MANUGISTICS GROUP INC
Form 10-K
May 29, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 28, 2003 OR

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

For the transition period from ______ to ______

Commission File Number 0-22154

MANUGISTICS GROUP, INC.

(Exact name of Registrant as specified in its charter)

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

9715 Key West Avenue, Rockville, Maryland 20850
(Address of principal executive offices) (Zip code)
(301) 255-5000
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Name of each exchange on which registered: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.002 par value per share
(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 the 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. [**X**]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes [**X**] No [ ]

As of August 31, 2002, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $235.0 million. As of April 29, 2003, the number of shares outstanding of the Registrant s common stock was approximately 70.1 million, based on information provided by the Registrant s transfer agent.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2003 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K. We anticipate that our Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended February 28, 2003.

PART I

Item 1 BUSINESS.

The disclosures set forth in this annual 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 of this annual report, and other cautionary statements set forth elsewhere in this annual report.

Overview:

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

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

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

The Company was incorporated in Delaware in 1986. Our fiscal year end is February 28th or 29th. We completed our initial public offering of common stock in 1993, a secondary public offering of common stock in 1997 and a private placement of convertible subordinated notes in 2000. We subsequently registered the convertible subordinated notes early in fiscal 2002. We have invested significant resources to develop new software, to enhance existing software and to acquire additional software products and solutions through acquisitions.

A summary of our acquisitions over the past five fiscal years follows:

Company	Date	Description
Digital Freight Exchange, Inc.	May 2002	Collaborative transportation logistics services
Western Data Systems of Nevada, Inc.	April 2002	Maintenance, repair and overhaul and make-to-order software
SpaceWorks Inc. (acquired technology only)	July 2001	Order management software
PartMiner CSD, Inc.	May 2001	Product design and sourcing software
One Release, LLC	May 2001	Software development services
STG Holdings, Inc.	January 2001	Advanced factory planning, scheduling and simulation software
Talus Solutions, Inc.	December 2000	Pricing and revenue optimization software
TYECIN Systems, Inc.	June 1998	Supply chain planning and simulation software for the semiconductor industry

Fiscal 2003 Acquisitions:

Digital Freight Exchange, Inc. On May 23, 2002, the Company acquired substantially all of the assets of Digital Freight Exchange, Inc. (DFE) for $4.5 million in cash. DFE was a provider of collaborative transportation logistics services that facilitate online, real-time bids for global transportation contracts. Approximately $0.3 million of the purchase price was paid in cash at closing. The remaining purchase price of $4.2 million was paid in cash in September 2002. Approximately $675,000 of the purchase price is being held in escrow for the satisfaction of indemnification claims under the terms of the acquisition agreement.

Western Data Systems of Nevada, Inc. On April 26, 2002, we acquired certain assets and assumed certain liabilities of Western Data Systems of Nevada, Inc. (WDS) for $26.2 million in cash. At the time of the acquisition, WDS was a leading provider of application software and services to 135 customers in commercial aerospace, defense and maritime industries and the military. The WDS acquisition added to our offering of service & parts management solutions that address the complex business operations inherent to asset intensive industries. WDS software includes capabilities ranging from predictive system failure forecasting and parts optimization, to finite capacity and labor resource scheduling, to maintenance, repair and overhaul (MRO) shop planning and execution, and direct materials purchase management. During the year ended and as of January 31, 2002, WDS had revenue of approximately $28.0 million and 160 employees. Approximately $2.6 million of the purchase price was paid in cash at closing. The remaining purchase price of $23.6 million was paid in cash in November 2002. Approximately $3.9 million of the purchase price is being held in escrow for the satisfaction of indemnification claims under the terms of the acquisition agreement.

Industry Background:

An effective supply chain management and pricing and revenue optimization strategy can make companies more competitive and profitable. In addition, we believe that companies must pursue the further integration of the supply-side and demand-side of their business in order to respond to increased global competition, to differentiate themselves from their competitors and to increase their share of their markets. We combine our traditional supply chain management and our pricing and revenue optimization strengths with our supplier relationship management and service & parts management solutions to enable companies to improve their cost position and enhance their revenue, ultimately improving profitability. Once implemented, our solutions can provide our clients with greater access to information, clearer visibility of what is taking place in their sales, service and supply channels and a consolidated view of client requirements, further optimizing their extended supply and demand networks.

Clients are using our solutions to share information within their companies and among their trading partners in their supply chains. The sharing of information enables our clients to coordinate more effectively with their trading partners, which helps our clients meet or exceed the rapidly changing requirements of their customers. Our solutions address the supply chain needs of enterprises and trading networks and the business processes that enable responsive and intelligent decision-making. These processes include design, source, buy, make, store, move, price, market, sell and service. Our solutions are focused on managing decisions, events and plans and have the flexibility to be configured to the unique requirements of different industries. In addition, our solutions allow companies to use the internet as a medium for business collaboration and to monitor, measure and improve their business processes over time.

Strategy:

Our objectives are to (i) enhance our position as a leading global provider of supply chain management (SCM) and pricing and revenue optimization (PRO) solutions and (ii) leverage our leadership position in SCM and PRO to our supplier relationship management, service &

parts management and EPO solutions. Our strategy to achieve our objective includes the following elements:

EXPAND AND DIFFERENTIATE OUR SOLUTIONS We have significant experience and expertise in supply chain management and pricing and revenue optimization, enhanced by our relationships with clients, industry experts and third-party alliances, which we believe will work to our advantage as we develop and expand our solutions. We believe that there is a significant opportunity to apply pricing and revenue optimization solutions to manufacturing and other non-reservation based industries, as evidenced by clients such as AT&T, Fairchild Semiconductor, Ford Motor Company and UPS. In the past, revenue optimization was used primarily in service and reservation-based industries such as passenger airlines, hotels, media and entertainment and car rental. We intend to extend the capabilities and scope of our supply chain management, pricing and revenue optimization, supplier relationship management, service & parts management and EPO solutions to help solve a broader range of business challenges and to improve processes within and among companies. We believe the emerging market for EPO solutions will be a large and important market, and that our industry domain expertise and extensive capabilities will differentiate us from our competitors.

PROVIDE ADVANCED TECHNOLOGICAL INNOVATION Using our extensive experience and domain expertise, plus our commitment of substantial resources for research and development, we develop advanced technological software solutions and offer them to our clients and prospects. In addition, we will consider tactical and strategic acquisitions of other companies and technologies in order to shorten the time it takes us to bring solutions to market, further differentiate ourselves from our competitors and to enhance or expand our existing offerings. See Product Development.

DEVELOP STRATEGIC ALLIANCES AND NEW BUSINESS RELATIONSHIPS We focus our resources on the development and enhancement of our core competencies and combine them with the competencies of third parties, such as leading consulting firms and technology providers that provide advanced capabilities to complement our core focus areas. This strategy permits us to offer our clients industry-leading solutions that can better meet their needs. We continue to expand and enhance our current solutions and our ability to implement them through these alliances.

EXPAND CURRENT VERTICAL MARKETS AND EXPLORE NEW ONES We continue to expand our presence in and focus on markets in a broad range of sectors such as automotive; chemical & energy; communications & high technology; consumer packaged goods; food & beverage; government, aerospace & defense; industrials; life sciences; retail; third-party logistics; and travel, transportation & hospitality. This strategy provides us with a diverse customer base and increases the number of potential new customers in future periods. We believe our vertical market diversification will be a key factor in helping us achieve our growth objectives in the future and helps mitigate against the effects of adverse changes in individual vertical markets. We also evaluate opportunities outside of our current vertical markets as we seek to expand the penetration of our supply chain management, pricing and revenue optimization, supplier relationship management, service & parts management and EPO solutions.

Products:

Our products can be grouped in four categories: Manugistics NetWORKS planning applications, Manugistics NetWORKS collaborative applications, NetWORKS execution applications and Manugistics WebConnect integration applications.

The Manugistics NetWORKS family of products is designed to coordinate, optimize, measure and analyze across each of the key business processes design, source, buy, make, store, move, price, market, sell and service.

Manugistics NetWORKS Planning Applications..

Manugistics NetWORKS planning applications include the core optimization technologies and algorithms of our demand and pricing management, logistics management, manufacturing management, fulfillment management, and supply management solutions, which incorporate many years of research and development in advanced mathematical modeling. Our NetWORKS planning applications are designed to facilitate strategic, tactical and operational decision-making. Strategic decisions typically consider a time-frame of quarters to years. Tactical decisions typically consider a time-frame of weeks to months. Operational decisions typically consider a time-frame of minutes to days. Descriptions of the NetWORKS planning applications follow:

NetWORKS ATTRIBUTE BASED PLANNING NetWORKS Attribute Based Planning optimizes production plans across multi-site manufacturing environments, simultaneously considering the complex business constraints and business goals of the unique client environment helping enable companies to reduce manufacturing costs while maximizing customer service. It also provides an intuitive decision-support system using advanced reporting capabilities to help summarize key business metrics.

NetWORKS DEMAND NetWORKS Demand forecasts future customer demand with a high degree of accuracy, alerting a company to potential supply problems and finding patterns of demand that traditional forecasting solutions do not detect.

NetWORKS FULFILLMENT NetWORKS Fulfillment matches time-phased storage and flow of supply to demand, enabling companies to minimize inventory and reduce logistics costs while maximizing customer service.

NetWORKS MAINTENANCE, REPAIR AND OVERHAUL NetWORKS Maintenance, Repair and Overhaul (MRO) is a complete repair and overhaul operations management and accounting system foundation designed for MRO facilities throughout the supply chain in complex manufacturing environments such as aerospace and defense. NetWORKS MRO improves customer repair and overhaul turn-around-time by leveraging and focusing on current organizational agility and operations, building on current business processes or by introducing new streamlined processes and improved policies to achieve higher standards of customer service. It provides manufacturers within the supply chain with the information, planning tools and management controls they need to maximize on-time customer delivery performance to ensure customer satisfaction.

NetWORKS MASTER PLANNING NetWORKS Master Planning orchestrates global, multi-site supply plans by allocating constrained resources such as resource capacity, availability of raw materials, inflow and outflow (throughput) of facilities, transportation and availability of components and labor to improve customer service and increase profit margins.

NetWORKS PRECISION PRICING NetWORKS Precision Pricing predicts the responses of customer segments to a company s products and prices. Based on the predicted customer response, the software determines the optimal list price for each product in each customer segment to enhance profit, increase market share, or achieve other strategic goals.

NetWORKS PRODUCTION PLANNING NetWORKS Production Planning , through its advanced modeling techniques, reduces manufacturing cycle time by enabling clients to coordinate purchasing and production with demand by comprehensively synchronizing and optimizing the flow of materials through the enterprise. NetWORKS Production Planning quickly identifies the operation s constraints and provides planners with the tools to make optimal planning decisions.

NetWORKS PRODUCTION SCHEDULING NetWORKS Production Scheduling uses reality-based modeling and logical constraint-based algorithms to significantly reduce manufacturing cycle time and improve customer service by identifying and optimizing constrained resources and focusing on due-date delivery performance and Just-In-Time (JIT) synchronization of material flow.

NetWORKS PROMOTIONS NetWORKS Promotions predicts the impact of proposed sales promotions using historical data and statistically-derived market response models and recommends the appropriate promotion to meet business objectives and enhance profit while considering product costs, cross-product cannibalization, buy-forward dilution and cross-channel dilution.

NetWORKS REVENUE OPTIMIZATION APPLICATIONS Manugistics revenue optimization applications include NetWORKS Airline Revenue Optimizer , NetWORKS Cargo Revenue Optimizer and NetWORKS Hospitality Revenue Optimizer . These applications are specifically designed for the travel, transport and hospitality industries. Our products are designed to optimize revenues and enhance profits while considering product perishability and capacity utilization.

NetWORKS SEQUENCING NetWORKS Sequencing optimizes single and multi-site production environments by generating production schedules that respect the complex rules of manufacturing operations. User-defined scheduling objectives allow NetWORKS Sequencing to be configured to reflect the manufacturing strategies at each location of use. It also considers manufacturing cycle time reduction to minimize work-in-progress inventories and increase output.

NetWORKS STRATEGY NetWORKS Strategy enables enterprises and extended trading networks to design supply chain networks. By modeling end-to-end trading partner relationships, this product helps users determine the most profitable supply chain strategy, including the optimal choice of trading partners, optimal inventory levels, optimal lane volumes and appropriate seasonal pre-builds and product mix. It also helps determine optimal production, storage and distribution locations.

