

MANUGISTICS GROUP INC  
Form 10-K  
May 15, 2006

## U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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### FORM 10-K

(Mark One)

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

For the fiscal year ended February 28, 2006

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

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## MANUGISTICS GROUP, INC.

(Exact name of Registrant as specified in its charter)

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

**52-1469385**  
(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**

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(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark 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.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of August 31, 2005, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$124.7 million based on the closing price reported on the Nasdaq National Market. As of April 30, 2006, the number of shares outstanding of the Registrant's common stock was approximately 84.1 million, based on information provided by the Registrant's transfer agent.

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## PART I

### Item 1. BUSINESS.

The disclosures set forth in this Annual Report on Form 10-K are qualified by the sections captioned "Risk Factors" in Item 1A of this Annual Report on Form 10-K and "Forward-Looking Statements" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K, and other cautionary statements set forth elsewhere in this Annual Report on Form 10-K.

#### Overview:

We are a leading global provider of supply chain management and demand and revenue management software products and services. We combine these products and services to deliver solutions that address specific business needs of our clients. Our approach to client delivery is to advise clients on how best to use our solutions and other technologies across their entire demand and supply chains and in their revenue management practices to enable informed, responsive, rapid, and cost and price effective decision-making throughout their own enterprise and across their extended trading network by creating a fully synchronized supply chain.

We offer the following solution sets:

- Demand Management and Pricing;
- Supply Management;
- Transportation and Logistics;
- Collaboration and Visibility;
- Contract Materials Resource Planning (MRP) & Maintenance, Repair and Overhaul (MRO);
- Performance Management; and
- Revenue Management.

These solutions include the products described under "Solutions" below.

Our solutions are designed to increase revenue and profits for our clients by enabling them to improve customer service, reduce stock-outs, lower costs, source more efficiently, reduce inventory, optimize price, collaborate with suppliers and customers, coordinate supply and demand, manage transportation and logistics operations and improve revenue management practices. A key element of our market strategy is to offer implementation, consulting, training and support services to our clients and prospects as an integral part of our solutions.

Our solutions are built and reliant on our internal WebWORKS platform. WebWORKS is based on the Java 2 Platform and J2EE industry standards.

We have organized our sales and marketing operations under four primary strategic business units (SBU's): Retail, Consumer Goods (CG), Government, Aerospace & Defense and Revenue Management (Travel, Transportation & Hospitality). We believe this operational structure allows us to use our capabilities and resources more effectively and realize opportunities in our markets.

We market our solutions to companies primarily throughout North, South and Central America, Europe and the Asia-Pacific region. Among others, our clients include many of the world's leading Consumer Goods, Retail and Travel, Transportation & Hospitality organizations, and the U.S. Government, including Limited Brands, Coca Cola Bottling Co., Kraft Foods, Caesars Entertainment,

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Great North Eastern Railway, DHL and the Defense Logistics Agency (DLA). No individual client accounted for more than 10% of annual revenue for the three years ended February 28, 2006.

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 for resale 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, all of which have been asset acquisitions, is as follows:

Company	Date	Description
Digital Freight Exchange, Inc. (DFE)	May 2002	Collaborative transportation logistics services
Western Data Systems of Nevada, Inc. (WDS)	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

### Merger Agreement and Voting Agreements:

On April 24, 2006, we entered into a definitive Agreement and Plan of Merger (the **Merger Agreement**) with JDA Software Group, Inc., a Delaware corporation (**JDA**), and Stanley Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of JDA (the **Merger Sub**). Under the Merger Agreement, the Merger Sub will be merged with and into the Company (the **Merger**), with the Company continuing after the Merger as a wholly-owned subsidiary of JDA. At the effective time of the Merger, each issued and outstanding share of the Company's Common Stock, par value \$0.002 per share (the **Company Common Stock**), will be converted into the right to receive \$2.50 in cash.

The Merger Agreement has been approved by the Board of Directors (the **Board**) of the Company. The Board has received an opinion from Lehman Brothers, Inc. that the consideration to be offered to the Company's stockholders in the Merger is fair from a financial point of view to such stockholders. The transactions contemplated by the Merger Agreement are subject to approval by the holders of a majority of the issued and outstanding shares of Company Common Stock. The transactions contemplated by the Merger Agreement also are subject to the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and certain other closing conditions. The Merger Agreement provides for a termination fee of up to \$9.75 million, which is payable by the Company under certain circumstances.

The Merger Agreement contains representations and warranties made by us to JDA and the Merger Sub and representations and warranties made by JDA and the Merger Sub to us. The statements embodied in those representations and warranties were made solely for purposes of the Merger Agreement between JDA and the Merger Sub, on the one hand, and us, on the other hand. Moreover, some of those representations and warranties were made as of a specified date or may have been used for the purpose of allocating risk between the parties to the Merger Agreement.

The foregoing description of the Merger Agreement is not complete and is qualified in its entirety by reference to the Merger Agreement, which is filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated April 25, 2006 and is incorporated herein by reference.

In connection with the execution of the Merger Agreement, the Company and certain stockholders, officers and directors of the Company entered into voting agreements (the "Voting Agreements") with JDA dated April 24, 2006, whereby such stockholders will vote (or cause to be voted) in person or by proxy all shares of Company Common Stock held by them (i) in favor of the adoption of the Merger Agreement and approval of the transactions contemplated thereby, (ii) against any proposal made in opposition to or competition with the consummation of the Merger and the Merger Agreement, (iii) against any proposal that would reasonably lead to or result in the conditions of JDA's or Merger Subsidiary's obligations under the Merger Agreement not being fulfilled, (iv) against any takeover proposal from any party other than JDA or an affiliate of JDA, and (v) against the election of a group of individuals to replace a majority or more of the individuals presently on the Company's Board. The stockholders that signed the Voting Agreements beneficially own approximately 24% of our outstanding shares of common stock as of April 24, 2006 and include certain of our officers and directors and entities affiliated with them. If the Merger Agreement is terminated for any reason, the Voting Agreements will also terminate. The foregoing description of the Voting Agreements is not complete and is qualified in its entirety by reference to the form of Voting Agreement, which is filed as Exhibit 99.3 to the Company's Current Report on Form 8-K dated April 25, 2006 and is incorporated herein by reference.

**Industry Background:**

Increasing global competition, shorter product life cycles, more demanding customers and higher standards are forcing businesses to be more responsive to customer demand, bring their products to market more quickly and efficiently, provide improved levels of customer service, and improve margins by lowering costs to market and improving pricing decisions. To meet these challenges, companies are demanding greater visibility of operations throughout their own organization and their extended trading networks and the capability to make and execute decisions in response to rapidly changing conditions of demand and supply.

Effective demand and supply chain management solutions allow companies to share information throughout their own organizations and extended trading networks and to monitor, measure and improve their business processes over time. They also enable informed, responsive and rapid decision-making that is cost and price effective.

We believe that traditional enterprise application systems, such as enterprise resource planning (ERP) systems, do not provide the visibility, flexibility, responsiveness or efficiencies required to meet effectively the demands of today's competitive environment. We believe that companies need to pursue the integration of the supply-side and demand-side of their businesses to lower operational costs and increase the value derived from their processes and technology systems.

To meet these challenges, many companies are seeking information technology solutions based on open standards that operate in a fast, effective and secure environment and can be integrated with their existing systems, as well as those of the companies in their trading networks. They require that these solutions provide quick realization of benefits and rapid return on their systems investments.

Competition in these markets includes enterprise application software companies, such as traditional ERP companies and other transaction-based application software companies, supply chain management companies, pricing and revenue management companies and other information technology services companies, in addition to software solutions custom developed within the user company.

Information technology companies are engaging offshore (global) workforces on an increasing basis to take advantage of technical expertise and lower personnel costs in countries such as India and China. Companies may utilize their own or out-sourced operations to provide development, consulting and implementation services.

**Strategy:**

Our objective is to enhance our position as a leading global provider of supply chain management and demand and revenue management solutions. Our strategy to achieve our objective includes the following elements:

**FOCUS ON KEY MARKETS** We have organized our sales and marketing operations under four strategic business units: Retail, Consumer Goods (CG), Government, Aerospace & Defense and Revenue Management (Travel, Transportation & Hospitality). We believe our operational structure allows us to efficiently use our capabilities and resources to realize opportunities in our markets.

**FOCUS AND DIFFERENTIATE OUR SOLUTIONS** We have narrowed the scope of our solution offerings to our core products and will continue to enhance the capabilities of these solutions through additional industry and client-specific functionality, to help our clients solve a broader range of evolving business challenges and to improve operational and business processes within and among companies. We believe there is an increasing market for solutions that integrate supply chain management with demand and revenue management solutions, and that our ability to provide these integrated solutions differentiates us from our competitors. We also intend to make our solutions easier to implement and integrate.

**PROVIDE ADVANCED TECHNOLOGICAL INNOVATION** We have extensive experience and domain expertise and have committed substantial resources for research and development, which we use to develop advanced technological software solutions to offer our clients and prospects. We opened our own development center in Hyderabad, India during the fourth quarter of fiscal 2005 to expand our product development capabilities and take advantage of lower personnel costs. Our development center has worked closely with our core product development group at our headquarters in Rockville, MD. See Product Development.

**PROVIDE COMPREHENSIVE SERVICES** As a key element of our market strategy, we offer implementation, consulting, training and support services to our clients and prospects, directly and through third parties.

**DEVELOP STRATEGIC ALLIANCES AND NEW BUSINESS RELATIONSHIPS** We combine our solutions with the competencies of third parties which complement ours, such as leading consulting firms and technology providers. This strategy permits us to offer our clients solutions that can better meet their needs. We also intend to provide more focused sales and marketing efforts to small and medium-sized businesses in Europe and the Asia-Pacific region through third-party marketing and reseller agreements.

**Solutions:**

Manugistics solutions are configured sets of our software products that address the specific demand and supply chain business processes and revenue management practices that our clients want to improve. These solutions may also include consulting, implementation, training and client support services. Our solutions are designed to meet the demand and supply chain and revenue management needs of our clients helping them to increase revenue and profits by enabling them to improve customer service, reduce stock outs, lower costs, source more efficiently, reduce inventory, optimize price, collaborate with suppliers and customers, coordinate supply and demand, manage transportation and logistics operations and improve revenue management practices. Our solutions are built on and rely on our internal WebWORKS platform. WebWORKS is based on the Java 2 Platform and J2EE industry standards.

**Demand Management and Pricing** Our Demand Management and Pricing solutions are designed to provide integrated price optimization and demand planning capabilities that enable clients to create business strategies such as consensus demand planning, optimal pricing strategies, targeted promotion

**campaigns and markdown planning to efficiently predict, respond to and shape demand. Demand Management and Pricing solutions include: NetWORKS Demand , NetWORKS Precision Pricing , NetWORKS Promotions , NetWORKS Markdowns and NetWORKS Target Pricing .**

**Supply Management** **Our** Supply Management solutions are designed to create an optimal supply network and set sourcing policies to generate synchronized inventory, distribution, production and material plans for our clients and their supply chain partners. Our clients use our Supply Management solutions to manage, optimize and synchronize the many facets of their supply chains from collaboration with trading partners on production plans, purchasing, logistics and fill rates to alignment and execution of a sales and operations planning process to meet corporate objectives and to meet customer demand while reducing inventory and cost. Supply Management solutions include: NetWORKS Fulfillment , NetWORKS Strategy , NetWORKS Supply , NetWORKS Master Planning , NetWORKS Order Promising , NetWORKS Sequencing and NetWORKS Inventory Policy Optimization .

**Transportation and Logistics Management** **Our** Transportation and Logistics Management solutions are designed to help global and other shippers, consignees, carriers, trading partners and logistics service providers effectively manage the complexities of transportation and logistics, including multiple modes of transport such as by air, rail, sea and road. Our capabilities cover the entire spectrum of the logistics process from strategic logistics sourcing, planning and optimization, execution and shipment tracking, capacity management to payment and performance analysis. Fleet management capabilities include finding the optimal use of a client's fleet based upon or measured against shipment requirements and constraints such as locations, carriers, rates, capacities and hours of operation and generating detailed work plans that help manage the fleet. Transportation and Logistics solutions include: NetWORKS Transport , NetWORKS Delivery Management , NetWORKS Routing , NetWORKS Carrier , NetWORKS Freight Payment , NetWORKS Fleet Capacity Planner , NetWORKS RFQ , offered in two options - a product or service, and NetWORKS RFQ Optimizer , which is a service.

**Collaboration and Visibility** **Our** Collaboration solutions are designed to enable collaboration among trading partners by allowing them to view and make decisions using the same information. These solutions are intended to help clients facilitate processes such as collaborative planning, forecasting and replenishment and collaborative supply planning across extended trading networks. Our Visibility solutions provide event-based views into critical supply chain information such as inventory balances and order and shipment status, within the trading network. Multiple trading partners are able to simultaneously review past performance and current data on sales forecasts, booked orders, direct materials procurement, manufacturing plans and distribution and shipping capacity in order to make and execute decisions on what to produce and when and how to deliver finished goods, to best meet the client's business objectives. Our Collaboration and Visibility solutions include: NetWORKS Collaborate , NetWORKS Market Manager , NetWORKS Monitor , NetWORKS Carrier and NetWORKS Delivery Management .

**Contract Materials Resource Planning (MRP) & Maintenance, Repair and Overhaul (MRO)** **Our** Contract MRP solutions provide comprehensive enterprise resource planning (ERP) capabilities for Aerospace & Defense and other complex enterprises engaged in contract-oriented, order-centric manufacturing and re-manufacturing. Our Contract MRO solutions are designed to provide comprehensive support, from asset receipt to delivery back into service, for heavy maintenance, repair, overhaul, upgrade or modification services for complex equipment such as aircraft, engines, vehicles or ships, related sub-systems and components. These solutions include service and parts management capabilities that 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 provide efficiently the high levels of customer service on a cost effective basis. Our Contract MRP and MRO solutions reduce overhead and enhance cash flow and productivity through advanced cost collection and earned-value management processes. Contract MRP and MRO solutions include: NetWORKS





Make-to-Order , NetWORKS Component Management , NetWORKS Maintenance, Repair and Overhaul and NetWORKS Procurement .

**Performance Management** Our Performance Management solutions provide clients with a means to measure and predict their supply chain performance. Our solutions are designed to enable the definition and monitoring of key performance indicators (KPIs), such as forecast accuracy, customer service levels, inventory turns and adherence to the financial plan. Performance Management solutions include: NetWORKS Reporting , NetWORKS Analytics and NetWORKS Monitor .

**Revenue Management** Our Revenue Management solutions for the travel, transportation, hospitality and media industries are designed to help companies meet the unique challenges of industries where products and services are perishable and optimizing capacity utilization is critical. Passenger travel companies, cargo carriers, hotel and resort companies, media networks, broadcast groups and cable companies use our solutions to more accurately forecast future demand, optimally allocate capacity, maximize revenue and increase profits and customer satisfaction. Our Revenue Management solutions include: NetWORKS Airline Revenue Optimizer , NetWORKS Cargo Revenue Optimizer , NetWORKS Hotel Revenue Optimizer and NetWORKS Rental Car Optimizer .

#### **Manugistics Supply Chain Technology Platform**

Manugistics Solutions are modular and support phased implementations. Our solutions are used to design, optimize and synchronize a company s extended demand and supply chain processes and improve revenue management practices. The architecture is based on an industry standard - Java 2 platform, Enterprise Edition (J2EE), which defines the programming model and architecture for implementing web services that allow organizations to communicate data without intimate knowledge of each other s information technology systems. These open standards of J2EE help facilitate application development, application-to-application integration, portal connectivity, and business process management. Built on an architecture that provides rapid implementation and interoperability with other information technology assets, our solutions are designed to deliver industry-specific functionality and provide low total cost of ownership as well as the flexibility and scalability needed to adapt effectively to future business and technology shifts.

#### **Product Development:**

We direct our efforts in product development to:

- developing new products;
- enhancing existing products;
- enhancing our products for use in different languages and different measurements and standards;
- 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-scale problems; and
- developing products tailored to the specific requirements of particular industries.

To date, our solutions, including solution 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 solutions, products or enhancements, we work closely with current and prospective clients, as well as with other industry leaders, to make sure that our products and solutions 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, 2006, our product development resources included 270 employees, 174 of which were located in India and 26 third-party contractors. Gross product development costs were \$31.0 million, \$42.0 million and \$46.1 million in fiscal 2006, 2005 and 2004, respectively.

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 delivering new products, features and functions rapidly. We believe that getting products to market quickly, without compromising quality, is critical to the success of our business.

#### **Implementation Services:**

A key element of our business strategy is to provide clients with comprehensive solutions for their internal and external demand and supply chains and revenue management practices 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. 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. Additionally, third-party service providers implement our solutions.

Our 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 219 employees as of February 28, 2006.

#### **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 offers clients the option of letting Manugistics administer and run the client's solutions at our data center helping clients to move quickly to realize the benefits of our products by reducing internal resource requirements such as costs of hardware, infrastructure, security, training and technology and by operating in proven technical environments. As of February 28, 2006, our client support and application hosting service group consisted of 56 employees.

**Sales and Marketing:**

Our sales operation for North, South and Central America is headquartered at our office in Rockville, Maryland and includes field offices in Atlanta, GA; Calabasas, CA; Chicago, IL and Sao Paulo, Brazil. Our direct sales organization focuses on licensing supply chain and demand and revenue management solutions to large, multi-national enterprises, as well as to mid-sized enterprises with a variety of demand and supply chain, revenue management and extended trading network issues. We operate in Canada, Mexico and South America through subsidiaries established in those countries.

We license our solutions in regions outside of the Americas primarily through foreign subsidiaries. Our British and French subsidiaries, located in Bracknell, United Kingdom and Paris, France, respectively, provide direct sales, services and support primarily to clients located in continental Europe and the United Kingdom. We have established subsidiaries and maintain offices in Tokyo, Japan; Singapore; Shanghai and Hong Kong, The People's Republic of China; Kuala Lumpur, Malaysia; Sydney, Australia and Hyderabad, India. We also maintain an office in Taipei, Taiwan. We adapt our solutions for use in certain international markets by addressing different languages, different standards of weights and measures and other operational considerations. In fiscal 2006, approximately 35.5% of our total revenue came from sales made to clients outside the U.S. Details of our geographic revenue are in Note 15 Segment Information in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. We also use indirect sales channels to market our software in certain markets. See Alliances. Using these channels, we seek to increase the market penetration of our software. These relationships enhance our sales resources in target markets and expand our expertise in bringing our solutions to prospects and clients.

We support our sales activities by conducting a variety of marketing programs. We 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, Voluntary Interindustry Commerce Solutions Association (VICS), the National Retail Federation's Annual Show, Retail Systems, Logicon, Association of the United States Army(AUSA) and in numerous pricing and revenue optimization conferences, such as Hospitality Financial and Technology Professionals Conference called HITEC (HITEC) and PPS (Professional Pricing Society). 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, 2006, we had 111 employees engaged in sales and marketing activities.

**Alliances:**

Our alliance program is based on improving and increasing the value we deliver to our clients and prospects. We ally ourselves with leading companies that provide technologies, products and/or services that complement our solutions.

We work with leading systems integrators and business strategy and management consulting firms 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 IBM, Accenture, Cap Gemini Ernst & Young, Thales, AT Kearney, Bearing Point, Unisys and other leading consulting firms to provide implementation and business process assistance to our clients. We augmented this with several geographic and regional alliances and cooperate with other professional services firms on a client-by-client basis.

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We have relationships pursuant to written agreements with the following software and technology providers: BEA; Business Objects; Cognos; DataDirect; IBM; ILOG; Kewill; MapInfo; Oracle; Quovadx; Rainmaker; TIBCO Software; Vignette; and Workplace plc.

Manugistics has entered into Reseller/Agent agreements with the right to resell specific Manugistics products with various companies located or doing business in North America, Asia, Europe and South America.

In addition, 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; HCL Technologies; ILOG; IONA Technologies; MapInfo; Microfocus; Numerical Algorithms Group (NAG); Progress Software; Quest Software; Recursion Software; and Rogue Wave Software.

### **Clients:**

Various combinations of our supply chain and demand and revenue management software have been licensed by organizations worldwide in such industries as: retail; consumer goods (including life sciences); Government, Aerospace & Defense; and Travel, Transportation & Hospitality. We include below a sample of companies that have either licensed software products from us or our distributors, or purchased support, consulting, or other services or actively used our software during fiscal 2006. See Sales and Marketing.

### **Retail**

Ahold USA, Canadian Tire Corp, Ltd., Circuit City, Circle K, CompUSA, CVS Pharmacy, DSG Retail Group (Dixons), Dollar General, Federated Department Stores, Gordon Food Service, H-E-B Grocery Company LP, IKEA, Kohls Department Stores, Limited Brands, Lowes Corporation, McDonalds Europe, OfficeMax, RadioShack Corporation, Ross Stores, Safeway, Sears Holding plc, Roebuck & Co., Schwans Shared Services, Staples, Inc., Starbucks, Target Corporation, The Great Atlantic & Pacific Tea Co., TJX Companies, Inc., Toys R Us, Wickes Building Supplies, Walmart.com and Winn-Dixie Stores.

### **Consumer Goods**

Airgas, Inc., Avon, BIC, Black & Decker, Campbell Soup Company, Church & Dwight, Coca-Cola Bottling Co., Cott Beverage, Coty Inc., Deere & Co., Diageo, Elemica, Fosters Group, Frito-Lay Trading Company GmbH, Georgia-Pacific, Harley-Davidson, Inc., H.J. Heinz Company, The Hershey Company, Kraft Foods, Inc., Merial, McCormick & Company, Inc., Nestle, Ocean Spray Cranberries, Inc., O2, Pfizer, Perdue Farms Inc., Pepsico, Remy Cointreau, Rohm & Haas, Smith & Nephew Orthopaedics, The Scotts Company, Tyson Foods Inc., Unilever and Yves Saint Laurent Parfums.

### **Government, Aerospace & Defense**

BAE Systems, Boeing Co., General Services Administration, Defense Logistics Agency and L-3 Communications.

### **Revenue Management (Travel, Transportation & Hospitality)**

British Airways, Canadian Pacific Logistics Solutions, Continental Airlines Cargo, DHL Aviation, Eurostar Railway, Great North Eastern Railway (GNER), Harrahs-Caesars Entertainment, Inc., Marriott International, Midland Mainline, Omni Hotels, Princess Cruise Lines and TUI UK.

**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, Aspen Technology, DemandTec, Global Logistics Technologies (acquired by Oracle), i2 Technologies, JDA Software (recently agreed to acquire us, See Merger Agreement and Voting Agreements ), Khimetrics (acquired by SAP), Logility, Manhattan Associates, ProfitLogic (acquired by Oracle), PROS Revenue Management, Rapt, Retek (acquired by Oracle), Sabre, SAP and Teradata (a division of NCR). Certain enterprise resource planning vendors, in addition to SAP, have acquired or developed demand and supply chain management software, products, or functionality or have announced intentions to develop and sell demand and supply chain management solutions. Such vendors include Oracle (which recently acquired Global Logistics Technologies, PeopleSoft, Profitlogic and Retek), and SSA Global Technologies.

The principal competitive factors in the markets in which we compete include product functionality and quality, domain expertise, integration technologies, product suite integration, breadth of products 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;
- software availability in foreign languages;
- vendor financial stability and reputation; and
- 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 for our clients, our client support services and our extensive knowledge of supply chain management and demand and revenue management solutions.

**Software License, Support and Implementation Service Agreements and Pricing:**

Software revenue consists principally of fees generated from licensing 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(s) being licensed and the customer's computer environment. Software license fees are based primarily on which products are licensed, the size and complexity of the customer 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 millions of dollars for initiatives that are large in scope and complexity.

