

MANUGISTICS GROUP INC
Form 10-Q
January 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2005

or

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

For the transition period from _____ to _____

Commission File Number 0-22154

MANUGISTICS GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

52-1469385

(I.R.S. Employer Identification No.)

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9715 Key West Avenue, Rockville, Maryland
(Address of principal executive office)

20850
(Zip Code)

(301) 255-5000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 84.1 million shares of common stock, \$.002 par value, as of December 31, 2005

MANUGISTICS GROUP, INC. AND SUBSIDIARIES

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PART I-FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

MANUGISTICS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	November 30, 2005	February 28, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 67,234	\$ 80,342
Marketable securities	56,332	49,636
Total cash, cash equivalents and marketable securities	123,566	129,978
Accounts receivable, net of allowance for doubtful accounts of \$7,238 and \$7,605 at November 30, 2005 and February 28, 2005, respectively	37,045	45,659
Other current assets	9,923	10,890
Total current assets	170,534	186,527
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation	14,585	15,795
Software development costs, net of accumulated amortization	9,580	14,390
Long-term investments	2,942	5,911
Goodwill	185,784	185,658
Acquired technology, net of accumulated amortization	5,340	13,816
Customer relationships, net of accumulated amortization	4,349	9,335
Other intangibles and non-current assets, net of accumulated amortization	7,193	8,848
TOTAL ASSETS	\$ 400,307	\$ 440,280
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,718	\$ 7,117
Accrued compensation	2,891	2,858
Accrued exit and disposal obligations	5,479	8,032
Deferred revenue	34,576	43,173
Other current liabilities	11,787	19,814
Total current liabilities	59,451	80,994
NON-CURRENT LIABILITIES:		
Convertible debt	175,500	175,500
Accrued exit and disposal obligations	11,171	13,799
Long-term debt and capital leases	1,151	1,668

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Other non-current liabilities	3,870	3,573
Total non-current liabilities	191,692	194,540

COMMITMENTS AND CONTINGENCIES (Note 4)

STOCKHOLDERS EQUITY:

Preferred stock, \$.01 par value per share, 4,620 shares authorized; none outstanding		
Common stock, \$.002 par value per share; 300,000 shares authorized; 84,133 and 83,869 issued and outstanding at November 30, 2005 and February 28, 2005, respectively	168	168
Additional paid-in capital	780,326	780,306
Deferred compensation	(1,271)	(3,044)
Accumulated other comprehensive income	2,368	4,065
Accumulated deficit	(632,427)	(616,749)
Total stockholders equity	149,164	164,746
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 400,307	\$ 440,280

See accompanying Notes to Condensed Consolidated Financial Statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
REVENUE:				
Software license	\$ 4,093	\$ 6,664	\$ 17,552	\$ 28,143
Support	21,099	20,666	64,669	63,383
Services	13,184	16,159	43,124	50,091
Reimbursed expenses	1,548	1,556	4,885	6,273
Total revenue	39,924	45,045	130,230	147,890
OPERATING EXPENSES:				
Cost of revenue:				
Cost of software license	3,599	3,525	11,181	10,861
Amortization of acquired technology	935	3,546	4,743	10,638
Total cost of software license	4,534	7,071	15,924	21,499
Cost of services and support	14,526	18,391	46,158	55,621
Cost of reimbursed expenses	1,548	1,556	4,885	6,273
Non-cash stock option compensation expense for cost of services and support				75
Total cost of services and support	16,074	19,947	51,043	61,969
Sales and marketing	9,321	11,387	28,842	41,852
Non-cash stock option compensation expense for sales and marketing				26
Total cost of sales and marketing	9,321	11,387	28,842	41,878
Product development	6,523	8,257	21,977	25,151
Non-cash stock option compensation expense for product development				15
Total cost of product development	6,523	8,257	21,977	25,166
General and administrative	4,173	5,250	14,495	17,270
Non-cash stock option compensation expense for general and administrative				52
Total cost of general and administrative	4,173	5,250	14,495	17,322
Amortization of intangibles	1,662	1,662	4,987	4,986
Asset impairment			3,733	
Exit and disposal activities	1,259	2,931	2,988	6,636
Total operating expenses	43,546	56,505	143,989	179,456
LOSS FROM OPERATIONS	(3,622)	(11,460)	(13,759)	(31,566)

