I2 TECHNOLOGIES INC
Form 10-Q
May 12, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 0-28030

i2 Technologies, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**75-2294945**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One i2 Place	
11701 Luna Road	
Dallas, Texas	**75234**
(Address of principal executive offices)	**(Zip code)**

(469) 357-1000

(Registrant s telephone number, including area code)

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer (Do not check if a smaller reporting company) ¨	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of May 1, 2008, the Registrant had 21,455,174 shares of $0.00025 par value Common Stock outstanding.

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QUARTERLY REPORT ON FORM 10-Q

March 31, 2008

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 131,599	$ 120,978
Restricted cash	7,263	8,456
Accounts receivable, net	27,446	25,108
Other current assets	10,797	7,746
Total current assets	177,105	162,288
Premises and equipment, net	6,657	7,559
Goodwill	16,684	16,684
Non-current deferred tax asset	7,764	8,454
Other non-current assets	7,450	7,168
Total assets	$ 215,660	$ 202,153
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 5,389	$ 4,741
Accrued liabilities	16,451	14,631
Accrued compensation and related expenses	12,474	17,636
Deferred revenue	68,986	61,715
Total current liabilities	103,300	98,723
Total long-term debt, net	84,610	84,453
Taxes payable	5,881	4,484
Total liabilities	193,791	187,660
Commitments and contingencies		
Stockholders equity:		
Preferred Stock, $0.001 par value, 5,000 shares authorized, none issued and outstanding		
Series A junior participating preferred stock, $0.001 par value, 2,000 shares authorized, none issued and outstanding		
Series B 2.5% convertible preferred stock, $1,000 par value, 150 shares authorized 107 issued and outstanding at March 31, 2008 and December 31, 2007	103,562	103,450
Common stock, $0.00025 par value, 2,000,000 shares authorized, 21,455 and 21,448 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	5	5
Additional paid-in capital	10,461,055	10,458,101
Accumulated other comprehensive income	11,670	9,963

Accumulated deficit	(10,554,423)	(10,557,026)
Net stockholders equity	21,869	14,493
Total liabilities and stockholders equity	$ 215,660	$ 202,153

See accompanying notes to consolidated financial statements.

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i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Revenues:		
Software solutions	$ 11,672	$ 13,433
Services	28,842	28,695
Maintenance	22,063	21,009
Contract		2,450
Total revenues	62,577	65,587
Costs and expenses:		
Cost of revenues:		
Software solutions	2,615	2,474
Services	22,471	23,843
Maintenance	2,843	2,937
Amorization of aquired technology	4	6
Sales and marketing	11,950	11,698
Research and development	7,633	8,805
General and administrative	10,964	10,378
Amortization of intangibles	25	3
Restructuring charges and adjustments		(25)
Total costs and expenses	58,505	60,119
Operating income	4,072	5,468
Non-operating income (expense), net:		
Interest income	1,194	1,346
Interest expense	(1,238)	(1,240)
Foreign currency hedge and transaction losses, net	(141)	(117)
Other income (expense), net	619	(321)
Total non-operating income (expense), net	434	(332)
Income before income taxes	4,506	5,136
Income tax expense	1,127	859
Net income	3,379	4,277
Preferred stock dividend and accretion of discount	776	757
Net income applicable to common stockholders	$ 2,603	$ 3,520
Net income per common share applicable to common stockholders:		

Basic	$ 0.10	$ 0.14
Diluted	$ 0.10	$ 0.13
Weighted-average common shares outstanding:		
Basic	26,055	25,610
Diluted	26,441	26,954

See accompanying notes to consolidated financial statements.

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i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share data)

	Three Months Ended March 31,	
	2008	**2007**
Comprehensive income:		
Net income applicable to common stockholders	$ 2,603	$ 3,520
Other comprehensive income:		
Foreign currency translation adjustments	1,706	725
Total other comprehensive income	1,706	725
Total comprehensive income	$ 4,309	$ 4,245

See accompanying notes to consolidated financial statements.

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i2 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Cash flows from operating activities:		
Net income	$ 3,379	$ 4,277
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of debt issuance expense	270	246
Warrant accretion	158	158
Depreciation and amortization	935	1,181
Stock based compensation	2,903	4,179
Loss on disposal of premises and equipment	147	151
Expense for bad debts charged to costs and expenses	106	24
Deferred income taxes	616	(107)
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(2,223)	214
Other assets	(2,302)	(1,146)
Accounts payable	720	(877)
Taxes payable	1,320	450
Accrued liabilities	1,077	(2,506)
Accrued compensation and related expenses	(5,198)	(9,190)
Deferred revenue	6,988	(3,607)
Net cash provided by (used in) operating activities	8,896	(6,553)
Cash flows provided by (used in) investing activities:		
Restrictions (placed) released on cash	1,193	(1,157)
Purchases of premises and equipment	(152)	(442)
Proceeds from sale of premises and equipment	12	11
Net cash provided by (used in) investing activities	1,053	(1,588)
Cash flows provided by financing activities:		
Net proceeds from common stock issuance from options and employee stock purchase plans	52	1,330
Net cash provided by financing activities	52	1,330
Effect of exchange rates on cash	620	102
Net change in cash and cash equivalents	10,621	(6,709)
Cash and cash equivalents at beginning of period	120,978	109,419
Cash and cash equivalents at end of period	$ 131,599	$ 102,710
Supplemental cash flow information		
Income taxes paid (net of refunds received)	$ (435)	$ 673

Schedule of non-cash financing activities				
Preferred stock dividend and accretion of discount	$	776	$	757

See accompanying notes to consolidated financial statements.