Clients may obtain solution support for an annual fee. Our clients may select from three levels of support to 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, 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. We rely on a combination of trade secret, patent, copyright and trademark laws, confidentiality procedures and agreements and provisions to help protect proprietary rights in our software. We distribute our software under software license agreements, which typically grant clients nonexclusive, nontransferable licenses to our software 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, which affords limited protection.

Manugistics owns five issued U.S. patents and numerous pending patent applications (including a number of allowed claims) in both the U.S. and in various foreign countries or regions. The latest of these issued U.S. patents will endure until 2019 - with the earliest enduring until 2016. Any patent issued may be invalidated, circumvented or challenged. Any of our pending or future patent applications, whether or not challenged, may not be issued with the scope of claims we seek, if at all.

Manugistics also owns a number of active trademark registrations (including those for the mark MANUGISTICS among others) and pending trademark applications in the U.S. and in various foreign countries or regions. Each trademark registration of Manugistics will endure until the respective mark ceases to be used or the corresponding registration is otherwise not renewed. Trademark applications are subject to review by the issuing authority, may be opposed by private parties, and may not issue. Likewise, once issued, trademark registrations remain subject to challenge and/or cancellation.

We also seek to protect the source code of our software as a trade secret and as an unpublished, copyrighted work.

Use of our software is usually restricted to the internal operations of our clients and to designated users. In sales to logistics or service providers, the licensed software is usually restricted to use by the logistics or service provider for the benefit of its clients. Use is subject to terms and conditions that prohibit unauthorized reproduction or transfer of the software.

We also rely, in part, on technology that we license from third parties, including software that is integrated with internally developed software and used in our software products to perform key functions. For example, we license reporting software from Cognos, Inc., application integration software from Business Objects, application integration software from Vignette, Inc. and an application platform suite of software from BEA Systems, Inc., on terms we believe to be commercially reasonable. We also license software for non-key functions from one or more technology vendors that we embed and ship with our software on terms we believe to be commercially reasonable. Typically, these licenses are worldwide, non-exclusive and royalty-based. The license agreements typically have terms of two to five years, and automatically renew for one-year terms unless terminated in accordance with their terms. If we are unable to continue to license certain of this software on commercially reasonable terms, including the reporting software from Cognos and the application platform suite from BEA Systems, we may face delays in releases of certain of our software solutions until equivalent technology can be identified, licensed or developed, and integrated into our current product. These delays, if they occur, may seriously harm our business. The royalties paid under these licenses were, in aggregate, less than 5 % of our total revenue in each of our 2006, 2005 and 2004 fiscal years.

**Employees:**

As of February 28, 2006, we had 761 full-time regular employees and 114 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.

**Available Information:**

Our fiscal year ends on February 28th or 29th. We furnish our stockholders with annual reports containing audited financial statements. In addition, we file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission.

You may read and copy any reports, statements or other information that we file with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

We file our reports with the Securities and Exchange Commission electronically via the Securities and Exchange Commission's Electronic Data Gathering, Analysis and Retrieval system ( EDGAR ). The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding companies that file electronically with the Securities and Exchange Commission via EDGAR. The address of this Internet site is <http://www.sec.gov>. We also make available free of charge through our website at [www.manugistics.com](http://www.manugistics.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act ) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

**Item 1A. RISK FACTORS.**

In addition to the other information in this Annual Report on Form 10-K, the following factors should be considered in evaluating us and our business. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not presently know or that we currently deem immaterial, may also impair our business, results of operations and financial condition.

***RISKS RELATED TO THE MERGER***

**IF OUR PROPOSED MERGER WITH JDA SOFTWARE GROUP, INC. IS NOT CONSUMMATED, OUR STOCK PRICE, BUSINESS AND OPERATIONS COULD BE HARMED.**

On April 24, 2006, we entered into a definitive Agreement and Plan of Merger with JDA and the Merger Sub. Under the Merger Agreement, the Merger Sub will be merged with and into the Company, with the Company continuing after the Merger as a wholly-owned subsidiary of JDA. At the effective time of the Merger, each issued and outstanding share of Company Common Stock will be converted into the right to receive \$2.50 in cash.

The obligations of the Company and JDA to effect the Merger are subject to a number of conditions, including approval of the Merger by our stockholders, and the Merger may not occur. If the Merger is not consummated for any reason, we will be subject to a number of material risks, including the following:

- we may not realize any of the potential benefits of the Merger, including any potential synergies that could result from combining the resources of our Company and JDA;



- we may be required to pay JDA a termination fee of up to \$9.75 million under certain circumstances;
- the price of our common stock may decline to the extent that the current market price of our common stock reflects an assumption that the merger will be completed; and
- we must pay our accrued costs related to the merger, such as legal, accounting and certain financial advisory fees, even if the merger is not completed.

In addition, our customers may, in response to the announcement of the merger, delay or defer purchasing decisions. Any delay or deferral in purchasing decisions by our customers would have a material adverse effect on our business, regardless of whether the Merger is ultimately completed.

Similarly, our current and prospective employees may experience uncertainty about their future role with JDA until JDA's strategies with regard to us are announced or executed. This uncertainty may adversely affect our ability to attract and retain key management, marketing, technical, manufacturing, administrative, sales and other personnel. In addition, the attention of our management and our employees may be diverted from day-to-day operations.

**PROVISIONS OF THE MERGER AGREEMENT MAY DETER ALTERNATIVE BUSINESS COMBINATIONS.**

Restrictions in the Merger Agreement on solicitation generally prohibit us from soliciting any acquisition proposal or offer for a merger or business combination with any other party, including a proposal or offer that might be more advantageous to our stockholders when compared to the terms and conditions of the proposed Merger. If the Merger is not completed, we may not be able to conclude another merger, sale or combination on as favorable terms, in a timely manner, or at all. If the Merger Agreement is terminated, we may be required, in certain circumstances, to pay a termination fee of \$9.75 million to JDA.

**THE RESTRICTIVE COVENANTS IN THE MERGER AGREEMENT IMPOSE SIGNIFICANT RESTRICTIONS ON OUR BUSINESS OPERATIONS UNTIL THE COMPLETION OF THE MERGER.**

Pursuant to the Merger Agreement, until the completion of the Merger, we are required to operate our business in the ordinary course consistent with our past practice and cannot do any of the following, among other things, without the prior written consent of JDA:

- issue or sell any shares of our capital stock or any options, warrants or other rights to acquire any shares of our capital stock, other than the issuance of shares of our common stock upon exercise of those options or warrants outstanding as of April 24, 2006; or
- sell, license or otherwise dispose of any of our properties or assets or incur any capital expenditures above certain threshold amounts, except in the ordinary course of business consistent with our past practice.

***RISKS RELATED TO OUR INDEBTEDNESS AND FINANCIAL CONDITION***

**OUR INDEBTEDNESS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION.**

In November 2000, we completed an offering of \$250.0 million of 5% Convertible Subordinated Notes (the Notes) that are due November 2007. During fiscal 2004, the balance of the Notes was reduced to \$175.5 million as a result of \$74.5 million of Notes being exchanged for shares of our common stock. Pursuant to the Merger Agreement, we will conduct a cash tender offer for all of the outstanding Notes. Closing of that tender offer will be conditioned on the closing of the Merger. While the Notes remain outstanding, our indebtedness could have important consequences for investors. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- place us at a competitive disadvantage relative to our competitors;
- limit our ability to obtain additional financing;
- require the dedication of a substantial portion of our cash flows from operations to the payment of principal of, and interest on, our indebtedness, thereby reducing the availability of capital to fund our operations, working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry; and
- influence our customers and potential customers in doing business with the Company.

We may incur additional debt in the future. While the terms of our credit facility impose certain limits on our ability to incur additional debt, we are permitted to incur additional debt subject to compliance with the terms and conditions set forth in the credit facility. The terms of the Notes set forth no limits on our ability to incur additional debt. If a significant amount of new debt is added to our current levels, the related risks described above could intensify.

**WE MAY HAVE INSUFFICIENT CASH FLOW TO MEET OUR DEBT SERVICE OBLIGATIONS, WHICH COULD NEGATIVELY AFFECT OUR ABILITY TO ATTRACT AND RETAIN CUSTOMERS.**

We will be required to generate sufficient cash to pay all amounts due on the Notes and to conduct our business operations. The Notes require interest payments of \$8.8 million annually with \$175.5 million of principal due in November 2007. As of February 28, 2006, the remaining principal and interest payments due under the Notes were \$193.8 million. Our cash, cash equivalents and marketable securities totaled \$140.7 million as of February 28, 2006. Assuming our cash, cash equivalents and marketable securities remain constant from our February 28, 2006 levels, and we do not consummate the Merger and related tender offer, we will have to generate a minimum of \$53.1 million of net cash flow through any combination of normal operations of our Company, raising of debt and equity capital or asset sales by November 2007 to meet our remaining principal and interest payments under the Notes. We have incurred net losses in the past, and we may not be able to cover our anticipated debt service obligations. This may materially hinder our ability to make principal and interest payments on the Notes. Concerns about our ability to meet our debt service obligations could negatively affect our ability to attract and retain customers. Our ability to meet our future debt service obligations will be dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control.

**IF THE MERGER IS NOT CONSUMMATED, WE MAY CHOOSE TO EXCHANGE THE NOTES FOR SHARES OF OUR COMMON STOCK IN THE OPEN MARKET OR PURCHASE A PORTION OF THE NOTES FOR CASH, WHICH COULD MATERIALLY DILUTE EXISTING STOCKHOLDERS OR COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION.**

During fiscal 2004, we issued 9,725,750 shares of our common stock in exchange for the Notes in privately negotiated transactions under Section 3(a)(9) of the Securities Act of 1933 as amended (the Securities Act). If the Merger is not consummated, we may choose to exchange the Notes for shares of our common stock in the open market or purchase a portion of the Notes for cash, which could materially dilute existing stockholders or could have a material adverse effect on our financial condition. If we choose to enter into privately negotiated transactions to exchange some of our outstanding Notes for shares of our common stock, it could materially dilute the ownership percentage of our existing shareholders and result in non-cash charges to earnings. In addition, to the extent we are able to do so on terms favorable to us, we may choose to purchase a portion of the Notes outstanding from time to time in the open market with cash or, alternatively, refinance the Notes. While the terms of our credit facility impose certain limits on our ability to repurchase our debt securities with cash, we are permitted to do so subject to compliance with the terms and conditions set forth in the credit facility. If purchases of the Notes in the open market were funded from available cash and cash equivalents, it could have a material adverse effect on our liquidity and financial condition.

**WE MAY VIOLATE FINANCIAL COVENANTS UNDER OUR CREDIT FACILITY, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR LIQUIDITY AND FINANCIAL CONDITION.**

We have an unsecured credit facility with Silicon Valley Bank (SVB) with borrowing capacity of \$15.0 million. As of February 28, 2006, approximately \$10.0 million of letters of credit were outstanding with SVB. The terms of the credit facility require 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 at least \$90.0 million plus 50% of consolidated net income generated cumulatively commencing with the first quarter of fiscal 2006 and (ii) our ratio of (a) unrestricted cash, cash equivalents, marketable securities and long-term investments deposited with SVB and its affiliates plus net accounts receivable to (b) current liabilities plus long-term indebtedness to SVB and outstanding letters of credit minus deferred revenue, must be at least 2.0 to 1.0. The credit facility requires us to maintain \$50.0 million in funds with SVB Asset Management and its affiliates. Pursuant to the Merger Agreement, we will cooperate with JDA to replace, at the closing of the Merger, the letters of credit that are outstanding with SVB with newly issued letters of credit. If the Merger is not consummated, the letters of credit with SVB will remain outstanding and we will remain obligated to comply with the financial covenants contained in those letters of credit. If our future financial performance results in a violation of these financial covenants under our credit facility, or with our previous equipment financing credit line, we could be required to provide cash collateral for letters of credit or repay outstanding borrowings, which would have a material adverse effect on our liquidity and financial condition.

***RISKS RELATED TO OUR BUSINESS***

**ADVERSE ECONOMIC AND POLITICAL CONDITIONS CONTRIBUTED TO THE DETERIORATION OF DEMAND IN THE MARKETS FOR OUR PRODUCTS AND SERVICES AND HAVE ADVERSELY AFFECTED AND COULD FURTHER ADVERSELY AFFECT OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION.**

Our revenue and operating results depend on the overall demand for our enterprise application software and related services. Regional and global adverse changes in the economy and political upheaval and unrest contributed to a deterioration of the markets for our products and services in recent years.

Recent improvements in economic conditions have not yet resulted in improvements in the markets for supply chain management software. These factors resulted in reductions, delays and postponements of customer purchases, which materially and adversely affected our financial performance during the last four fiscal years. Demand for our solutions designed to optimize pricing and revenue management, a component of our demand management solutions, was more severely affected than our other solutions for which there are more mature markets. If these adverse conditions continue or worsen, we would likely experience further reductions, delays, and postponements of customer purchases further adversely affecting our operating performance and financial condition.

National and global responses to future hostilities and terrorist attacks may materially and adversely affect demand for our software and services because of the economic and political effects on our markets and by interrupting the ability of our customers to do business in the ordinary course, as a result of a variety of factors, including, among others, changes or disruptions in movement and sourcing of materials, goods and components or possible interruptions in the flows of information or monies.

**WE BELIEVE OUR RECENT PERFORMANCE WAS ADVERSELY AFFECTED BY CAUTIOUS CAPITAL SPENDING, CONCERNS ABOUT OUR FINANCIAL VIABILITY AND A HIGHLY COMPETITIVE ENVIRONMENT. IF WE CANNOT OVERCOME THESE DIFFICULTIES OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION COULD BE MATERIALLY AND ADVERSELY AFFECTED.**

We incurred significant losses during the past four fiscal years. Although we have been able to reduce operating costs, we believe our recent financial performance was adversely affected by cautious capital spending, concerns about our financial viability and a highly competitive environment.

Over the past two fiscal years, we have made substantial changes in our Company, including reorganizing and downsizing our executive management team and our sales organization, narrowing our market focus, narrowing our product focus, our ongoing move of product development to India, increasing our focus on transportation and pricing optimization markets and increasing our focus on the Asia-Pacific region. Although we believe that these changes have enabled us to improve our financial performance and cash flows from operations in our most recent quarters, we have continued to report significant losses in our annual financial statements and experience declines in both software license revenue and total revenue. If we do not successfully align our cost structure with our revenue without hindering our ability to grow revenue, or if we do not successfully overcome the factors that have hindered our performance, our operating performance and financial condition could be harmed, and we could continue to incur significant losses.

**IF OUR STOCK PRICE DECREASES TO LEVELS SUCH THAT THE IMPLIED FAIR VALUE OF OUR COMPANY IS SIGNIFICANTLY LESS THAN STOCKHOLDERS EQUITY FOR A SUSTAINED PERIOD OF TIME, WE MAY BE REQUIRED TO RECORD ADDITIONAL SIGNIFICANT NON-CASH CHARGES ASSOCIATED WITH GOODWILL IMPAIRMENT.**

On March 1, 2002, we adopted Statement of Financial Accounting Standards No.142 *Goodwill and Other Intangible Assets* ( SFAS 142 ), which changed the accounting for goodwill from an amortization method to an impairment-only method. As required by SFAS 142, we test goodwill for impairment on an annual basis coinciding with our fiscal year-end, or on an interim basis if circumstances change that would more likely than not reduce our implied fair value below our carrying value. We have recorded a non-cash goodwill impairment charge in the past as a result of adverse changes in our stock price. We performed our annual fiscal 2006 and fiscal 2005 goodwill impairment review on February 28, 2006 and 2005, respectively, and interim testing at August 31, 2004, May 31, 2005 and November 30, 2005, respectively, due to volatility in our stock price and the departure of our Chief Financial Officer and determined our implied fair value (which includes factors such as, but not limited to, our market capitalization, a control premium and our

recent stock price volatility) exceeded our carrying value. Accordingly, no goodwill impairment charge was recorded.

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 the fair value of our reporting unit below its carrying value. If our stock price is significantly lower than recent levels such that the implied fair value of our Company 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.

**OUR FUTURE RESULTS COULD BE ADVERSELY AFFECTED BY VARIOUS SIGNIFICANT NON-CASH CHARGES, WHICH COULD IMPAIR OUR ABILITY TO ACHIEVE OR MAINTAIN PROFITABILITY IN THE FUTURE.**

We have recorded significant non-cash charges in the past and will incur significant non-cash charges in the future related to the amortization of acquired technology and intangible assets from past acquisitions. We may also incur non-cash charges in future periods related to impairments of long-lived assets and future exchanges of Notes for shares of our common stock, if any. To achieve profitability, we must grow our revenue sufficiently to cover these charges. Our failure to achieve profitability could cause our stock price to decline.

**IF OUR EXIT AND DISPOSAL PLANS AND OUR COST CONTAINMENT AND COST REDUCTION MEASURES FAIL TO ACHIEVE THE DESIRED RESULTS OR RESULT IN UNANTICIPATED NEGATIVE CONSEQUENCES, WE MAY SUFFER MATERIAL HARM TO OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION.**

Since fiscal 2002, we have implemented a number of exit and disposal plans and cost containment and cost reduction measures and we continue to implement cost containment and cost reduction measures to align our cost structure with our revenue. These actions have included, among other things, reductions in workforce and consolidations of our operational facilities. During the past two fiscal years, we abandoned additional idle space in our Rockville, Maryland; Tokyo, Japan; San Carlos and Calabasas, California; and Bracknell, United Kingdom facilities and closed four offices in Europe and one in the Philippines. Our exit and disposal activities are set forth in greater detail in Note 14 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

As part of the consolidation of our facilities, we negotiate lease termination agreements and lease modifications, or both and subleases for certain of our facilities. We cannot predict when or if we will be successful in negotiating lease termination agreements or subleases on terms acceptable to us. Should we be unsuccessful in such negotiations or if the negotiated terms are less favorable than currently anticipated, we may be required to materially increase our exit and disposal related expenses in future periods. Further, if we consolidate additional facilities in the future, we may incur additional exit and disposal related expenses, which could have a material adverse effect on our business, financial condition or results of operations.

There can be no assurance that we will not reduce or otherwise adjust our workforce again in the future or that related transition issues associated with such a reduction will not occur again. If we fail to achieve the desired results of our exit and disposal plans and our cost containment and cost reduction measures, we may suffer material harm to our operating performance and financial condition.

**IF WE FAIL TO ATTRACT AND RETAIN A QUALIFIED WORKFORCE, OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION COULD BE MATERIALLY ADVERSELY AFFECTED. FURTHER, OUR COST CONTAINMENT AND COST REDUCTION INITIATIVES MAY HINDER OR IMPAIR OUR ABILITY TO TAKE ADVANTAGE OF IMPROVEMENTS IN MARKET CONDITIONS.**

We believe that our success depends on our ability to motivate, hire and retain highly skilled technical, managerial, sales, marketing and services personnel. Competition for skilled personnel can be intense, and there is no assurance that we will be successful in attracting, motivating and retaining the personnel we need to improve our financial performance and grow. As part of our cost containment and cost reduction initiatives, we have recently reduced our workforce and experienced voluntary attrition. However, headcount increased to 761 at February 28, 2006 compared to 695 employees at February 28, 2005, primarily as a result of continued staffing at our product development center in Hyderabad, India.

Continuity of personnel is a very important factor in our success. We consider stock options, restricted stock and retention programs to be critically important in attracting and retaining employees. In addition, in light of the Merger, we have implemented cash bonuses in an effort to retain certain of our employees. The decline in our stock trading price over the past year has decreased the value of stock options and restricted stock granted previously to our employees under our stock option plans. In addition, under the terms of the Merger Agreement, we are prohibited from issuing equity grants and cash bonuses to current and prospective employees as incentives. Our current and prospective employees may experience uncertainty about their future role with the Company or, if the Merger is consummated, with JDA. This uncertainty may adversely affect our ability to attract and retain key management, marketing, technical, manufacturing, administrative, sales and other personnel.

Despite our efforts to retain our employees, our existing employees may seek employment elsewhere. Failure to attract, motivate and retain highly skilled personnel could materially and adversely affect our business. Further, our cost containment and cost reduction initiatives may yield further unintended consequences, such as reduced employee morale, decreased productivity, difficulty attracting qualified personnel due to a perceived risk of future workforce reductions, and our inability to take advantage of improvements in market conditions.

**WE HAVE EXPERIENCED SIGNIFICANT CHANGES IN SENIOR MANAGEMENT IN THE LAST FEW YEARS. THE SUCCESS AND GROWTH OF OUR BUSINESS MAY SUFFER IF WE EXPERIENCE TOO MANY CHANGES IN KEY PERSONNEL IN TOO SHORT A PERIOD OF TIME.**

We have undergone significant changes in our senior management during the past few years. In July 2004, Gregory J. Owens resigned as our Chief Executive Officer and was replaced by Joseph L. Cowan. In August of 2004, our President, Jeremy P. Coote resigned and the position of President was eliminated. In September 2004, Jeffrey L. Kissling was hired as our Chief Technology Officer, and two other senior management personnel were promoted to new positions. In April 2005, Mr. Owens resigned as Chairman of the Board. In addition, two other senior management personnel left the Company during our third quarter of fiscal 2005 and one, whose position was eliminated, left the Company at the end of our fourth quarter of fiscal 2005. Most recently, in October 2005, Raghavan Rajaji, our Executive Vice President and Chief Financial Officer, resigned to accept a position with another company. During fiscal year 2005, we reorganized our sales and marketing organization, which resulted in further management changes within the organizational structure.

Our success depends significantly on the continued service of our executive officers and their ability to work together effectively as a management team. We do not have fixed-term employment agreements with any executive officers, other than with Joseph L. Cowan, who has a two-year employment agreement with our Company that commenced in July 2004, and we do not maintain key person life insurance on our executive officers. The loss of services of any of our senior management for any reason or their inability to

manage our Company effectively could have a material adverse effect on our operating performance and financial condition.

**WE HAVE RESTRUCTURED, AND MAY IN THE FUTURE RESTRUCTURE, OUR SALES FORCE, WHICH CAN BE DISRUPTIVE. WE HAVE ALSO REDUCED OUR SALES FORCE AND CONSOLIDATED OUR SALES OFFICES AS PART OF OUR COST CONTAINMENT AND COST REDUCTION INITIATIVES. OUR FAILURE TO FIELD AN EFFECTIVE SALES ORGANIZATION COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION.**

We continue to rely heavily on our direct sales force. In recent years, we reorganized our sales force in response to management changes and other internal considerations, most recently in August 2005. Since fiscal 2003, we have reduced our sales force as a result of the deterioration in our markets and restructuring of our operations. Decreased software license revenue has resulted in reduced compensation earned overall by members of our sales force; it also has resulted, and may continue to result, in voluntary attrition of our sales force over time. In order to stabilize and then grow our revenue, we will have to field an effective sales force. Changes in the structure of the sales force and sales force management have generally resulted in a temporary lack of focus and reduced productivity. Further, we cannot assure you that we will be able to field a more productive sales force or successfully attract and retain qualified sales people at levels sufficient to support growth. We cannot assure you that we will not continue to restructure our sales force or that the transition issues associated with restructuring the sales force will not recur. Such restructuring or associated transition issues can be disruptive and adversely impact our operating performance and financial condition.

**SALES CYCLES FOR OUR PRODUCTS AND SERVICES CAN BE LONG AND UNPREDICTABLE. VARIATIONS IN THE TIME IT TAKES US TO LICENSE OUR SOFTWARE MAY CAUSE FLUCTUATIONS IN OUR QUARTERLY OPERATING RESULTS.**

Each client's decision to license and implement our products and services is discretionary, involves a significant commitment of resources and is subject to the client's budget cycles. The time it takes to license our software to prospective clients varies substantially, but historically has ranged between three and twelve months. Prior sales and implementation cycles should not be relied upon as any indication of future cycles. As a result of current economic conditions, recent changes in our organization and sales force and increased competition, our sales cycle has recently become longer than historical sales cycles.