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OTHER EXPENSE, NET	(1,215)	(1,585)	(4,446)	(5,655)
LOSS BEFORE INCOME TAXES	(4,837)	(13,045)	(18,205)	(37,221)
(BENEFIT) PROVISION FOR INCOME TAXES	(193)	223	(2,527)	894
NET LOSS	\$ (4,644)	\$ (13,268)	\$ (15,678)	\$ (38,115)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.06)	\$ (0.16)	\$ (0.19)	\$ (0.47)
SHARES USED IN BASIC AND DILUTED LOSS PER SHARE COMPUTATION	82,368	81,928	82,240	81,885

See accompanying Notes to Condensed Consolidated Financial Statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended November 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (15,678)	\$ (38,115)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	22,582	29,433
Amortization of debt issuance costs	674	678
Exit and disposal activities	2,988	6,636
Non-cash stock option compensation expense		168
Bad debt expense	359	3,965
Asset impairment	3,733	
Other	1,404	793
Changes in assets and liabilities:		
Accounts receivable	8,145	13,894
Other assets	1,013	(1,311)
Accounts payable	(2,399)	(2,436)
Accrued compensation	33	(1,837)
Other liabilities	(7,865)	(2,763)
Accrued exit and disposal obligations	(8,080)	(9,778)
Deferred revenue	(7,833)	(12,697)
Net cash used in operating activities	(924)	(13,370)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchases) sales of marketable securities, net	(3,643)	2,115
Purchases of property and equipment	(2,779)	(3,352)
Proceeds from sale of fractional shares of jet		1,958
Capitalization and purchases of software	(2,577)	(7,341)
Purchases of long-term investments, net		(5,128)
Net cash used in investing activities	(8,999)	(11,748)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of debt and capital lease obligations and debt issuance costs	(2,245)	(1,976)
Proceeds from exercise of stock options and employee stock plan purchases	368	745
Net cash used in financing activities	(1,877)	(1,231)
EFFECTS OF EXCHANGE RATES ON CASH BALANCES	(1,308)	406
NET CHANGE IN CASH AND CASH EQUIVALENTS	(13,108)	(25,943)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	80,342	97,559
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 67,234	\$ 71,616
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 8,966	\$ 9,011
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of capital leases	\$ 1,009	\$ 1,490

See accompanying Notes to Condensed Consolidated Financial Statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

November 30, 2005

1. The Company and Basis of Presentation

The Company

Manugistics Group, Inc. (the Company) is a leading global provider of supply chain, demand and revenue management software products and services. The Company combines its products and services to deliver solutions that address the specific business needs of its clients. The Company's approach to client delivery is to advise its clients on how best to use its 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. The Company delivers its solutions using commercially available products and provides additional functionality addressed through product extensions for industry-specific capabilities.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of the Company and its wholly-owned subsidiaries have been prepared in accordance with generally accepted accounting principles for interim reporting and follow the guidance provided in the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments that are necessary for a fair presentation of the unaudited results for the interim periods presented have been included. The results of operations for the periods presented herein are not necessarily indicative of the results of operations for the entire fiscal year, which ends on February 28, 2006.

These financial statements should be read in conjunction with the financial statements and notes thereto for the fiscal year ended February 28, 2005 included in the Annual Report on Form 10-K of the Company for that year filed with the Securities and Exchange Commission.

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation.

2. Stock Option-Based Compensation Plans & Restricted Stock Program

Stock Option-Based Compensation Plans. The Company accounts for its stock option-based compensation plans in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations using the intrinsic value based method of accounting. If the Company accounted for its

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share-based payments using a fair value based method of accounting in accordance with the provisions of Statement of Financial Accounting Standards No. 123 (R), *Share-Based Payment*, (SFAS 123 (R)) as required beginning in the first quarter of fiscal year 2007, and in accordance with the provisions in Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148), the Company's net loss and loss per basic and diluted share amounts would have been as follows (amounts in thousands, except per share amounts):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
Net loss, as reported	\$ (4,644)	\$ (13,268)	\$ (15,678)	\$ (38,115)
Add: Stock option-based compensation expense included in reported net loss, net of tax				168
Deduct: Stock option-based compensation expense determined under the fair-value method, net of tax (1)	(450)	(1,257)	(39)	(4,999)
Pro forma net loss	\$ (5,094)	\$ (14,525)	\$ (15,717)	\$ (42,946)
Basic and diluted loss per share, as reported	\$ (0.06)	\$ (0.16)	\$ (0.19)	\$ (0.47)
Basic and diluted loss per share, pro forma	\$ (0.06)	\$ (0.18)	\$ (0.19)	\$ (0.52)

(1) Includes the impact of actual stock option forfeitures related to employee terminations.