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i2 TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Table dollars in thousands, except per share data)

(Unaudited)

1. Summary of Significant Accounting Policies

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

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

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

Collaboration interoperability with supply chain partners and elimination of functional silos

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

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

Recent Accounting Pronouncements. We adopted SFAS No. 157, *Fair Value Measurements*, on January 1, 2008. The statement creates a single definition of fair value, establishes a framework for measuring fair value, and expands disclosure requirements about items measured at fair value. SFAS No. 157 applies to both items recognized and reported at fair value in the financial statements and items disclosed at fair value in the notes to the financial statements. The statement does not change existing accounting rules governing what can or what must be recognized and reported at fair value in the Company s financial statements, or disclosed at fair value in the Company s notes to the financial statements. Additionally, SFAS No. 157 does not eliminate practicability exceptions that exist in accounting pronouncements amended by this Statement when measuring fair value. As a result, the Company is not required to recognize any new assets or liabilities at fair value.

Prior to SFAS No. 157, certain measurements of fair value were based on the price that would be paid to acquire an asset, or received to assume a liability (an entry price). The statement clarifies the definition of fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different.

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Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, the Company uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the Company may make adjustments for risks and uncertainties, if a market participant would include such an adjustment in its pricing. Adoption of SFAS No. 157 did not have a material impact on the Company s financial statements.

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

2. Investment Securities

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

	March 31, 2008	December 31, 2007
Short-term time deposits	$ 7,086	5,143
	$ 7,086	5,143

We typically invest our cash in a variety of interest-earning financial instruments, including bank time deposits, money market funds and taxable and tax-exempt variable-rate and fixed-rate obligations of corporations and federal, state and local governmental entities and agencies. These investments are primarily denominated in U.S. Dollars.

3. Borrowings and Debt Issuance Costs

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

	March 31, 2008	December 31, 2007
Senior convertible notes, 5% annual rate payable semi-annually, due November 15, 2015	86,250	86,250
Unamortized discount on 5% notes	(1,640)	(1,797)
Total debt	$ 84,610	$ 84,453
Capitalized debt issuance costs, net	$ 2,891	$ 3,161

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

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

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4. Restructuring Charges and Adjustments

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

The following table summarizes the changes to our restructuring accruals, as well as the components of the remaining restructuring accruals at March 31, 2008 and March 31, 2007.

	Employee Severance and Termination		Office Closure and Consolidation		Total	
	2008	2007	2008	2007	2008	2007
January 1,	$ 283	$ 192		$ 123	$ 283	$ 315
Adjustments to restructuring plans		(8)		(17)		(25)
Cash payments	(108)			(32)	(108)	(32)
Remaining accrual balance at March 31,	$ 175	$ 184	$	$ 74	$ 175	$ 258

5. Net Income Per Common Share

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

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

The following is a reconciliation of the number of shares used in the calculation of basic income per share under the two-class method and diluted earnings per share and the number of anti-dilutive shares excluded from such computations for the three months ended March 31, 2008 and March 31, 2007.

	March 31,	
	2008	**2007**
Common and common equivalent shares outstanding using two-class method - basic:		
Weighted average common shares outstanding	21,450	21,062
Participating convertible preferred stock	4,605	4,548
Total common and common equivalent shares outstanding using two-class method - basic	26,055	25,610
Effect of dilutive securities:		
Outstanding stock option and share right awards	386	1,170
Warrants associated with 5% debt		173
Weighted average common and common equivalent shares outstanding - diluted	26,441	26,953
Anti-dilutive shares excluded from calculation:		
Outstanding stock option and share right awards	3,145	947
Convertible debt		1,996
Total anti-dilutive shares excluded from calculation	3,145	2,943

6. Segment Information, International Operations and Customer Concentrations

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

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

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

	Three Months Ended March 31,	
	2008	2007
United States	$ 38,366	$ 38,040
International revenue:		
Non-US Americas	979	1,348
Europe, Middle East and Africa	12,574	16,187
Greater Asia Pacific	10,658	10,012
Total international revenue	24,211	27,547
Total Revenue	$ 62,577	$ 65,587
International revenue as a percent of total revenue	39%	42%

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

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

	March 31, 2008	December 31, 2007
United States	$ 28,781	$ 29,251
Europe, Middle East, Africa	96	113
Greater Asia Pacific	1,914	2,047
Total Long Lived Assets	$ 30,791	$ 31,411

7. Commitments and Contingencies

Derivative Action

On March 7, 2007, a purported shareholder derivative lawsuit was filed in the Delaware Chancery Court against certain of our current and former officers and directors, naming the company as a nominal defendant. The complaint, entitled *George Keritsis and Mark Kert v. Michael E. McGrath, Michael J. Berry, Pallab K. Chatterjee, Robert C. Donohoo, Hiten D. Varia, M. Miriam Wardak, Sanjiv S. Sidhu, Stephen P. Bradley, Harvey B. Cash, Richard L. Clemmer, Lloyd G. Waterhouse, Jackson L. Wilson Jr., Robert L. Crandall and i2 Technologies, Inc.*, alleges breach of fiduciary duty and unjust enrichment in connection with stock option grants to certain of the defendant officers and directors on three dates in 2004 and 2005. The complaint states that those stock option grants were manipulated so as to work to the recipients favor when material non-public information about the company was later disclosed to positive or negative effect. The complaint is derivative in nature and does not seek relief from the company, but does seek damages and other relief from the defendant officers and directors. We have entered into indemnification agreements in the ordinary course of business with certain of the defendant officers and directors and may be obligated throughout the pendency of this action to advance payment of legal fees and costs incurred by the defendants pursuant to our obligations under the indemnification agreements and/or applicable Delaware law. Based on the stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter.