Variations in the length of our sales cycles will cause our revenue to fluctuate widely from period to period. We base our operating expenses on anticipated revenue trends. Because a high percentage of our expenses are relatively fixed in the short-term and we typically recognize a substantial portion of our software license revenue in the last month of a quarter, any delay in the licensing of our products could cause significant variations in our revenue from quarter to quarter. These delays have occurred on a number of occasions in the past and have materially and adversely affected our financial performance.

The length of our sales cycle depends on a number of factors, many of which are beyond our control, including the following:

- the complexities of client challenges our solutions address;
- the breadth of the solution required by the client, including the technical, organizational and geographic scope of the license;
- the size, timing and complexity of contractual terms of licenses and sales of our products and services;
- wide variations in contractual terms, which may defer recognition of revenue;

- customer financial constraints and credit-worthiness;
- the evaluation and approval processes employed by the clients and prospects, which has become more complex and lengthy and now includes an assessment of our financial viability;
- economic, political and market conditions; and
- any other delays arising from factors beyond our control.

As a result of these and other factors, revenue for any quarter is subject to significant variation. You should not rely on period to period comparisons as indications of future performance. Our future quarterly operating results from time to time may not meet the expectations of market analysts or investors, which would likely have an adverse effect on the price of our common stock.

**AN INCREASE IN SALES OF SOFTWARE PRODUCTS THAT REQUIRE CUSTOMIZATION WOULD RESULT IN REVENUE BEING RECOGNIZED OVER THE TERM OF THE CONTRACT FOR THOSE PRODUCTS AND COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING RESULTS AND FINANCIAL CONDITION.**

Historically, we have been able to recognize software license revenue upon delivery of our solutions and contract execution. Recently, more of our clients and prospects have been asking for unique capabilities in addition to our core capabilities to give them a competitive edge in the market place. These instances could cause us to recognize more of our software license revenue on a contract accounting basis over the course of the delivery of the solution rather than upon delivery and contract execution. The period between initial contact and the completion of the implementation of our products can be lengthy and is subject to a number of factors (over many of which we have little or no control) that may cause significant delays. These factors include the size and complexity of the overall project. As a result, a shift toward a higher proportion of software license contracts requiring contract accounting could have a material adverse effect on our operating results and financial condition and cause our operating results to vary significantly from quarter to quarter.

**FAILURE TO MAINTAIN OUR MARGINS AND SERVICE RATES FOR IMPLEMENTATION SERVICES COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION.**

A significant portion of our revenue is derived from implementation services. If we fail to scope our implementation projects correctly, our service margins may suffer. Implementation services are predominately billed on an hourly or daily basis (time and materials) and sometimes under fixed price contracts. Implementation services billed on an hourly or daily basis are generally recognized as work is performed. If we are not able to maintain the current service rates for our time and materials implementation services, without corresponding cost reductions, or if the percentage of fixed price contracts increases and we underestimate the costs of our fixed price contracts, our operating performance may suffer. The rates we charge for our implementation services depend on a number of factors, including the following:

- perceptions of our ability to add value through our implementation services;
- complexity of services performed;
- competition;
- pricing policies of our competitors and systems integrators;
- the use of globally sourced, lower-cost service delivery capabilities within our industry; and
- economic, political and market conditions.



**CHANGES IN THE SIZE OR NUMBER OF OUR SOFTWARE TRANSACTIONS MAY CAUSE MATERIAL FLUCTUATIONS IN OUR QUARTERLY OPERATING RESULTS.**

The size and number of our software license transactions fluctuate. Fluctuations in the size and number of our software transactions have occurred, and may in the future occur, as a result of changes in demand for our software and services. Losses of, or delays in concluding, larger software transactions (which typically are more complex, take longer to negotiate and are subject to more delays) have had, and could continue to have, a proportionately greater effect on our revenue and financial performance for a particular period. We have experienced declines in the number of software transactions of \$1.0 million or greater since fiscal 2002. Specifically, we recognized 38 such software transactions in fiscal 2002, 19 such software transactions in fiscal 2003, 18 such software transactions in fiscal 2004, 7 such software transactions in fiscal 2005, and 5 such software transactions in fiscal 2006. During the three months ended May 31, 2005, one transaction accounted for more than 10% of our consolidated revenue on a quarterly basis. As a result of these changes in the size and number of our software transactions, our quarterly revenue and financial performance have fluctuated significantly and may fluctuate significantly in the future.

**OUR ANNUAL SOFTWARE LICENSE REVENUE HAS DECLINED SINCE FISCAL 2003. LOWER SOFTWARE LICENSE REVENUE HAS RESULTED AND MAY CONTINUE TO RESULT IN REDUCED SERVICES AND SUPPORT REVENUE.**

Our ability to maintain or increase services and support revenue depends on our ability to maintain or increase the amount of software we license to customers. Since fiscal 2003, we experienced declines in services revenue primarily as a result of declining software license revenue in prior periods. Additional decreases of software license revenue or slowdowns in licensing may have a material adverse effect on our services and support revenue in future periods.

**FURTHER DECLINES IN SOFTWARE LICENSE REVENUE, A REDUCTION IN THE RENEWAL RATE OF ANNUAL SUPPORT CONTRACTS, OR BOTH, COULD RESULT IN A MATERIAL ADVERSE EFFECT ON OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION.**

In multiple quarters during fiscal years 2003 through 2006, we experienced sequential quarterly declines in support revenue resulting from both the decline in software license revenue and clients not renewing or partially renewing existing support contracts. Our support revenue includes post-contract support and the rights to unspecified software upgrades and enhancements. Support contracts are generally renewable annually at the option of our customers. Although we have historically experienced high rates of renewed annual support contracts from our customers, if our software license revenue does not grow and if our customers fail to renew or to fully renew their support contracts at historical rates, our support revenue could materially decline.

**OUR MARKETS ARE VERY COMPETITIVE, AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY.**

The markets for our solutions are very competitive. The intensity of competition in our markets has significantly increased in part as a result of the deterioration in our markets. We expect this intensity of competition to increase in the future.

In addition, many leading companies in the business of providing enterprise application software have been the subject of mergers and acquisitions during the last several years. This industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. The pace of consolidation has significantly increased over the last year and may continue. If there is significant consolidation among enterprise application software companies, we may be at a competitive disadvantage as an independent best-of-breed enterprise application software vendor.

Some competitors are offering software that competes with ours at little or no charge as components of bundled products or on a stand-alone basis. To counter this increased competition, we may need to make further adjustments to our business, including reorganizing or reducing our workforce, altering our pricing and narrowing our market focus and our product focus. Smaller niche software companies have developed, and will likely continue to develop, unique offerings that compete effectively with some of our solutions. Further, our current or prospective clients and partners may become competitors in the future.

**INCREASED COMPETITION HAS RESULTED IN, AND IN THE FUTURE COULD RESULT IN, PRICE REDUCTIONS, LOWER GROSS MARGINS, LONGER SALES CYCLES AND THE LOSS OF MARKET SHARE. EACH OF THESE DEVELOPMENTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION. MANY OF OUR CURRENT AND POTENTIAL COMPETITORS HAVE SIGNIFICANTLY GREATER RESOURCES THAN WE DO, AND THEREFORE, WE MAY BE AT A DISADVANTAGE IN COMPETING WITH THEM.**

We directly compete with other enterprise application software vendors including: Aspen Technology, DemandTec, Global Logistics Technologies (acquired by Oracle), i2 Technologies, JDA Software (recently agreed to acquire us), Logility, Manhattan Associates, ProfitLogic (acquired by Oracle), PROS Revenue Management, Rapt, Retek (acquired by Oracle), Sabre, SAP and Teradata (a division of NCR). Certain ERP vendors, in addition to SAP, all of which are substantially larger than us, have acquired or developed demand-driven and supply chain management software companies, products, or functionality or have announced intentions to develop and sell demand and supply chain management solutions. Such vendors include Oracle, SAP (which recently acquired Khimetrics) and SSA Global Technologies. Some of our current and potential competitors, particularly the ERP vendors, have significantly greater financial, marketing, technical and other resources than we do, as well as greater name recognition and larger installed bases of clients. Five of our competitors, Oracle, PeopleSoft, ProfitLogic, Global Logistics Technologies and Retek, have combined and other of our current and potential competitors may combine and may subsequently utilize enhanced financial and human resources to develop and sell more competitive demand-driven supply chain products. These larger enterprise application software vendors have increasingly raised concerns about our financial viability with our clients and prospects, which has contributed to delays in successfully closing software transactions. In addition, many of our competitors have well-established relationships with our current and potential clients and have extensive knowledge of our industry. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in client requirements or to devote greater resources to the development, promotion and sale of their products than we can. Any of these factors could materially impair our ability to compete and have a material adverse effect on our operating performance and financial condition.

**IF THE DEVELOPMENT OF OUR PRODUCTS AND SERVICES FAILS TO KEEP PACE WITH OUR INDUSTRY'S RAPIDLY EVOLVING TECHNOLOGY, OUR ABILITY TO COMPETE IN OUR MARKETS AND OUR FUTURE RESULTS MAY BE MATERIALLY AND ADVERSELY AFFECTED.**

The markets for our solutions are subject to rapid technological change, changing client needs, frequent new product introductions and evolving industry standards. If we fail to keep pace with these changes, our products and services may be rendered less competitive or obsolete. Our product development and testing efforts have required, and are expected to continue to require, substantial investments. We may not possess sufficient resources in the future to continue to make further necessary investments in technology. If we are unable, for technological or other reasons, to develop and introduce new and enhanced software in a timely manner, we may lose existing clients and fail to attract new clients, which may have a material adverse effect on our operating performance and financial condition.

**OUR BUSINESS IS SUBJECT TO CHANGING REGULATION OF CORPORATE GOVERNANCE AND PUBLIC DISCLOSURE THAT HAS INCREASED BOTH OUR COSTS AND THE RISK OF NONCOMPLIANCE.**

Because our common stock is publicly traded, we are subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the Securities and Exchange Commission and The Nasdaq Stock Market, continue to develop and issue regulations and requirements in response to market concerns and laws enacted by Congress, most notably the Sarbanes-Oxley Act of 2002. Our efforts to comply with these regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditor's audit of that assessment have required, and continue to require, the commitment of significant financial and managerial resources. Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices.

**IF WE FAIL TO MAINTAIN AN EFFECTIVE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS, WE MAY NOT BE ABLE TO REPORT OUR FINANCIAL RESULTS ACCURATELY OR PREVENT FRAUD. AS A RESULT, OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION COULD BE HARMED AND INVESTORS COULD LOSE CONFIDENCE IN OUR FINANCIAL REPORTING, WHICH COULD CAUSE OUR STOCK PRICE TO DECLINE.**

Effective internal controls are necessary to provide reliable financial reports and effectively prevent fraud. We have in the past discovered, and may in the future discover, areas of our system of internal control over financial reporting and disclosure controls that need improvement. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, and not absolute, assurances that the objectives of the system are met. Any failure of our system of internal control over financial reporting or disclosure controls could have a material adverse effect on our business, results of operations and financial condition. Inadequate internal controls over financial reporting or disclosure controls could also cause investors to lose confidence in our reported financial information, which could cause our stock price to decline.

**OUR CONTINUED SHIFT OF OUR PRODUCT DEVELOPMENT OPERATIONS TO INDIA POSES SIGNIFICANT RISKS.**

Just over one year ago, we opened our own product development facility in Hyderabad, India. We continue to move a substantial portion of our product development to India. In addition, we maintain relationships with third parties in India to which we outsource a portion of our product development effort. We are increasing the proportion of our product development work being performed at our facility in India in order to increase product development resources and to take advantage of cost efficiencies associated with India's lower wage scale. We may not achieve the cost savings and other benefits we anticipate from this program. We may not be able to find sufficient numbers of developers with the necessary skill sets in India to meet our needs. Further, we have a heightened risk exposure to changes in the economic, security and political conditions of India as we invest greater resources in our India facility. Economic and political instability, military actions and other unforeseen occurrences in India could impair

our ability to develop and introduce new software applications and functionality in a timely manner, which could put our products at a competitive disadvantage whereby we lose existing customers and fail to attract new customers.

**DEFECTS IN OUR SOFTWARE, THE IMPROPER SCOPING OF A PROJECT, OR PROBLEMS IN THE IMPLEMENTATION OF OUR SOFTWARE COULD LEAD TO CLAIMS FOR DAMAGES BY OUR CLIENTS, LOSS OF REVENUE OR DELAYS IN THE MARKET ACCEPTANCE OF OUR SOLUTIONS.**

Our software is complex and must be implemented to perform within the often sophisticated and complex business processes of our clients, which can make it difficult to scope the initial project or detect errors in our software prior to implementation. We may not discover the existence of these problems until our customers install and use a given product or until the volume of services that a product provides increases. In addition, when our software is installed, the technical environment into which it is installed is frequently complex and typically contains a wide variety of systems and third-party software, with which our software must be integrated. This can make the process of implementation itself difficult and lengthy. As a result of these factors, some customers may have difficulty implementing our products successfully within anticipated timeframes or otherwise achieving the expected benefits. These problems may result in claims for damages suffered by our clients, a loss of, or delays in, the market acceptance of our solutions, client dissatisfaction and lost revenue and collection difficulties during the period required to correct these errors.

**WE UTILIZE THIRD-PARTY SOFTWARE THAT WE INCORPORATE INTO AND INCLUDE WITH OUR PRODUCTS AND SOLUTIONS. IMPAIRED RELATIONS WITH THESE THIRD PARTIES, DEFECTS IN THIRD-PARTY SOFTWARE OR THEIR INABILITY OR FAILURE TO ENHANCE THEIR SOFTWARE OVER TIME COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION.**

We incorporate and include third-party software into and with our products and solutions. If our relations with any of these third parties are impaired, and if we are unable to obtain or develop a replacement for the software, our business could be harmed. The operation of our products would be impaired if errors occur in the third-party software that we utilize. It may be more difficult for us to correct any defects in third-party software because the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that these third parties will continue to invest the appropriate levels of resources in their products and services to maintain and enhance the capabilities of their software.

**WE UTILIZE THIRD PARTIES TO INTEGRATE OUR SOFTWARE WITH OTHER SOFTWARE PRODUCTS AND PLATFORMS. IF ANY OF THESE THIRD PARTIES SHOULD CEASE TO PROVIDE INTEGRATION SERVICES TO US, OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION COULD BE MATERIALLY ADVERSELY AFFECTED.**

We depend on companies such as Business Objects, Inovus, Tibco Software, Vignette, and webMethods to integrate our software with software and platforms developed by third parties. If relations with any of these third parties are impaired, and if we are unable to secure a replacement on a timely basis, our operating performance and financial condition could be harmed. If these companies are unable to develop or maintain software that effectively integrates with our software and is free from defects, our ability to license our products and provide solutions could be impaired and our operating performance and financial condition could be harmed. There can be no assurance that these third parties will continue to invest the appropriate levels of resources in their products and services to maintain and enhance their software's capabilities. If we are unable to continue to license certain of this software on commercially reasonable terms, including the reporting software from Cognos and the application platform suite from

BEA Systems, we may face delays in releases of certain of our software solutions until equivalent technology can be identified, licensed or developed, and integrated into our current product. These delays, if they occur, may seriously harm our business.

**OUR INABILITY TO DEVELOP AND SUSTAIN RELATIONSHIPS WITH VENDORS SUCH AS SOFTWARE COMPANIES, CONSULTING FIRMS, RESELLERS AND OTHERS TO MARKET AND IMPLEMENT OUR SOFTWARE PRODUCTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION.**

We are developing, maintaining and enhancing significant working relationships with complementary vendors, such as software companies, consulting firms, resellers and others that we believe can play important roles in marketing our products and solutions. We are currently investing, and intend to continue to invest, significant resources to develop and enhance these relationships, which could adversely affect our operating margins. We may be unable to develop relationships with organizations that will be able to market our products effectively. Our arrangements with these organizations are not exclusive and, in many cases, may be terminated by either party without cause. Many of the organizations with which we are developing or maintaining marketing relationships have commercial relationships with our competitors. There can be no assurance that any organization will continue its involvement with us and our products. The loss of relationships with such organizations could materially and adversely affect our operating performance and financial condition.

**GOVERNMENT CONTRACTS ARE SUBJECT TO COST AND OTHER AUDITS BY THE GOVERNMENT AND TERMINATIONS FOR THE CONVENIENCE OF THE GOVERNMENT. GOVERNMENT PROCUREMENT IS HIGHLY REGULATED, AND CONTRACTORS ARE SUBJECT TO THE RISKS OF PROTESTS, CLAIMS, PENALTIES, FINES, DEFAULT TERMINATION, AND RESCISSION, AMONG OTHER ACTIONS. THE ADVERSE RESULT OF A GOVERNMENT AUDIT OR ACTION AGAINST ANY OF OUR CONTRACTS WITH THE GOVERNMENT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION.**

*Government contracts face special risks due to potential audits by government agencies.*

A significant percentage of our revenue is from time to time derived from contracts with the Federal Government. Government contractors are commonly subject to various audits and investigations by Government agencies. One agency that oversees or enforces contract performance is the Defense Contract Audit Agency ( DCAA ). The DCAA generally performs a review of a contractor's performance on its contracts, its pricing practices, costs and compliance with applicable laws, regulations and standards and to verify that costs have been properly charged to the Government. Although the DCAA completed an initial review of our accounting practices and procedures allowing us to invoice the Government, it has yet to exercise its option to perform an audit of our actual invoicing of Government contracts. These audits may occur several years after completion of the contract. If an audit were to identify significant unallowable costs, we could have a material charge to our earnings or reduction to our cash position as a result of the audit and this could have a material adverse effect on our operating performance and financial condition.

If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with U.S. federal government agencies. In addition, we could suffer serious harm to our reputation if allegations of impropriety were made against us, whether or not true.

***Government contracts are subject to unique risks of early termination.***

In addition, Government contracts may be subject to termination by the Government for its convenience, as well as termination, reduction or modification in the event of budgetary constraints or any change in the Government's requirements. If any of our time-and-materials or fixed-priced contracts were to be terminated for the Government's convenience, we would probably receive only the purchase price for items delivered prior to termination, reimbursement for allowable costs for work-in-progress and an allowance for profit on the contract, or an adjustment for loss if completion of performance would have resulted in a loss. Government contracts are also conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds on a fiscal-year basis, even though the contract performance may extend over many years. Consequently, at the outset of a program, the contract is usually only partially funded, and Congress must annually determine if additional funds will be appropriated to the program. As a result, long-term contracts are subject to cancellation if appropriations for future periods become unavailable. We have not historically experienced any significant material adverse effects as a result of the Government's failure to fund programs awarded to us. If the Government were to terminate some or all of our contracts or reduce appropriations for a program under which we have a contract, cancel appropriations, or both, our operating performance and financial condition could be materially and adversely affected.

***Competitive bidding, a cornerstone to government contracting, imposes risks and costs.***

From time to time we derive significant revenue from federal contracts awarded through a competitive bidding process, which can impose substantial costs upon us. We will lose revenue if we or our contracting partners (typically, prime contractors with whom we subcontract) fail to compete effectively. Competitive bidding imposes substantial costs and presents a number of risks, including: the need to bid before design is complete, bid and proposal costs, risks in estimation of prospective needs, and bid protests that may delay or derail awards.

***Our work with other contractors poses risks, including risks to our reputation.***

As a prime contractor, we may rely upon other companies as subcontractors to perform work we are obligated to deliver to our government clients. A failure by one or more of our subcontractors to perform the agreed-upon services on a timely and satisfactory basis may compromise our ability to perform our obligations as a prime contractor. In some cases, we have limited involvement in the work performed by the subcontractor and may have exposure as a result of problems caused by the subcontractor. In extreme cases, performance deficiencies on the part of our subcontractors could result in a government client terminating our contract for default. A default termination could expose us to liability for the agency's costs of re-procurement, damage our reputation, and hurt our ability to compete for future contracts. Additionally, we may have disputes with our subcontractors that could impair our ability to execute our contracts as required.

***Despite careful precautions that we take, we are exposed to risk due to potential employee misconduct in the highly regulated government marketplace.***

We are exposed to the risk that employee fraud or other misconduct could occur. Misconduct by employees could include intentional failures to comply with federal government procurement regulations, engaging in unauthorized activities, or falsifying time records. Employee misconduct could also involve the improper use of our clients' sensitive or classified information, which could result in regulatory sanctions against us and serious harm to our reputation. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may be ineffective in controlling unknown or unmanaged risks or losses, which could harm our business.

*The government marketplace has a unique risk: that appropriations to fund contracts will not be made, or will be diverted or delayed.*

A decline in overall U.S. government expenditures could cause a decrease in our revenue and adversely affect our operating performance. Defense spending levels may not continue at present levels, and future levels of expenditures and authorizations for existing programs may decline, remain constant, or shift to agencies or programs in areas where we do not currently have contracts. A significant decline in defense expenditures, or a shift in expenditures away from agencies or programs that we support, could cause a material decline in our government-related revenue.

*Federal contracts are subject to unique terms and risks, not commonly found in the commercial marketplace.*

Federal government contracts contain provisions and are subject to laws and regulations that provide government clients with rights and remedies not typically found in commercial contracts. These rights and remedies allow government clients, among other things, to:

- terminate existing contracts for convenience, as well as default;
- reduce or modify contracts or subcontracts, often unilaterally;
- terminate security clearances and thereby prevent classified contracting;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent years become unavailable;
- decline to exercise options to renew multi-year contracts;
- claim rights in certain products, systems, and technology produced by us;
- prohibit future awards based on a finding of an organizational conflict of interest; subject contract awards to protest; and
- suspend or debar contractors.

*Our federal contracts pose unique pricing risks.*

Much of our federal contracting is done through a type of special contract, sponsored by the U.S. General Services Administration (GSA), known as the Multiple Award Schedules (or simply Schedules ) contract. Our GSA Schedules contract, like all others, includes a clause known as the Price Reductions clause; the terms of that clause are analogous to a most favored customer clause in commercial contracts. Under that clause, we have agreed that the prices to the government under the GSA Schedules contract will maintain a constant relationship to the prices charged to certain commercial customers, i.e., when prices to those benchmark customers drop, so too must our prices on our GSA Schedules contract. Although we have undertaken extensive efforts to comply with the Price Reductions clause, it is possible that we, through, for example, an unreported discount offered to a benchmark customer, might fail to honor the obligations of the Price Reductions clause. If that occurred, we could, under certain circumstances, be subject to an audit, an action in fraud, or other adverse government actions or penalties.

**THE LIMITED ABILITY OF LEGAL PROTECTIONS TO SAFEGUARD OUR INTELLECTUAL PROPERTY RIGHTS COULD IMPAIR OUR ABILITY TO COMPETE EFFECTIVELY.**

Our success and ability to compete are substantially dependent on our internally developed technologies and trademarks, which we protect through a combination of confidentiality procedures and agreements, contractual provisions, patent, copyright, trademark and trade secret laws. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our products or obtain and use

information that we regard as proprietary. The shift of an increasing amount of our product development work to India may increase this risk. Policing unauthorized use of our products is difficult, particularly in certain foreign countries, including, among others, India and The People's Republic of China. We are unable to determine the extent to which piracy of our software products exists. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the U.S. In addition, our competitors may independently develop technology similar to ours.

**OUR PRODUCTS MAY INFRINGE UPON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS, WHICH MAY CAUSE US TO INCUR UNEXPECTED COSTS OR PREVENT US FROM SELLING OUR PRODUCTS.**

The number of intellectual property claims in our industry may increase as the number of competing products grows and the functionality of products in different industry segments overlaps. In recent years, there has been a tendency by software companies to file substantially increasing numbers of patent applications, including those for business methods and processes. We have no way of knowing what patent applications third parties have filed until the application is published or until a patent is issued. Patent applications are often published within 18 months of filing, but it can take as long as three years or more for a patent to be granted after an application has been filed. In addition, we license our software to our customers under software license agreements, which generally provide the customer with limited indemnifications against damages, judgments, and reasonable costs and expenses incurred by the customer for any claim or suit based on infringement of a trademark or copyright as a result of the customer's use of the software.