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Consistent with the Company's accounting for deferred tax assets resulting from the exercise of employee stock options in the accompanying unaudited Condensed Consolidated Financial Statements, the Company has not provided a tax benefit or expense on the pro forma expense in the above table.

During the three and nine months ended November 30, 2005, stock options granted had weighted average fair values of \$0.58 and \$0.64 per share, respectively, and \$1.65 and \$1.76 per share during the three and nine months ended November 30, 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 the 2004 Employee Stock Purchase Plan (ESPP) during the three and nine months ended November 30, 2005 was \$0.36 and \$0.37 per share, respectively. The weighted average estimated fair value of the common stock purchase rights under the ESPP during the three months ended November 30, 2004 was \$0.51 per share. On November 30, 2005, 75,331 shares of the Company's common stock were issued under the Company's 2004 ESPP.

The Company determined the assumptions used in computing the fair value of stock options and ESPP 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 the Company's 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:

	OPTIONS		ESPP		OPTIONS		ESPP	
	Three Months Ended November 30,		Three Months Ended November 30,		Nine Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004	2005	2004	2005	2004
Risk-free interest rates	4.05%	3.37%	3.87%	2.02%	3.99%	3.15%	3.43%	2.02%
	2.12	5.41			2.56	4.71		
Expected term	years	years	3 months	3 months	years	years	3 months	3 months
Volatility	0.5273	0.7812	0.4726	0.5499	0.5333	0.7902	0.4981	0.5499
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%

Restricted Stock Program. In June 2003, the Company's Board of Directors approved an amendment to the Company's 1998 stock option plan to issue restricted shares of Manugistics' common stock to its employees. This amendment was approved by shareholders at the Company's 2003 Annual Meeting of Shareholders on July 29, 2003. Restricted stock awards generally have a vesting schedule of one to four years. The value of restricted awards is computed using the closing price of the stock on the date of grant and includes an estimated forfeiture rate that is based upon the actual historical forfeiture rate. The value of restricted awards is recorded as deferred compensation and reported as a reduction to stockholders' equity. The related compensation expense is recognized over the vesting period of the award.

During fiscal years 2004 and 2005 and for the nine months ended November 30, 2005, the Company issued 205,000, 1,628,000 and 357,500 shares of restricted stock to employees, respectively, and recorded deferred compensation of \$1.3 million, \$3.5 million and \$0.5 million, respectively.

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The Company recorded \$0.3 million and \$1.2 million in compensation expense related to restricted shares outstanding during the three and nine months ended November 30, 2005, respectively, and recorded \$0.3 million and \$0.6 million in compensation expense during the three and nine months ended November 30, 2004, respectively.

3. Net Loss Per Share

Basic net loss per share is computed using the weighted average number of shares of common stock outstanding. Diluted net loss per share is computed using the weighted average number of shares of common stock and, when dilutive, potential common shares from options, restricted stock and warrants to purchase common stock using the treasury stock method and the effect of the assumed conversion of the Company's convertible subordinated debt, using the if-converted method. The dilutive effect of options, restricted stock and warrants to acquire 0.8 million and 1.1 million shares for the three and nine months ended November 30, 2005, respectively, and six thousand and 0.9 million shares for the three and nine months ended November 30, 2004, respectively, was excluded from the calculation of diluted net loss per share because including these shares would be anti-dilutive due to the Company's reported net loss. The assumed conversion of the Company's convertible debt was excluded from the computation of diluted net loss per share for the three and nine months ended November 30, 2005 and 2004 because it was anti-dilutive.

4. Commitments and Contingencies

Legal Actions. The Company is involved from time to time in disputes and litigation in the ordinary course of business. The Company has established accruals for losses related to such matters that are probable and reasonably estimable. The Company does not believe that the outcome of any existing disputes or litigation will have a material adverse effect on the Company's business, operating results, financial condition or 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 the Company. Accordingly, an unfavorable outcome of some or all of these matters could have a material adverse effect on the Company's business, operating results, financial condition or cash flows.