On October 23, 2007, a purported shareholder derivative lawsuit was filed in the Delaware Chancery Court against certain of our current and former officers and directors, naming the company as a nominal defendant. The complaint, *entitled John McPadden, Sr. v. Sanjiv S. Sidhu, Stephen Bradley, Harvey B. Cash, Richard L. Clemmer, Michael E. McGrath, Lloyd G. Waterhouse, Jackson L. Wilson, Jr., Robert L. Crandall and Anthony Dubreville and i2 Technologies, Inc.,* alleges breach of fiduciary duty and unjust enrichment based upon allegations that the company sold its wholly-owned subsidiary, Trade Services Corporation, for an inadequate price in 2005. The complaint is derivative in nature and does not seek relief from the company, but does seek damages and other relief from the defendant officers and directors.

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Indemnification Agreements

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

Pursuant to these indemnification and cost-advancement agreements, we have advanced fees and expenses incurred by certain current and former directors, officers and employees in connection with the governmental investigations and actions related to the 2003 restatement of our consolidated financial statements and other matters. We incurred no such expenses during the three months ended March 31, 2008 and incurred approximately $0.1 million of such expenses during the three months ended March 31, 2007.

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

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

India Tax Assessments

We are under tax examinations in India primarily related to our intercompany pricing for services rendered by our Indian subsidiary to other i2 companies and our qualification for a tax holiday, and have been assessed an aggregate of $6.9 million for the Indian statutory fiscal years ended March 31, 2002, 2003 and 2004. We believe the Indian tax authorities positions regarding our intercompany transactions and tax holiday qualification are without merit, that all intercompany transactions were conducted at appropriate pricing levels and that our operations qualify for the tax holiday claimed. Accordingly, we have appealed all of these assessments and have also sought assistance from the United States competent authority under the mutual agreement procedure of the income tax treaty between the United States and India, which provides us with an opportunity to resolve these matters in an environment which includes governmental representatives of both countries.

Pending resolution of these matters, we have paid $3.7 million of the assessed amount and have arranged for $2.9 million in bank guarantees in favor of the Indian government in respect of a portion of the balance. The bank guarantees are supported by letters of credit issued in the United States and are reflected on our condensed consolidated balance sheet as restricted cash

We expect the ultimate resolution of these matters will not exceed the tax contingency reserves we have established for them.

Certain Accruals

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

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

8. Stock-Based Compensation Plans.

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

Stock-based compensation expense for the three-month periods ended March 31, 2008 and March 31, 2007 is as follows:

	Three Months Ended March 31,	
	2008	2007
Services	$ 611	$ 589
Maintenance	69	73
Sales and marketing	626	1,098
Research and development	756	891
General and administrative	841	1,528
Total	$ 2,903	$ 4,179

Included in stock-based compensation expense was restricted stock expense of $0.9 million and $1.0 million for the three-month periods ended March 31, 2008 and March 31, 2007, respectively.

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

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

	Stock Options Three Months Ended March 31,		ESPP Three Months Ended March 31,	
	2008	2007	2008	2007
Expected term (years)	4	4	*	0.5
Volatility factor	67%	82%	*	31%
Risk-free interest rate	2.62%	4.69%	*	4.68%
Dividend yield.	0%	0%	*	0%

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

9. Income Taxes

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

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We recognized income tax expense of approximately $1.1 million for the three months ended March 31, 2008 and $0.9 million for the three months ended March 31, 2007, representing effective income tax rates of 25.0% and 16.7%, respectively. Factors that affect income tax expense include, among others, changes in our valuation allowance, the effect of foreign operations, state income taxes (net of federal income tax benefits), non-deductible meals and entertainment, research and development tax credits, and the effect of foreign withholding taxes. Income tax expense included the effect of foreign withholding taxes of $0.5 million for the three months ended March 31, 2008 and $0.3 million for the three months ended March 31, 2007. Foreign withholding taxes are recorded when incurred, normally upon receipt of payments from certain non-US customers, and affect our income tax expense due to our domestic valuation allowance. Accordingly, our effective income tax rates during the three months ended March 31, 2008 and March 31, 2007 differ from the U.S. statutory rate primarily due to changes in our valuation allowance.

Estimated potential interest and penalties related to our unrecognized tax benefits within our global organization is recorded in income tax expense and totaled approximately $0.2 million for the three months ended March 31, 2008. Accrued interest and penalties were approximately $1.9 million at March 31, 2008. Management believes recording interest and penalties related to income tax uncertainties as income tax expense better reflects income tax expense and provides better information reporting.