Although we are not aware that any of our products infringe upon the proprietary rights of any third parties, there can be no assurance that third parties will not claim infringement by us with respect to current or future products. Any intellectual property claims, with or without merit, could be time-consuming to address, result in costly litigation, cause product shipment delays or may require us to enter into royalty or license agreements which may not be available on terms acceptable to us or at all. Accordingly, any claims of this nature may have a material adverse effect on the Company's business, operating performance, financial condition or cash flows.

**OUR INTERNATIONAL OPERATIONS POSE RISKS FOR OUR BUSINESS AND FINANCIAL CONDITION.**

We currently conduct international operations primarily in Europe and the Asia-Pacific region. We also have operations in Brazil, Canada and Mexico. More recently, we opened a product development center in India, where we also have relationships with third parties to outsource a portion of our implementation services effort. We intend to expand our international operations and to increase the proportion of our revenue from outside the U.S. These operations require significant management attention and financial resources and additionally subject us to risks inherent in doing business internationally, such as:

- failure to properly comply with foreign laws and regulations applicable to our foreign activities;
- failure to properly comply with U.S. laws and regulations relating to the export of our products and services;
- difficulties in managing foreign operations and appropriate levels of staffing;
- foreign currency exposure;
- longer collection cycles;
- tariffs and other trade barriers;



- seasonal reductions in business activities, particularly throughout Europe;
- proper compliance with local tax laws which can be complex and may result in unintended adverse tax consequences;
- anti-American sentiment due to the war with Iraq and other American policies that may be unpopular in certain countries; and
- increasing political instability, adverse economic conditions and the potential for war or other hostilities in many of these countries.

Our failure to properly comply with or address any of the above factors could adversely affect the success of our international operations and could have a material adverse effect on our operating performance and financial condition.

**CHANGES IN THE VALUE OF THE U.S. DOLLAR, IN RELATION TO THE CURRENCIES OF FOREIGN COUNTRIES WHERE WE TRANSACT BUSINESS, COULD HARM OUR OPERATING PERFORMANCE AND FINANCIAL CONDITION.**

For the fiscal years ended February 28th or 29th, 2006, 2005 and 2004, approximately 35.5%, 33.8% and 34.0% of our total revenue was derived from outside the U.S, respectively. Our international revenue and expenses are denominated in foreign currencies, typically the local currency of the selling business unit. Therefore, changes in the value of the U.S. Dollar as compared to these other currencies may adversely affect our operating results. We generally do not implement hedging programs to mitigate our exposure to currency fluctuations affecting international accounts receivable, cash balances and intercompany accounts, and we do not hedge our exposure to currency fluctuations affecting future international revenue and expenses and other commitments. For the foregoing reasons, currency exchange rate fluctuations have caused, and likely will continue to cause, variability in our foreign currency denominated revenue streams and costs and our cost to settle foreign currency denominated liabilities, which could have a material adverse effect on our operating performance and financial condition.

**WE MAY BE SUBJECT TO FUTURE LIABILITY CLAIMS, AND THE REPUTATIONS OF OUR COMPANY AND PRODUCTS MAY SUFFER.**

Many of our implementations involve projects that are critical to the business operations of our clients and provide benefits to the client which may be difficult to quantify. Any failure in a client's system could result in a claim for substantial damages against us, regardless of our responsibility for the failure. We have entered into and plan to continue to enter into agreements with software vendors, consulting firms, resellers and others whereby they market and implement our solutions. If these vendors fail to meet their clients' expectations or cause failures in their clients' systems, our reputation and that of our products could be materially and adversely affected even if our software products perform in accordance with their functional specifications.

**WE MAY CHOOSE TO CHANGE OUR BUSINESS PRACTICES OR OUR EARNINGS MAY BE AFFECTED AS A RESULT OF CHANGES IN THE REQUIREMENTS RELATING TO THE ACCOUNTING TREATMENT OF EMPLOYEE STOCK OPTIONS.**

Generally accepted accounting principles in the U.S. are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the Public Company Accounting Oversight Board, the Securities and Exchange Commission, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the implementation of a new accounting principle.

We currently account for stock options in accordance with Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees* ( APB 25 ) and, accordingly, we only record compensation expense related to stock options if the current market price of the underlying stock exceeds the exercise price of the stock option on the date of grant. On December 16, 2004, the FASB published FASB Statement No. 123 (R) *Share-Based Payment* ( SFAS 123(R) ), which was to be effective for public companies in periods beginning after June 15, 2005. On April 14, 2005, The Securities and Exchange Commission announced the adoption of a new rule that amends the compliance dates for SFAS 123(R). The new rule allows companies to implement SFAS 123(R) at the beginning of their next fiscal year instead of their next reporting period beginning after June 15, 2005. We will be required to implement SFAS 123(R) beginning in the first quarter of fiscal 2007. Our earnings in fiscal 2007 could be significantly reduced as a result of changing our accounting policy in accordance with SFAS 123(R). As a result, we could decide to reduce the number of stock options granted to employees or to grant options to fewer employees. This could affect our ability to retain existing employees or attract qualified candidates, and increase the need to extend additional cash compensation we pay to employees. Such a change could have a material effect on our operating performance.

In 2003, our Board of Directors and shareholders approved an amendment to our 1998 stock option plan to allow for the issuance of restricted shares of our common stock to its employees. The Company recorded \$1.7 million, \$1.2 million and \$0.3 million in net compensation expense related to restricted shares outstanding during fiscal 2006, 2005 and 2004, respectively.

**IT MAY BECOME INCREASINGLY EXPENSIVE TO OBTAIN AND MAINTAIN INSURANCE.**

We obtain insurance to cover a variety of potential risks and liabilities. In the current market, insurance coverage has become more restrictive, and when insurance coverage is offered, the deductible for which we are responsible is larger and premiums have increased substantially. As a result, it may become more difficult to maintain insurance coverage at historical levels, or if such coverage is available, the cost to obtain or maintain it may increase substantially. This may result in our being forced to bear the burden of an increased portion of risks for which we have traditionally been covered by insurance, which could have a material effect on our operating performance and financial condition.

***RISKS RELATED TO OUR COMMON STOCK***

**OUR STOCK PRICE HAS BEEN AND IS LIKELY TO CONTINUE TO BE VOLATILE. SIGNIFICANT DECLINES IN OUR STOCK PRICE MAY RESULT FOR VARIOUS REASONS, INCLUDING POOR FINANCIAL PERFORMANCE.**

The trading price of our common stock has been and is likely to be volatile. Our stock price has been and could continue to be subject to wide fluctuations in response to a variety of factors, including the following:

- actual or anticipated variations in quarterly revenue and operating results and continuing losses;
- corporate and consumer confidence in the economy, evidenced in part, by stock market levels;
- changes in the size or number of our software transactions;
- announcements of technological innovations;
- new products or services offered by us or our competitors;
- changes in financial estimates and ratings by securities analysts;
- changes in the performance, market valuations, or both, of our current and potential competitors and the software industry in general;

- our announcement or a competitor's announcement of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- adoption of industry standards and the inclusion of our technology in, or compatibility of our technology with, such standards;
- adverse or unfavorable publicity about us, or our products, services or implementations;
- adverse or unfavorable publicity regarding our competitors, including their products and implementations;
- additions or departures of key personnel;
- sales or anticipated sales of additional debt or equity securities; and
- other events or factors that may be beyond our control.

In addition, the stock markets in general, The Nasdaq National Market and the equity markets for software companies in particular, have experienced extraordinary price and volume volatility in recent years. Such volatility has adversely affected the stock prices for many companies irrespective of, or disproportionately to, the operating performance of these companies. These broad market and industry factors may materially and adversely further affect the market price of our common stock, regardless of our actual operating performance.

On April 24, 2006, we entered into a definitive Agreement and Plan of Merger with JDA and the Merger Sub. Under the Merger Agreement, the Merger Sub will be merged with and into the Company, with the Company continuing after the Merger as a wholly-owned subsidiary of JDA. From April 24, 2006 through May 8, 2006, the per share closing prices for our common stock as reported by Nasdaq were between \$2.36 and \$2.45. If the Merger is not consummated, our stock price may decline to the extent that the current market price reflects an assumption that the merger will be completed.

**OUR CHARTER, BYLAWS AND SHAREHOLDER RIGHTS PLAN, DELAWARE LAW AND THE INDENTURE FOR THE NOTES CONTAIN PROVISIONS THAT COULD DISCOURAGE A TAKEOVER EVEN IF BENEFICIAL TO SHAREHOLDERS. IN ADDITION, CERTAIN OF OUR CURRENT OFFICERS, DIRECTORS, AND AN ENTITY AFFILIATED WITH A DIRECTOR TOGETHER MAY BE ABLE TO EXERCISE SUBSTANTIAL INFLUENCE OVER MATTERS REQUIRING SHAREHOLDER APPROVAL.**

Our charter and our bylaws, in conjunction with Delaware law, contain provisions that could make it more difficult for a third party to obtain control of our Company even if doing so would be beneficial to shareholders. For example, our bylaws provide for a classified board of directors and allow our board of directors to expand its size and fill any vacancies without shareholder approval. Furthermore, our board has the authority to issue preferred stock and to designate the voting rights, dividend rate and privileges of the preferred stock, all of which may be greater than the rights of common shareholders. Additionally, upon a change of control of our 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. This could make it more difficult for a third party to obtain control of us even if doing so would be beneficial to shareholders.

On October 28, 2004, we adopted a shareholder rights plan that entitles our shareholders to rights to acquire shares of our Series A Junior Participating Preferred Stock generally when a third party acquires twenty percent or more of the outstanding shares of our common stock or commences a tender offer or exchange offer for twenty percent or more of the outstanding shares of our common stock. The shareholder rights plan could delay, deter or prevent an investor from acquiring us in a transaction that shareholders may consider favorable, including transactions in which shareholders might otherwise receive

a premium over their shares. In connection with the Merger Agreement, on April 24, 2006, the Company entered into an amendment to the Rights Agreement between the Company and Computershare Trust Company, N.A. (formerly Equiserve Trust Company N.A.) As a result of the amendment, the preferred stock purchase rights issued under the Rights Agreement will be inapplicable to the Merger, the Merger Agreement, the Voting Agreements and the transactions contemplated by the Merger Agreement and the Voting Agreements. The execution, delivery, consummation or performance of the Merger Agreement, the Voting Agreements and the transactions contemplated thereby will not cause the rights to separate from shares of Company Common Stock or permit the Company's stockholders to exercise the rights. In addition, the rights will expire immediately upon the effective time of the Merger.

In addition, our current officers, directors, and Warburg Pincus Private Equity VIII, L.P. ( WP VIII ) an entity affiliated with William H. Janeway, one of our directors, together beneficially owned approximately 23.8% of the outstanding shares of our common stock at February 28, 2006. While these shareholders do not hold a majority of our outstanding common stock, if they were to vote together, they may be able to exercise significant influence over matters requiring shareholder approval, including the election of directors and the approval of mergers, consolidations and sales of our assets. This factor may prevent or discourage tender offers for our common stock.

In order to facilitate the consummation of the transactions contemplated by the Merger Agreement, JDA entered into the Voting Agreements, pursuant to which certain of our stockholders will vote (or cause to be voted) in person or by proxy all shares of our common stock held by them (i) in favor of the adoption of the Merger Agreement and approval of the transactions contemplated thereby, (ii) against any proposal made in opposition to or competition with the consummation of the Merger and the Merger Agreement, (iii) against any proposal that would reasonably lead to or result in the conditions of JDA's or Merger Sub's obligations under the Merger Agreement not being fulfilled, (iv) against any takeover proposal from any party other than JDA or an affiliate of JDA, and (v) against the election of a group of individuals to replace a majority or more of the individuals presently on the Company's Board. The stockholders that signed the Voting Agreements beneficially own approximately 24% of our outstanding shares of common stock as of April 24, 2006 and include certain of our officers and directors and entities affiliated with them. If the Merger Agreement is terminated for any reason, the Voting Agreements will also terminate. The foregoing description of the Voting Agreements is not complete and is qualified in its entirety by reference to the form of Voting Agreement, which is filed as Exhibit 99.3 to the Company's Current Report on Form 8-K dated April 25, 2006 and is incorporated herein by reference.

#### **FUTURE SALES OF SUBSTANTIAL AMOUNTS OF OUR COMMON STOCK COULD CAUSE OUR STOCK PRICE TO DECLINE.**

Sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could cause the market price of our common stock to decline. Our current officers, directors, and WP VIII, together beneficially owned approximately 23.8% of the outstanding shares of our common stock at February 28, 2006. Pursuant to the Voting Agreements, our current officers, directors and WP VIII agreed not to directly or indirectly sell, assign, transfer, pledge, encumber or otherwise dispose of their shares of our common stock or enter into any arrangement or understanding with respect to such a sale, assignment, transfer, pledge, encumbrance or disposition. These restrictions in the Voting Agreements terminate if the Merger Agreement is terminated.

#### **Item 1B. UNRESOLVED STAFF COMMENTS.**

None.

**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. Approximately 38% of this office space has been abandoned through our exit and disposal plans (See Note 14 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K). Approximately 26% of our corporate headquarters space is subleased.

In addition, we lease office space for our 16 sales, service and product development offices located in North America, South America, Europe and Asia-Pacific, pursuant to leases that expire between calendar 2006 and calendar 2018. We believe that our current facilities are adequate for our current needs and suitable additional or substitute space will be available as needed to accommodate any future expansion of our operations. We continue to market office space that has been abandoned in conjunction with exit and disposal plans implemented by the Company. Please refer to Note 8 and Note 14 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for information regarding our lease obligations and exit and disposal plans.

**Item 3. LEGAL PROCEEDINGS.**

We are involved from time to time in disputes and other litigation in the ordinary course of business. We have established accruals related to such matters that are probable and reasonably estimable. 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.

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**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our common stock, \$.002 par value per share, trades on The NASDAQ National 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.

<b>Fiscal 2006</b>	<b>High</b>	<b>Low</b>
First Quarter (ended May 31, 2005)	\$ 2.20	\$ 1.38
Second Quarter (ended August 31, 2005)	\$ 2.38	\$ 1.61
Third Quarter (ended November 30, 2005)	\$ 2.30	\$ 1.66
Fourth Quarter (ended February 28, 2006)	\$ 2.14	\$ 1.63
 <b>Fiscal 2005</b>	 <b>High</b>	 <b>Low</b>
First Quarter (ended May 31, 2004)	\$ 7.34	\$ 4.25
Second Quarter (ended August 31, 2004)	\$ 4.20	\$ 2.21
Third Quarter (ended November 30, 2004)	\$ 2.88	\$ 2.20
Fourth Quarter (ended February 28, 2005)	\$ 3.07	\$ 1.80

As of April 30, 2006, there were approximately 399 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 and to retire debt. In addition, we have a two-year unsecured revolving credit facility with SVB that is scheduled to expire on March 29, 2007. If the Merger is not consummated prior to the expiration date of this credit facility, we intend to renew this credit facility before it expires. 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 depend 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. The Merger Agreement also prohibits us from declaring or paying any cash dividends without JDA's consent. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources and Note 7 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

The following table provides information regarding our current equity compensation plans as of February 28, 2006. Share amounts are in thousands.

**Equity Compensation Plan Information**

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	10,739	\$ 4.79	4,801
Equity compensation plans not approved by security holders	196	14.86	
<b>Total</b>	<b>10,935</b>	<b>\$ 5.84</b>	<b>4,801</b>

Additional information regarding our equity compensation plans can be found in Note 9 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

In fiscal 2004, the Company issued 9,725,750 shares of its common stock in exchange for \$74.5 million of Notes in privately negotiated transactions with note holders in reliance on the exemption from registration set forth in Section 3(a)(9) of the Securities Act.

**Item 6. SELECTED FINANCIAL DATA.**

Our selected consolidated financial data for each of the five fiscal years in the period ended February 28, 2006 and each of our last eight fiscal quarters is 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 on Form 10-K. The selected financial data for each of the years in the three-year period ended February 28, 2006, and as of February 28, 2006 and February 28, 2005, are derived from the Consolidated Financial Statements that have been included in this Annual Report on Form 10-K. The selected financial data as of February 28 or 29, 2004, 2003 and 2002, the years ended February 28, 2003 and 2002, and in each of our last eight fiscal quarters are derived from the Consolidated Financial Statements that have not been included in this Annual Report on Form 10-K.

	<b>Fiscal year ended February 28 or 29,</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(in thousands, except per share and number of employees data)</b>				
<b>STATEMENT OF OPERATIONS DATA:</b>					
Revenue:					
Software license	\$ 27,480	36,203	\$ 73,766	\$ 74,899	\$ 129,772
Support	86,493	84,050	86,593	84,075	73,852
Services	56,121	64,933	73,254	102,144	106,522
Reimbursed expenses	6,098	7,920	9,432	11,268	9,741
Total revenue	176,192	193,106	243,045	272,386	319,887
Operating expenses:					
Cost of revenue:					
Cost of software license	14,900	14,213	15,851	19,127	21,144
Amortization of acquired technology	5,678	13,207	14,210	13,623	9,168
Cost of services and support	60,846	73,694	80,306	98,055	92,083
Cost of reimbursed expenses	6,098	7,920	9,432	11,268	9,741
Sales and marketing	38,556	52,662	66,061	95,627	120,437
Product development	27,517	32,404	36,233	63,055	70,477
General and administrative	19,876	22,110	25,060	27,885	28,522
Amortization of intangibles	5,753	6,648	4,674	3,866	86,279
Goodwill impairment charge				96,349	
Asset impairment charge	3,733				
Purchased research and development				3,800	
Exit and disposal activities	3,299	17,312	18,627	19,184	6,612
Non-cash stock option compensation expense (benefit)		168	1,799	3,426	(3,111)
IRI settlement					3,115
Total operating expenses	186,256	240,338	272,253	455,265	444,467
Loss from operations	(10,064)	(47,232)	(29,208)	(182,879)	(124,580)
Debt conversion expense			(59,823)		
Other expense, net	(5,789)	(7,314)	(13,455)	(7,942)	(14,638)
Loss before income taxes	(15,853)	(54,546)	(102,486)	(190,821)	(139,218)
(Benefit from) provision for income taxes	(3,610)	725	1,314	21,418	(24,060)
Net loss	\$ (12,243)	\$ (55,271)	\$ (103,800)	\$ (212,239)	\$ (115,158)
Basic and diluted loss per share	\$ (0.15)	\$ (0.67)	\$ (1.43)	\$ (3.04)	\$ (1.69)



**BALANCE SHEET AND OTHER DATA:**

Cash, cash equivalents and marketable securities	\$ 140,727	\$ 129,978	\$ 146,300	\$ 137,735	\$ 233,060
Working capital	120,773	105,533	128,090	122,791	237,751
Long-term investments		5,911	8,999		
Goodwill	185,818	185,658	185,501	187,438	269,998
Acquired technology and customer relationships, net of accumulated amortization	7,987	23,151	43,007	61,889	54,206
Total assets	413,311	440,280	498,081	529,373	722,640
Convertible debt	175,500	175,500	175,500	250,000	250,000
Total stockholders' equity	153,923	164,746	216,860	172,082	372,807
Cash flows from operating activities	14,524	(5,505)	6,825	(30,675)	(15,899)

<b>Fiscal 2006</b>	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
	<b>(in thousands, except per share data)</b>			
<b>Revenue:</b>				
Software license	\$ 8,391	\$ 5,068	\$ 4,093	\$ 9,928
Support	21,815	21,755	21,099	21,824
Services	14,681	15,259	13,184	12,997
Reimbursed expenses	1,770	1,567	1,548	1,213
Total revenue	46,657	43,649	39,924	45,962
Cost of software license	4,468	3,114	3,599	3,719
Cost of services and support	15,388	16,244	14,526	14,688
Cost of reimbursed expenses	1,770	1,567	1,548	1,213
Sales and marketing	11,208	8,313	9,321	9,714
Product development	7,498	7,956	6,523	5,540
General and administrative	5,268	5,054	4,173	5,381
Exit and disposal activities, and acquisition-related expenses(1)	4,081	8,514	3,856	2,012
Operating (loss) income	(3,024)	(7,113)	(3,622)	3,695
Net (loss) income	(4,916)	(6,118)	(4,644)	3,435
Basic (loss) earnings per share	\$ (0.06)	\$ (0.07)	\$ (0.06)	\$ 0.04
Diluted (loss) earnings per share	\$ (0.06)	\$ (0.07)	\$ (0.06)	\$ 0.04

Fiscal 2005	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands, except per share data)			
Revenue:				
Software license	\$ 10,368	\$ 11,111	\$ 6,664	\$ 8,060
Support	21,421	21,296	20,666	20,667
Services	17,558	16,374	16,159	14,842
Reimbursed expenses	2,236	2,481	1,556	1,647
Total revenue	51,583	51,262	45,045	45,216
Cost of software license	3,914	3,422	3,525	3,352
Cost of support and services	18,190	19,040	18,391	18,073
Cost of reimbursed expenses	2,236	2,481	1,556	1,647
Sales and marketing	15,240	15,225	11,387	10,810
Product development	8,328	8,566	8,257	7,253
General and administrative	6,014	6,006	5,250	4,840
Exit and disposal activities, and acquisition-related expenses(1)	2,811	11,478	8,139	14,907
Operating loss	(5,150 )	(14,956 )	(11,460 )	(15,666 )
Net loss	(7,733 )	(17,114 )	(13,268 )	(17,156 )
Basic and diluted loss per share	\$ (0.09 )	\$ (0.21 )	\$ (0.16 )	\$ (0.21 )

(1) Exit and disposal activities and acquisition-related expenses includes amortization of intangibles and acquired technology, non-cash stock-option compensation expense and exit and disposal activities.

**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 the Consolidated Financial Statements and the related notes and other financial information included elsewhere in this Annual Report on Form 10-K. The discussion and analysis contains forward-looking statements which 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 on Form 10-K as a result of specified factors, including those set forth in Item 1A-Risk Factors.*

**Executive Summary**

Our Consolidated Financial Statements are included in Item 15 of this Annual Report on Form 10-K. The following discussion is provided to allow the reader to have a better understanding of our operating results for the year ended February 28, 2006, including (i) a brief discussion of our business and products, (ii) a summary of the merger agreement signed with JDA software (iii) the business environment and factors that affected our financial performance, (iv) our focus on future improvements in our financial performance and (v) a summary of our fiscal 2006 operating results and financial metrics. This executive summary should be read in conjunction with the more detailed discussion and analysis of our financial condition and results of operations included in this Item 7, with Risk Factors in Item 1A of this Annual Report on Form 10-K and our Consolidated Financial Statements, which are included in Item 15 of this Annual Report on Form 10-K.

**Overview Business and Products**

We are a leading global provider of supply chain management and demand and revenue management software products and services. We combine these products and services to deliver solutions that address specific business needs of our clients. We focus primarily on the Consumer Goods, Retail, and Government, Aerospace & Defense markets. We provide revenue management solutions for the Travel, Transportation & Hospitality markets.

Our solutions enable our clients to reduce operating costs, improve customer service and increase their top-line revenue by allowing them to plan, optimize and synchronize their demand and supply chain and to improve their revenue management practices. These benefits create efficiencies in how goods and services are brought to market, how they are priced and sold and how they are serviced and maintained. Our software solutions enable clients to optimize cost and revenue simultaneously on an enterprise-wide basis by integrating pricing, forecasting and operational planning and execution to enhance margins across the client's enterprise and extended trading networks. In addition, our software solutions help our clients derive more benefits from their existing IT investments with other software vendors, such as legacy ERP and other transaction-based systems, and help ensure the security and integrity of their global supply chains.