NetWORKS SUPPLY NetWORKS Supply helps facilitate the effective management of the flow of material among trading partners on complex bills of material, while simultaneously providing intelligent substitution and configuration of materials that are in short supply or unavailable.

NetWORKS TARGET PRICING NetWORKS Target Pricing systematically integrates market information, cost information, customer information and strategic goals to forecast the most profitable price quotation. In arriving at a pricing recommendation, the solution uses advanced statistical methods to balance the probability of winning a deal with its total contribution to profit.

NetWORKS TRANSPORT NetWORKS Transport is designed to simultaneously optimize transportation plans and execute all inbound, outbound and intercompany transportation moves, including freight payment, tracking and reporting. With a competitive advantage in multi-point to multi-point transportation planning, NetWORKS Transport helps enable the sharing of optimized transportation plans with carriers and manufacturers via the internet.

STATGRAPHICS STATGRAPHICS contains a comprehensive set of statistical tools to control, manage and improve the quality of production processes in manufacturing companies. STATGRAPHICS uses statistical quality control and design of experiments to implement quality management in individual locations throughout an enterprise or manufacturing plant.

Manugistics NetWORKS Collaborative Applications.

Our collaborative applications provide collaboration and communication that extend our intelligent engines into business processes that are created in concert with trading partners. These products enable businesses to expand their supply chains into true extended trading networks. Descriptions of our collaborative applications follow:

NetWORKS ANALYTICS NetWORKS Analytics is based on industry-standard online analytical processing (OLAP) technology that enables business reporting and analysis and trading network performance measurement. Its multi-dimensional analyses increase the speed, accuracy and efficiency of knowledge discovery and facilitate proactive decision-making by providing analyses that are specific to business processes.

NetWORKS COLLABORATE NetWORKS Collaborate is a comprehensive tool that enables clients to collaboratively plan, monitor and measure their trading relationships. NetWORKS Collaborate is a business-to-business, eCommerce application that ensures the creation and maintenance of joint business plans with trading partners, monitors the execution of those plans and measures their success.

NetWORKS MARKET MANAGER NetWORKS Market Manager provides a global view of all market activities for a product, location, or product family, simplifying the process of coordinating market activity information related to market promotions. Promotions, deals, discounts and coupons are used by NetWORKS Market Manager to provide a global view into market activities throughout the various stages of the market activity process.

NetWORKS MONITOR NetWORKS Monitor allows clients to monitor and manage their pre-defined critical planning and execution information and it provides robust technology for alerting all appropriate trading partners when problems occur. NetWORKS Monitor provides a web-based portal for all information about problems (called exceptions) across the entire trading

network, enables role-based security for interaction with that data and provides recommendations and automatic steps for resolving those exceptions.

NetWORKS REPORTING NetWORKS Reporting , from one central web-based portal, provides views of critical information on the supply pipeline and the status of orders. Using role-based security, trading partners can view orders and actions relevant to their responsibilities within the trading network.

Manugistics NetWORKS Execution Applications.

Our execution applications support key business transactions between trading partners. Descriptions of our execution applications follow:

NetWORKS COMMIT NetWORKS Commit helps enable reliable, real-time commitments for delivery of products by simultaneously performing checks on the availability of resources, including inventory, production, materials, manufacturing scheduling, distribution and transportation and then immediately allocating appropriate resources needed to meet customer requests.

NetWORKS COMPONENT MANAGEMENT NetWORKS Component Management helps enable clients to create a comprehensive view of their component base by consolidating component data that typically resides in various databases across multiple divisions. This comprehensive view of the component base helps reduce costs and increase productivity by quickly identifying part redundancies and rationalizing the supply base.

NetWORKS DELIVERY MANAGEMENT NetWORKS Delivery Management assists the buying organization in the management of inbound freight orders by providing complete visibility to purchase orders and their associated deliveries from order origination to destination and enables suppliers to confirm delivery information such as dates and quantities in a web-based collaborative environment.

NetWORKS DISTRIBUTED PROCUREMENT NetWORKS Distributed Procurement operates on a stand-alone basis, connects to any existing ERP system, and connects to any public or private e-Marketplace environment. Companies can leverage their existing IT investments and unify corporate-level strategic sourcing capabilities while maintaining site-level control and flexibility. NetWORKS Distributed Procurement reduces the administrative costs associated with the procurement process by fully or partially automating tasks. Based on configurable business rules, this automation enables buyers to focus more of their time on value-added activities such as supplier sourcing, development, and management.

NetWORKS MAKE-TO-ORDER NetWORKS Make-to-Order is a plant operations and accounting system foundation designed for complex manufacturing environments such as aerospace and defense. NetWORKS Make-to-Order improves customer manufacturing operations throughput by leveraging and focusing on their current organizational agility and operations, building on their current business processes or by introducing new streamlined processes. It provides manufacturers within the supply chain with the information, planning tools and management controls they need to maximize on-time customer delivery performance to ensure customer satisfaction.

NetWORKS ORDER MANAGEMENT NetWORKS Order Management is designed to help manage the total life cycle of each customer order through a single order management interface that brings together from the various systems the critical information that is required for an effective online and offline order management process. It allows the client to establish a direct selling site that services customers through multiple online and traditional channels, and it enables connectivity to backend distribution systems and partners.

NetWORKS PROCUREMENT NetWORKS Procurement is an advanced internet-based direct procurement solution designed for complex manufacturing environments such as aerospace and defense, mid-sized suppliers and MRO facilities in industry and government. It enables single-site or multi-site organizations to leverage the supplier community as a strategic asset through aggregated sourcing and buying, increased buyer efficiencies and through efficient collaboration and integration with suppliers. This results in reduced lead-time and cost and improved responsiveness.

Manugistics WebConnect Integration Applications.

Our Manugistics WebConnect integration applications help integrate disparate systems across an enterprise and with external trading partners. A description follows:

WebConnect INTEGRATION SUITE Our WebConnect integration suite uses leading-edge enterprise application integration (EAI), extract-transform-load (ETL) and business-to-business (B2B) integration technology and provides pre-built, configurable connectors to common enterprise systems provided by companies such as SAP AG. WebConnect provides automated data transformation and mapping between Manugistics and other systems along with graphical integration tools that allow users to easily update and maintain these integrations.

WebConnect also coordinates business processes and messaging among disparate systems and provides coordination and messaging for integration with external trading partners and heterogeneous trading network environments.

Solutions Based Approach.

We sell configured sets of our software products that address the specific supply and demand chain business process issues that our clients want to improve. This approach helps deliver greater value to our clients. These solutions typically consist of NetWORKS products spanning planning, collaboration, execution and integration capabilities. We are presently focused on commercializing or enhancing the following set of solutions:

DEMAND AND PRICING MANAGEMENT SOLUTIONS	***ORDER & FULFILLMENT MANAGEMENT SOLUTIONS***
Collaborative Demand Planning	Collaborative Supplier Managed Inventory
Demand Classification	Dynamic Deployment
Demand Planning	Fulfillment & Inventory Optimization
Market Activity Management	Fulfillment Network Design & Optimization
Price List Optimization	Order and Inventory Visibility
Profitable Promotions Management	Order Management/Available to Promise/Capable to Promise
	Profitable Order Commitment/Contract Pricing
	Sales & Operations Planning

LOGISTICS MANAGEMENT SOLUTIONS
Domestic Planning & Execution (Load Tender & Status Management)
Freight Payment Management
International Planning & Optimization with Activity Management
Logistics Optimization Tuning
Logistics Sourcing/Bid Optimization
Private Fleet Management
Real-Time Visibility & Performance Analysis with Trading Partner Connectivity
Tour Design

SERVICE & PARTS MANAGEMENT SOLUTIONS
Field Service Execution
Parts Optimization
Repair Shop Execution
Repair Shop Planning
Strategic Service & Parts Planning

MANUFACTURING MANAGEMENT SOLUTIONS
Attribute-Based Planning and Scheduling
Collaborative Manufacturing Management
Manufacturing Optimization Tuning/Recalibration
Manufacturing Scheduling
Single & Multi-Site Manufacturing Planning
Supply Chain Planning
Supply Network Design & Total Cost Evaluation

SUPPLY MANAGEMENT SOLUTIONS
Collaborative Supply Management (Multi-Tier)
Component Management
Material Planning & Optimization
PO Delivery Management
Procurement Execution
Spend Analysis & Strategic Sourcing/Contract Management
Supply Classification

Implementation Services:

A key element of our business strategy is to provide clients with comprehensive solutions for their internal and external supply and demand chains by offering implementation services for our products. When implementing our software, clients typically make changes to their business processes and overall operations, including their planning and pricing functions. To assist clients in making these changes, we offer a wide range of implementation services. These services include supply chain, supplier relationship, pricing and revenue and service & parts management consulting services to help our clients achieve their objectives. Our implementation services also include business operations consulting, change management consulting and end-user and system administrator education and training. These services help clients redesign their operations to take full advantage of our software.

These implementation services are priced and sold separately from our software products and are provided primarily on a time and materials basis. Our consulting services group consisted of 339 employees as of February 28, 2003.

Client Support and Application Hosting Service:

Our comprehensive solutions include global support to clients. Most of our clients enter into annual solution support agreements for post-contract customer support and the right to unspecified software upgrades and enhancements. Support includes in-depth support services, product maintenance and a web-based knowledge management tool for tips and techniques and online support. Upgrades include new features and functionality as well as core technology enhancements. Our client support personnel also collect information that we use to assist us in developing new products, enhancing existing products and in identifying market demand. Our application hosting service helps our clients increase the speed at which they realize the benefits of our products by reducing internal resource requirements such as costs of hardware, infrastructure, security, training and technology and operating in proven technical environments. As of February 28, 2003, our client support and application hosting service group consisted of 67 employees.

Product Development:

We direct our efforts in product development to:

- the development of new products;
- enhancements of existing products;
- enhancement of our products for use in different languages;
- increasing the breadth and depth of our product functionality to address increasingly complex customer challenges quickly;

- increasing the performance of our software and its ability to address increasingly large-scaled problems; and

- development of products tailored to the specific requirements of particular industries.

To date, our products, including product documentation, have been developed by our internal staff and third-party contractors and have been supplemented by acquisitions and complementary business relationships.

In developing new products or enhancements, we work closely with current and prospective clients, as well as with other industry leaders, to make sure that our products address the needs of the markets we serve. We believe that this collaboration will lead to improved software and will result in superior products that are likely to be in greater demand in the market. We maintain committees of users, developers and marketers of our products, who, among other things, define and rank issues associated with products and discuss priorities and directions for their enhancement.

For new applications and major enhancements, we also conduct a launch program, which allows clients to review design specifications and prototypes and to participate in product testing. We have established channels for client feedback, which include periodic surveys and focus groups. In addition, our product development staff works closely with our marketing, sales, support and services groups to develop products that meet the needs of our current and prospective clients. As of February 28, 2003, our product development resources included 362 employees and 113 third-party contractors, 83 of which were working out of our product development facilities in India. Gross product development costs were $73.6 million, $81.0 million and $49.8 million in fiscal 2003, 2002 and 2001, respectively. Gross product development costs in total over the last five fiscal years were $298.3 million.

We have made substantial investments in product development and we will continue to make the expenditures for product development that we believe are necessary for rapidly delivering new products, features and functions. We believe that getting products to market quickly, without compromising quality, is critical to the success of our business.

Sales and Marketing:

Our sales operation for North and South America is headquartered at our office in Rockville, MD and includes field offices in Atlanta, GA; Wayne, PA; Itasca, IL; Irving, TX; Detroit, MI; Calabasas, CA; San Carlos, CA; and Sao Paulo, Brazil. Our direct sales organization focuses on licensing supply chain management, pricing and revenue optimization, supplier relationship management, service & parts management and EPO solutions to large, multi-national enterprises, as well as to mid-sized enterprises with a variety of supply chain, pricing and extended trading network issues.