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

We are subject to potential change by various tax jurisdictions in the inter-company pricing at which we have conducted business within our global related group of companies. Additional tax examinations may be opened or existing examinations may be resolved within the next 12 months. We closely monitor developments in this area and make changes as necessary in the accruals we have made for what we believe will be the ultimate outcome of any tax adjustments. It is not possible to reasonably estimate a range of potential increases or decreases of such changes.

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

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

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

Certain large stockholders have called for the public sale of the Company, and the Board of Directors of i2 has formed a Strategic Review Committee in connection with an ongoing review of i2 s management, operations

and strategy. Continued pressure by activist stockholders for the sale of the Company and/or the Company s ongoing exploration of strategic options, could create distractions for our management, sales staff and other employees and create uncertainty in existing and potential customers regarding our ability to meet our contractual obligations. Such distractions and uncertainty could harm our business, results of operations, cash flow and financial condition.

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

Effective July 30, 2007, our Chief Executive Officer resigned and we appointed an interim CEO. Failure to appoint a permanent CEO with the appropriate level of expertise could harm our business, results of operations, cash flow and financial condition.

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

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

Holders of our 5% senior convertible notes may convert the senior convertible notes upon the occurrence of certain events prior to May 15, 2010, and at any time on or after May 15, 2010, and have the right to require us to repurchase all or any portion of the senior convertible notes on November 15, 2010. There is no assurance that at the time of conversion or required repurchase, we will have the ability to satisfy the cash portion of any such conversion obligation or to make any such required repurchase.

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

The indenture governing our 5% senior convertible notes contains a debt incurrence covenant that places restrictions on the amount and type of additional indebtedness that we can incur. The debt incurrence restrictions imposed by the indenture could restrict or impede our ability to incur additional debt, which in turn could impair our ability to support our operations, adversely affect our liquidity and threaten our ability to repay our debts when they become due.

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

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

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

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

We face other risks indicated in Item 1A, Risk Factors, in our 2007 Annual Report on Form 10-K.
Many of these risks and uncertainties are beyond our control and, in many cases, we cannot accurately predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward-looking statements. When used in this document, the words believes, plans, expects, anticipates, intends, continue, may, will, should or the negative of such terms and similar express relate to us, our customers or our management are intended to identify forward-looking statements.

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

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Overview

Nature of Operations

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

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

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

Collaboration interoperability with supply chain partners and elimination of functional silos

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

Revenue Categories

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

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

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

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

Contract Revenue. As explained in more detail below, we do not consider contract revenue to be an indication of the current performance of our business. We collected the cash associated with contract revenue in prior periods and recorded the revenue as we fulfilled the contract obligations. As of March 31, 2008, our deferred contract revenue balance was zero.

Transition to a Solutions-Oriented Provider

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

greater level of services revenue versus software solutions revenue.

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

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

Key Performance Indicators and Operating Metrics

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

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

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

Total bookings for the three months ended March 31, 2008 and March 31, 2007 were $66.4 million and $61.5 million, respectively, an increase of 8.0% or $4.9 million.

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

Revenue. In our internal analysis of revenue, we focus on operating revenue (total revenue excluding contract revenue). Contract revenue is the result of the recognition of certain revenue that was carried on our balance sheet as a portion of deferred revenue and was a result of our 2003 financial restatement. Inclusion of contract revenue in the evaluation of our performance would skew comparisons of our periodic results since recognition of that revenue was based on fulfillment of contractual obligations which often required only minimal cash outlays and generally did not

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involve any significant activity in the period of recognition. Additionally, the cash associated with contract revenue had been collected in prior periods. All remaining contract revenue was recognized by March 31, 2007, so it is not relevant to our on-going operations and we exclude it from comparisons to prior period results.

For the three months ended March 31, 2008 operating revenue (total revenue excluding contract revenue) was down 0.9% or $0.6 million compared to the same period in 2007. Our annual operating revenue was approximately $257.9 million, $275.6 million and $294.3 million in 2007, 2006 and 2005, respectively. These declines represent annual declines of 6% for each period. As part of our transition to being a solutions-oriented provider, we have experienced a shift to a greater level of services revenue, which has partially offset our decline in software solutions and maintenance revenue.

Software solutions revenue declined 13% or $1.8 million for the three months ended March 31, 2008 compared to the same period in 2007. The primary reason for the decline is that during the first quarter of 2008 we recognized approximately $0.2 million from current period bookings versus approximately $1.8 million in the same period of 2007. In the first quarters of 2008 and 2007 our total software solutions bookings were lower than our software solutions revenue, thereby reducing our backlog going forward, as indicated in the table below. This has contributed to lower software solutions revenue in the three months ended March 31, 2008 versus the comparable periods in 2007. This trend will continue unless we experience growth in software solutions bookings in the next several quarters.

	Three Months Ended		Twelve Months Ended	
	March 31, 2008	**March 31, 2007**	**December 31, 2007**	**December 31, 2006**
Additions to Backlog:				
Software Solutions Bookings	$ 8,611	$ 7,682	$ 54,556	$ 49,540
Platform Technology/Source Code Bookings			500	10,480
Net Additions to Backlog	8,611	7,682	55,056	60,020
Less: Software Solutions Revenue Recognized	11,672	13,433	47,721	76,243
Increase/(Decrease) in Backlog	$ (3,061)	$ (5,751)	$ 7,335	$ (16,223)

Services revenue increased 1% or $0.1 million for the three months ended March 31, 2008 when compared to the same period in 2007. We expect services revenue to continue to be a larger percentage of our total revenue than it has been in previous years. Services revenue generally earns a lower margin than our other revenue types, although we have experienced higher margins in our services business in 2008 compared to 2007 due to leverage and efficiency from the services platform.