Our approach to client delivery is to advise our clients on how best to use our solutions and other technologies across their demand and supply chain to integrate pricing, forecasting, operational planning and execution in a manner that will allow them to enhance margins across their enterprise and extended trading networks and to improve their revenue management practices. We deliver our solutions using commercially available products and will provide additional functionality addressed through product extensions for industry-specific capabilities. Certain of our clients and prospects ask for unique capabilities in addition to our core capabilities to give them a competitive edge in the marketplace, which we may provide on a case-by-case basis. We expect this will lead to an increase in software license revenue being

recognized on a contract accounting basis over the course of the delivery of the solution rather than upon initial delivery of the software and contract execution.

#### **Summary of Merger Agreement Signed with JDA Software Group, Inc.**

On April 24, 2006, we entered into a definitive Agreement and Plan of Merger (the Merger Agreement) with JDA Software Group, Inc., a Delaware corporation (JDA), and Stanley Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of JDA (the Merger Sub). Under the Merger Agreement, the Merger Sub will be merged with and into the Company (the Merger), with the Company continuing after the Merger as a wholly-owned subsidiary of JDA. At the effective time of the Merger, each issued and outstanding share of the Company's Common Stock, par value \$0.002 per share (the Company Common Stock), will be converted into the right to receive \$2.50 in cash.

The Merger Agreement has been approved by the Board of Directors (the Board) of the Company. The Board has received an opinion from Lehman Brothers, Inc. that the consideration to be offered to the Company's stockholders in the Merger is fair from a financial point of view to such stockholders. The transactions contemplated by the Merger Agreement are subject to approval by the holders of a majority of the issued and outstanding shares of Company Common Stock. The transactions contemplated by the Merger Agreement also are subject to the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and certain other closing conditions. The Merger Agreement provides for a termination fee of up to \$9.75 million, which is payable by the Company under certain circumstances.

#### **Business Environment and Factors That Affected our Fiscal Year Ended February 28, 2006 Results**

Our operating results for the year ended February 28, 2006 were affected by several broad-based factors including cautious capital spending by corporations for enterprise application software. We believe changing conditions over the last three fiscal years caused changes in the behavior patterns in our markets as our clients and prospects intensified their efforts to reduce costs. Many shifted their focus from larger longer-term strategic initiatives to smaller short-term tactical initiatives with more rapid paybacks. We also believe that many of our clients and prospects are focused on realizing benefits from earlier investments in information technology rather than committing to new initiatives. These changes in our markets have led to fewer opportunities for us to win business. We believe that these changes in the markets for enterprise application software will continue.

We continue to see a growing number of our clients and prospects wanting to structure deals to reduce their overall perceived risks. These deal structures include, but are not limited to, phased projects, delayed payments for software, and tying payments for software to performance. Certain of our clients and prospects want us to structure deals where we can earn additional revenue based on performance. During the year ended February 28, 2006, we closed one such transaction.

We believe that the size of enterprise application software license transactions has declined in general. We experienced declines in the numbers and size of our software transactions, including the number of software transactions of \$1 million or greater, in the year ended February 28, 2006, which has also resulted in a decrease in our average selling price (ASP).

We believe our financial results in the fiscal year ended February 28, 2006 were also adversely affected by the ongoing consolidation in our industry, the pace of which has significantly increased over the past year and may continue. This consolidation has increased uncertainty about the abilities of smaller enterprise application software vendors to remain independent and thrive, which has negatively affected and may continue to negatively affect our ability to grow our revenue and improve our performance. In addition, some of our larger competitors increasingly have raised concerns about our financial viability with our clients and prospects, which have affected our ability to close software transactions successfully.

Over the past two fiscal years, we have made substantial changes in our Company, including reorganizing and downsizing our executive management team and our sales organization, moving a portion of our product development function to India, narrowing our market focus, narrowing our product focus, increasing our emphasis on transportation and retail markets and pricing optimization capabilities and increasing our emphasis on the Asia-Pacific region. Although we believe these changes were necessary and the correct actions to take, we have not yet been able to increase our revenue, particularly our software license revenue. However, these changes have enabled us to reduce our ongoing operating expense and to improve our financial performance in our most recent quarters.

#### **Focus on Future Improvements in Our Financial Performance**

For the year ended February 28, 2006, we continued to develop a more focused product and market strategy, and we continued the strategic restructuring of the organization in an effort to reduce our operating expenses to a level that would better position us to become profitable. During fiscal 2005, we organized our sales and marketing efforts to address the Consumer Goods, Retail, Government, Aerospace & Defense and Revenue Management markets. In Europe where we currently do not have a critical mass of resources, we eliminated certain offices, which are now being serviced from other locations in the region. We intend to provide more focused sales and marketing efforts to small and medium-sized businesses in Europe and the Asia-Pacific region through third-party reseller and agency agreements.

We intend to increase our focus and investments for the future in our Asia-Pacific region, in our Transportation and Retail industries and in our Pricing area. As part of this focus, we hired a President of our Asia-Pacific region in October 2005 and more recently hired a President of our Japan office. We are implementing specific Retail marketing programs and recruiting for sales employees with Retail experience. We intend to make strategic investments to round out the solutions and add sales and marketing people for our Pricing and Transportation solutions. In addition, we intend to start a services organization in India to reduce the number of contractors we currently use in an effort to improve the margins in our services business.

As of February 28, 2006, we had achieved quarterly cost savings of approximately \$7.5 million, compared to the three months ended November 30, 2004, as a result of our exit and disposal plans enacted in fiscal 2005 (the FY05 Q2 Plans). These exit and disposal plans included the abandonment of certain office space and related asset write-offs and the involuntary termination of employees. We have completed most of the planned initiatives approved in our FY05 Q2 Plans and expect to complete the remainder of the initiatives in fiscal 2007.

During the fourth quarter of fiscal 2005, we commenced operations at our product development center in Hyderabad, India. We continue to move a substantial portion of our product development capabilities to our new facility while keeping our core product development capabilities at our headquarters in Rockville, Maryland. We believe this will allow us to both increase our product development resources and to lower our product development costs. As of February 28, 2006, we had approximately 178 employees at our Hyderabad, India development center and expect that number to increase through the first quarter of fiscal 2007. For the year ended February 28, 2006, amortization of previously capitalized software exceeded capitalization of software development costs by approximately \$6.1 million. We expect amortization of previously capitalized software to continue to exceed capitalization of software development costs as we continue to shift development operations to Hyderabad, India. Once we have completed transitioning the development process to India, we believe that we will no longer capitalize software development costs due to the change in the developmental life cycle of our products that is due to the expected shortening of time between reaching technological feasibility and introduction of our products into the market.

If market conditions for our products and services do not improve, we may need to make further adjustments to our cost structure to further improve performance.

**Summary of Fiscal 2006 Operating Results and Financial Metrics**

As we entered fiscal 2006, difficult market conditions continued. Certain industries have been more or less likely to invest in enterprise application software depending on the condition of their business and industry. Our customers generally licensed fewer software modules in fiscal 2006 than in past years. We have not lost any of our largest support customers in recent quarters that had a negative material impact on revenue.

Our cost containment and cost reduction measures enacted in fiscal 2005 and fiscal 2006 have lessened the adverse impact on our financial performance of our declining revenue. During fiscal 2006, our total operating expenses decreased by 22.5%, while total revenue declined 8.8% compared to the same period.

*Key Financial Metrics Fiscal 2006*

Our fiscal 2006 results and key financial metrics were negatively affected by decreased revenue; however, we have made progress in decreasing our operating costs, particularly in the second half of fiscal 2006. The following is a summary of our performance relative to certain key financial metrics during fiscal 2006 compared to fiscal 2005, as well as a summary of our quarterly performance in fiscal 2006.

	Year Ended February 28, 2005		Year Ended February 28, 2006		Q3	Q4
	2005	2006	Q1	Q2		
	(in thousands, except number of employees and DSO)					
<b>Revenue:</b>						
Software License	\$ 36,203	\$ 27,480	\$ 8,391	\$ 5,068	\$ 4,093	\$ 9,928
Support	84,050	86,493	21,815	21,755	21,099	21,824
Services & reimbursed expenses	72,853	62,219	16,451	16,826	14,732	14,210
Total revenue	193,106	176,192	46,657	43,649	39,924	45,962
<b>Operating expenses and employee headcount:</b>						
Exit and disposal activities and acquisition-related expenses(1)	37,335	18,463	4,081	8,514	3,856	2,012
All other operating expenses(2)	203,003	167,793	45,600	42,248	39,690	40,255
Total operating expenses	240,338	186,256	49,681	50,762	43,546	42,267
Total employees (period end)	695	761	722	765	766	761
Total average employees	800	742	703	748	762	763
Total revenue per average employee	\$ 241	\$ 237	\$ 66	\$ 58	\$ 52	\$ 60
<b>Financial condition, liquidity and capital structure</b>						
Cash, cash equivalents, marketable securities and long-term investments	\$ 135,889	\$ 140,727	\$ 133,297	\$ 136,109	\$ 126,508	\$ 140,727
Days sales outstanding (DSO)	86	85	80	78	84	80
Convertible debt	175,500	175,500	175,500	175,500	175,500	175,500
Total stockholders' equity	164,746	153,923	159,279	154,005	149,164	153,923
Common shares outstanding (period end)	83,869	84,161	83,819	83,780	84,133	84,161
Cash flows from operating activities	(5,505)	14,524	427	5,256	(6,837)	15,678

(1) Includes exit and disposal activities plus acquisition related expenses such as amortization of acquired technology and intangibles, intangible asset impairment charge and non-cash stock option compensation expense.

(2) Includes cost of software license, cost of support and services, cost of reimbursed expenses, sales and marketing, product development and general and administrative costs.

The following is a brief discussion of the above financial metrics and analysis of the reasons for the changes between fiscal 2005 and fiscal 2006 and recent trends.

### Software license revenue

Our software license revenue decreased during fiscal 2006 by 24.1% to \$27.5 million. The following table highlights some of the significant trends impacting our software revenue:

Quarter Ended	Significant Software License Transactions(1)	Average Selling Price (in 000s)	Software Transactions \$1.0 Million or Greater
May 31, 2004	13	695	1
August 31, 2004	18	533	3
November 30, 2004	11	491	1
February 28, 2005	12	559	2
May 31, 2005	7	976	2
August 31, 2005	13	264	
November 30, 2005	10	288	
February 28, 2006	21	448	3
Fiscal 2005 Total	54	570	7
Fiscal 2006 Total	51	442	5

(1) Significant software license transactions are those with a value of \$100,000 or greater (excluding those recognized on a percentage-of-completion or ratable basis) recognized within the fiscal year or fiscal quarter.

Software license revenue by industry for fiscal 2006, fiscal 2005 and fiscal 2004 is as follows (in thousands):

	Fiscal year ended February 28 or 29,		
	2006	2005	2004
Government, Aerospace & Defense	\$ 580	\$ 2,789	\$ 22,629
Consumer Goods	17,717	15,161	29,273
Revenue Management	2,950	2,453	477
Retail	4,594	12,227	10,938
Other	1,639	3,573	10,449
Total	\$ 27,480	\$ 36,203	\$ 73,766

The previous tables indicate the following trends affecting our software license revenue over the past two fiscal years:

- We reported fewer significant software license transactions, including those with a value of \$1.0 million or greater, during fiscal 2006 compared to fiscal 2005.
- The average selling price of software has fluctuated the past eight quarters, ranging from \$264,000 to \$976,000. The ASP for the quarter ended May 31, 2005 included one software license transaction which accounted for more than 10% of total revenue for that quarter. The ASP for the quarter ended May 31, 2004 included software license revenue from installments under a large multi-year government contract.
- Software license revenue declined for all industries with the exception of the Revenue Management and Consumer Goods industry during fiscal 2006 compared to fiscal 2005. We believe the increase in revenue in the Revenue Management industry (other than airlines) reflects a recovery in travel,





transportation and hospitality, following a few years of decreased spending in these areas following the September 11, 2001 terrorist attack.

- Software license revenue in the Government, Aerospace & Defense industry decreased in fiscal 2006 and 2005 compared to fiscal 2005 and 2004, respectively. We believe the decline in our Government, Aerospace & Defense software revenue resulted from the Federal Government shifting monies (especially within the Department of Defense) to the war on terror.
- Software license revenue in the Consumer Goods industry decreased in fiscal 2005 compared to the fiscal 2004. We believe that the decrease in consumer goods spending was due to lack of capital spending by these customers who were largely focused on realizing benefits from earlier investments in information technology rather than investing in new capabilities. In addition, we believe that some consumer goods prospects had delayed purchasing decisions due to budget constraints and challenges in complying with the requirements of the Sarbanes-Oxley Act of 2002 and other regulatory requirements.

#### **Support revenue**

Our support revenue was \$86.5 million in fiscal 2006 compared to \$84.1 million in fiscal 2005. Our percentage of annual support renewals by our clients remains over 90%.

#### **Services and reimbursed expense revenue**

Our services and reimbursed expense revenue decreased 14.6% in fiscal 2006 to \$62.2 million. Services revenue tends to track software revenue in prior periods. We primarily attribute the decrease in services and reimbursed expense revenue to the decrease in the number and size of completed software license transactions in fiscal 2006 compared to fiscal 2005 and due to the deferral of services revenue related to a transaction for which the criteria for revenue recognition has not yet been met. Additionally, we experienced competitive rate pressures on consulting engagements and lower demand for our consulting services in fiscal 2006.

#### **Total revenue per average employee**

Our total revenue per average employee decreased by 1.7% to \$237 for fiscal 2006 (calculated as total revenue for the year divided by average employees for the year). This decrease was due to lower software and services revenue in fiscal 2006 partially offset by a 7.3% decrease in average employee headcount in fiscal 2006. Although average headcount was lower in fiscal 2006 compared to fiscal 2005, total headcount increased during fiscal 2006 to 761 as of February 28, 2006 as a result of the continued staffing of our product development facility in Hyderabad, India.

#### **Total operating expenses**

Our total operating expenses declined by 22.5% during fiscal 2006 to \$186.3 million. Exit and disposal activities and acquisition-related expenses declined 50.5% during fiscal 2006 to \$18.5 million. This decrease was the result of lower exit and disposal charges in fiscal 2006 as compared to fiscal 2005 and lower acquisition-related expenses as a result of the completed amortization of the customer relationship asset from our Talus Solutions, Inc. ( Talus ) acquisition and completed amortization of the acquired technology assets from the STG Holdings, Inc. ( STG ), Talus Solutions, Inc. and Spaceworks, Inc. acquisitions. The decrease in acquisition-related expenses was partially offset by a \$3.7 million impairment charge recognized in fiscal 2006 related to acquired technology from the Partminer CSD, Inc. acquisition.

All other operating expenses declined 17.3% during fiscal 2006 to \$167.9 million. This decrease was primarily related to lower professional and consulting fees, reduced office, travel and salary expenses as a result of the decrease in average employee headcount during fiscal 2006 related to our exit and disposal

plans executed during fiscal 2006 and the second half of fiscal 2005. Additionally, we recorded a \$1.5 million benefit related to the reversal of a previously recorded provision for anticipated loss on a contract for which our obligation to perform services expired during fiscal 2006. We also recorded lower bad debt expense during fiscal 2006 which included the reversal of approximately \$1.6 million of bad debt expense related to payment received for an outstanding receivable for which we had previously established a reserve. These decreases were partially offset by an increase in amortization of capitalized software development costs in excess of capitalized software development costs primarily as a result of changes in the product development life cycle of our products as we shift product development operations to our development center in Hyderabad, India.

#### **Financial condition, liquidity and capital structure**

During fiscal 2006, we experienced changes in our financial condition, liquidity and capital structure, including the following:

- Cash, cash equivalents, marketable securities and long-term investments increased by \$4.8 million to \$140.7 million primarily as a result of an increase in cash flows provided by operations of approximately \$20.0 million partially offset by a higher cash usage in investing and financing activities as compared to the prior year.

#### **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 U.S. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates made by management with respect to these and other items that require management's estimates.

We have identified the accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These critical accounting policies relate to revenue recognition and deferred revenue, allowance for doubtful accounts, capitalized software development costs, valuation of long-lived assets, including intangible assets and impairment review of goodwill, income taxes, exit and disposal related expenses and stock option-based compensation plans. These policies, and our procedures related to these policies, are described in detail below. In addition, please refer to the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for further discussion of our accounting policies.

#### **Revenue Recognition and Deferred Revenue**

Our revenue consists of (i) fees from licenses of our software; (ii) fees from technical support and product updates; (iii) fees from professional services, including implementation, training and hosting and (iv) reimbursed expenses. While the basis for software license revenue recognition is substantially governed by the requirements of 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), as well as Technical Practice Aids issued from time to time by the American Institute of Certified Public Accountants, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin 104, *Revenue Recognition* (SAB 104), we exercise judgment and use estimates in connection

with the determination of the amount of software license, support and professional services revenue to be recognized each accounting period.

Software license revenue is generally recognized using the residual method described below when:

- *Persuasive evidence of an arrangement exists:* We consider a non-cancelable agreement signed by us and the customer to be evidence of an arrangement.
- *Delivery has occurred or services have been rendered:* Delivery occurs when media containing the licensed program is provided to a common carrier, typically FOB shipping point or, in the case of electronic delivery, the customer is given access to the licensed programs.
- *Fixed or determinable fee:* We consider the license fee to be fixed or determinable if the fee is not subject to refund or adjustment and is payable within twelve months of the agreement date, based upon our successful collection history on such arrangements. If the arrangement fee is not fixed or determinable, we recognize the revenue as amounts become due and payable.
- *Collection is probable:* We perform a credit review for all significant transactions at the time the arrangement is executed to determine the credit-worthiness of the customer. Collection is deemed probable if we expect that the customer will be able to pay amounts under the arrangement as they become due. If we determine that collection is not probable, we defer recognition of the revenue until collection.

If a software license contains customer acceptance criteria or a cancellation right, recognition of the software revenue is deferred until the earlier of customer acceptance or the expiration of the acceptance period or cancellation right. Typically, payments for software licenses are due within twelve months of the agreement date. When software license agreements call for payment terms of twelve months or more from the agreement date, software revenue is recognized as payments become due and all other conditions for revenue recognition have been satisfied. Under the residual method, we defer revenue for the fair value of any undelivered elements based on vendor specific objective evidence ( 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 104 have been met.

Our customer arrangements typically contain multiple elements that may include software, options for future purchases of software products not previously licensed to the customer, support, consulting, training, hosting and reimbursed expenses. Fees are allocated to the various elements of software license agreements using the residual method, based on VSOE. Each software license arrangement requires careful review to identify each individual element and to determine the proper amount of software revenue to be allocated among the various elements based on VSOE. Under the residual method, if an arrangement contains one or more undelivered elements, the VSOE of the undelivered elements are deferred and the revenue is recognized once the elements are delivered. If VSOE for one or more of the undelivered elements in an arrangement does not exist, we recognize the entire arrangement fee over the period the undelivered elements are delivered.

In addition to evaluating the VSOE of fair value of each element of an arrangement, we also consider whether such elements can be separated into separate units of accounting in accordance with SOP 97-2. When making this determination, we consider the nature of services provided when purchased with a software license (i.e., consideration of whether services are essential to the functionality of software products licensed), degree of risk, availability of services from other vendors and timing of payments, among other things. When we provide services deemed to be essential to the functionality of the software products licensed or the licensed software requires significant production, modification or customization, we recognize revenue on a percentage-of-completion basis in accordance with SOP 81-1. In these cases, software revenue is recognized based on labor hours or costs incurred to date compared to total estimated labor hours or costs for the contract.

Implementation services are separately priced and sold, are generally available from a number of suppliers and typically are not essential to the functionality of our software products. Implementation services, which include project management, systems planning, design and implementation, customer configurations and training are billed on an hourly basis (time and materials) or under fixed price contracts. Implementation services are recognized as the work is performed. On fixed price contracts, services revenue is recognized using the percentage-of-completion method of accounting by relating labor hours or costs incurred to date to total estimated labor hours or costs. 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. When total cost estimates exceed revenue, we accrue for the estimated losses immediately using cost estimates that are based upon an average fully burdened daily rate applicable to the consulting organization delivering the services. VSOE of fair value for implementation services is based upon separate sales of services at stated hourly rates.

The process of estimation inherent in the application of the percentage-of-completion method of accounting for revenue is subject to judgments and uncertainties and may affect the amounts of software and services revenue under certain contracts and related expenses reported in our consolidated financial statements. A number of internal and external factors can affect our estimates to complete client engagements, including skill level and experience of project managers, staff assigned to engagements and continuity and attrition level of implementation consulting staff. Changes in the estimated stage of completion of a particular project could create variability in our revenue and results of operations if we are required to increase or decrease previously recognized revenue related to a particular project or if 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. Support services are separately priced and stated in our arrangements. Customer support is generally billed annually, initially recorded as deferred revenue and recognized as support revenue ratably over the support period. VSOE of fair value for support services is typically provided by renewal rates.

#### **Allowance for Doubtful Accounts**

We initially record our provision for doubtful accounts based on our historical experience and then adjust this provision at the end of each reporting period based on a detailed assessment of our accounts receivable and allowance for doubtful accounts. In estimating the allowance for doubtful accounts, management considers, among other factors, (i) the aging of the accounts receivable; (ii) trends within and ratios involving the age of the accounts receivable; (iii) the customer mix in each of the aging categories and the nature of the receivable (e.g., license, consulting, maintenance, etc.); (iv) our historical write-offs and recoveries; (v) the credit worthiness of each customer; (vi) the economic conditions of the customer's industry; and (vii) general economic conditions. In cases where we are aware of circumstances that may impair a specific customer's ability to meet their financial obligations to us, we record a specific allowance against amounts due from the customer.

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 fiscal 2006, our provision for doubtful accounts would change by approximately \$1.8 million annually for a 1% change in proportion to 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 receivables), in the 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. The amounts of software development costs that we have capitalized have ranged between \$3.5 million and \$9.9 million per year during our last three fiscal years. 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. The amortization of software development costs have ranged between \$9.0 million and \$9.6 million per year during our last three fiscal years. A change in the expected economic life of our capitalized software development costs of six months would decrease our annual operating expenses by approximately \$0.9 million if we increased the expected economic life by six months and would increase our annual operating expenses by approximately \$1.4 million if we decreased the expected economic life by six months.

### Valuation and Impairment Review of Long-Lived Assets

We account for our purchases of acquired companies in accordance with Statement of Financial Accounting Standards No. 141 *Business Combinations* ( SFAS 141 ) and account for the related acquired intangible assets in accordance with Statement of Financial Accounting Standards No. 142 *Goodwill and Other Intangible Assets* ( SFAS 142 ). In accordance with SFAS 141, we allocate the cost of the acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as acquired technology, are amortized to expense over time, while in-process research and development, if any, is recorded as an expense at the acquisition date.

The majority of the entities acquired by us do not have significant tangible assets and, as a result, a significant portion of the purchase price is typically allocated to intangible assets and goodwill. As required by SFAS 142, in lieu of amortizing goodwill, we test goodwill for impairment periodically and record any necessary impairment in accordance with SFAS 142. We are amortizing our intangible assets as follows: (i) acquired technology-related intangible assets are currently being amortized over their estimated useful life using the straight-line method and (ii) customer relationship-related intangible assets are currently being amortized over their estimated useful life based on the greater of the straight-line method or the estimated customer attrition rates.

We evaluate all of our long-lived assets (primarily property and equipment and intangible assets other than goodwill) for impairment in accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS 144 ). SFAS 144 requires that long-lived assets and intangible assets other than goodwill be evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. In accordance with SFAS 144, when a long-lived asset or intangible asset is abandoned, the carrying value is charged to expense in the period of abandonment.