We license our solutions in regions outside of the Americas primarily through foreign subsidiaries. Our British, German, French, Belgian, Dutch and Swedish subsidiaries, located in Bracknell, England; Munich, Germany; Paris, France; Brussels, Belgium; Utrecht, The Netherlands; and Stockholm, Sweden, respectively, provide direct sales, services and support primarily to clients located in continental Europe and the United Kingdom. We have established subsidiaries in Tokyo and Osaka, Japan; Singapore; Shanghai, The Peoples Republic of China; Hong Kong; Kuala Lumpur, Malaysia; and Sydney, Australia. We also maintain offices in Taipei, Taiwan. We adapt our solutions for use in international markets by addressing different languages, different standards of weights and measures and other operational considerations. In fiscal 2003, approximately 25.0% of our total revenue came from sales made to clients outside the United States. Details of our geographic revenue are in Note 15 Segment Information in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

We also use indirect sales channels to market our software, consisting of complementary software vendors, third-party alliances and distributorships. See Alliances. Using these channels, we seek to increase the market penetration of our software through joint marketing and sales activities. These relationships enhance our sales resources in target markets and expand our expertise in bringing our solutions to prospects and clients. We also license our STATGRAPHICS product in the U.S. and in other countries through independent distributors, national resellers and local dealers.

We support our sales activities by conducting a variety of marketing programs, including our annual conference called enVISION, which provides a forum for executives and managers to exchange ideas and best practices regarding technological innovations in supply chain management, pricing and revenue optimization, supplier relationship management and service & parts management. We also maintain client steering committees to involve our clients in the ongoing development of our solutions. We also participate in industry conferences such as those organized by the American Production and Inventory Control Specialists (APICS) organization, Supply Chain World, Retail Systems and Auto-Tech and in numerous pricing and revenue optimization conferences, such as HITEC and PPS. In addition, we participate in solution demonstration seminars and client conferences hosted by complementary software vendors. We also conduct Manugistics brand awareness and lead-generation programs including advertising, direct mail, public relations, seminars, telemarketing and ongoing client communication programs.

As of February 28, 2003, we had 242 employees engaged in sales and marketing activities.

Alliances:

Our alliance program is based on delivering maximum value to our global base of clients. We ally ourselves with leading companies that provide consulting and implementation services, software and technology and hardware that complement our solutions.

We have strategic alliances pursuant to written agreements with industry-leading software and technology providers. These include Agile Software; Avolent; Blue Martini Software; Business Objects; Celarix; Centric Software; Cognos; e7th; Frictionless Commerce; Imany; Inovis; Neuron Data; Proclarity; Savvion; Shipnow; Tele Atlas North America; TIBCO Software; Vendavo; Viacore; Vignette; webMethods; and Workplace plc, with whom we have software license, distribution and strategic relationship agreements; Azerity: Chrome: KCI Computing; MatrixOne; Mestec; MXI; Softface; TIP Technologies; and Vastera, with whom we have joint marketing and sales referral agreements; and IBM; Hewlett Packard; Microsoft; and Sun Microsystems, with whom we have various development support and hardware lease agreements. We have entered into an Independent Software Vendor (ISV) agreement with BEA Systems and an original equipment manufacturer (OEM) software agreement with IBM. In addition, Manugistics has entered into agreements with Nomis Solutions and The Rainmaker Group which grant them the right to resell specific Manugistics products. Manugistics maintains agreements with a number of technology providers whose products are embedded and shipped with one or more Manugistics products. These include ActiveState; Actuate; DataDirect Technologies; eXcelon; ILOG; IONA Technologies; MapInfo; Numerical Algorithms Group (NAG); Quest Software; Recursion Software; Rogue Wave Software; and Verity.

We work with leading systems integrators, business strategy and management consultancies that provide a wide range of consulting expertise such as implementation of software solutions, process and change management and strategic business services. We maintain close relationships with major consulting firms worldwide to extend our delivery and solution capability for our clients. We have also developed strategic alliances pursuant to written agreements with consulting and systems integration partners such as Accenture, AT Kearney, Bearing Point (formerly KPMG Consulting), Cap Gemini Ernst & Young, IBM Business Consulting Services and other leading consultancies to provide implementation and business process assistance to our clients. We have augmented this with several geographic and regional alliances and cooperate with other professional services firms on a client-by-client basis.

Clients:

Various combinations of our supply chain management, pricing and revenue optimization, supplier relationship management, service & parts management and EPO software have been licensed by organizations worldwide in industries such as automotive; chemical & energy; communications & high technology; consumer packaged goods; food & beverage; government, aerospace & defense; industrials; life sciences; retail; third-party logistics; and travel, transportation & hospitality. Here is a sample of some of our clients that have either licensed software products from us or our distributors, or purchased support, consulting, or other services or both or actively used our software during fiscal 2003. See Sales and Marketing.

Automotive
Caterpillar Mexico S.A. de C.V.
Deere & Co.
Ford Motor Company
Harley-Davidson, Inc.
Mistubishi Motor Sales of America
Nissan
Subaru of America, Inc.

Chemical & Energy
Airgas, Inc.
BP
DuPont
Fuji Photo Film, USA
Rohm & Haas
Vulcan Materials Co.

Communications & High Technology
3Com Corporation
AT&T
Cisco Systems, Inc.
Fairchild Semiconductor
Hewlett Packard Company
Lexmark
Motorola PCS
Texas Instruments Incorporated
Vodafone Ltd.

Consumer Packaged Goods
Brown & Williamson Tobacco Corp.
Levi Strauss & Co.
Oxford Industries, Inc.
Unilever Home & Personal Care, USA

Food & Beverage
Coca-Cola Bottling Co. Consolidated
Great Atlantic & Pacific Tea Company
Hormel Foods Corp.
Kraft Foods, Inc.
Labatt s Brewing Company
Nestlé
Remy Cointreau
Winn-Dixie Stores, Inc.

Government, Aerospace & Defense
Boeing Co.
EDS (NAVTrans)
Kaman Aerospace

Industrials
Hon Industries, Inc.
Pechiney Plastic Packaging

Life Sciences
AstraZeneca
Smith & Nephew

Retail
Canadian Tire Corp., Ltd.
Eroski S. Coop
Gebr. Heinemann KG
HEB Grocery Company LP
Radioshack, Corporation
Spalding Sports Worldwide, Inc.
Target Corporation
The Limited, Inc.
The TJX Companies
Toys R Us, Inc.

Third-Party Logistics
Agora Europe S.A.
DHL Aviation NV/SA
PSA Logistics PTE Ltd.
Tronicus

Travel, Transportation & Hospitality
Continental Airlines
Delta Air Lines
Great North Eastern Railway
Harrah s Entertainment, Inc.

Omni Hotels
Princess Cruises
Thompson Travel Group

Competition:

The markets for our solutions are very competitive. Other application software vendors offer products that compete directly with some of our products. These include, but are not limited to, such vendors as Adexa; Aspen Technology; The Descartes Systems Group; Global Logistics Technologies; i2 Technologies; JDA Software; Khimetrics; Logility; Logistics.com (recently acquired by Manhattan Associates); Mercia; Metreo; PROS Revenue Management; Retek; SAP; Viewlocity (formerly SynQuest); and YieldStar Technology. Certain Enterprise Resource Planning vendors (ERP), in addition to SAP, all of which are substantially larger than Manugistics, have acquired or developed supply chain management and supplier relationship management software companies, products, or functionality or have announced intentions to develop and sell supply chain management and supplier relationship management solutions. Such vendors include Invensys, J.D. Edwards & Company; Oracle and PeopleSoft.

The principal competitive factors in the markets in which we compete include product functionality and quality, domain expertise, integration technologies, product suite integration and related services such as customer support and implementation services. Other factors important to clients and prospects include:

- customer service and satisfaction;
- the ability to provide client references;
- compliance with industry standards and requirements;
- the ability of the solution to generate business benefits;
- rapid paybacks and large returns on investment;
- availability in foreign languages;
- vendor financial stability and reputation; and
- to some extent, price.

We believe that our principal competitive advantages are our comprehensive, integrated solutions, our list of referenceable clients, the ability of our solutions to generate business benefits for clients, our substantial investment in product development, our domain expertise in our markets, our quick implementations, rapid paybacks and large returns on investment, our client support services and our extensive knowledge of supply chain management, pricing and revenue optimization solutions, supplier relationship management and service & parts management.

Software license, support and implementation service agreements and pricing:

Software license fees consist principally of fees generated from licenses of our software products. In consideration of the payment of license fees, we generally grant nonexclusive, nontransferable, perpetual licenses, which are primarily business unit, user-specific and geographically restricted. Software license fee arrangements vary depending upon the type of software product being licensed and the customer s computer environment. Software license fees are based primarily on which products are licensed, the complexity of the problem being addressed, the size of the client s business and the number of users and locations. The amount of software license fees may reach many millions of dollars for initiatives that are very large in scope and complexity.

Clients may obtain solution support for an annual fee. We have three levels of support that our customers choose from to best accommodate their needs: Standard, Premium and Signature. Support fees are calculated on an escalated scale, based on the level of service chosen and the size of the related software license fees. Support fees are generally billed annually and are subject to changes in support list prices. We also provide implementation services, systems administration, training and hosting of our software applications and other related services, generally on a time and materials basis. This allows our clients to determine the level of support or services appropriate for their needs.

Proprietary rights and licenses:

We regard our software as proprietary and rely on a combination of trade secret, patent, copyright and trademark laws, license agreements, confidentiality and non-compete agreements with our employees and nondisclosure and other contractual requirements imposed on our clients, consulting partners and others to help protect proprietary rights in our products. We distribute our supply chain management, pricing and revenue optimization, supplier relationship management, service & parts management and EPO software under software license agreements, which typically grant clients nonexclusive, nontransferable licenses to our products and have perpetual terms unless the term is limited or the license is terminated for breach. Under such typical license agreements, we retain all rights to market our products.

Use of our software is usually restricted to the internal operations of our clients and to designated users. In sales to virtual service providers, the licensed software is restricted to the internal operations of our client and to designated users and the processing of their clients individually specified client data. Use is subject to terms and conditions that prohibit unauthorized reproduction or transfer of the software. We also seek to protect the source code of our software as a trade secret and as an unpublished, copyrighted work.

Employees:

As of February 28, 2003, we had 1,133 full-time regular employees and 193 full-time and part-time third-party contractors. None of our employees are represented by a labor union. We have experienced no work stoppages and believe that our employee relations are generally good. All of our employees sign non-compete agreements as a condition of employment.

Available Information:

We make available, free of charge at www.manugistics.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

Item 2. PROPERTIES.

Our principal sales, marketing, product development, support and administrative facilities are located in Rockville, MD, where we lease approximately 280,000 square feet of office space under a lease agreement which expires on June 30, 2012. We are currently in negotiations to sublease approximately 30% of our corporate headquarters space. We expect to sublease the space by August 31, 2003.

In addition, we lease office space for our 28 sales, service and product development offices located in North America, South America, Europe and Asia/Pacific, pursuant to leases that expire between calendar 2003 and calendar 2019. We believe that our current existing facilities are adequate for our current needs and suitable additional or substitute space will be available as needed to accommodate expansion of our operations. Please refer to Note 7 in Notes to Consolidated Financial Statements included elsewhere in this Annual Report for information regarding our lease obligations.

Item 3. LEGAL PROCEEDINGS.

We are involved from time to time in disputes and other litigation in the ordinary course of business. We do not believe that the outcome of any pending disputes or litigation will have a material adverse effect on our business, operating results, financial condition and cash flows. However, the ultimate outcome of these matters, as with dispute resolution and litigation generally, is inherently uncertain, and it is possible that some of these matters may be resolved adversely to us. The adverse resolution of any one or more of these matters could have a material adverse effect on our business, operating results, financial condition and cash flows.

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

None.

Item 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

The name, age and position held by each of the executive officers of Manugistics Group, Inc. and Manugistics, Inc., its principal operating subsidiary, are as follows:

Name	Age	Position
Gregory J. Owens	43	Chairman, President and Chief Executive Officer
Jeffrey L. Holmes	53	Executive Vice President, President of Government, Aerospace and Defense Operations
Jeffrey L. McKinney	39	Executive Vice President, President of Americas Operations
Raghavan Rajaji	56	Executive Vice President and Chief Financial Officer
Michael Christensen	40	Senior Vice President, President of Asia-Pacific Operations
Andrew J. Hogenson	39	Senior Vice President, Pricing and Revenue Optimization
James J. Jeter	44	Senior Vice President, Global Marketing
Lori Mitchell-Keller	36	Senior Vice President, Market Strategy
Everett G. Plante	42	Senior Vice President, Engineering and Technology Solutions
Timothy T. Smith	39	Senior Vice President, General Counsel and Secretary
Jean-Claude Walravens	50	Senior Vice President, President of European Operations
Jeffrey T. Hudkins	37	Vice President, Controller and Chief Accounting Officer

Mr. Owens has served as Chief Executive Officer and a member of our Board of Directors since joining Manugistics in April 1999. He has served as Chairman of the Board of Directors since February 2001. Mr. Owens has also served as President of the Company from April 1999 through November 2000 and since June 2002. From 1997 to April 1999, Mr. Owens served as the Global Managing Partner for the Accenture Supply Chain Practice. Mr. Owens has also served as a member of the Board of Directors of Serena Software, Inc. since April 2002 and S1 Corporation since January 2003.