Maintenance revenue increased 5% or $1.1 million for the three months ended March 31, 2008 when compared to the same period in 2007. This increase was driven, primarily, from the incremental maintenance contracts signed during the past four quarters and the limited negative impact from contract renegotiations. Increases in maintenance revenue occur when customers renew their maintenance agreements at higher rates or when we sign new customers to maintenance agreements.

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

Our operating cash flow for the three months ended March 31, 2008 was approximately $8.9 million compared to negative cash flow from operations of $6.6 million in the three months ended March 31, 2007. The main components of our cash flow improvement are as follows: Higher cash collections of approximately $7.0 million, which includes a net tax refund from an international tax authority of approximately $1.0 million for previously paid taxes, and lower cash disbursements of approximately $8.0 million, consisting of lower annual bonus payments and lower non-operating legal payments.

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Our working capital was approximately $73.8 million at March 31, 2008, an improvement from the $63.6 million balance at December 31, 2007 and the $17.4 million at December 31, 2006. The chart below shows the components of our working capital and the dollar changes from period to period for 2006 and 2007 and the first quarter of 2008.

	December 31, 2006	December 31, 2007	March 31, 2008
Total cash	$ 114,045	$ 129,434	$ 138,862
Accounts receivable	25,677	25,108	27,446
Other current assets, net	9,231	7,746	10,797
Total current assets	148,953	162,288	177,105
Current liabilities	57,538	37,008	34,314
Deferred revenue	74,047	61,715	68,986
Current portion long-term debt			
Total current liabilities	131,585	98,723	103,300
Working capital	$ 17,368	$ 63,565	$ 73,805
Dollar change from previous period	$ 51,704	$ 46,197	$ 10,240
Net cash	$ 30,223	$ 45,454	$ 54,252

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

Application of Critical Accounting Policies and Accounting Estimates

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

Analysis of Financial Results Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007.

Summary of First Quarter 2008 Results

Total revenue decreased $3.0 million from the same period in 2007

Total costs and expenses decreased $1.6 million from the same period in 2007

Net income applicable to common stockholders was $2.6 million compared to $3.5 million in the same period in 2007

Diluted earnings per share were $0.10 for the first quarter of 2008 and $0.13 for the first quarter of 2007

Cash flow from operations was $8.9 million versus negative cash flow from operations of $6.6 million in the 2007 period

Total bookings were $66.4 million

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Revenues

The following table sets forth revenues and the percentages of total revenues of selected items reflected in our condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2008 and March 31, 2007. The period-to-period comparisons of financial results are not necessarily indicative of future results.

	Three Months Ended March 31, 2008	Percent of Revenue	Three Months Ended March 31, 2007	Percent of Revenue	Change 2008 versus 2007 Three months ended March 31 $ Change	% Change
SOP 97-2 recognition	$ 376	1%	$ 2,605	4%	$ (2,229)	-86%
SOP 81-1 recognition	5,068	8%	4,905	7%	163	3%
Recurring items	6,228	10%	5,923	9%	305	5%
Total Software solutions	11,672	19%	13,433	20%	(1,761)	-13%
Services	28,842	46%	28,695	44%	147	1%
Maintenance	22,063	35%	21,009	32%	1,054	5%
Contract			2,450	4%	(2,450)	-100%
Total revenues	$ 62,577	100%	$ 65,587	100%	$ (3,010)	-5%

Software Solutions Revenue. Total software solutions revenue decreased 13% or $1.8 million for the three months ended March 31, 2008 compared to the same period in 2007. The components of the changes in software solutions revenue are explained below.

The primary cause of the decline in revenue recognized under SOP 97-2 for the three months ended March 31, 2008 is due to declines in the number and size of deals being recognized from current quarter bookings as well as a decrease in the number and size of deals recognized from backlog. During the three months ended March 31, 2008 we recognized revenue related to seven contracts at an average of $0.1 million per contract compared to 17 contracts at an average of $0.2 million per contract in the comparable period of 2007.

Revenue recognized under SOP 81-1 is dependent upon the amount of work performed and milestones met during the applicable period on projects booked in both current and prior periods. During the three months ended March 31, 2008 we recognized revenue related to 16 projects at an average of $0.3 million per project compared to 19 projects at an average of $0.3 million in the comparable period of 2007.

Revenue from recurring items was relatively unchanged, increasing $0.3 million for the three months ended March 31, 2008 when compared to the same period in 2006.

Services Revenue. Services revenue increased 1% or $0.1 million for the three months ended March 31, 2008 compared to the same period in 2007 primarily as a result of an 8% increase in the average bill rate offset by a 5.2% decline in overall billable hours.