During fiscal 2006, 2005 and 2004, we recorded impairment charges of \$0.2 million, \$2.7 million and \$4.2 million, respectively, associated with certain furniture, fixtures and leasehold improvements that we abandoned in connection with exit and disposal plans. These assets were located in facilities that we ceased to use. Based on our evaluation of these assets we determined that the assets were not marketable for resale and oftentimes could not be removed from the premises (e.g., the asset consisted of a dividing wall or other permanent fixture). Additionally during fiscal 2006, we recorded an impairment charge of approximately \$3.7 million related to acquired technology from the Partminer CSD, Inc. acquisition. Although we continue to sell the products acquired in that acquisition, based on our impairment analysis, we did not believe the future operating cash flows would be sufficient to support the related asset balance.

As of February 28, 2006 and February 28, 2005, our net book value of long-lived assets, consisted of the following (in thousands):

	2006	2005
Property and equipment	\$ 13,682	\$ 15,795
Software development costs	8,311	14,390
Software developed for internal use	1,041	1,951
Goodwill	185,818	185,658
Acquired technology	3,582	13,816
Customer relationships	4,405	9,335
Other	6,088	6,897
Total	\$ 222,927	\$ 247,842

While we do not currently believe any of our long-lived assets are impaired, and we do not anticipate an impairment in the near term, if a change in circumstances were to occur requiring an assessment of impairment, we would be required to evaluate whether the future cash flows related to the asset will be greater than its carrying value at the time of the impairment test. While our cash flow assumptions are consistent with the plans and estimates we are using to manage our operations, there is significant judgment in determining the cash flows attributable to our intangible assets over their respective estimated useful lives. If such an evaluation resulted in an impairment of any of our long-lived assets, such impairment would be recorded in the period we make the impairment determination.

We test goodwill for impairment on an annual basis, coinciding with our fiscal year end, or on an interim basis if circumstances change that would more likely than not reduce our implied fair value (which includes factors such as, but not limited to, our market capitalization, control premium and recent stock price volatility) below our carrying value. Please see Item 1A Risk Factors Risks Related to Our Business. During the six months ended August 31, 2004, we experienced adverse changes in our stock price resulting from its poor financial performance. As a result, we performed a test for goodwill impairment at August 31, 2004 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, 2004 there was no impairment of goodwill.

During the three months ended November 30, 2005, our Chief Financial Officer left to take a position at another company. As a result, we performed a test for goodwill impairment as of November 30, 2005. We 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 November 30, 2005, there was no impairment of goodwill.

We performed goodwill impairment reviews on February 28, 2006 and February 28, 2005, our annual dates for goodwill impairment review, and determined that the implied fair value of the Company exceeded the carrying value. Accordingly, no goodwill impairment charge was recorded during fiscal 2006 or fiscal 2005.

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

### **Income Taxes**

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. We assess the likelihood that our deferred tax assets will be recovered from our future taxable income, and to the extent we believe that recovery is not likely, we establish a valuation allowance. We consider historical taxable income, estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the amount of the valuation allowance. Adjustments could be required in the future if we determine that the amount to be realized is greater or less than the valuation allowance we have recorded. Management performed an analysis, based on various factors, including our current year financial results, our cumulative losses for the three year period ended February 28, 2006, and estimates of future profitability, as of February 28, 2006 and February 28, 2005, and concluded that future taxable income will, more likely than not, be insufficient to recover our net deferred tax assets as of February 28, 2006 and February 28, 2005. Therefore, we have maintained a valuation allowance for the full amount of our net deferred tax assets. Management will continue to monitor its estimates of future profitability and the likelihood of realizing our net deferred tax assets based on evolving business conditions.

Also, as part of the process of preparing our consolidated financial statements, we are required to estimate our full-year income on a quarterly basis and the related income tax expense, including the impact, if any, of additional taxes resulting from tax examinations, in each jurisdiction in which we operate. Additionally, we make judgments regarding the recoverability of deferred tax assets for each jurisdiction. Tax liabilities can involve complex issues and may require an extended period to resolve. Changes in the geographical mix or estimated level of annual pretax income can impact our overall income tax expense. This process involves estimating our current tax liabilities in each jurisdiction in which we operate.

### **Exit and Disposal Activities**

During fiscal 2004, 2005 and 2006 we initiated and completed a series of exit and disposal plans (the *Exit Plans*). We have accounted for the Exit Plans in accordance with SEC Staff Accounting Bulletin No. 100 *Restructuring and Impairment Charges* and other applicable accounting standards as discussed below.

In June 2002, the Financial Accounting Standards Board (the *FASB*) issued SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). SFAS 146 superseded Emerging Issues Task Force Issue No. 94-3 *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Associated with a Restructuring)* (EITF 94-3) and EITF Issue No. 88-10 *Costs Associated with Lease Modification or Termination* (EITF 88-10). We adopted SFAS 146 effective January 1, 2003; therefore, exit and disposal charges subsequent to December 31, 2002 were accounted for in accordance with SFAS 146. The adoption of SFAS 146 did not impact our exit and disposal obligations recognized prior to January 1, 2003, as these obligations must continue to be accounted for in accordance with EITF 94-3 and EITF 88-10 and other applicable pre-existing guidance.

The expenses incurred in connection with the Exit Plans are composed primarily of (i) severance and associated employee termination costs related to the reduction of our workforce, (ii) lease termination costs and/or costs associated with ceasing to use certain facilities and (iii) impairment costs related to certain long-lived assets abandoned.

SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred, as opposed to when management commits to an exit plan. SFAS 146 also requires that (i) liabilities associated with exit and disposal activities be measured at fair value; (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 related to an operating lease or contract be measured at fair value and recorded 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 (iv) all other costs related to an exit or disposal activity be expensed as incurred. For those employees with pre-existing employment contracts which specified benefits upon termination, we accounted for severance and related benefits in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* ( SFAS 88 ) as the amounts were both probable and estimable.

We accounted for costs related to the assets abandoned in connection with the Exit Plans in accordance with SFAS 144 and, accordingly, charged to expense the net carrying value of the long-lived assets when we abandoned the assets, primarily leasehold improvements and furniture and fixtures. Please refer to *Valuation and Impairment Review of Long-Lived Assets* described above for a further discussion of our accounting policy and related accounting estimates involved related to assessing whether an asset is impaired.

Inherent in the estimation of the costs related to the Exit Plans are assessments related to the most likely expected outcome of the significant actions to accomplish the exit activities. In determining the charges related to the Exit Plans, we were required to make significant estimates related to the expenses associated with our excess facilities. For example, in determining the charge for excess facilities, we were required to estimate future sublease income (including both timing and amount of the potential sublease income), future net operating expenses of the facilities (e.g., maintenance, utilities, property management fees, etc.), and potential brokerage commissions, among other expenses. We based our estimates of sublease income, operating costs and brokerage commissions, in part, on the opinions of third-party real estate advisors, current market conditions and rental rates, the status of negotiations with potential subtenants, and the location of the respective facility, among other factors. These estimates, along with other estimates made by management in connection with the Exit Plans may vary significantly depending, in part, upon factors that may be beyond our control. Specifically, these estimates will depend on our success in negotiating with lessors, the time periods required to locate and contract suitable subleases and the market rates at the time of such subleases. 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 periodically review the status of exit and disposal liabilities and, if appropriate, we record changes to our exit and disposal liabilities based on management's most current estimates.



**Stock Option-Based Compensation Plans**

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

	<b>February 28 or 29,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Net loss, as reported	\$ (12,243 )	\$ (55,271 )	\$ (103,800 )
Add: Stock option-based compensation expense included in reported net loss, net of tax		168	1,799
Less: Stock option-based compensation, net of tax	(729 )	(6,301 )	(2,611 )
Pro forma net loss	\$ (12,972 )	\$ (61,404 )	\$ (104,612 )
Basic and diluted loss per share, as reported	\$ (0.15 )	\$ (0.67 )	\$ (1.43 )
Basic and diluted loss per share, pro forma	\$ (0.16 )	\$ (0.75 )	\$ (1.44 )

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

Stock options granted had weighted average fair values of \$0.62, \$1.62 and \$3.28 per share for fiscal 2006, 2005 and 2004, respectively, as calculated using the Black-Scholes option valuation model. The weighted average estimated fair value of the common stock purchase rights granted under our employee stock purchase plan was \$0.37, \$0.52 and \$2.23 per share for fiscal 2006, 2005 and 2004, respectively.

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

	<b>OPTIONS</b>			<b>ESPP</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Risk-free interest rates	4.02%	3.12%	2.51%	3.64%	2.01%	1.36%
Expected term	2.62 years	4.37 years	4.53 years	3 months	3 months	6 months
Volatility	.5322	.7399	.9423	.4780	.5498	.8492

**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, 2006 expressed as a percentage of revenue:

	Fiscal Year Ended February 28 or 29,		
	2006	2005	2004
<b>Revenue:</b>			
Software license	15.6 %	18.7 %	30.4 %
Support	49.1 %	43.5 %	35.6 %
Services	31.9 %	33.6 %	30.1 %
Reimbursed expenses	3.5 %	4.2 %	3.9 %
Total revenue	100.0 %	100.0 %	100.0 %
<b>Operating expenses:</b>			
Cost of software license	8.5 %	7.4 %	6.5 %
Amortization of acquired technology	3.2 %	6.8 %	5.9 %
Cost of services and support	34.5 %	38.2 %	33.0 %
Cost of reimbursed expenses	3.5 %	4.2 %	3.9 %
Sales and marketing	21.9 %	27.3 %	27.2 %
Product development	15.6 %	16.8 %	14.9 %
General and administrative	11.3 %	11.4 %	10.3 %
Amortization of intangibles	3.3 %	3.4 %	1.9 %
Asset impairment charge	2.1 %		
Exit and disposal activities	1.9 %	9.0 %	7.7 %
Non-cash stock-option compensation expense		0.1 %	0.7 %
Total operating expenses	105.7 %	124.6 %	112.0 %
Loss from operations	(5.7 )%	(24.6 )%	(12.0 )%
Debt conversion expense			(24.6 )%
Other expense net	(3.3 )%	(3.8 )%	(5.5 )%
Loss before income taxes	(9.0 )%	(28.4 )%	(42.1 )%
(Benefit from) provision for income taxes	(2.0 )%	0.4 %	0.5 %
Net loss	(7.0 )%	(28.8 )%	(42.6 )%

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

	Fiscal Year Ended February 28 or 29,		
	2006	2005	2004
Cost of services and support	\$	\$ 75	\$ 865
Sales and marketing		26	456
Product development		15	140
General and administrative		52	338
	\$	\$ 168	\$ 1,799

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

## Revenue

Software License Revenue. Software license revenue decreased 24.1%, or \$8.7 million, in fiscal 2006 and decreased 50.9%, or \$37.6 million, in fiscal 2005. We believe the decrease in software license revenue in fiscal 2006 and fiscal 2005 was due to cautious capital spending for supply chain software purchases, effects resulting from changes in our workforce, including our executive management and sales organization, difficulties in sales execution and a highly competitive environment. Additionally, we believe the decrease in software license revenue during fiscal 2006 was also due in part to concerns about consolidation in our industry and about our financial viability. We experienced lengthening sales cycles and reductions in the size of customer orders during both fiscal 2006 and 2005. These factors resulted in a decrease in the number of significant software license transactions with a value of \$100,000 or greater, the number of transactions greater than \$1.0 million and our ASP.

We attribute much of the caution of our clients and prospects to their concerns regarding the sustainability of the current economic recovery and the current geopolitical environment in which we operate. We saw no driving force to overcome the negative market factors that are holding back companies from supply chain initiatives. Further, we believe the effort by companies to comply with the Sarbanes-Oxley Act of 2002 and other regulatory requirements consumed the internal resources of our clients and prospects in fiscal 2005 and slowed the decision making process for other software purchases.

The following table summarizes significant software license transactions consummated during fiscal 2006, 2005 and 2004:

Significant Software License Transactions(1)	Fiscal Year Ended February 28 or 29,		
	2006	2005	2004
Number of transactions \$100,000 to \$999,999	46	47	81
Number of transactions \$1.0 million or greater	5	7	18
Total number of transactions	51	54	99
Average selling price (in thousands)	\$ 442	\$ 570	\$ 672

(1) Significant software license transactions are those with a value of \$100,000 or greater (excluding those recognized on a percentage-of-completion or ratable basis) recognized within the fiscal year.

Support Revenue. Support revenue increased 2.9%, or \$2.4 million, in fiscal 2006 and decreased 2.9%, or \$2.5 million, in fiscal 2005. The increase in support revenue during fiscal 2006 was due to new software sales and collections from certain customers for outstanding support for which the related revenue did not previously meet the criteria for recognition. During fiscal 2005, decreases in support revenue from non-renewals were not fully offset by increases in support revenue from new software sales. Our percentage of annual support renewals by our clients remains over 90% and we have not lost any of our largest support customers in the past year that had a material negative effect on revenue. There can be no assurance that our historical renewal rate will continue.

Services Revenue. Services revenue decreased 13.6%, or \$8.8 million, in fiscal 2006 and decreased 11.4%, or \$8.3 million, in fiscal 2005. The decrease in services revenue in fiscal 2006 and fiscal 2005 was the result of the decrease in the number and size of completed software license transactions in fiscal 2006, fiscal 2005 and fiscal 2004, respectively, lower demand for implementation services and competitive rate pressures on consulting engagements. Additionally, the decrease in services revenue in fiscal 2006 was also due in part to the deferral of services revenue related to a closed transaction for which the criteria for revenue recognition has not yet been met. We have experienced a decrease in the number of services employees from both voluntary and involuntary terminations. Services revenue tends to track software license revenue in prior periods. There can be no assurance that the rates we charge for consulting and implementation services will improve, or even remain at current levels. The market for information

technology consulting services is highly competitive and we are affected by these market conditions. Accordingly, services revenue may continue to decline unless and until we experience a sustained increase in our software license sales and maintain adequate resource capacity and capabilities. We also expect that services revenue will continue to fluctuate on a quarter-to-quarter basis, as revenue from the implementation of software is not generally recognized in the same period as the related license revenue.

Reimbursed Expenses. Reimbursed expenses decreased 23.0%, or \$1.8 million, in fiscal 2006 and decreased 16.0%, or \$1.5 million, in fiscal 2005. The decrease in reimbursed expenses is consistent with decreases in services revenue in these periods.

International Revenue. We market and sell our software and services internationally, primarily in Europe, Asia, Canada, Central America and South America. Revenue outside of the U.S. decreased \$2.6 million, or 4.0%, to \$62.6 million, in fiscal 2006 and decreased \$17.4 million, or 21.1%, to \$65.2 million in fiscal 2005. Revenue by geographic area is determined on the basis of the geographic area in which transactions are consummated. Revenue outside of the U.S. as a percentage of total revenue was 35.5%, 33.8% and 34.0% in fiscal 2006, 2005 and 2004, respectively. The increase in the percentage of international revenue to total revenue in fiscal 2006 compared to fiscal 2005 is due to a software license transaction in Europe in our first quarter of fiscal 2006 which accounted for more than 10% of the total revenue for that quarter.

Customer Concentration. No individual customer accounted for more than 10% of annual revenue during fiscal 2006, fiscal 2005 or fiscal 2004.

### Operating Expenses

**Cost of Software License.** Cost of software license 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 or 29, 2006, 2005 and 2004 (in thousands):

	Fiscal Year Ended February 28 or 29,		
	2006	2005	2004
Amortization of capitalized software	\$ 9,579	\$ 9,407	\$ 8,987
Percentage of software revenue	34.9	% 26.0	% 12.2
Other costs of software license	5,321	4,806	6,864
Percentage of software revenue	19.4	% 13.3	% 9.3
Total cost of software license	\$ 14,900	\$ 14,213	\$ 15,851
Percentage of software revenue	54.2	% 39.3	% 21.5

The increase in the total cost of software in fiscal 2006 as compared to fiscal 2005 was a result of increased amortization of capitalized software in fiscal 2006 and increased amortization of prepaid royalty fees paid to certain alliance partners over the remaining period of benefit. The decrease in the total cost of software in fiscal 2005 as compared to fiscal 2004 was a result of decreased royalties paid to third parties as a result of a decrease in software revenue, partially offset by an increase in amortization of capitalized software due to the product release of version 7.2 in February 2004 and the write-off of one of our capitalized products for which the anticipated future gross revenue was less than the estimated future costs of completing and disposing of the product. Amortization of capitalized software development costs does not vary with software revenue while royalty fees do.

**Amortization of Acquired Technology.** In connection with acquisitions in fiscal 2003, 2002 and 2001, 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 \$3.7 million in fiscal 2007.

**Cost of Services and Support.** Cost of services and support primarily includes personnel and third-party contractor costs. Cost of services and support, excluding the cost of reimbursed expenses and non-cash stock-option compensation expense, decreased \$12.8 million, or 17.4%, to \$60.8 million in fiscal 2006 compared to fiscal 2005 and decreased \$6.6 million, or 8.2%, to \$73.7 million in fiscal 2005 compared to fiscal 2004. Cost of services and support, excluding the cost of reimbursed expenses and non-cash stock-option compensation expense, as a percentage of related revenue was 42.7%, 49.5% and 50.2% in fiscal 2006, 2005 and 2004, respectively. The decrease in cost of services and support in fiscal 2006 and 2005 was attributable to an overall decrease in the average number of services and support employees to 279, 304 and 366 in fiscal 2006, 2005 and 2004, respectively. This was a result of the implementation of our cost containment and cost reduction initiatives during fiscal 2006, fiscal 2005 and fiscal 2004, as well as from voluntary attrition. The decrease in cost of services and support as a percentage of related revenue in fiscal 2006 as compared to fiscal 2005 was primarily the result of lower outside contractor costs and a \$1.5 million benefit recorded in fiscal 2006 related to the reversal of a recorded provision for anticipated loss on a contract for which our obligation to provide services expired during fiscal 2006. The decrease in cost of services and support as a percentage of related revenue in fiscal 2005 as compared to fiscal 2004 reflected a slight increase in the proportion of the revenue derived from support services during fiscal 2005, which historically have higher margins than implementation services.

**Sales and Marketing.** Sales and marketing expense consists primarily of personnel costs, sales commissions, promotional events such as user conferences, trade shows and technical conferences, advertising and public relations programs. Sales and marketing expense decreased \$14.1 million, or 26.8%, to \$38.6 million in fiscal 2006 as compared to fiscal 2005 and decreased \$13.4 million, or 20.3%, to \$52.7 million in fiscal 2005 as compared to fiscal 2004. The decrease in fiscal 2006 and fiscal 2005 was due to:

- an overall decrease in the average number of sales, marketing and business development employees to 120 for fiscal 2006 compared to 170 for fiscal 2005 and 216 for fiscal 2004, which was primarily a result of the implementation of our exit and disposal plans in fiscal 2006, fiscal 2005 and fiscal 2004;
- a decrease in travel, advertising and public relations spending resulting from cost containment and cost reduction measures implemented in fiscal 2006 and fiscal 2005; and
- a decrease in sales commissions due to lower software revenue in fiscal 2005 as compared to fiscal 2004.

Offset by:

- an increase in sales commissions and incentives in fiscal 2006 as compared to fiscal 2005; and
- an increase in bad debt expense in fiscal 2005 as compared to fiscal 2004.

**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 or 29, 2006, 2005 and 2004 (in thousands):

	Fiscal Year Ended February 28 or 29,					
	2006		2005		2004	
Gross product development costs	\$ 31,018		\$ 41,977		\$ 46,121	
Percentage of total revenue	17.4	%	21.7	%	19.0	%
Less: Capitalized software development costs	3,501		9,573		9,888	
Percentage of total revenue	2.0	%	5.0	%	4.1	%
Product development costs, as reported	\$ 27,517		\$ 32,404		\$ 36,233	
Percentage of total revenue	15.4	%	16.8	%	14.9	%

Gross product development costs decreased \$11.0 million, or 26.1%, in fiscal 2006 as compared to fiscal 2005 and decreased \$4.1 million, or 9.0%, in fiscal 2005 as compared to fiscal 2004. The decrease in fiscal 2006 and 2005 was due to:

- a decrease in the average number of product development contractors in the U.S. in fiscal 2006 and fiscal 2005;
- a decrease in personnel costs as we continue to migrate more of our product development efforts to our product development center in Hyderabad, India and take advantage of the lower wage resources located in that region;
- an overall decrease in the average number of product development employees to 218 in fiscal 2005, compared to 275 in fiscal 2004. This was primarily a result of the implementation of our exit and disposal plans in fiscal 2005; and
- further consolidation of our U.S. product development function to our corporate headquarters in Rockville, Maryland in fiscal 2005.

**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 million, or 10.1%, to \$19.9 million in fiscal 2006 as compared to fiscal 2005 and decreased \$2.9 million, or 11.8%, to \$22.1 million in fiscal 2005 as compared to fiscal 2004. The decrease in fiscal 2006 as compared to fiscal 2005 was the result of a decrease in the average number of general and administrative employees and facility expenses resulting from the implementation of our exit and disposal plans during fiscal 2006 and fiscal 2005 and decreased outside professional fees incurred in fiscal 2006. The decrease in fiscal 2005 as compared to fiscal 2004 was the result of a decrease in the average number of general and administrative employees resulting from the implementation of our exit and disposal plans during fiscal 2005 and fiscal 2004, in addition to a decrease in property tax expense related to a settlement with the State of Maryland. The decrease was partially offset by an increase in accounting professional fees primarily related to compliance with the Sarbanes-Oxley Act of 2002.

**Amortization of Intangibles.** Our past 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 and identifiable intangible assets acquired. Other intangible assets are amortized over periods ranging from four to seven years. Amortization of intangibles decreased \$0.9 million, or 13.5%, to \$5.8 million in fiscal 2006 compared to fiscal 2005 and increased \$2.0 million, or 42.2%, to \$6.6 million in fiscal 2005 compared to fiscal 2004. The decrease in amortization of intangibles in fiscal 2006 was due to the completed amortization in fiscal 2006 of the



customer relationship asset related to the Talus acquisition, an acquired technology asset related to the Spaceworks acquisition and the completed amortization in fiscal 2005 of acquired technology related to the STG and Talus acquisitions. Additionally, the decrease in fiscal 2006 was due in part to the absence of amortization for a full year of acquisition-related intangible assets related to the Partminer CSD, Inc. asset acquisition due to the impairment charge recorded for the remaining net book value of those assets during fiscal 2006 (See Note 6 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K). The increase in amortization of intangibles in fiscal 2005 was due to a change in the Talus customer relationships amortization from seven years to five years in late fiscal 2004, partially offset by the completion of amortization in fiscal 2005 of acquired technology related to the STG and Talus acquisitions.

**Goodwill Impairment.** We test goodwill for impairment on an annual basis, coinciding with our fiscal year end, or on an interim basis if circumstances change that would more likely than not reduce our implied fair value (which includes factors such as, but not limited to, the Company's market capitalization, control premium and recent stock price volatility) below our carrying value. Please see Item 1A Risk Factors Risks Related to Our Business. During the three months ended May 31, 2005 and the six months ended August 31, 2004, we experienced adverse changes in our stock price resulting from our poor financial performance. As a result, we performed a test for goodwill impairment at May 31, 2005 and August 31, 2004 and determined that based upon our implied fair value (which includes factors such as, but not limited to, our market capitalization, control premium and recent stock price volatility) as of May 31, 2005 and August 31, 2004, there was no impairment of goodwill. During the three months ended November 30, 2005, our Chief Financial Officer left to take a position at another company. As a result, we performed a test for goodwill impairment as of November 30, 2005. We determined that based upon the implied fair value (which includes factors such as, but not limited to, our market capitalization, control premium and recent stock price volatility) as of November 30, 2005, there was no impairment of goodwill.