Mr. Holmes has served as Executive Vice President and President of Government, Aerospace & Defense Operations since March 2003. From April 2002 through March 2003, Mr. Holmes served as Senior Vice President, Service & Parts Management and Government, Aerospace & Defense. From September 1999 through April 2002, Mr. Holmes was Senior Vice President, Government and Public Sector. From April 1999 to September 1999, he served as Senior Vice President, North American Sales Operations. From October 1998 to April 1999, he served as Vice President, Industry Solutions. From January 1997 to October 1998, he served as Vice President, Consumer Products Industry Marketing.

Mr. McKinney has served as Executive Vice President and President of Americas Operations since September 2002. From May 2002 to September 2002, Mr. McKinney served as Senior Vice President, Supply Chain Management and Supplier Relationship Management. From September 2001 through April 2002, he served as Senior Vice President, Supply Chain Management. From March 1998 to September 2001, he served as Senior Vice President, Global Business Consulting.

Mr. Rajaji has served as Executive Vice President and Chief Financial Officer since December 1999. From September 1995 to December 1999, he served as Senior Vice President, Chief Financial Officer and Treasurer at BancTec, Inc.

Mr. Christensen has served as Senior Vice President and President of Asia Pacific Operations since September 2001. From December 1999 to August 2001 he served as Vice President for Manugistics Northern Europe. From May 1997 to December 1999 he served as Vice President for Supply Chain Americas at Maersk Logistics, a leading global logistics services provider.

Mr. Hogenson has served as Senior Vice President, Pricing and Revenue Optimization since April 2002. From October 2000 to April 2002, Mr. Hogenson was Senior Vice President, Product Development. From October 1999 through October 2000, he served as Vice President, Transportation, Products and Solutions. From March 1997 to October 1999, he served as Senior Manager of the Accenture Strategy Practice Group.

Mr. Jeter has served as Senior Vice President, Global Marketing since August 1999. From July 1998 to August 1999, he served as Vice President and Managing Director of European Operations for Iomega Corporation, a provider of personal storage solutions for digital information. From December 1997 to July 1998, Mr. Jeter served as Vice President, Managing Director of Iomega s Asia Pacific operation.

Ms. Mitchell-Keller has served as Senior Vice President, Market Strategy since July 2001. From March 2001 to July 2001, she served as Senior Vice President of Product and Solutions Marketing. From January 1999 to March 2001, Ms. Mitchell-Keller served as Vice President of Product Marketing. From March 1998 to January 1999, Ms. Mitchell-Keller served as Director of Product Management. From October 1997 to March 1998, she served as Business Manager of Demand and Supply Planning.

Mr. Plante has served as Senior Vice President, Engineering and Technology Solutions since January 2002. From June 1999 to September 2001, he served as Vice President and Chief Information Officer of Enron Broadband, Inc. From May 1994 to June 1999, Mr. Plante served as Senior Director, Supply Chain Systems at COMPAQ Computer Corporation.

Mr. Smith has served as Senior Vice President, General Counsel and Secretary from January 2000 through February 2002 and since July 2002. He served as Vice President and General Counsel for Land Rover North America, Inc. an automobile importer and distributor, from June 1998 to December 1999. He was Associate Corporate Counsel for Dart Group Corporation, a retail holding company, from May 1995 to May 1998.

Mr. Walravens has served as Senior Vice President and President of European Operations since January 2003. From December 1999 to December 2002, Mr. Walravens was Group Vice President, Southern Europe. From August 1997 to November 1999, he served as Vice President, Europe, at Numetrix (acquired by JD Edwards & Company).

Mr. Hudkins has served as Vice President and Controller since December 2000. He has served as Chief Accounting Officer since April 2001. From January 2000 to December 2000, Mr. Hudkins was Vice President, Controller and Chief Accounting Officer for Talus Solutions, Inc., a privately held pricing and revenue optimization software company acquired by Manugistics in December 2000. From May 1995 to December 1999, Mr. Hudkins served in various accounting and finance positions with Magellan Health Services, Inc., a publicly held behavioral healthcare company, including serving as Vice President, Controller and Chief Accounting Officer from May 1998 to December 1999.

There are no family relationships among any of the executive officers or directors of Manugistics Group, Inc. Executive officers of Manugistics Group, Inc. are elected by the Board of Directors (the Board) on an annual basis and serve at the discretion of the Board.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock, $.002 par value per share, trades on The Nasdaq Stock Market under the symbol MANU . The following table sets forth the high and low sales prices in dollars per share for the respective quarterly periods over the last two fiscal years, as reported in published financial sources. These prices reflect inter-dealer prices, without retail markup, markdown or commission and may not necessarily represent actual transactions.

Fiscal 2003	High	Low
First Quarter (ended May 31, 2002)	$22.75	$7.50
Second Quarter (ended August 31, 2002)	8.07	2.50
Third Quarter (ended November 30, 2002)	4.50	1.54
Fourth Quarter (ended February 28, 2003)	4.30	2.06

Fiscal 2002	High	Low
First Quarter (ended May 31, 2001)	$41.90	$15.38
Second Quarter (ended August 31, 2001)	42.38	11.65
Third Quarter (ended November 30, 2001)	13.70	4.94

Fourth Quarter (ended February 28, 2002)	22.70	11.07

As of April 29, 2003, there were approximately 419 stockholders of record of our common stock, according to information provided by our transfer agent.

We have never declared or paid any cash dividends on our common stock and do not intend to do so in the foreseeable future. It is our present intention to retain any future earnings to provide funds for the operation and expansion of our business. In addition, we have a one-year unsecured revolving credit facility with Silicon Valley Bank (SVB) that is scheduled to expire on January 31, 2004. We will seek to renew this credit facility before expiration. During the term of the credit facility, we are subject to a covenant not to declare or pay cash dividends to holders of our common stock under certain conditions. Future payment of cash dividends, if any, will be at the discretion of the Board and will be dependent upon our financial condition, results of operations, capital requirements and such other factors as the Board may deem relevant and will be subject to the covenants contained in any outstanding credit facility. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 6 to the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Item 6. SELECTED FINANCIAL DATA.

Our selected consolidated financial data for each of the five fiscal years in the period ended February 28, 2003 and each of our last eight fiscal quarters are set forth below. This data should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this annual report. The selected financial data for each of the years in the three-year period ended February 28, 2003, and as of February 28, 2003 and 2002, are derived from our consolidated financial statements that have been included in this Annual Report. The selected financial data as of February 28 or 29, 2001, 2000 and 1999, the years ended February 28 or 29, 2000 and 1999, and in each of our last eight fiscal quarters are derived from consolidated financial statements that have not been included in this annual report.

	Fiscal Year Ended February 28 or 29,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Revenue:					
Software	$ 74,899	$ 129,772	$ 139,316	$ 60,421	$ 73,802
Services	102,144	106,522	73,333	46,516	65,212
Support	84,075	73,852	55,315	45,496	38,550
Reimbursed expenses	11,268	9,741	8,199	7,499	9,793
Total revenue	272,386	319,887	276,163	159,932	187,357
Operating expenses:					
Cost of revenue:					
Cost of software	19,127	21,144	19,146	11,811	11,661
Amortization of acquired technology	13,623	9,168	1,122	147	145
Cost of services and support	98,055	92,083	59,149	43,783	50,076
Cost of reimbursed expenses	11,268	9,741	8,199	7,499	9,793
Sales and marketing	95,627	120,437	115,610	61,439	103,006
Product development	63,055	70,477	40,830	29,150	49,389
General and administrative	27,885	28,522	22,925	15,837	19,828
Amortization of intangibles	3,866	86,279	15,082	2,290	2,118
Goodwill impairment charge	96,349				1,354
Purchased research and development and acquisition-related expenses	3,800		9,724		3,095
Restructuring and other impairment charges (benefit)	19,184	6,612		(1,506)	32,421
Non-cash stock compensation expense (benefit)	3,426	(3,111)	12,801		
IRI settlement		3,115			
Total operating expenses	455,265	444,467	304,588	170,450	282,886
Loss from operations	(182,879)	(124,580)	(28,425)	(10,518)	(95,529)
Other (expense) income, net	(7,942)	(14,638)	2,899	1,389	2,362

Loss before income taxes	(190,821)	(139,218)	(25,526)	(9,129)	(93,167)
Provision for (benefit from) income taxes	21,418	(24,060)	2,552	(184)	2,945
Net loss	$ (212,239)	$ (115,158)	$ (28,078)	$ (8,945)	$ (96,112)
Basic and diluted loss per share	$ (3.04)	$ (1.69)	$ (0.48)	$ (0.16)	$ (1.82)

	Fiscal Year Ended February 28 or 29,				
	2003	2002	2001	2000	1999
	(in thousands, except per share data)				
BALANCE SHEET DATA:					
Cash, cash equivalents and marketable securities	$137,735	$233,060	$300,308	$ 51,547	$ 43,362
Working capital	119,791	236,951	300,668	36,831	31,138
Restricted cash	12,980				
Goodwill and other intangible assets	251,742	336,102	394,178	7,317	9,382
Total assets	529,373	722,640	847,261	151,907	172,336
Long-term debt and capital leases	254,795	251,023	250,133	283	454
Total stockholders equity	172,082	372,807	470,321	86,718	85,722

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands, except per share data)			
Fiscal 2003				
Revenue				
Software	$ 24,516	$ 18,112	$ 14,084	$ 18,187
Services	26,865	27,617	25,132	22,530
Support	20,209	21,246	20,412	22,208
Reimbursed expenses	3,010	2,954	2,736	2,568
Total Revenue	74,600	69,929	62,364	65,493
Cost of software	6,238	4,892	4,365	3,632
Cost of services and support	25,821	25,281	23,707	23,246
Reimbursed expenses	3,010	2,954	2,736	2,568
Sales and marketing	30,978	24,277	20,593	19,779
Product development	17,532	16,681	14,095	14,747
General and administrative	7,190	7,092	7,056	6,547
Other operating expenses (1)	8,640	14,263	13,494	103,851
Operating loss	(24,809)	(25,511)	(23,682)	(108,877)
Net loss	(27,081)	(47,717)	(26,003)	(111,438)
Basic and diluted loss per share	($0.39)	($0.68)	($0.37)	($1.59)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands, except per share data)			
Fiscal 2002				
Revenue				
Software	$ 45,056	$ 24,809	$ 22,150	$ 37,757
Services	27,533	27,521	27,575	23,893
Support	17,221	18,634	19,020	18,977
Reimbursed expenses	2,632	2,810	2,267	2,032
Total Revenue	92,442	73,774	71,012	82,659
Cost of software	5,135	4,963	4,750	6,296
Cost of services and support	23,340	24,274	23,598	20,871
Reimbursed expenses	2,632	2,810	2,267	2,032
Sales and marketing	33,999	30,114	26,889	29,435
Product development	16,435	20,326	17,232	16,484

General and administrative	7,798	6,997	6,375	7,352
Other operating expenses (1)	27,415	14,370	33,065	27,213
Operating loss	(24,312)	(30,080)	(43,164)	(27,024)
Net loss	(23,426)	(21,664)	(44,980)	(25,088)
Basic and diluted loss per share	($0.35)	($0.32)	($0.66)	($0.36)

(1) Other operating expenses include amortization of intangibles and acquired technology, non-cash stock compensation expense (benefit), goodwill impairment charges, restructuring and other impairment charges (benefits), purchased research and development and acquisition related expenses and the IRI settlement.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements:

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

Business Overview:

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

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

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

As a result of deterioration in the markets for our products and services due to the progressive weakening of global economic conditions beginning in fiscal 2002 and continuing in fiscal 2003, we have new challenges in our ability to stabilize revenue and operating performance and to expand market share. The weak macroeconomic environment over the past two years has included a recession in the United States economy that was fueled by substantial reductions in capital spending by corporations world-wide, especially spending on information technology. During our second and third quarters of fiscal 2002, we first experienced delays in consummating software license transactions. While the global economy declined during much of fiscal 2002, there were indications late in the year that an end to the economic slow-down appeared to be forthcoming. Late in our fourth quarter of fiscal 2002, we experienced improvements in closure rates on software license transactions, as evidenced by an increase in software revenue as compared to our second and third quarters of fiscal 2002. As we entered into fiscal 2003, global economic conditions and information technology spending appeared to be stabilizing. However, capital spending by corporations, especially spending on enterprise application software, continued to be weak. We also believe market conditions overseas, especially in Europe, tend to lag market conditions in the United States.

