common stock are exchanged, each share of Series A preferred stock will be entitled to receive 1,000 times the amount received per share of common stock. Because of the nature of the dividend, liquidation and voting rights, the value of each unit of Series A preferred stock purchasable upon exercise of each right should approximate the value of one share of common stock.

If, after the rights become exercisable, we are acquired in a merger or other business combination transaction, or 50% or more of our consolidated assets or earning power are sold, proper provision will be made so that each holder of a right will thereafter have the right to receive upon exercise that number of shares of common stock of the acquiring company having market value of two times the exercise price of the right.

If any person or group becomes the beneficial owner of 15.0% or more of the outstanding shares of common stock, proper provision will be made so that each holder of a right, other than rights beneficially owned by the acquiring person (which will thereafter be void), will have the right to receive upon exercise that number of shares of common stock or units of Series A preferred stock (or cash, other securities or property) having a market value of two times the exercise price of the right.

Table of Contents

Index to Financial Statements

The rights have significant anti-takeover effects by causing substantial dilution to a person or group that attempts to acquire us on terms not approved by our Board of Directors. The rights should not interfere with any merger or other business combination approved by the Board of Directors since the rights may be redeemed by us at the redemption price of $0.01 per unit prior to the occurrence of a distribution date. Additional details of this stock rights plan are presented in Note 9 *Stockholders Equity (Deficit) and Loss Per Common Share* in the accompanying Notes to Consolidated Financial Statements.

Convertible Debt

As of December 31, 2003, we had $356.8 million of outstanding debt, the majority of which is convertible into shares of our common stock. Details of this debt are presented in Note 7 *Borrowings and Debt Issuance Costs* in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report. As of December 31, 2003, none