We performed our annual goodwill impairment reviews on February 28, 2006 and February 28, 2005 and determined that our implied fair value exceeded our carrying value. Accordingly, no goodwill impairment charge was recorded during fiscal 2006 or fiscal 2005. Details of our amortization of intangibles and goodwill impairment are included in Note 6 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

**Exit and Disposal Activities.** In order to adjust our cost structure and resource allocation to increase efficiencies and reduce excess office space, we adopted exit and disposal plans in the second quarter of fiscal 2005, the first and fourth quarters of fiscal 2004 and in the second, third and fourth quarters of fiscal 2003. In connection with our decision to implement these plans, we incurred related exit and disposal charges of \$3.3 million, \$17.3 million and \$18.6 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively.

The following table sets forth a summary of exit and disposal activity charges, net of adjustments, for fiscal 2006, fiscal 2005 and fiscal 2004 (in thousands):

	Fiscal Year Ended February 28 or 29,		
	2006	2005	2004
Lease obligations and terminations	\$ 1,955	\$ 8,119	\$ 12,917
Severance and related benefits	1,163	6,064	855
Impairment charges	206	2,742	4,241
Other	(25 )	387	614
Total exit and disposal activities	\$ 3,299	\$ 17,312	\$ 18,627

The impact to reported basic and diluted loss per share as a result of the exit and disposal charges was \$(0.04), \$(0.21) and \$(0.26) for fiscal 2006, fiscal 2005 and fiscal 2004, respectively.



In response to the difficulties we faced in our ability to stabilize revenue and operating performance, we enacted a number of cost containment and cost reduction measures over the past three fiscal years to better align our cost structure with expected revenue. Specifically, we took the following actions:

1. We reduced our workforce by 173 and 79 employees through involuntary terminations with the fiscal 2005 and 2004 exit and disposal plans, respectively.
2. We further consolidated our product development function in the U.S. to the corporate headquarters in Rockville, Maryland as part of the exit and disposal plans in fiscal 2005 and fiscal 2004. This included the relocation of certain employees from Wayne, Pennsylvania; San Carlos, California; Atlanta, Georgia; Denver, Colorado and Ottawa, Canada to Rockville, Maryland.
3. As a result of the workforce reductions, product development consolidation and employee attrition, certain of our facilities were under-utilized. Accordingly, we consolidated our remaining workforce in the under-utilized facilities and abandoned the then-vacated office space. The facilities permanently removed from our operations during fiscal 2006, 2005, 2004 and 2003 were located in Brussels, Belgium, Wayne, Pennsylvania; Irving, Texas; Detroit, Michigan; Denver, Colorado; Ottawa, Canada; Itasca, Illinois; Milan, Italy; Munich and Ratingen, Germany, Stockholm, Sweden and the Philippines. A portion of the office space was permanently vacated in certain facilities located in Rockville, Maryland; Atlanta, Georgia; Calabasas and San Carlos, California; Bracknell, United Kingdom and Tokyo, Japan.
4. As part of the consolidation of our facilities, certain leasehold improvements and furniture and fixtures were abandoned. As a result, we recorded non-cash charges equal to the net book value of these abandoned assets in exit and disposal activity charges.

As a result of our exit and disposal activities and cost containment initiatives during the past four fiscal years, we have reduced all other operating expenses (as shown in the table under Key Financial Metrics Fiscal 2006 ) to \$167.8 million in fiscal 2006 and \$203.0 million in fiscal 2005. Details of our exit and disposal charges are included in Note 14 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

Substantially all of the cost savings from our exit and disposal activities and cost containment initiatives implemented in fiscal 2004 were reflected in our operating results by the first quarter of fiscal 2005. As of February 28, 2006, we had achieved quarterly cost savings of approximately \$7.5 million, compared to the third quarter of fiscal 2005 as a result of implementing our exit and disposal plans during fiscal 2006 and 2005. We have completed most of the planned initiatives approved in our second quarter fiscal 2005 exit and disposal plans and will complete the remainder of the initiatives in fiscal 2007. The total exit and disposal charges reflected in the financial statements are based on management's current estimates, which may change materially if actual lease-related expenditures or sublease income differ from current estimates.

**Non-Cash Stock-Option Compensation Expense.** We recognized non-cash stock-option compensation expense of \$0.0 million, \$0.2 million and \$1.8 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively, related to unvested stock options assumed in the acquisition of Talus. As part of the Talus acquisition, we assumed all outstanding Talus 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. FASB Interpretation No. 44 ( FIN 44 ) *Accounting for Certain Transactions Involving Stock Compensation* 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. The unamortized value of these stock awards is included as a separate component of stockholders' equity. All of these outstanding options are fully vested and all compensation expense has been recognized as of February 28, 2006.



**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. The initial fair value used to measure the ongoing stock option 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 of fiscal 2006, 2005 and 2004 was below \$22.19, no charge or benefit was recorded during fiscal 2006, 2005 and 2004. As of February 28, 2006, approximately 283,550 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.

#### **Other Expense, Net**

Other Expense, Net, includes interest income from cash and cash equivalents, marketable securities and long-term investments, interest expense from borrowings and payments on our capital lease obligations, foreign currency exchange gains or losses and other gains or losses. Other expense, net, decreased \$1.5 million, or 20.9%, to \$5.8 million in fiscal 2006 as compared to fiscal 2005 and decreased \$6.1 million, or 45.6%, to \$7.3 million in fiscal 2005 as compared to fiscal 2004. The decrease in Other Expense, Net in fiscal 2006 as compared to fiscal 2005 relates primarily to an increase in interest income of \$1.6 million due to increased interest rates on our cash and investments. The decrease in Other Expense, Net in fiscal 2005 compared to fiscal 2004 relates to a decrease in interest expense of approximately \$3.6 million primarily related to a reduction in interest expense on our outstanding convertible notes due to the conversion of \$74.5 million of our Notes during fiscal 2004 (See Note 7 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K), an increase in interest income of \$0.7 million in fiscal 2005 and a decrease of other expense of \$0.1 million and a foreign currency exchange gain of \$0.3 million in fiscal 2005 compared to a \$1.6 million foreign currency exchange loss in fiscal 2004.

#### **Debt Conversion Expense**

During fiscal 2004, the Company exchanged \$74.5 million of its Notes for 9,725,750 shares of its common stock in privately negotiated transactions with note holders. The offer and issuance of the common stock underlying these transactions were exempt from registration under Section 3(a) (9) of the Securities Act of 1933 and were freely traded upon issuance.

At the conversion price of \$44.06 per share, the \$74.5 million of Notes exchanged would have been convertible into 1,690,780 shares of common stock. For accounting purposes, the additional 8,034,970 shares of common stock that the Company issued in these transactions are considered an inducement for the holders to convert their Notes, which required the Company to record a non-operating expense equal to the fair value of the additional shares issued to the holders. Accordingly, the Company recorded a non-cash debt conversion expense of approximately \$59.8 million during the year ended February 29, 2004. These transactions resulted in a \$74.5 million reduction of the Notes outstanding and increased stockholders' equity by \$74.5 million. The 9,725,750 shares of common stock issued in these transactions represented approximately 11.9% of the shares outstanding as of February 28, 2004.

#### **(Benefit from) Provision for Income Taxes**

We recorded an income tax (benefit) provision of \$(3.6) million, \$0.7 million and \$1.3 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. In fiscal 2006, fiscal 2005 and fiscal 2004, \$(3.7) million, \$0.6 million and \$1.0 million of the income tax (benefit) provision relates to foreign taxes, respectively.

Management performed an analysis, based on various factors, including our current year financial results, our cumulative losses for the three year period ended February 28, 2006, and estimates of future profitability, as of February 28, 2006 and February 28, 2005, and concluded that future taxable income will, more likely than not, be insufficient to recover our net deferred tax assets as of February 28, 2006 and February 28, 2005. Therefore, we have maintained a valuation allowance for the full amount of our net deferred tax assets. Management will continue to monitor its estimates of future profitability and the likelihood of realizing our net deferred tax assets based on evolving business conditions.

#### **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 loss per common share is based on net loss divided by the weighted-average number of common shares outstanding during the period. Diluted earnings or loss per common share includes, when dilutive, (i) the effect of stock options, warrants and restricted stock 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 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 and restricted stock grants;
- 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 that we have positive net income);
- the issuance of common stock to raise capital or effect business combinations should we enter into such transactions; and
- 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. The significant components of our working capital are liquid assets such as cash and cash equivalents, marketable securities and trade accounts receivable, reduced by accounts payable, accrued expenses, short-term restructuring obligations and deferred revenue. In fiscal 2006, working capital increased \$15.2 million, to \$120.7 million primarily as a result of cash flows provided by operating activities.

Cash, cash equivalents and marketable securities increased \$4.8 million during fiscal 2006 to \$140.7 million, as of February 28, 2006. The increase is due to changes in working capital items, including \$9.7 million in payments for exit and disposal obligations, as well as:

- \$0.5 million in cash proceeds from employee stock purchase plan purchases.

Offset by:

- \$6.7 million in expenditures on property, equipment and software, including \$3.6 million of capitalized software; and
- \$2.9 million in principal payments on long-term debt and capital leases.

We believe that the combination of cash, cash equivalents and 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.

On April 24, 2006, we entered into a definitive Agreement and Plan of Merger with JDA and the Merger Sub. Under the Merger Agreement, the Merger Sub will be merged with and into the Company, with the Company continuing after the Merger as a wholly-owned subsidiary of JDA. At the effective time of the Merger, each issued and outstanding share of Company Common Stock will be converted into the right to receive \$2.50 in cash. There can be no assurance the Merger will be consummated as planned. In the event the transaction does not close, we will evaluate alternatives to address our outstanding Notes (See Note 7), which become due in November 2007, including, but not limited to, seeking additional debt or equity financing, exchanging existing Notes outstanding for equity, selling existing company assets and other potential solutions.

### *Commitments*

As of February 28, 2006, our 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,						Total
	2007	2008	2009	2010	2011	Thereafter	
Capital lease obligations(1)	\$ 1,791	\$ 820	\$ 123		\$	\$	\$ 2,734
Operating lease obligations not in exit and disposal activities	6,958	6,465	5,284	5,256	5,394	11,367	40,724
Operating lease obligations in exit and disposal activities	7,114	5,778	4,213	4,052	4,137	13,333	38,627
Convertible subordinated notes(1)	8,775	185,006					193,781
Total fixed commitments	\$ 24,638	\$ 198,069	\$ 9,620	\$ 9,308	\$ 9,531	\$ 24,700	\$ 275,866

(1) Includes principal and interest payments

### *Lease Commitments*

The lease commitments in the above table designated as Operating lease obligations in exit and disposal activities include only the non-cancelable portion of lease commitments included in past initiatives and, accordingly, have not been reduced by estimated sublease income. However, as required by EITF 88-10 and SFAS 146, we have reduced these lease commitments by estimated sublease income in determining the total exit and disposal obligations of \$15.0 million recorded in the accompanying balance sheet as of February 28, 2006. Please refer to Note 8 and Note 14 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

### *Convertible Subordinated Notes*

The Company had \$175.5 million in Notes outstanding as of February 28, 2006. 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 \$164.5 million on February 28, 2006, based on market quotes. The Notes mature in November 2007 and are convertible into approximately 4.0 million shares of the Company's common stock at a conversion price of \$44.06, 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. Since November 7, 2003, we have had the right to 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:

<b>Redemption Period</b>	<b>Redemption Price</b>
November 1, 2005 through October 31, 2006	101 %
November 1, 2006 through maturity	100 %

Pursuant to the Merger Agreement, we will conduct a cash tender offer for all of the outstanding Notes. Closing of that tender offer will be conditioned on the closing of the Merger. If the Merger is not consummated, we may choose to purchase a portion of the Notes in the open market from time to time with cash or enter into alternative transactions to reduce the balance of the Notes, such as exchanging Notes for shares of our common stock, if we are able to do so on terms favorable to us. Purchases of the Notes with cash would reduce our debt outstanding and may result in a decrease to our liquidity and working capital.

#### *Credit Facility*

We had a one-year unsecured revolving credit facility with Silicon Valley Bank ( SVB ) for \$15.0 million which expired on March 30, 2005. On April 8, 2005, we renewed the credit facility with SVB for \$15.0 million and a two-year term, effective March 29, 2005 (the Credit Facility ). Under the terms of the Credit Facility, we may request cash advances, letters of credit, or both. Borrowings under the Credit Facility accrue interest at the prime rate plus 0.5%. 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 at least \$90.0 million plus 50% of consolidated net income generated cumulatively commencing with the first quarter of fiscal 2006 and (ii) our ratio of (a) unrestricted cash, cash equivalents, marketable securities and long-term investments deposited with SVB and its affiliates plus net accounts receivable to (b) current liabilities plus long-term indebtedness to SVB and outstanding letters of credit minus deferred revenue, must be at least 2.0 to 1.0. We were in compliance with all financial covenants as of February 28, 2006 and there were no cash draws outstanding. As of February 28, 2006, we had \$10.0 million in letters of credit outstanding under the Credit Facility, of which \$8.9 million is related to securing our lease obligations for certain office space and \$1.1 million is related to securing an additional line of credit in China, which was never executed. The \$1.1 million letter of credit expires in May 2007 and cannot be drawn upon by the beneficiary because the line of credit for which it was issued to secure was never executed. Pursuant to the Merger Agreement, we will cooperate with JDA to replace, at the closing of the Merger, the letters of credit that are outstanding with SVB with newly issued letters of credit.

The Credit Facility requires us to maintain \$50.0 million in funds with SVB Asset Management 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 Credit Facility, we retain 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.

The Credit Facility includes a provision for supplemental equipment advances, under which we may borrow up to an additional \$5.0 million for the purchase of equipment, office furniture and other capital expenditures. Amounts could be borrowed for such capital expenditures through December 31, 2005 and accrued interest at a fixed interest rate equal to 7.75% annually. Equipment advances would have been repaid monthly over a 36-month-period, beginning in the month following the advance. Our right to request supplemental equipment advances expired on December 31, 2005 and we made no draw downs. The financial covenants for the supplemental equipment advances were the same as The Credit Facility and we were in compliance with all financial covenants.

We had an additional credit agreement (the Equipment Line ) with SVB, as amended, which expired March 31, 2003, under which we were permitted to borrow up to \$5.0 million for the purchase of equipment. Amounts borrowed under the Equipment Line 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, we borrowed \$2.9 million under the Equipment Line. As of February 28, 2006, we have repaid all amounts borrowed and have no amounts outstanding. The financial covenants for the Equipment Line are the same as the financial covenants for the Credit Facility. We were in compliance with all financial covenants as of February 28, 2006.

### ***Cash Flows***

Cash provided by (used in) operations was \$14.5 million, \$(5.5) million and \$6.8 million in fiscal 2006, 2005 and 2004, respectively. The improvement in operating cash flows of \$20.0 million in fiscal 2006 compared to fiscal 2005 resulted from a lower net loss in fiscal 2006, decreased payments made to vendors related to the timing of receiving vendor invoices, decreased payments made related to our exit and disposal activities, decreased employee compensation payments related to the timing of our payroll, partially offset by a lower contribution of accounts receivable and an increase in deferred revenue related to the timing and seasonality of our support renewals. The decline in operating cash flows of \$12.3 million in fiscal 2005 compared to fiscal 2004 resulted from a decrease in contribution of accounts receivable due to lower revenue, increased payments related to exit and disposal activities, increased payments made to vendors related to the timing of receiving vendor invoices, partially offset by a decrease in the payment of interest on our convertible debt as a result of the decrease in our outstanding debt balance and a lower net loss in fiscal 2005 compared to fiscal 2004.

Cash used in investing activities was \$11.8 million, \$10.8 million and \$34.0 million in fiscal 2006, 2005 and 2004, respectively. Investing activities consist of the sales and purchases of marketable securities and long-term investments, changes in restricted cash, purchases and sales of property and equipment, purchases and capitalization of software, and acquisitions of businesses. Total purchases of property and equipment were \$3.1 million in fiscal 2006, \$4.1 million in fiscal 2005 and \$2.2 million in fiscal 2004. In fiscal 2004, approximately \$13.0 million was provided by the elimination of cash restrictions upon the transfer of our letters of credit from Bank of America to SVB. Approximately \$3.3 million of this \$13.0 million was recorded as a deposit to secure an international lease. Acquisitions of businesses, net of cash acquired of \$2.0 million during fiscal 2004 relates to proceeds received that were held in escrow from prior acquisitions. Sales of marketable securities, net of (purchases), were \$(5.1) million in fiscal 2006, \$20.1 million in fiscal 2005 and \$(26.3) million in fiscal 2004. Sales of long-term investments, net of (purchases), were \$(18.9) million in fiscal 2005 and \$(9.0) million in fiscal 2004.

Cash (used in) provided by financing activities was \$(2.4) million, \$(1.7) million and \$5.5 million in fiscal 2006, 2005 and 2004, respectively. Cash (used in) provided by financing activities consisted of cash proceeds from the exercise of stock options and employee stock plan purchases, cash proceeds from

borrowings on our line of credit and cash payments for principal amounts on our SVB equipment line of credit and capital lease obligations.

Our cash position may decline in the future, primarily due to cash outflows associated with our exit and disposal activities, our operations and our debt service obligations. We are obligated to pay approximately \$8.8 million of interest annually on our \$175.5 million of Notes. Additionally, the Notes will mature and become due and payable in November 2007.

Although we expect that existing cash, cash equivalents and short-term investment balances will satisfy our working capital and capital expenditure requirements for the next twelve months, there can be no assurance that in the longer term we will be successful in obtaining or maintaining an adequate level of cash resources. We may be forced to act more aggressively in the future in the area of expense reduction in order to conserve cash as we look for alternative liquidity solutions.

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

We do not use off-balance sheet arrangements with unconsolidated entities or related parties, nor do we use other forms of off-balance sheet arrangements such as research and development arrangements. Accordingly, our liquidity and capital resources are not subject to off-balance sheet risks from unconsolidated entities.

#### *Lease Arrangements.*

We have entered into operating leases with unrelated third parties for our U.S. and international sales and support offices and certain equipment in the normal course of business. These arrangements are sometimes referred to as a form of off-balance sheet financing. Future minimum lease payments under our operating leases as February 28, 2006 are detailed previously in *Liquidity and Capital Resources*. Under the terms of our Credit Facility, we may request cash advances, letters of credit, or both. As of February 28, 2006, \$10.0 million in letters of credit was outstanding under the Credit Facility, of which \$8.9 million is related to securing our lease obligations for certain office space.

#### **Recently Issued Accounting Pronouncements**

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections - A replacement of APB Opinion No. 20 and FASB Statement No. 3* ( SFAS 154 ). The FASB issued SFAS 154 to provide guidance on the accounting for and reporting of error corrections. Unless otherwise impracticable, it establishes retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application is impracticable and for reporting an accounting change when retrospective application is impracticable. Furthermore, this statement addresses the reporting of a correction of an error in previously issued financial statements by restating previously issued financial statements. This Statement is effective for financial statements for fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to have a material impact on our consolidated financial statements.

SFAS No. 123 (Revision 2004), *Share-Based Payment* ( SFAS 123 (R) ) was issued in December 2004 and was to be effective for reporting periods beginning after June 15, 2005. The new statement requires all share-based payments to employees to be recognized in the financial statements based on their fair values. We currently account for our share-based payments to employees under the intrinsic value method of accounting set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issues to Employees*. Additionally, we comply with the stock-based employer compensation disclosure requirements of SFAS 148. On March 29, 2005, the SEC issued Staff Accounting Bulletin Topic 14, *Share-Based Payment* ( SAB 107 ). SAB 107, which becomes effective for public companies upon their



adoption of SFAS No. 123(R), describes the SEC Staff's views in determining the assumptions that underlie the fair value estimates and interaction of SFAS No. 123(R) with certain existing SEC guidance. On April 14, 2005, The Securities and Exchange Commission announced the adoption of a new rule that amends the compliance dates for SFAS 123 (R). The new rule allows companies to implement SFAS 123 (R) at the beginning of their next fiscal year, instead of their next reporting period beginning after June 15, 2005. We plan to adopt the new statement beginning in the first quarter of fiscal 2007. We believe the adoption of SFAS 123 (R) will have a material impact on our financial position and results of operations.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.**

**Foreign Currency Risk.** We are subject to risk from changes in foreign exchange rates for our subsidiaries that use a foreign currency as their functional currency and are translated into U.S. dollars. Such changes could result in cumulative translation gains or losses that are included in shareholders' equity. Revenue outside of the U.S. as a percentage of total revenue was 35.5%, 33.8% and 34.0% for fiscal 2006, 2005 and 2004, respectively. Revenue outside the U.S. is derived from operations in Australia, Belgium, Brazil, Canada, The People's Republic of China, France, Hong Kong, Japan, Malaysia, Mexico, Singapore, Taiwan and the United Kingdom. Exchange rate fluctuations between the U.S. dollar and the currencies of these countries result in positive or negative fluctuations in the amounts relating to foreign operations reported in our condensed consolidated financial statements. None of the components of our Statement of Operations were materially affected by exchange rate fluctuations during fiscal 2006, 2005 and 2004. We generally do not use foreign currency options and forward contracts to hedge against the earnings effects of such fluctuations. While we do not expect to incur material losses as a result of this currency risk, there can be no assurance that losses will not result.

**Interest Rate Risk.** Our marketable securities and certain cash equivalents are subject to interest rate risk. Fixed income instruments are subject to interest rate risk and, accordingly, if market interest rates increase, these investments will decline in value. We manage this risk by maintaining an overall investment portfolio of available-for-sale instruments with high credit quality and relatively short average maturities. Instruments in our entire portfolio include, but are not limited to, commercial paper, money-market instruments, bank time deposits and variable rate and fixed rate obligations of corporations and national, state and local governments and agencies, in accordance with an investment policy approved by our Board of Directors. These instruments are denominated in U.S. dollars. As of February 28, 2006 and February 28, 2005, the fair market value of our long-term investments and marketable securities held was \$61.2 million and \$55.5 million, respectively. We also hold cash balances in accounts with commercial banks in the U.S. and foreign countries. These cash balances represent operating balances only and are invested in short-term deposits of the local bank.

The U.S. Federal Reserve Board influences the general market rates of interest. During fiscal 2006, the Federal Reserve Board increased the discount rate by 300 basis points from 2.5% to 5.5%. The Federal Reserve Board subsequently raised the discount rate by 0.25 basis points. As of May 10, 2006, the discount rate was 5.75%.

The weighted average yield on interest-bearing investments held as of February 28, 2006 and February 28, 2005 was approximately 3.61% and 1.7%, respectively. Based on our investment holdings at February 28, 2006, a 100 basis point decline in the average yield would reduce our annual interest income by \$0.9 million.

**Credit Risk.** Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments in marketable securities, long-term investments and trade accounts receivable. We have policies that limit investments in investment grade securities and the amount of credit exposure to any one issuer. We perform ongoing credit evaluations of our customers and

maintain an allowance for potential credit losses. We do not require collateral or other security to support client receivables since most of our customers are large, well-established companies. Our credit risk is also mitigated because our customer base is diversified both by geography and industry, and no single customer has accounted for more than 10% of our consolidated revenue on an annual basis, although we have had customers which accounted for more than 10% of our consolidated revenue on a quarterly basis. We generally do not use foreign exchange contracts to hedge the risk in receivables denominated in foreign currencies. We do not hold or issue derivative financial instruments for trading or speculative purposes.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

Our Consolidated Financial Statements and supplementary data, together with the reports of our independent registered public accounting firm, are included in Part IV of this Annual Report on Form 10-K.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**Item 9A. CONTROLS AND PROCEDURES.**

Our management, with the participation of our Chief Executive Officer and acting Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits 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 a company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and acting Principal Financial Officer concluded the Company's disclosure controls and procedures were effective at a reasonable assurance level.

**MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f) and 15d-15(f). Those rules define internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts

and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As part of our compliance efforts relative to Section 404 of the Sarbanes-Oxley Act of 2002, our management assessed the effectiveness of our internal controls over financial reporting as of February 28, 2006. In making this assessment, management used the criteria set forth in the Internal Control Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on our evaluation under COSO, our management concluded that our internal control over financial reporting was effective as of February 28, 2006.