We believe that the primary reasons for the decrease in information technology spending in fiscal 2002 and 2003 related to concerns of our clients and prospects about committing to large capital projects in the face of uncertain global economic conditions and the impact of these conditions on their respective businesses. As a result, organizations intensified their efforts to identify and realize potential cost savings, in part, by restricting their software procurement to well-defined current needs. In addition, in the years preceding the global economic slowdown, many corporations made capital expenditures in anticipation of future growth that did not materialize, thereby reducing their capital expenditure needs in our fiscal 2002 and fiscal 2003 years. Geopolitical concerns and uncertainties, such as the war on terrorism, the events leading up to, and the subsequent war with Iraq and other hostilities in various parts of the world appear to have exacerbated corporations caution regarding their capital spending.

Our financial performance was adversely affected in fiscal 2003 as a result of these economic conditions and uncertainties and the resulting decrease in enterprise application software spending by United States and European corporations. The lengthening of sales cycles and reductions in capital spending in recent quarters caused our software revenue and total revenue to decrease in fiscal 2003, adversely affecting our operating performance. Demand for our pricing and revenue optimization and our supplier relationship management products has been more severely impacted than our supply chain management and service & parts management products for which there are more mature markets. Although our markets in most industries and geographies have deteriorated, industries most severely impacted include, among others, manufacturing, chemical & energy, high technology and travel, transportation & hospitality. Industries less affected include government, aerospace & defense and automotive, consumer packaged goods, food & beverage, life sciences and retail, as consumer spending, especially in the United States, has remained relatively stable. Our clients and prospects in these markets have continued to invest in application software, including our offerings, although at reduced levels. Customers are generally licensing fewer software modules than in past years. We have not lost any major customers or contracts in recent quarters that have negatively impacted revenue. As a result of these factors, we experienced a 29.8% decline in the average selling price (ASP) per significant software license transaction and a 50% decline in the number of software license transactions of $1.0 million and greater in fiscal 2003 as compared to fiscal 2002. Currently, it is unclear when or if our average selling price per license transaction will decrease, stabilize or increase. We expect market conditions will continue to be challenging for us in the near-term as longer sales cycles and delays in decision making on software purchases may persist.

In response to the weakness in spending on enterprise application software, we enacted a number of cost containment and cost reduction measures during fiscal 2003, in addition to those implemented during fiscal 2002, to reduce our cost structure. During fiscal 2003, we reduced our employee workforce from 1,529 employees at May 31, 2002 to 1,133 employees at February 28, 2003 or 26% across the organization. In addition, we reduced the number of contractors, implemented a mandatory unpaid leave program for all U.S. employees during the first week in July and September and a voluntary week of unpaid leave during our second and third quarters of fiscal 2003 for our European employees and reduced our office space. These cost containment and cost reduction measures resulted in restructuring and impairment charges of approximately $19.2 million during fiscal 2003 for severance and related benefits associated with involuntary terminations, lease termination costs, contract termination costs, relocation costs and impairment charges on our sales force automation software, property, equipment and leasehold improvements.

In addition, we expect to incur incremental restructuring charges of approximately $10.0 million in our first quarter of fiscal 2004 as a result of further cost containment and cost reduction initiatives including subleasing approximately 30% of our corporate headquarters space for an amount less than our current rent obligation. We expect to sublease the space by August 31, 2003 with expected annual cost savings of approximately $2.5 million.

Our implementation of cost containment and cost reduction initiatives during our second, third and fourth quarters of fiscal 2003 better aligned our operating cost structure with the anticipated revenue levels due to the downturn in the global economy. Our cost containment and cost reduction initiatives reduced our aggregate cost of software, cost of services and support, sales and marketing, product development and general and administrative expenses, excluding amortization of acquired technology and non-cash compensation expense. For our fourth quarter of fiscal 2003, these expenses decreased 22.3%, or $20.2 million, from the total for our first quarter of fiscal 2003, compared to a decrease in total revenues of 12.2%, or $9.1 million, over the same period.

Since the end of our fourth quarter, we have further reduced our total workforce and expect our employee workforce to total between 1,000 and 1,050 employees for our first and second quarters in fiscal 2004. In the aggregate, we expect that all cost containment and cost reduction measures implemented in fiscal 2003 will reduce our cost structure by approximately $100 million on an annualized basis. In addition, during fiscal 2003 we continued to shift a significant number of contractors to our product development facilities in India. At February 28, 2003, 83, or 73.5%, of our total product development contractors were based in India as compared to 55, or 39.0%, at February 28, 2002.

Results of Operations:

The following table includes the consolidated statements of operations data for each of the years in the three-year period ended February 28, 2003 expressed as a percentage of revenue:

	Fiscal Year Ended February 28,		
	2003	2002	2001
Revenue:			
Software	27.5%	40.6%	50.4%
Services	37.5%	33.3%	26.6%
Support	30.9%	23.1%	20.0%
Reimbursed expenses	4.1%	3.0%	3.0%
Total revenue	100.0%	100.0%	100.0%
Operating expenses:			
Cost of software	7.0%	6.6%	6.9%
Amortization of acquired technology	5.0%	2.9%	0.4%
Cost of services and support	36.0%	28.8%	21.4%
Cost of reimbursed expenses	4.1%	3.0%	3.0%
Sales and marketing	35.1%	37.6%	41.9%
Product development	23.1%	22.0%	14.8%
General and administrative	10.2%	8.9%	8.3%
Amortization of intangibles	1.4%	27.0%	5.5%
Goodwill impairment charge	35.4%		
Purchased research and development and acquisition-related expenses	1.4%		3.5%
Restructuring and other impairment charges	7.0%	2.1%	
Non-cash stock compensation expense (benefit)	1.3%	(1.0)%	4.6%
IRI settlement		1.0%	
Total operating expenses	167.1%	138.9%	110.3%
Loss from operations	(67.1)%	(38.9)%	(10.3)%
Other (expense) income net	(2.9)%	(4.6)%	1.0%
Loss before income taxes	(70.1)%	(43.5)%	(9.2)%
Provision for (benefit from) from income taxes	7.9%	(7.5)%	0.9%
Net loss	(77.9)%	(36.0)%	(10.2)%

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

	Fiscal Year Ended February 28,		
	2003	2002	2001
Cost of services and support	$1,673	$ 52	$ 4,579
Sales and marketing	931	(1,794)	3,262
Product development	298	(1,310)	3,694
General and administrative	524	(59)	1,266
	$3,426	$(3,111)	$12,801

See Operating Expenses: Non-Cash Stock Compensation Expense (Benefit) for further detail.

Use of Estimates and Critical Accounting Policies

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

We have identified the accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management s judgments and estimates. These critical accounting policies relate to revenue recognition, allowance for doubtful accounts, capitalized software, valuation of long-lived assets, including intangible assets and impairment review of goodwill, deferred income taxes and restructuring-related expenses. These policies, and our procedures related to these policies, are described in detail below. In addition, please refer to Note 1 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report for further discussion of our accounting policies.

Revenue Recognition and Deferred Revenue

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

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

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

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

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

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

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

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

To date, the number of fixed price services engagements and services engagements considered essential to the functionality of our software products (both situations requiring use of the percentage-of-completion method) have been insignificant. However, if we enter into more of these types of arrangements in the future, our reported revenue and operating performance will be subject to increased levels of estimates and uncertainties.

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

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

Allowance for Doubtful Accounts

For each of the three years in the period ended February 28, 2003, our provision for doubtful accounts has ranged between approximately 1.9% and 2.7% of total revenue. We initially record the provision for doubtful accounts based on our historical experience of write-offs and adjust our allowance for doubtful accounts at the end of each reporting period based on a detailed assessment of our accounts receivable and related credit risks. In estimating the allowance for doubtful accounts, management considers the age of the accounts receivable, our historical write-off experience, the credit worthiness of the customer, the economic conditions of the customer s industry and general economic conditions, among other factors. Should any of these factors change, the estimates made by management will also change, which could affect the level of the Company s future provision for doubtful accounts. If the assumptions we used to calculate these estimates do not properly reflect future collections, there could be an impact on future reported results of operations. Based on our total revenue reported for the fiscal 2003, our provision for doubtful accounts would change by approximately $2.7 million annually for a 1% change in proportion of total revenue. The provision for doubtful accounts is included in sales and marketing expense (for software license receivables) and cost of services and support (for services and support fees receivable), in the condensed consolidated statement of operations.

Capitalized Software Development Costs

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

In future periods, if we determine that technological feasibility occurs at a later date, such as coincident with general product release to clients, we may not capitalize any software development costs. This would increase our reported operating expenses in the short-term by the amounts we do not capitalize, which have ranged between $8.9 million and $10.5 million annually during fiscal 2001 through fiscal 2003. The estimated economic life of our capitalized software development costs is subject to change in future periods based on our experience with the length of time our products or enhancements are being or are expected to be used. A change in the expected economic life of our capitalized software development costs of six months would change our annual operating expenses by approximately $(1.8) million to $3.0 million.

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

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

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

As of February 28, 2003 our net book value of long-lived assets, consisted of the following (in thousands):

Property and equipment	$ 31,230
Software development costs	13,428
Software developed for internal use	2,415
Goodwill	187,438
Acquired technology	41,232
Customer relationships	20,657
Total	$296,400

The estimated economic useful lives of our long-lived and intangible assets are subject to change in future periods based upon the intended use of the asset or period of time revenues are expected to be generated. On March 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, (SFAS 142) *Goodwill and Other Intangible Assets* and as a result, we no longer amortize goodwill. We performed the initial impairment review of our goodwill required by SFAS 142 during the first quarter of fiscal 2003 and no impairment losses were recognized. During the quarters ended August 31, and November 30, 2002, we experienced adverse changes in our stock price resulting from a decline in our financial performance and adverse business conditions that have affected the technology industry, especially application software companies. Based on these factors, we performed a test for goodwill impairment at August 31, 2002 and November 30, 2002 and determined that based upon the implied fair value (which includes factors such as, but not limited to, the Company s market capitalization, control premium and recent stock price volatility) of the Company as of August 31, 2002 and November 30, 2002, there was no impairment of goodwill.

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

We will continue to test goodwill for impairment on an annual basis, coinciding with our fiscal year end, or on an interim basis if circumstances change that would more likely than not reduce our implied fair value below our carrying value. Please refer to Note 1 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report for further discussion of SFAS 142, Note 5 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report for further discussion of our goodwill impairment and see Factors That May Affect Future Results Risks Related to Our Business.

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

Deferred Income Taxes

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

Management will continue to monitor its estimates of future profitability and realizability of our net deferred tax assets based on evolving business conditions.

Restructuring-Related Expenses

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

Prior to December 31, 2002, we accounted for the costs associated with the reduction of our workforce in accordance with Emerging Issues Task Force No. 94-3 (EITF 94-3). Accordingly, we recorded the liability related to involuntary termination costs when the following conditions were met: (i) management with the appropriate level of authority approved a termination plan that committed us to such plan and established the benefits the employees would receive upon termination; (ii) the benefit arrangement was communicated to the employees in sufficient detail to enable the employees to determine the termination benefits; (iii) the plan specifically identified the number of employees to be terminated, their locations, and their job classifications; and (iv) the period of time to implement the plan did not indicate changes to the plan are likely. The termination costs we record are not associated with, nor do they benefit, continuing activities. Prior to December 31, 2002, we accounted for lease termination costs in accordance with EITF 94-3. Accordingly, we recorded the costs associated with lease termination, abandonment or both when the following conditions were met: (i) management with the appropriate level of authority approved a termination plan that committed us to such plan; (ii) the plan specifically identified all activities that would not to be continued, including the method of disposition and location of those activities, and the expected date of completion; (iii) the period of time to implement the plan does not indicate changes to the plan were likely; and (iv) the leased property had no substantive future use or benefit to us. We recorded the liability associated with lease termination, abandonment or both as the sum of the total remaining lease costs and related exit costs, less probable sublease income or the expected lease termination fees or penalties. We accounted for costs related to long-lived assets abandoned in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144) Accounting for the Impairment or Disposal of Long-Lived Assets and, accordingly, charged to expense the net carrying value of the long-lived assets when we ceased to use the assets.