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

- the number, value and rate per hour of services transactions booked during the current and preceding periods,
- the number and availability of service resources actively engaged on billable projects,
- the timing of milestone acceptance for engagements contractually requiring customer sign-off, and

- the timing of cash payments when collectibility is uncertain

Maintenance Revenue. Maintenance revenue increased 5% or $1.1 million for the three months ended March 31, 2008 compared to the same period in 2007. This increase was driven, primarily, from the incremental maintenance contracts signed during the past four quarters and the limited negative impact from contract renegotiations.

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

- initial maintenance from new Software solutions bookings,

- the timing of negotiating and signing maintenance renewals,

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

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

customers that do not renew their maintenance agreements.

International Revenue. Our international revenues included in the categories discussed above are primarily generated from customers located in Europe, Asia, Latin America and Canada. International revenue totaled $24.2 million, or 39% of total revenue, in the three months ended March 31, 2008 compared to $27.5 million, or 42% of total revenue, in the same period in 2007. The reduction in international revenue is primarily related to the decrease in contract revenue.

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

Impact of Indian Rupee on Expenses

During the three months ended March 31, 2008 we experienced margin compression compared to the three months ended March 31, 2007, as a result of appreciation in the Indian rupee. Our rupee-denominated expenses increased modestly during 2008, but this translated into an 11% increase in our dollar-denominated expenses in our India operations. If we assume the same currency exchange rate for our rupee expenditures in 2008 as we experienced in 2007, the impact of rupee appreciation was approximately $0.7 million for the three months ended March 31, 2008.

Cost of Revenues

The following table sets forth cost of revenues and the gross margins of selected items reflected in our condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2008 and March 31, 2007. The period-to period comparisons of financial results are not necessarily indicative of future results.

	Three Months Ended March 31, 2008	Gross Margin	Three Months Ended March 31, 2007	Gross Margin	Change 2008 versus 2007 Three months ended March 31 $ Change	% Change
Software solutions	$ 2,615	78%	$ 2,474	82%	$ 141	6%
Services	22,471	22%	23,843	17%	(1,372)	-6%
Maintenance	2,843	87%	2,937	86%	(94)	-3%
Amortization of acquired technology.	4		6		(2)	-33%
Total cost of revenues	$ 27,933		$ 29,260		$ (1,327)	-5%

Cost of Software Solutions. These costs consist of:

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

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

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

- The cost of user product documentation

- The cost of delivery of software

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

Cost of software solutions increased 6% or $0.1 million for the three months ended March 31, 2008 compared to the same period in 2007 primarily because of an increase in the number of hours worked on projects requiring essential services.

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During the three months ended March 31, 2008 and March 31, 2007, the costs attributable to the performance of essential services related to SOP 81-1 was $1.9 million and $0.8 million, respectively. The remaining costs of software solutions are not directly attributable to specific arrangements, so we do not believe there is a reasonable basis to calculate the cost of each type of software solutions transaction or the resulting contribution margin.

Cost of Services. These costs consist of expenses associated with the delivery of non-essential services, such as implementation, integration, process consulting and training. Cost of services decreased 6% of $1.4 million for the three months ended March 31, 2008 compared to the same period in 2007. This decrease was primarily related to a decrease in employee related costs of $1.3 million and contractor costs of $0.8 million. The decrease in employee related costs was driven by a shift of approximately 28 associates from the services organization to the sales organization. This shift was done as part of our refocus in late 2007 to a sales approach centered on customer business units. These decreases were partially offset by an increase in travel and entertainment of $0.4 million.

Cost of Maintenance. These costs consist of expenses including support services such as telephone support and unspecified upgrades/enhancements provided on a when-and-if-available basis. Cost of maintenance decreased 3% or $0.1 million for the three months ended March 31, 2008 compared to the same period in 2007. This decrease was primarily related to a decrease in travel and entertainment expense.

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

Operating Expenses

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

	Three Months Ended March 31, 2008	Percent of Revenue	Three Months Ended March 31, 2007	Percent of Revenue	Change 2008 versus 2007 Three months ended March 31 $ Change	% Change
Sales and marketing	$ 11,950	19%	$ 11,698	18%	$ 252	2%
Research and development	7,633	12%	8,805	13%	(1,172)	-13%
General and administrative	10,964	18%	10,378	16%	586	6%
Amortization of intangibles	25		3		22	733%
Restructuring charges and adjustments			(25)		25	-100%
Total operating expenses	$ 30,572		$ 30,859		$ (287)	

Sales and Marketing Expense. These expenses consist primarily of personnel costs, commissions, office facilities, travel and promotional events such as trade shows, seminars, technical conferences, advertising and public relations programs. For the three months ended March 31, 2008, the increase in sales and marketing expense included an increase in employee related costs of $1.0 million (including $1.1 million of employee commissions expense and $0.5 million of bonus expense, offset by a decrease in stock compensation expense of $0.5 and a decrease in trade show expense of $0.3 million and a decrease in payroll expense of $0.2 million). The increase in employee related costs is a result of the aforementioned shift of associates from the services organization to the sales organization.

Research and Development Expense. These expenses consist of costs related to software development and product enhancements to existing software. Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the establishment of technological feasibility of our products and general release of such software has substantially coincided. As a result, software development costs qualifying for capitalization have been insignificant; therefore, we have not capitalized any software development costs other than those recorded in connection

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with our acquisitions. The primary component of research and development expense is employee-related cost. For the three months ended March 31, 2008, our average research and development headcount decreased 17% compared to the same period in 2007, resulting in a $0.6 million decrease in employee-related costs and contributed to a 13% or $1.2 million decrease in research and development expense.