The Company's independent auditors have issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears below.

#### **Changes in Internal Control over Financial Reporting**

Based on the evaluation conducted by management, including the Chief Executive Officer and the acting Principal Financial Officer, there were no changes in our internal controls during the fourth quarter ended February 28, 2006 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Manugistics Group, Inc.  
Rockville, Maryland

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Manugistics Group, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of February 28, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of February 28, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 28, 2006, based on the criteria

established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended February 28, 2006, of the Company and our report dated May 14, 2006 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia  
May 14, 2006

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**Item 9B. Other information.**

**Special Recognition Cash Bonus Pool**

*During the first quarter of fiscal year 2007, the Board and the Compensation Committee of the Board (the Compensation Committee ) considered on several occasions the appropriate level of special recognition bonuses for certain employees of the Company in light of the Merger, and approved an aggregate of up to \$1.25 million of cash bonuses (the Special Recognition Bonus Pool ) to be allocated among the applicable employees of the Company, separate from and in addition to any other compensation owed them and contingent upon the closing of the Merger. The Board and the Compensation Committee (i) approved the allocation of \$350,000 of the Special Recognition Bonus Pool to Joseph L. Cowan, Chief Executive Officer of the Company, and (ii) authorized Mr. Cowan to determine the allocation of the remaining \$900,000 of the Special Recognition Bonus Pool to executive officers and key employees of the Company. An aggregate of \$627,500 of the Special Recognition Bonus Pool will be awarded to the Company's remaining executive officers (with the balance of the pool allocated to other employees) including \$104,500 to Edward R. Daihl, Senior Vice President, Revenue Management, \$73,000 to Kelly Davis-Stoudt, Vice President, Controller and Chief Accounting Officer, \$195,000 to Jeffrey L. Kissling, Senior Vice President and Chief Technology Officer, \$55,000 to Ronald P. Kubera, Senior Vice President of Consumer Goods and European Operations, \$45,000 to Lori Mitchell-Keller, Senior Vice President of Global Marketing & Solution Management and \$155,000 to Timothy T. Smith, Senior Vice President & General Counsel. These bonuses will be paid within thirty (30) days after closing of the Merger, subject to the continued employment of each individual with the Company up to and through the closing of the Merger.*

**PART III**

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

In light of the pending Merger, the Company has not scheduled an annual meeting of stockholders for 2006 and does not plan to file a definitive proxy statement involving the election of directors unless the Company's stockholders do not approve the Merger at the special meeting of stockholders.

**Directors and Executive Officers**

The Third Amended and Restated By-Laws of the Company (the By-Laws ) provide that the Company's business shall be managed by a Board of Directors of not fewer than six and not more than nine directors, with the number of directors to be fixed by the Board of Directors from time to time. The number of directors is presently fixed at nine. The By-Laws also provide that the Company's Board of Directors is divided into three classes: Class I, Class II and Class III, each class being as nearly equal in number as possible. The directors in each class serve terms of three years and until their respective successors have been elected and qualified. The term of office of one class of directors expires each year in rotation so that one class is elected at each annual meeting of stockholders for a three-year term.

There are presently three directors in Class I, two directors in Class II and three directors in Class III. There is presently one vacancy on the Board. Based upon the recommendations to be made by the Corporate Governance Committee, the Board of Directors will consider suitable candidates to fill the vacancy.

Executive officers of the Company are elected by the Board of Directors on an annual basis and serve at the discretion of the Board.

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Set forth below is certain information concerning our directors as well as the executive officers of the Company and Manugistics, Inc., our principal operating subsidiary. There are no family relationships among any of our executive officers or directors.

Name	Age	Position	Term as Director Expires
Joseph L. Cowan	57	Director and Chief Executive Officer	2007 (Class III)
Lynn C. Fritz	63	Director	2008 (Class I)
William H. Gibson	60	Director	2008 (Class I)
Joseph H. Jacovini	65	Director	2006 (Class II)
William H. Janeway	63	Director	2007 (Class III)
Kevin C. Melia	58	Chairman of the Board	2008 (Class I)
William G. Nelson	72	Director	2007 (Class III)
Thomas A. Skelton	58	Director	2006 (Class II)
Lori Mitchell-Keller	40	Senior Vice President of Global Marketing & Solution Management	
Jeffrey L. Kissling	51	Senior Vice President and Chief Technology Officer	
Ronald P. Kubera	41	Senior Vice President of Consumer Goods and European Operations	
Timothy T. Smith	42	Senior Vice President, General Counsel and Secretary	
Edward R. Daihl	52	Senior Vice President, Revenue Management	
Kelly Davis-Stoudt	35	Vice President, Controller and Chief Accounting Officer	

Mr. Cowan has served as Chief Executive Officer of the Company since July 2004, and as a director of the Company since August 2004. From November 2002 to December 2003, Mr. Cowan served as President and Chief Executive Officer of EXE Technologies, Inc., a provider of supply chain management and work management software and services. From April 2001 to November 2002, he served as President and Chief Executive Officer of Invensys Automation & Information Systems, a business unit of Invensys plc and provider of enterprise resource planning and supply chain management software. From July 2000 to April 2001, Mr. Cowan served as President and Chief Executive Officer, and from April 1998 to July 2000, as Senior Vice President, Sales and Marketing, of Wonderware, a business unit of Invensys plc and provider of industrial automation software.

Mr. Fritz has served as a director of the Company since 1995. Mr. Fritz has been Director General of the Fritz Institute, a disaster relief management firm, since January 2001. From August 2000 to the present, Mr. Fritz has served as Chairman of the Board and Chief Executive Officer of LynnCo Supply Chain Solutions, Inc., a provider of solutions that optimize and analyze logistics networks. From 1988 through May 2001, Mr. Fritz served as Chairman of the Board and Chief Executive Officer of Fritz Companies, Inc., a global freight forwarding and custom house brokerage company.

Mr. Gibson rejoined the Board as a director of the Company in 2005. From its formation in 1986 to 2001, Mr. Gibson served as Chairman of the Board of the Company. From 1986 until June 2000,

Mr. Gibson also served as Chief Executive Officer and President of the Company. Mr. Gibson has been Managing Partner of The Albermarle Group, a private investment company, since February 2001. Mr. Gibson is also a member of the Board of Directors of Venture Philanthropy Partners and the Board of Regents of Villanova University.

Mr. Jacovini has served as a director of the Company since 1986. He is a partner at Dilworth Paxson LLP, based in Philadelphia, Pennsylvania, where he has practiced law since 1965. He has served as Chairman of that firm since January 1998, and as Co-Chairman from 1992 through December 1997. Mr. Jacovini has served as Chairman of the Board of Trustees of Drexel University since May 2003 and as a Trustee of Drexel University since 1990.

Mr. Janeway has served as a director of the Company since October 2002. Mr. Janeway joined Warburg Pincus LLC, a private investment firm, in 1988 as a Managing Director and has served as Vice Chairman of the firm since January 2001. Mr. Janeway serves on the Board of Directors of BEA Systems, Inc., an application platform software provider; and Nuance Communications, Inc., a provider of speech and imaging solutions.

Mr. Melia has served as Chairman of the Board of the Company since April 2005 and as a director of the Company since July 2003. Mr. Melia served as Chairman of the Board and Chief Executive Officer of Manufacturer's Service Ltd., a large electronic equipment production outsourcing company, from June 1994 to January 2002 and as Chairman of Manufacturer's Service Ltd. from January 2002 to January 2003. Mr. Melia serves as Chairman of the Board of Iona Technologies, plc, a provider of software products and services for communications providers, and Lightbridge, Inc., a provider of software products and services for communications providers. He also serves as a director of Eircom Group, plc, a telecommunications company and Radisys Corp., a provider of integration software.

Mr. Nelson has served as a director of the Company since 1986. Since 1990, Mr. Nelson has served as Chairman of the Board of HarrisData Services of Wisconsin, Inc., a provider of business application software to mid-size organizations. Mr. Nelson was Chief Executive Officer of HarrisData Services from 1990 to June 2002. Since June 1999, Mr. Nelson has served as Chairman of the Board of Repository Technologies, Inc., a provider of customer relationship management systems for the software industry. From July 1996 until October 2000, Mr. Nelson served as the Chairman of the Board, and, from September 1996 until April 1999, he served as Chief Executive Officer and President, of Geac Computer Corporation Limited, a Canadian provider of enterprise software and systems. From 1986 until its sale in March 2006, Mr. Nelson served on the Board of Directors of Geac Computer Corporation Limited (Canada). Mr. Nelson serves on the Board of Directors of HealthGate Data Corp., a provider of healthcare information and, from May 2002 until 2005, served on the Board of Directors of Catalyst International, Inc., a provider of warehouse management software.

Mr. Skelton has served as a director of the Company since April 1992. Since November 1999, Mr. Skelton has been the principal of Skelton & Associates, LLC, through which he serves as an investor in and advisor to computer software and services companies. He served as President of Cambar Software, Inc. from August 1997 to November 1999. Mr. Skelton also serves on the Board of Directors of Calian Technology Ltd. (Canada), a technology services provider.

Ms. Mitchell-Keller has served as Senior Vice President of Global Marketing & Solution Management since September 2004. From February 2003 to September 2004, Ms. Mitchell-Keller served as Senior Vice President of Product Development & Strategy. From March 2001 to February 2003, Ms. Mitchell-Keller served as Senior Vice President of Market and Technology Strategy. From March 2000 to March 2001, she served as Vice President of Technology Strategy, from October 1999 to March 2000, as Vice President of Product & Solution Marketing and from March 1999 to September 1999, as Vice President of Product Marketing.



Mr. Kissling has served as Senior Vice President and Chief Technology Officer since September 2004. From March 2002 to September 2004, Mr. Kissling was an independent consultant. From June 2001 to March 2002, Mr. Kissling served as Chief Technology Officer of Baan Company, a provider of enterprise resource planning systems and a provider of software and consulting services ( Baan Company ). From June 1999 to June 2001, he served as the Chief Technology Officer of Invensys Manufacturing and Process Systems, a business unit of Invensys plc and provider of enterprise industrial automation systems.

Mr. Kubera has served as Senior Vice President of Consumer Goods since March 2005. From October 2003 to February 2005, Mr. Kubera served as Senior Vice President of Northern European Operations, from March 2001 to October 2003, as Senior Vice President of Global Services, and from March 1999 to February 2001, as Vice President.

Mr. Smith has served as Senior Vice President, General Counsel and Secretary from January 2000 through February 2002 and since July 2002. From June 1998 to December 1999, he served as Vice President and General Counsel for Land Rover North America, Inc., an automobile importer and distributor.

Mr. Daihl has served as Senior Vice President of Revenue Management since November 2005. From September 2004 to October 2005, Mr. Daihl served as Group Vice President of Revenue Management. From August 2003 to September 2004, Mr. Daihl served as President of Dexec Consulting, a provider of management advisory services to the high tech industry. From July 2000 to August 2003, he served as President of CAPS Logistics, a wholly-owned subsidiary of Baan Company, and from July 1999 to July 2000 as the Vice President, Consulting, of Baan Company.

Ms. Davis-Stoudt has served as the Company's Vice President, Controller and Chief Accounting Officer since May 2004. From April 1999 to May 2004, Ms. Davis-Stoudt served as Assistant Controller.

On October 24, 2002, William H. Janeway, a partner of Warburg Pincus & Co. and a Vice-Chairman and member of Warburg Pincus LLC, a private equity investment firm, was nominated and appointed as a Class III director pursuant to the request for representation on the Board from Warburg Pincus Private Equity VIII, L.P. ( WP VIII ) as a result of WP VIII's significant ownership interest in the Company in 2002. In connection with Mr. Janeway's appointment to the Board, the Company entered into a standstill agreement with WP VIII. Under the standstill agreement, the Company consented to the acquisition by WP VIII and certain of its affiliates of up to 19.9% of the Common Stock and agreed that, for as long as WP VIII and its affiliates beneficially own at least ten percent (10%) of the outstanding shares of Common Stock, the Company would nominate and use its best efforts to have elected to the Board one person designated by WP VIII and reasonably acceptable to the Company. If WP VIII beneficially owns less than ten percent (10%) of the outstanding shares of Common Stock as a result of the sale, transfer or disposition of shares of Common Stock by WP VIII, then upon the request of the Company, WP VIII's designated member of the Board would be required to resign from the Board. Mr. Janeway is indemnified by WP VIII in connection with his service on the Company's Board of Directors. The standstill agreement expired in October 2005.

#### **Audit Committee and Audit Committee Financial Expert**

The Audit Committee presently consists of William G. Nelson (Chairman), Kevin C. Melia and Thomas A. Skelton. The Board of Directors has determined that all members of the Audit Committee are independent as that term is defined in the applicable Nasdaq listing standards and regulations of the Securities and Exchange Commission. In addition, the Board of Directors has determined that Mr. Nelson, Mr. Melia and Mr. Skelton have the financial experience required by the applicable Nasdaq listing standards and each of Mr. Nelson and Mr. Melia is an audit committee financial expert as defined by applicable regulations of the Securities and Exchange Commission.

The information contained in this Annual Report on Form 10-K with respect to the independence of the members of the Audit Committee shall not be deemed to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any prior or subsequent filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference in such filing.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's executive officers, directors and persons who own more than ten percent (10%) of the Common Stock (collectively, Reporting Persons) to file initial reports of ownership and reports of changes of ownership of the Common Stock with the Securities and Exchange Commission (SEC) and the Nasdaq Stock Market. Reporting Persons are required to furnish the Company with copies of all forms that they file under Section 16(a). Based solely upon a review of the copies of such forms received by the Company or written representations from Reporting Persons, the Company believes that, with respect to fiscal year 2005, all Reporting Persons complied with all applicable filing requirements under Section 16(a) with the exception of Thomas Skelton who failed to timely file three Form 4 Statements of Changes in Beneficial Ownership each reporting one transaction with respect to certain transfers of shares among himself, his wife and a joint account held for the benefit of himself and his wife and one Form 5 Annual Statement of Changes in Beneficial Ownership of Securities to report four transactions with respect to gifts of shares from Mr. Skelton and his wife to their daughters.

#### **Code of Ethics:**

We have adopted a code of business conduct and ethics for all employees of our Finance department and those with financial oversight responsibility, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, known as the Code of Ethics pursuant to Section 406 of the Sarbanes-Oxley Act of 2002. The Code of Ethics is available on our website at [www.manugistics.com](http://www.manugistics.com).

We intend to disclose any amendment to, and any waiver from, a provision of the Code of Ethics that applies to the Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer or any other executive officer and that relates to any element of the Code of Ethics definition enumerated in Item 406(b) of Regulation S-K, on Form 8-K, within five business days following the date of such amendment or waiver.

#### **Code of Conduct:**

We have adopted a code of business conduct and ethics for all directors, officers and employees, known as the Code of Conduct pursuant to applicable NASDAQ listing standards. The Code of Conduct is available on our website at [www.manugistics.com](http://www.manugistics.com).

We intend to disclose any amendment to the Code of Conduct that relates to any element of the Code of Ethics definition enumerated in Item 406(b) of Regulation S-K, and any waiver from a provision of the Code of Conduct granted to any director or executive officer, on Form 8-K, within five business days following the date of such amendment or waiver.

### **Item 11. EXECUTIVE COMPENSATION.**

#### **Summary Compensation Table**

The following table sets forth summary information regarding compensation paid or accrued by the Company for services during fiscal years 2006, 2005 and 2004 to each person serving as the Company's Chief Executive Officer and each of the four most highly compensated executive officers other than the

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persons serving as Chief Executive Officer whose individual total salary and bonus on an annual basis exceeded \$100,000 for fiscal 2006 (the Named Executives ). Mr. Cowan and Mr. Kissling joined the Company during fiscal 2005; accordingly, the annual compensation reported for them in fiscal 2005 is for a partial year. Mr. Kubera was not an executive officer at any time during fiscal 2004. Mr. Daihl became an executive officer in fiscal 2006. Mr Rajaji resigned as Executive Vice President and Chief Financial Officer on October 18, 2005, effective November 4, 2005.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Other Annual Compensation	Long-Term Compensation Awards		All Other Compensation
		Salary	Bonus			Restricted Stock Award(s) (23)	Securities Underlying Options (24)	
Joseph L. Cowan Chief Executive Officer	2006	\$ 400,000		(1)	\$ 18,398 (2)			\$ 45,882 (3)
	2005	\$ 244,102			\$ 17,867 (4)	\$ 867,754 (5)	2,000,000	\$ 27,994 (6)
Jeffrey L. Kissling Senior Vice President and Chief Technology Officer	2006	\$ 225,000		(1)		\$ 53,790	75,000	\$ 2,063 (7)
	2005	\$ 110,913					275,000	\$ 271 (8)
Ronald P. Kubera Senior Vice President, Consumer Products	2006	\$ 225,000		(1)	\$ 130,075 (9)	\$ 53,790	50,000	\$ 3,841 (10)
	2005	\$ 201,667	\$ 34,355		\$ 24,846 (11)	\$ 63,700	175,000	\$ 120,104 (12)
Lori Mitchell-Keller Senior Vice President, Global Marketing and Solution Management	2006	\$ 225,000		(1)		\$ 44,825	50,000	\$ 3,412 (13)
	2005	\$ 207,483			\$ 200 (14)	\$ 64,575		\$ 3,192 (15)
	2004	\$ 180,651	\$ 20,000			\$ 98,145		\$ 225 (16)
Edward R. Daihl Senior Vice President, Revenue Management	2006	\$ 200,000		(1)			50,000	\$ 1,500 (17)
Raghavan Rajaji Former Executive Vice President and Chief Financial Officer	2006	\$ 219,173			\$ 757 (18)	\$ 47,206		\$ 9,678 (19)
	2005	\$ 311,667				\$ 89,180	205,000	\$ 7,875 (20)
	2004	\$ 264,458	\$ 25,000			\$ 159,450	345,429 (21)	\$ 11,439 (22)

(1) No bonuses were paid during fiscal 2006. Each of Messrs. Cowan, Kissling, Kubera and Daihl and Ms. Mitchell-Keller received cash awards for achieving corporate performance or managerial targets and goals in the fourth quarter of fiscal 2006 in the amounts of \$100,000, \$33,750, \$56,250, \$30,000 and \$35,550, respectively, which cash awards were paid in the first quarter of fiscal 2007.

(2) Represents a car allowance of \$16,200 and \$2,198 in transportation and living expenses.

(3) Represents \$40,417 in housing expenses, \$4,132 for additional life insurance premiums, and a \$1,333 employer contribution to the Company's 401(k) Plan.

(4) Represents a car allowance of \$9,885 and \$7,982 in transportation and living expenses.

(5) In connection with his employment with the Company, Mr. Cowan was awarded a total of 333,000 restricted shares, 200,000 of which vested upon grant and the remainder of which vested on January 1, 2006 as a result of his employment through that date.

(6) Represents \$21,436 in housing expenses, \$1,033 for additional life insurance premiums and \$5,525 for legal services.

(7) Represents a \$2,063 employer contribution to the Company's 401(k) Plan.

(8) Represents \$271 in housing expenses.

(9) Includes \$129,675 for tax equalization payments.

(10) Represents a \$3,191 employer contribution to the Company's 401(k) Plan and \$650 for additional life insurance premiums.

(11) Includes \$24,646 for tax equalization payments.

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- (12) Represents \$94,272 for housing and relocation expenses, \$22,195 for cost of living expenses, \$650 for additional life insurance premiums and a \$2,987 employer contribution to the Company's 401(k) Plan.
- (13) Represents a \$3,187 employer contribution to the Company's 401(k) Plan and \$225 for additional life insurance premiums.
- (14) Represents a \$200 good health subsidy.
- (15) Represents a \$2,967 employer contribution to the Company's 401(k) Plan and \$225 for additional life insurance premiums.
- (16) Represents \$225 for additional life insurance premiums.
- (17) Represents a \$1,500 employer contribution to the Company's 401(k) Plan.
- (18) Represents \$757 in unpaid vacation pay.
- (19) Represents a \$2,278 employer contribution to the Company's 401(k) Plan, \$3,341 for additional life insurance premiums and \$4,059 for professional tax services.
- (20) Represents \$3,304 for additional life insurance premiums, \$1,733 for professional tax services and a \$2,838 employer contribution to the Company's 401(k) Plan.
- (21) Includes 245,429 options granted in connection with the Company's option exchange program commenced February 10, 2003 ( 2003 OEP ).
- (22) Represents \$6,609 for additional life insurance premiums, \$1,567 for professional tax services and a \$3,263 employer contribution to the Company's 401(k) Plan.
- (23) The number and value of the aggregate restricted stock holdings of Messrs. Kissling and Kubera, Ms. Mitchell-Keller and Messrs. Daihl and Rajaji at the end of fiscal 2006 were 30,000 shares valued at \$55,800, 55,000 shares valued at \$46,500, 65,000 shares valued at \$120,900, 25,000 shares valued at \$46,500, and 60,000 shares valued at \$111,600, respectively. Mr. Cowan had no restricted shares at the end of fiscal 2006. If the Merger is consummated, any restricted stock will be cashed out in the Merger at a price per share of \$2.50, less any required tax withholdings.
- (24) If the Merger is consummated, any options that are not exercised in advance of the closing will be cashed out in connection with the Merger for the positive difference (if any) between \$2.50 and the exercise price of the options, without regard to whether the options were already vested, and with the result reduced by applicable tax withholdings.

**Stock Options**

The following table sets forth certain information concerning the grant of options to the persons serving as Chief Executive Officer and other Named Executives in fiscal 2006. The Company has not granted any stock appreciation rights ( SARs ).

**Option Grants in Last Fiscal Year**

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/share)*	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term	
					5%	10%
Joseph L. Cowan						
Jeffrey L. Kissling	75,000 (1)	4.84 %	\$ 1.795	11/01/2015	84,665	214,558
Ronald P. Kubera	50,000 (1)	3.23 %	\$ 1.795	11/01/2015	56,443	143,038
Lori Mitchell-Keller	50,000 (1)	3.23 %	\$ 1.795	11/01/2015	56,443	143,038
Edward R. Daihl	50,000 (1)	3.23 %	\$ 1.795	11/01/2015	84,665	214,558
Raghavan Rajaji(2)						

\* All options have an exercise price equal to the fair market value of the Common Stock on the date of grant.

(1) Vests on the earliest to occur of: (i) the executive officer's involuntary termination without cause or resignation for good reason; (ii) a change of control of the Company; or (iii) 11/01/2006. If the Merger is consummated, any options that are not exercised in advance of the closing will be cashed out in connection with the Merger for the positive difference (if any) between \$2.50 and the exercise price of the options, without regard to whether the options were already vested, and with the result reduced by applicable tax withholdings.

(2) Mr Rajaji resigned as Executive Vice President and Chief Financial Officer on October 18, 2005, effective November 4, 2005.

Neither the Chief Executive Officer nor any of the other Named Executive Officers exercised outstanding options during fiscal 2006.

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The following table summarizes the value realized upon exercise of outstanding stock options during fiscal 2006 and the value of the outstanding options held by the Chief Executive Officer and the other Named Executive Officers.

**Aggregated Option Exercises in Fiscal 2006 and Fiscal Year-End Option Values**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)(1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End \$(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Joseph L. Cowan			816,667	1,183,333	\$ 0.00	\$ 0.00
Jeffrey L. Kissing			56,667	293,333	\$ 0.00	\$ 4,875
Ronald P Kubera			180,050	220,950	\$ 0.00	\$ 3,250
Lori Mitchell-Keller			200,629	230,167	\$ 0.00	\$ 3,250
Edward R. Daihl			25,000	192,000	\$ 0.00	\$ 3,250
Raghavan Rajaji			430,096	250,333	&nbsp;	