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

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

Revenue:

Software Revenue. Software revenue decreased 42.3%, or $54.9 million, in fiscal 2003 and decreased 6.9%, or $9.5 million, in fiscal 2002. The decrease in software revenue and software revenue as a percentage of total revenue in fiscal 2003 and fiscal 2002 was due to the weakness of the global economy and geopolitical uncertainties in our fiscal 2003 and fiscal 2002 and the related decline in spending for enterprise application software. This resulted in a decrease in the ASP for our software during both fiscal 2003 and fiscal 2002 and a decrease in the number of significant software license transactions consummated during fiscal 2003 and fiscal 2002.

The following table summarizes significant software transactions consummated during fiscal 2003, 2002 and 2001:

	Fiscal Year Ended February 28,		
	2003	2002	2001
Significant Software Transactions (1)			
Number of transactions $100,000 to $999,999	70	73	67
Number of transactions $1.0 million and greater	19	38	47

Total number of transactions	89	111	114
Average selling price (in thousands)	$785	$1,118	$1,187

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

We believe the reduction in software transactions of $1.0 million or greater in fiscal 2003 and fiscal 2002 is the result of companies becoming more cautious and deliberate regarding commitments to large capital expenditures, especially spending for enterprise application software, due to the uncertain global economic conditions and geopolitical uncertainties.

Services Revenue. Services revenue decreased 4.1%, or $4.4 million, in fiscal 2003 and increased 45.3%, or $33.2 million, in fiscal 2002. The decrease in services revenue in fiscal 2003 was the result of the decrease in the number of completed software license transactions in fiscal 2002 and fiscal 2003 and resulting lower demand for implementation services, offset by the services revenue from WDS which was acquired in April 2002. The increase in services revenue in fiscal 2002 was due to an increased demand for implementation services and training, resulting from increases in completed software license transactions in fiscal 2001 and the acquisition of Talus Solutions, Inc. (Talus) in the fourth quarter of fiscal 2001. As a result of the decline in the number of completed software license transactions in fiscal 2003, we believe that services revenue in fiscal 2004 will be lower than fiscal 2003. Services revenue tends to track software license revenue in prior periods. See Forward Looking Statements and Factors That May Affect Future Results .

Support Revenue. Support revenue increased 13.8%, or $10.2 million, in fiscal 2003 and increased 33.5%, or $18.5 million, in fiscal 2002. The increase in support revenue in fiscal 2003 and fiscal 2002 was due to the increase in the base of clients that have licensed our software products and entered into annual support arrangements coupled with renewals of annual support agreements by our existing client base and the Talus and WDS acquisitions. In the past, we have experienced high rates of renewed annual support contracts. There can no assurance that our historical renewal rate will continue. See Forward Looking Statements and Factors That May Affect Future Results.

International Revenue. We market and sell our software and services internationally, primarily in Europe, Asia, Canada and Central and South America. Revenue outside of the United States decreased 23.9%, or $21.4 million, to $68.0 million in fiscal 2003 and increased 5.6%, or $4.8 million, to $89.4 million in fiscal 2002. Revenue outside of the United States as a percentage of total revenue was 25.0%, 28.0% and 30.6%, in fiscal 2003, 2002 and 2001, respectively. The decrease in our international revenue in fiscal 2003 resulted from the progressive weakening of global economic conditions, especially in the European economies, and geopolitical uncertainties, which resulted in delayed and smaller buying decisions by prospects and customers for our products. The increase in our international revenue in fiscal 2002 resulted from our efforts to expand our presence and selling efforts outside of the United States.

Operating Expenses:

Cost of Software. Cost of software consists primarily of amortization of capitalized software development costs and royalty fees associated with third-party software either embedded in our software or resold by us. The following table sets forth amortization of capitalized software development costs and other costs of software for the three fiscal years ended February 28, 2003, 2002 and 2001 (in thousands):

	Fiscal Year Ended February 28,		
	2003	**2002**	**2001**
Amortization of capitalized software	$11,587	$11,382	$ 9,486
Percentage of software revenue	15.5%	8.8%	6.8%
Other costs of software	7,540	9,762	9,660
Percentage of software revenue	10.1%	7.5%	6.9%
Total cost of software	$19,127	$21,144	$19,146
Percentage of software revenue	25.5%	16.3%	13.7%

The decrease in cost of software in fiscal 2003 was the result of decreased royalty fees due to lower software revenue. The increase in cost of software in fiscal 2002 was due to increased amortization of capitalized software resulting from an increase in the number of product development initiatives.

Amortization of Acquired Technology. In connection with our acquisitions of WDS and DFE in fiscal 2003, the acquisition of the collaborative sourcing and design assets of Partminer CSD, Inc. (CSD) and SpaceWorks intellectual property during fiscal 2002 and certain previous acquisitions, we acquired developed technology that we offer as part of our integrated solutions. Acquired technology is amortized over periods ranging from four to six years. We expect annual amortization of acquired technology to be approximately $14.2 million in fiscal 2004.

Cost of Services and Support. Cost of services and support primarily includes personnel and third-party contractor costs. Cost of services and support as a percentage of related revenue was 52.7% in fiscal 2003, 51.1% in fiscal 2002 and 46.0% in fiscal 2001. Cost of services and support increased 6.5%, or $6.0 million, in fiscal 2003 and increased 55.7%, or $32.9 million, in fiscal 2002. The increase in cost of services and support during fiscal 2003 was attributable to an increase in support royalties paid to third parties and the WDS acquisition in April 2002, offset by the implementation of our cost containment and cost reduction initiatives during fiscal 2003. The increase in cost of services and support during fiscal 2002 was attributable to adding the personnel necessary to support the growth in services and support revenue and installed customer base.

Sales and Marketing. Sales and marketing expense consists primarily of personnel costs, sales commissions, promotional events such as user conferences, trade shows and technical conferences, advertising and public relations programs. Sales and marketing expense as a percentage of total revenue was 35.1% in fiscal 2003, 37.6% in fiscal 2002 and 41.9% in fiscal 2001. Sales and marketing expense decreased 20.6%, or $24.8 million in fiscal 2003 and increased 4.2%, or $4.8 million, in fiscal 2002. The decrease in fiscal 2003 was due to:

- an overall decrease in the average number of sales, marketing and business development employees to 328 for fiscal 2003 compared to 414 for fiscal 2002, which was the result of cost containment and cost reduction measures implemented in the second half of fiscal 2002 and fiscal 2003;

- a decrease in sales commissions due to lower software revenue; and

- a decrease in promotional spending, travel, advertising and public relations spending resulting from cost containment and cost reduction measures implemented in the second half of fiscal 2002 and fiscal 2003.

The increase in fiscal 2002 was due to increased personnel costs resulting from an increase in the average number of sales, marketing and business development employees to 414 in fiscal 2002 compared to 323 in fiscal 2001, offset by lower sales commissions resulting from decreased software sales. The decrease in sales and marketing expense as a percentage of total revenue in fiscal 2003 was due to the combination of lower sales commissions due to decreased software revenue and cost containment and cost reduction measures implemented in the second half of fiscal 2002 and fiscal 2003. The decrease in sales and marketing expense as a percentage of total revenue in fiscal 2002 was due to the combination of lower sales commissions due to decreased software revenue, flat promotional spending and higher revenues in fiscal 2002 as compared to fiscal 2001.

Product Development. Product development costs include expenses associated with the development of new software products, enhancements of existing products and quality assurance activities and are reported net of capitalized software development costs. Such costs are primarily from employees and third party contractors. The following table sets forth product development costs for the three fiscal years ended February 28, 2003, 2002 and 2001 (in thousands):

	Fiscal Year Ended February 28,		
	2003	**2002**	**2001**
Gross product development costs	$73,570	$80,956	$49,750
Percentage of total revenue	27.0%	25.3%	18.0%
Less: Capitalized software development costs	10,515	10,479	8,920
Percentage of total revenue	3.9%	3.3%	3.2%
Product development costs, as reported	$63,055	$70,477	$40,830
Percentage of total revenue	23.1%	22.0%	14.8%

Gross product development costs decreased 9.1%, or $7.4 million, in fiscal 2003 and increased 62.7%, or $31.2 million, in fiscal 2002. The decrease in fiscal 2003 was due to:

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

- a decrease in the average number of contractors in the United States resulting from cost containment and cost reduction measures implemented in the second half of fiscal 2002 and in fiscal 2003.

This decrease was offset by an increase in gross product development costs resulting from the WDS acquisition in April 2002.

The increase in gross product development costs in fiscal 2002 was the result of an increase in the average number of product development employees, acquisitions during the first six months of fiscal 2002 and the fourth quarter of fiscal 2001 and an increased number of product development initiatives.

General and Administrative. General and administrative expenses include personnel and other costs of our legal, finance, accounting, human resources, facilities and information systems functions. General and administrative expenses decreased 2.2%, or $0.6 million, in fiscal 2003 and increased 24.4%, or $5.6 million, in fiscal 2002. The decrease in fiscal 2003 was due to a decrease in the average number of general and administrative employees resulting from cost containment and cost reduction measures implemented in the second half of fiscal 2002 and fiscal 2003, offset by an increase in costs resulting from the WDS acquisition in April 2002. The increases in fiscal 2002 were due to an increase in personnel to support our growth.

Amortization of Intangibles and Goodwill Impairment. Our acquisitions of WDS in April 2002, CSD and One Release during fiscal 2002 and certain previous acquisitions were accounted for under the purchase method of accounting. As a result, we recorded goodwill and other intangible assets that represent the excess of the purchase price paid over the fair value of the net tangible assets acquired. Other intangible assets are amortized over periods ranging from four to seven years. Amortization of intangibles decreased by 95.5%, or $82.4 million, in fiscal 2003. The decrease resulted from our adoption of SFAS 142 on March 1, 2002, which requires that we no longer amortize goodwill and assembled workforce. SFAS 142 also requires that goodwill be tested for impairment on an annual basis and when there is reason to suspect that values may have been impaired. We performed a test for goodwill impairment as of February 28, 2003, our annual date for goodwill impairment review and determined a write-down was necessary. Accordingly, we recorded a goodwill impairment charge of $96.3 million in fiscal 2003 to reduce goodwill associated with our acquisitions down to their estimated fair value. Details of our amortization of intangibles and goodwill impairment are included in Note 5 in the Notes to our Consolidated Financial Statements included elsewhere in this Annual Report and details of our acquisitions are included in Note 12 in the Notes to our Consolidated Financial Statements included elsewhere in this Annual Report.

Purchased Research and Development and Acquisition-Related Expenses. Our acquisitions of WDS in fiscal 2003 and Talus and STG Holdings, Inc. (STG) in fiscal 2001 included the purchase of technology that had not yet been determined to be technologically feasible and had no alternative future use at its then-current stage of development. Accordingly, in fiscal 2003 and fiscal 2001, the portion of the purchase price for WDS, Talus and STG allocated to purchased research and development of $3.8 million and $9.7 million, respectively, in aggregate, was expensed immediately in accordance with generally accepted accounting principles. Details of our acquisitions are included in Note 12 in the Notes to our Consolidated Financial Statements included elsewhere in this Annual Report.

Restructuring and other impairment charges. We adopted restructuring plans in the second, third and fourth quarters of fiscal 2003 and in the second and third quarters of fiscal 2002. In connection with our decision to implement these plans, we incurred related restructuring and other impairment charges of $19.2 million in fiscal 2003 and $6.6 million in fiscal 2002, including $1.6 million in additional restructuring charges related to the expected loss of a sublease income on office space at a location previously included as a component of the 1999 restructuring plan.