General and Administrative Expense. These expenses include the personnel and other costs of our finance, legal, accounting, human resources, information systems and executive departments, as well as external legal costs. General and administrative expense for the three months ended March 31, 2008 increased 6% or $0.6 million compared to the same period in 2007 primarily due to an increase in legal expense of $1.2 million, related to increased litigation costs, and an increase in other tax expense of $0.6 million (primarily due to a reduction of non-income taxes payable to a foreign tax authority recorded in the first quarter of 2007), partially offset by a decrease in employee related expense of $1.0 million and a decrease in equipment expense of $0.3 million. The decrease in employee related expenses is reflective of a decrease of 21% in average headcount when compared to the same period in 2007.

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

Restructuring Expense. During the three months ended March 31, 2008 we had no restructuring expense and in the three months ended March 31, 2007 we had adjustments to our restructuring accrual.

Non-Operating Income (Expense), Net

For the three months ended March 31, 2008 and March 31, 2007, non-operating income (expense), net, was as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Change 2008 versus 2007 Three months ended March 31	
			$ Change	**% Change**
Interest income	$ 1,194	$ 1,346	(152)	-11%
Interest expense	(1,238)	(1,240)	(2)	
Foreign currency hedge and transaction losses, net	(141)	(117)	24	20%
Other income (expense), net	619	(321)	940	293%
Total non-operating income (expense), net	$ 434	$ (332)	766	231%

Total non-operating income (expense), net, increased 231% or $0.8 million for the three months ended March 31, 2008 as compared to the same period in 2007.

Interest income decreased in the three-month period ended March 31, 2008 compared to the same period in 2007 due to lower yields on average cash balances, partially offset by higher average cash balances. For the three months ended March 31, 2008, average cash balances increased 25%. The average rate earned for the three months ended March 31, 2008 was 3.21%, and for March 31, 2007 was 4.67%.

The change in other income (expense), net reflects a sales tax refund of approximately $0.4 million received in the first quarter of 2007 and interest refund of $0.7 million received in the first quarter of 2008.

Interest expense was flat for the three months ended March 31, 2008 as compared to the same period in 2007.

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

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Provision for Income Taxes

We recognized income tax expense of approximately $1.1 million for the three months ended March 31, 2008 and $0.9 million for the three months ended March 31, 2007, representing effective income tax rates of 25.0% and 16.7%, respectively. Factors that affect income tax expense include, among others, changes in our valuation allowance, the effect of foreign operations, state income taxes (net of federal income tax benefits), non-deductible meals and entertainment, research and development tax credits, and the effect of foreign withholding taxes. Income tax expense included the effect of foreign withholding taxes of $0.5 million for the three months ended March 31, 2008 and $0.3 million for the three months ended March 31, 2007. Foreign withholding taxes are recorded when incurred, normally upon receipt of payments from certain non-US customers, and affect our income tax expense due to our domestic valuation allowance. Accordingly, our effective income tax rates during the three months ended March 31, 2008 and March 31, 2007 differ from the U.S. statutory rate primarily due to changes in our valuation allowance. Our effective income tax rate for the three months ended March 31, 2008 includes the effect of a refund of approximately $1.0 million related to our international operations.

Contractual Obligations

During the three-month period ended March 31, 2008, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in our 2007 Annual Report on Form 10-K.

Off-Balance-Sheet Arrangements

As of March 31, 2008, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Liquidity and Capital Resources

Our working capital was $73.8 million at March 31, 2008 compared to $63.6 million at December 31, 2007, an improvement of $10.2 million or 16.0%. The improvement resulted from a $14.8 million increase in current assets (comprised of an increase of $9.4 million in cash, including restricted cash, an increase of $3.1 million in other current assets and an increase of $2.3 million in accounts receivable). This increase in current assets was partially offset by an increase in current liabilities of $4.6 million (comprised of an increase in deferred revenue of $7.3 million, an increase in accrued liabilities of $1.8 million, and an increase in accounts payable of $0.6 million, partially offset by a decrease accrued compensation and related expenses of $5.2 million).

Our working capital balance at March 31, 2008 and December 31, 2007 included deferred revenue. At March 31, 2008 and December 31, 2007, we had approximately $69.0 million and $61.7 million, respectively, of deferred revenue recorded as a current liability, representing pre-paid revenue for all of our different revenue categories. Our deferred revenue balance includes a margin to be earned when it is recognized, so the conversion of the liability to revenue will require cash outflows that are less than the amount of the liability.

Our cash and cash equivalents increased $10.6 million during the three months ended March 31, 2007. This increase is primarily the result of $8.9 million of cash provided by operating activities and $1.0 million of cash provided by investing activities.

During the three months ended March 31, 2008, cash provided by operating activities was approximately $8.9 million. Management tracks projected cash collections and projected cash outflows to monitor short-term liquidity requirements and to make decisions about future resource allocations and take actions to adjust our expenses with the goal of remaining cash flow positive from operations on an annual basis.

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Cash provided from investing activities was approximately $1.0 million during the three months ended March 31, 2008. We had a decrease in restricted cash of approximately $1.2 million partially offset by purchases of property, plant and equipment of $0.2 million.

During the three months ended March 31, 2008, cash provided by financing activities was minimal and related to proceeds for the issuance of common stock related to the exercise of stock options.

At March 31, 2008, we had a net cash balance of $54.3 million compared to a net cash balance of $45.0 million at December 31, 2007. We define net cash as the sum of our total cash and cash equivalents and restricted cash minus our total short-term and long-term debt.

We maintain a $15.0 million letter of credit line. Under this line, we are required to maintain restricted cash (in an amount equal to 125% of the outstanding letters of credit) in a depository account maintained by the lender to secure letters of credit issued in connection with the line. The line has no financial covenants and expires on December 15, 2008. As of March 31, 2008, $4.9 million in letters of credit were outstanding under this line and $6.2 million in restricted cash was pledged as collateral.

We had $86.3 million in face value of our 5% senior convertible notes outstanding at March 31, 2008. Holders of our senior convertible notes have the right to require us to repurchase all or any portion of the senior convertible notes on November 15, 2010 and may convert the senior convertible notes at any time on or after May 15, 2010. In addition, holders of the senior convertible notes may convert the senior convertible notes prior to May 15, 2010 upon the occurrence of any of the following events:

- if the senior convertible notes have been called for redemption;
- upon certain dividends or distributions to all holders of our common stock;
- upon the occurrence of specified corporate transactions constituting a fundamental change (the occurrence of a change in control or a termination of trading, each as defined in the indenture governing our senior convertible notes);
- if the average of the trading prices for the senior convertible notes during any five consecutive trading-day period is less than 98% of the average of the conversion values for the senior convertible notes (the product of the last reported sale price of our common stock and the conversion rate) during that period; or
- at any time after May 15, 2008 if the closing sale price of our common stock is equal to or greater than $23.21 for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the immediately preceding fiscal quarter.

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

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

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Sensitivity to Market Risks

Foreign Currency Risk. Revenues originating outside of the United States, a portion of which are denominated in foreign currencies, totaled 39% and 42% for the three months ended March 31, 2008 and March 31, 2007, respectively,. Since we conduct business on a global basis in various foreign currencies, we are exposed to movements in foreign currency exchange rates. We utilize a foreign currency-hedging program that uses foreign currency forward exchange contracts to hedge various nonfunctional currency exposures. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts. Our hedging activities cannot completely protect us from the risk of foreign currency losses as our currency exposures are constantly changing and not all of these exposures are hedged. A large portion of our employee base is located in India, and as a result, a significant portion of our fixed expenses are denominated in the Indian Rupee (INR). Therefore, as the INR exchange rate fluctuates against the U.S. Dollar (USD), the resulting impact on our consolidated USD expenses can be significant.

Interest Rate Risk. Our investments are subject to interest rate risk. Interest rate risk is the risk that our financial condition and results of operations could be adversely affected due to movements in interest rates. We typically invest our cash in a variety of interest-earning financial instruments, including bank time deposits, money market funds and taxable and tax-exempt variable-rate and fixed-rate obligations of corporations and federal, state and local governmental entities and agencies. These investments are primarily denominated in U.S. Dollars. Cash balances in foreign currencies overseas are primarily operating balances and are generally invested in short-term time deposits of the local operating bank. Due to the demand nature of our money market funds and the short-term nature of our time deposits and debt securities portfolio, these assets are sensitive to changes in interest rates. The Federal Reserve Board influences the general direction of market interest rates in the U.S. where the majority of our cash and investments are held. As of March 31, 2008 and 2007, the weighted-average yield on cash and cash equivalent balances was 3.21% and 4.67%, respectively. If overall interest rates fell by 100 basis points in the fourth quarter of 2007, our interest income would decline approximately $0.3 million for the quarter, assuming cash and cash equivalent levels consistent with March 31, 2008 levels.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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ITEM 4. CONTROLS AND PROCEDURES

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

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

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

During the quarter ended March 31, 2008, we did not timely file an Item 5.02 Form 8-K related to the resignation of an officer of the Company. We will recommend enhanced disclosure control procedures to our audit committee during our quarter ending June 30, 2008. Additionally, during the three months ended March 31, 2008, we determined that certain executive non-Company expenses were charged to a company-paid corporate credit card, representing a violation of Company policy. As such, subsequent to March 31, 2008 we have implemented internal control enhancements including discontinuance of company-paid credit cards for executives and associates. We have re-evaluated our internal controls in light of these matters and concluded they did not occur as a result of a material weakness.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed under the heading Risk Factors in Item 1A of our 2007 Annual Report on Form 10-K.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS.

(a) Exhibits

Exhibit Number	Description
10.1	Executive Retention Agreements between i2 and certain of its executive officers, (filed as exhibit 10.1 to the 8-K filed by i2 on February 29, 2008).
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of Pallab K. Chatterjee, Interim Chief Executive Officer (Principal Executive Officer) of i2.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of Michael J. Berry, Executive Vice President, Finance and Accounting, and Chief Financial Officer (Principal

Accounting and Financial Officer) of i2.

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

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SIGNATURES

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

i2 TECHNOLOGIES, INC.

May 12, 2008

By: /s/ Michael J. Berry
Michael J. Berry
Executive Vice President, Finance and

Accounting, and Chief Financial Officer
(On behalf of the Registrant and

as Principal Accounting and Financial Officer)

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