The following table sets forth a summary of restructuring and other impairment charges, net of adjustments, for fiscal 2003 and 2002 (in thousands):

	Fiscal Year Ended February 28,	
	2003	**2002**
Lease obligations and terminations	$ 7,973	$ 3,653
Severance and related benefits	7,942	2,318
Impairment charges	2,528	144
Other	741	497
Total restructuring and other impairment charges	$ 19,184	$ 6,612

The impact to reported basic and diluted loss per share as a result of the restructuring and other impairment charges was $(0.27) and $(0.06) for fiscal 2003 and fiscal 2002, respectively.

As a result of the adoption of our restructuring plans in fiscal 2002, we reduced our operating expenses by $18 million annually. Our restructuring plans and cost containment initiatives in fiscal 2003 further reduced certain of our operating expenses by approximately $100 million annually from the cost structure for our quarter ended May 31, 2002. The cost savings associated with our restructuring and cost containment efforts began to be realized in the following quarter. We do not expect our cost savings to be offset by increases in other expense areas. Details of our restructuring and other impairment charges are included in Note 14 in the Notes to our Consolidated Financial Statements included elsewhere in this Annual Report.

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

	Fiscal Year Ended February 28,	
	Fiscal 2003 Restructuring Plans	**Fiscal 2002 Restructuring Plans**
Functional Expense		
Cost of services and support	$ 15,000	$ 6,000
Sales & marketing	50,000	2,000
Product development	30,000	10,000
General and administrative	5,000	
Total	$ 100,000	$ 18,000
Expense Type		
Salaries & benefits	$ 55,000	7,000
Contractors	15,000	2,000
Promotion	5,000	1,000
Travel	15,000	5,000
Depreciation	2,000	500
Office expenses	8,000	2,500
Total	$ 100,000	$ 18,000

Our aggregate cost of software, cost of services and support, sales and marketing, product development and general and administrative expenses, excluding amortization of acquired technology and non-cash stock compensation expense, was $90.8 million for the quarter ended May 31, 2002. We expect the comparable quarterly costs to be approximately $65.0 million for the quarter ended May 31, 2003, representing a reduction in quarterly costs of approximately $25.8 million, or approximately $100 million annually.

Non-Cash Stock Compensation Expense (Benefit). We recognized non-cash stock compensation expense (benefit) of $3.4 million in fiscal 2003 related to unvested stock options assumed in the acquisition of Talus and $(3.1) million and $12.8 million in fiscal 2002 and fiscal 2001, respectively, related to stock options that were repriced in January 1999 and unvested stock options assumed in the Talus acquisition. These amounts are included as a separate component of stockholders equity and are amortized by charges to operations in accordance with FASB Interpretation No. 44 (FIN 44) *Accounting for Certain Transactions Involving Stock Compensation* .

Repriced Options:

In January 1999, the Company repriced certain employee stock options, other than those held by executive officers or directors. This resulted in approximately 3.0 million options being repriced and the four-year vesting period starting over. Under FIN 44, repriced options are subject to variable plan accounting, which requires compensation cost or benefit to be recorded each period based on changes in our stock price until the repriced options are exercised, forfeited or expire. This resulted in a benefit of $8.0 million in fiscal 2002 and an expense of $11.1 million in fiscal 2001. The initial fair value used to measure the ongoing stock compensation charge or benefit was $22.19 based on the closing price of our common stock on June 30, 2000. Since our stock price at the beginning and end our fiscal 2003 quarters was below $22.19, no charge or benefit was recorded during fiscal 2003. As of February 28, 2003, approximately 0.8 million repriced options were still outstanding, all of which are fully vested. In future periods, we will record additional charges or benefits related to the repriced stock options still outstanding based on the change in our common stock price compared to the last reporting period. If our stock price at the beginning and end of any reporting period is less than $22.19, no charge or benefit will be recorded.

Unvested Stock Options -Talus Acquisition:

As part of the Talus acquisition, we assumed all outstanding stock options, which were converted into our stock options. Options to purchase approximately 631,000 shares of our common stock were unvested at the acquisition date. FIN 44 requires the acquiring company to measure the intrinsic value of unvested stock options assumed at the acquisition date in a purchase business combination and record a compensation charge over the remaining vesting period of those options to the extent those options remain outstanding. This resulted in a charge of $3.4 million in fiscal 2003, $4.8 million in fiscal 2002 and $1.2 million during fiscal 2001.

IRI Settlement. The IRI settlement charge of $3.1 million in fiscal 2002 represents the amount in excess of a liability accrued in prior years for the resolution of a dispute between the Company and Information Resources, Inc. (IRI). Details of the IRI Settlement are included in Note 7 in the Notes to our Consolidated Financial Statements included elsewhere in this Annual Report.

Other (Expense) Income, Net

Other (expense) income, net, includes interest income from cash equivalents, marketable securities and restricted cash, interest expense from borrowings, foreign currency exchange gains or losses and other gains or losses. Other expense, net was $7.9 million in fiscal 2003, compared to other expense, net of $14.6 million in fiscal 2002 and other income, net of $2.9 million in fiscal 2001. The decrease in fiscal 2003 relates to an impairment loss we recorded of approximately $10.2 million relating to an other-than-temporary decline in the fair value of our equity investment in Converge, Inc. in fiscal 2002 offset by lower interest income as a result of lower average invested cash and marketable securities and lower average interest rates in fiscal 2003. The change in fiscal 2002 relates to the Converge Inc. impairment loss and higher interest expense as a result of the issuance of $250.0 million in convertible debt during the quarter ended November 30, 2000, offset by higher interest income in fiscal 2002 as a result of higher levels of invested cash and marketable securities.

Provision for (Benefit from) Income Taxes

We recorded an income tax provision of $21.4 million in fiscal 2003, a benefit from income tax of $(24.1) million in fiscal 2002 and an income tax provision of $2.6 million in fiscal 2001.

During fiscal 2003, management concluded that, based on various factors, including our cumulative losses for fiscal 2001, 2002 and 2003 when adjusted for non-recurring items, the size of our loss for fiscal 2003 and estimates of future profitability, future taxable income will, more likely than not, be insufficient to cover our net deferred tax assets. Based on the weight of positive and negative evidence regarding recoverability of our deferred tax assets (net operating loss carryforwards), we recorded a valuation allowance for the full amount of our net deferred tax assets, which resulted in a $20.4 million charge to income tax expense in fiscal 2003. Management will continue to monitor its estimates of future profitability and realizability of our net deferred tax assets based on evolving business conditions. We do not expect to record a deferred income tax benefit in future periods when we incur a loss.

Net Loss

We reported a net loss of $212.2 million, $115.2 million and $28.1 million for fiscal years ending February 28, 2003, 2002 and 2001, respectively. The increased net loss in fiscal 2003 compared to fiscal 2002 was due to an increased operating loss resulting from a decrease in total revenue, the goodwill impairment charge in fiscal 2003, increased restructuring and other impairment charges, purchased research and development associated with the WDS acquisition and income tax charges in fiscal 2003 compared to income tax benefits in fiscal 2002, offset by the favorable effect of the non-amortization provisions of SFAS 142 beginning March 1, 2002 and a decrease in the aggregate cost of software, cost of services and support, sales and marketing, product development and general and administrative expenses. The increased net loss in fiscal 2002 compared to fiscal 2001 was due to an increased operating loss resulting from an increase in amortization expense, restructuring and other impairment charges, the IRI settlement and the Converge, Inc. investment impairment, offset by income tax benefits in fiscal 2002 compared to income tax charges in fiscal 2001 and a decrease in purchased research and development charges.

Loss Per Common Share

Loss per common share is computed in accordance with SFAS No. 128, Earnings Per Share, which requires dual presentation of basic and diluted earnings per common share for entities with complex capital structures. Basic earnings (loss) per common share is based on net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings or loss per common share include, when dilutive, (i) the effect of stock options and warrants granted using the treasury stock method, (ii) the effect of contingently issuable shares earned during the period, and (iii) shares issuable under the conversion feature of our convertible notes using the if-converted method. Future weighted-average shares outstanding calculations will be impacted by the following factors:

- the ongoing issuance of common stock associated with stock option and warrant exercises;
- the issuance of common shares associated with our employee stock purchase plan;
- any fluctuations in our stock price, which could cause changes in the number of common stock equivalents included in the diluted earnings per common share calculations (to the extent we have net income);
- the issuance of common stock to raise capital or effect business combinations should we enter into such transactions;
- assumed or actual conversions of our convertible debt into common stock.

Liquidity and Capital Resources

Historically, we have financed our operations and met our capital expenditure requirements through cash flows provided from operations, long-term borrowings (including the sale of convertible notes) and sales of equity securities. Our cash, cash equivalents and marketable securities in aggregate decreased $95.3 million during fiscal 2003 to $137.7 million as of February 28, 2003. Working capital decreased $117.2 million to $119.8 million at February 28, 2003. The decrease in cash, cash equivalents, marketable securities and working capital resulted from cash payments for the WDS and DFE acquisitions, two semi-annual interest payments on our convertible debt, capital expenditures associated with the move to our new corporate headquarters, a cash restriction requirement related to outstanding letters of credit with Bank of America (BOA) (see Note 6 in the Notes to our Consolidated Financial Statements included elsewhere in this Annual Report), as well as losses from operations. Working capital was also negatively impacted by the valuation allowance recorded for the full amount of our net deferred tax assets, including $9.1 million of current deferred tax assets.

Cash flows (used in) provided by operating activities was $(30.7) million, $(15.9) million and $15.5 million in fiscal 2003, 2002 and 2001, respectively. The change in operating cash flows of $14.8 million in fiscal 2003 resulted from an increase in our operating loss before non-cash items in fiscal 2003 and an increase in cash outlays for restructuring obligations. The change in operating cash flows of $31.4 million in fiscal 2002 resulted from (i) our operating loss before non-cash items in fiscal 2002 and (ii) increased cash paid for interest on our convertible debt offset by increased interest income. Days sales outstanding (DSO) in accounts receivable, which is calculated based on our fourth quarter revenue, increased to 88 days as of February 28, 2003 versus 83 days as of February 28, 2002.

Cash (used in) provided by investing activities was $(70.0) million, $36.6 million and $(117.3) million in fiscal 2003, 2002 and 2001, respectively. Investing activities consist of the sales and purchases of marketable securities, cash used as collateral for outstanding letters of credit which are classified as restricted cash on the consolidated balance sheet as of February 28, 2003, purchases of property and equipment, purchases and capitalization of software and acquisitions and investments in businesses. Acquisitions of businesses, net of cash acquired, of $32.3 million during fiscal 2003 relate to the WDS and DFE acquisitions. Total purchases of property and equipment were $14.8 million in fiscal 2003, an increase of $4.6 million compared to fiscal 2002 due to the completion of the buildout of our new corporate headquarters space during fiscal 2003. Sales of marketable securities, net of purchases, were $101.0 million in fiscal 2002. Acquisitions and investments in businesses, net of cash acquired, of $41.1 million, in aggregate, during fiscal 2002, relate to the acquisitions of CSD and certain assets of SpaceWorks, Inc. and an investment in Converge, Inc.

Cash provided by financing activities was $5.1 million, $12.4 million and $256.2 million in fiscal 2003, 2002 and 2001, respectively. Cash provided by financing activities in fiscal 2003 and fiscal 2002 consisted of proceeds from the exercise of stock options and employee stock plan purchases. Cash provided by financing activities in fiscal 2001 consisted of proceeds from our convertible debt offering in November 2000 and proceeds from the exercise of stock options and employee stock plan purchases, offset by payments made against our line of credit.

As of February 28, 2003, we had $250.0 million in 5% convertible subordinated notes outstanding (the Notes). The Notes bear interest at 5.0% per annum, which is payable semi-annually. The fair market value of the Notes in the hands of the holders was $131.6 million and $176.9 million as of February 28, 2003 and February 28, 2002, respectively, based on market quotes. The Notes mature in November 2007 and are convertible by the holder into approximately 5.7 million shares of our common stock at a conversion price of $44.06 per share, subject to adjustment under certain conditions. The conversion price of the Notes will be adjusted in the event that we issue our common stock as a dividend or distribution with respect to our common stock, we subdivide, combine or reclassify our common stock, we issue rights to our common stockholders to purchase our common stock at less than market price, we make certain distributions of securities, cash or other property to our common stockholders (other than ordinary cash dividends), or we make certain repurchases of our common stock. Upon a change of control of the Company, the holders of the Notes would have the right to require us or our successor to repurchase the Notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest to the date of repurchase in cash. The Notes do not have any financial covenants. On or after November 7, 2003, we may redeem, from time to time, the Notes in whole or in part, at our option. Redemption can be made on at least 30 days notice if the trading price of our common stock for 20 trading days in a period of 30 consecutive trading days ending on the day prior to the mailing of notice of redemption exceeds 120% of the conversion price of the Notes. The redemption price, expressed as a percentage of the principal amount, is:

Redemption Period	Redemption Price
November 7, 2003 through October 31, 2004	103%
November 1, 2004 through October 31, 2005	102%
November 1, 2005 through October 31, 2006	101%
November 1, 2006 through maturity	100%

29

On January 14, 2003, we entered into a one year unsecured revolving credit facility with SVB for $20.0 million. Under the terms of this credit facility, we may request cash advances, letters of credit, or both. The credit facility requires us to comply with the following financial covenants: (i) minimum tangible net worth (defined as stockholders equity plus convertible debt less goodwill, capitalized software costs and other intangible assets) must be greater than $150.0 million as of February 28, 2003, with future quarters covenants to be determined during the first quarter of fiscal 2004; and (ii) a ratio of (a) cash and cash equivalents deposited with SVB and its affiliates plus accounts receivable to (b) current liabilities plus, long term indebtedness to SVB and outstanding letters of credit minus deferred revenue of at least 2.0 to 1.0.

In addition, the SVB credit facility requires us to maintain $70.0 million in funds with SVB and its affiliates. The credit facility also restricts the amount of additional debt we can incur and restricts the amount of cash that we can use for acquisitions and for the repurchase of convertible debt. Under the terms of the SVB credit facility, we maintain the right to terminate the facility at any time upon repayment of any advances and the posting of cash collateral for any outstanding letters of credit. Under the credit facility, SVB has the right to obtain a lien on all of our assets, other than intellectual property, upon an occurrence of default, unless we terminate the facility as provided above. The credit facility also provides that, upon an event of default, we are prohibited from paying a cash dividend to our shareholders. As of February 28, 2003, we had $1.1 million in letters of credit outstanding under this line to secure our lease obligations for office space. We were in compliance with all financial covenants as of February 28, 2003.

Prior to entering into our credit facility agreement with SVB, we had a credit facility agreement with BOA that expired on February 26, 2003. As of February 28, 2003, we had $13.0 million in letters of credit outstanding with BOA which were fully collateralized. The cash collateral is presented as restricted cash in our consolidated balance sheet as of February 28, 2003. The cash restriction with BOA will be eliminated once all outstanding letters of credit have been transferred to SVB. Approximately $9.3 million of the BOA letters of credit were transferred to SVB in March 2003 and those related cash restrictions have been eliminated. We are in the process of transferring the remaining outstanding letters of credit to SVB. See Note 6 in the Notes to our Consolidated Financial Statements included elsewhere in this Annual Report.

In April 2002, the Company entered into a credit agreement with SVB, as amended, under which the Company could borrow up to $5.0 million for the purchase of equipment. Amounts borrowed under the facility accrue interest at a rate equal to the greater of the three year treasury note rate plus 5% or 8.25%, and are repaid monthly over a 36 month period. During fiscal 2003, the Company borrowed $2.9 million under this credit facility. The facility allowed for borrowings through March 31, 2003. We were in compliance with all financial covenants as of February 28, 2003.

As of February 28, 2003, the Company s future fixed commitments and the effect these commitments are expected to have on our liquidity and cash flows in future periods are as follows (in thousands):

	Fiscal Year Ended February 28 or 29,						
	2004	**2005**	**2006**	**2007**	**2008**	**Thereafter**	**Total**
Capital lease obligations (1)	$ 2,179	$ 1,364	$ 1,321	$ 546	$	$	$ 5,410
Operating lease obligations not in restructuring	15,124	12,972	12,119	11,682	10,564	45,891	108,352
Operating leases obligations in restructuring	3,972	3,550	3,287	2,901	2,395	7,648	23,753
Equipment line of credit (1)	1,098	1,098	773				2,969
Convertible subordinated notes (1)	12,500	12,500	12,500	12,500	262,500		312,500
Total fixed commitments	$ 34,873	$ 31,484	$ 30,000	$ 27,629	$ 275,459	$ 53,539	$ 452,984

(1) Includes principal and interest payments

The lease commitments in the above table designated as Operating lease obligations in restructuring only include the non-cancelable portion of lease commitments included in past restructuring initiatives and, accordingly, have not been reduced by estimated sublease income. However, as required by EITF Issue No. 88-10 *Costs Associated with Lease Modification or Termination.* (EITF 88-10), we have reduced these lease commitments by estimated sublease income in determining the total restructuring lease obligations of $11.6 million recorded in the accompanying balance sheet as of February 28, 2003. Please refer to Notes 7 and 14 in our consolidated financial statements included elsewhere in this Annual Report.

In the future, we may pursue acquisitions of complementary businesses and technologies. In addition, we may make strategic investments in businesses and enter into joint ventures that complement our existing business. Any future acquisition or investment may result in a decrease to our liquidity and working capital to the extent we pay with cash.

We believe that our existing liquidity and expected cash flows from operations will satisfy our capital requirements for the foreseeable future. We believe that the combination of cash and cash equivalents, marketable securities, and anticipated cash flows from operations will be sufficient to fund expected capital expenditures, capital lease obligations and working capital needs for the next twelve months. However, weakening economic conditions or continued weak demand for enterprise application software in future periods could have a material adverse impact on our future operating results and liquidity. Although we have no current plans to do so, we may choose to purchase a portion of the Notes in the open market from time to time if we are able to do so on terms favorable to us. Purchases of the Notes would reduce our debt outstanding, but may have a material adverse effect on our liquidity. Although we have no current plans to do so, we may elect to obtain additional debt or equity financing if we are able to raise it on terms favorable to us. See Forward Looking Statements and Factors That May Affect Future Results.

Recently Issued Accounting Pronouncements:

On March 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 141 (SFAS 141) *Business Combinations*, and Statement of Financial Accounting Standards No. 142 (SFAS 142) *Goodwill and Other Intangible Assets*, with the exception of the immediate requirement to use the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS 141 establishes new standards for accounting and reporting for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 142 requires goodwill and certain intangible assets to remain on the balance sheet and not be amortized. Therefore, we stopped amortizing goodwill, including goodwill recorded in past business combinations, on March 1, 2002. In addition, SFAS 142 requires assembled workforce and certain other identifiable intangible assets to be reclassified as goodwill. On an annual basis, and when there is reason to suspect that values may have been impaired, goodwill must be tested for impairment and write-downs may be necessary. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. SFAS 142 also requires recognized intangible assets with finite lives to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144) *Accounting for the Impairment of Long-Lived Assets*.

SFAS 142 required us to perform an assessment of whether there was an indication that goodwill was impaired at the date of adoption. To accomplish this, we were required to identify our reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including existing goodwill and intangible assets, to those reporting units as of the date of adoption. The first test for potential impairment required us to determine the fair value of each reporting unit and compare it to the reporting unit s carrying amount. To the extent the reporting unit s carrying amount exceeds its fair value, an indication exists that the reporting unit s goodwill may be impaired and we must perform the second step of the impairment test. In the second step, we must compare the implied fair value (which includes factors such as, but not limited to, our market capitalization, control premium and recent stock price volatility) of the reporting unit s goodwill, determined by allocating the reporting unit s fair value to all of its assets and liabilities in a manner similar to a purchase price allocation in accordance with SFAS 141, to its carrying amount, both of which would be measured as of the date of adoption.

We performed the initial goodwill impairment test required by SFAS 142 during the first quarter of fiscal 2003. We consider ourselves to have a single reporting unit. Accordingly, all of our goodwill is associated with the entire Company. As of March 1, 2002, based on our implied fair value, there was no impairment of goodwill.

During the quarters ended August 31, 2002 and November 30, 2002, we experienced adverse changes in our stock price resulting from a decline in our financial performance and adverse business conditions that have affected the technology industry, especially application software companies. Based on these factors, we performed a test for goodwill impairment at August 31, 2002 and November 30, 2002 and determined that based upon the implied fair value (which includes factors such as, but not limited to, the Company s market capitalization, control premium and recent stock price volatility) of the Company as of August 31, 2002 and November 30, 2002, there was no impairment of goodwill.

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

We will continue to test for impairment on an annual basis, coinciding with our fiscal year end, or on an interim basis if circumstances change that would more likely than not reduce our implied fair value below our carrying value. If our stock price decreases to levels such that our implied fair value is significantly less than stockholders equity for a sustained period of time, among other factors, we may be required to record additional impairment losses related to goodwill below its carrying amount. We will perform a test for goodwill impairment at February 28, 2004, which is our annual date for goodwill impairment review, or earlier if conditions are present which may indicate an impairment. Please refer to Note 1 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report for further discussion of SFAS 142, Note 5 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report for further discussion of our goodwill impairment and see Factors That May Affect Future Results Risks Related to Our Business.

Effective March 1, 2002, as required by SFAS 142, we have ceased amortization of goodwill associated with acquisitions completed prior to July 1, 2001. Goodwill and intangible assets acquired in business combinations initiated before July 1, 2001 were amortized until February 28, 2002. SFAS 142 does not require the restatement of prior period earnings, but does require transitional disclosure for earnings per share and adjusted net income under the revised rules (see Note 5).

On March 1, 2002, we adopted the provisions of SFAS 144. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 supersedes Statement of Financial Accounting Standards No. 121 (SFAS 121) *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, but retains the fundamental provisions of SFAS 121 for (i) recognition/measurement of impairment of long-lived assets to be held and used and (ii) measurement of long-lived assets to be disposed of by sale. SFAS 144 also supersedes the accounting and reporting provisions of Accounting Principles Board s Opinion No. 30 (APB 30), *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for segments of a business to be disposed of but retains APB 30 s reporting requirement to report discontinued operations separately from continuing operations and extends that reporting requirement to a component of an entity that either has been disposed of or is classified as held for sale. Adoption of this standard did not have a material impact on our financial statements.

On March 1, 2002, we adopted the provisions of Staff Announcement Topic No. D-103 *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*, which was subsequently incorporated in Emerging Issues Task Force No. 01-14 (EITF 01-14). EITF 01-14 establishes that reimbursements received for out-of-pocket expenses such as airfare, hotel stays and similar costs should be characterized as revenue in the income statement. Adoption of the guidance had the resulting effect of increased revenue and increased operating expenses. Prior to our adoption of this standard, we recorded out-of-pocket expense reimbursements as a reduction of cost of services. Accordingly, we reclassified these amounts to revenue in our comparative financial statements beginning in our first quarter of fiscal 2003. Application of EITF 01-14 did not result in any net impact to operating income or net income in any past periods and will not result in any net impact in future periods.

In July 2002, the FASB issued SFAS No. 146 *Accounting for Exit or Disposal Activities* (SFAS 146). SFAS 146 addresses the recognition, measurement and reporting of costs associated with exit and disposal activities (i.e., restructuring activities), including costs related to terminating a contract that is not a capital lease and termination benefits due to employees who are involuntarily terminated under the terms of a one-time benefit arrangement. SFAS 146 supersedes EITF 94-3 and EITF 88-10 and therefore prohibits recognition of a liability based solely on an entity s commitment to a plan to exit an activity. SFAS 146 requires that: (i) liabilities associated with exit and disposal activities be measured at fair value and changes in the fair value of the liability at each reporting period be measured using an interest allocation approach; (ii) one-time termination benefits be expensed at the date the entity notifies the employee, unless the employee must provide future service, in which case the benefits are expensed ratably over the future service period; (iii) liabilities to terminate a contract be recorded at fair value when the contract is terminated; (iv) liabilities related to an existing operating lease, unless terminated, be recorded at fair value, less estimated sublease income, and measured when the contract does not have any future economic benefit to the entity (i.e., the entity ceases to utilize the rights conveyed by the contract); and (v) all other costs related to an exit or disposal activity be expensed as incurred.

SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. Retroactive application of SFAS 146 is prohibited and, accordingly, liabilities recognized prior to the initial application of SFAS 146 must continue to be accounted for in accordance with EITF 94-3, EITF 88-10 or other applicable preexisting guidance. Accordingly, we will continue to account for its restructuring obligations recorded during 2002 in accordance with EITF 94-3, EITF 88-10 or other applicable preexisting guidance.