Indemnification. The Company licenses software to its customers under software license agreements, which generally provide the customer with limited indemnification 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 Company's software. To date, the Company has not incurred any material costs associated with these indemnification provisions and no material claims of this nature were outstanding as of November 30, 2005. However, there can be no assurance that claims under these indemnification provisions will not arise in the future or that any such claims will not have a material adverse effect on the Company's business, operating performance, financial condition or cash flows.

Product Warranty. The Company typically provides a limited warranty to its customers with respect to its software products. The Company records a liability for the estimated cost of product warranties based on specific warranty claims, provided that it is probable that a liability exists and provided the amount can be reasonably estimated. To date, the Company has not had any material costs associated with these warranties.

Tax Matters. The Company recorded a benefit for income taxes of \$0.2 million and \$2.5 million for the three and nine months ended November 30, 2005, respectively, compared to an income tax expense of \$0.2 million and \$0.9 million for the three and nine months ended November 30, 2004, respectively. The benefit recorded for the nine months ended November 30, 2005 included a \$1.9 million refund for previously paid withholding taxes, \$1.3 million related to the reversal of additional amounts accrued for certain withholding tax obligations which the Company no longer deemed probable to be paid and approximately \$0.7 million in current income tax expense related to certain of the Company's foreign subsidiaries.

5. Intangible Assets and Goodwill

Acquisition-related intangible assets subject to amortization as of November 30, 2005 and February 28, 2005 were as follows (amounts in thousands):

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	Gross Assets		Accumulated Amortization		Net Assets
November 30, 2005					
Acquired technology	\$	51,939	\$	(46,599)	\$ 5,340
Customer relationships		28,109		(23,760)	4,349
Total	\$	80,048	\$	(70,359)	\$ 9,689
February 28, 2005					
Acquired technology	\$	64,739	\$	(50,923)	\$ 13,816
Customer relationships		28,109		(18,774)	9,335
Total	\$	92,848	\$	(69,697)	\$ 23,151

During the three months ended August 31, 2005, the Company performed an impairment test of its long-lived assets and concluded that although the Company continues to sell the products acquired in the PartMiner CSD, Inc. asset acquisition, the Company does not believe that future operating cash flows will be sufficient to support the related asset balance. Therefore, the Company wrote-off the remaining \$12.8 million gross acquired technology asset balance and related \$(9.1) million of accumulated amortization. The impairment resulted in a net reduction in acquisition-related intangible assets of \$3.7 million.

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The change in the carrying amount of goodwill for the nine months ended November 30, 2005 was as follows (amounts in thousands):

Balance as of February 28, 2005	\$	185,658
Foreign currency translation adjustments, net		126
Balance as of November 30, 2005	\$	185,784

During the three months ended May 31, 2005, the Company experienced adverse changes in its stock price. The Company performed a test for goodwill impairment 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 May 31, 2005, there was no impairment of goodwill.

During the three months ended November 30, 2005, the Company's Chief Financial Officer left the Company to take a position at another company. As a result, the Company performed a test for goodwill impairment as of November 30, 2005. The Company 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.

Amortization expense for acquisition-related intangible assets was \$2.6 million and \$5.2 million for the three months ended November 30, 2005 and 2004, respectively, and \$9.7 million and \$15.6 million for the nine months ended November 30, 2005 and 2004, respectively. Estimated aggregate future amortization expense for acquisition-related intangible assets for the three-month period ended February 28, 2006 and future fiscal years is as follows (amounts in thousands):

	Three Months Ending February 28, 2006		2007		Fiscal Year Ending February 28 or 29, 2008			2009		2010		Total	
Amortization expense	\$	1,701	\$	5,013	\$	1,908	\$	914	\$	153	\$	9,689	

6. Capitalized Software Development Costs

Operations commenced at the Company's new development center in Hyderabad, India during the fourth quarter of fiscal 2005. Once the Company has completed transitioning the development process to India, the Company 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 the introduction of the Company's products into the market. Capitalized software development costs as of November 30, 2005 and February 28, 2005 were as follows (amounts in thousands):

	November 30, 2005		February 28, 2005	
Software development costs	\$	47,416	\$	44,960
Less: Accumulated amortization		(37,836)		(30,570)
Total software development costs, net	\$	9,580	\$	14,390

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Capitalization of software development costs was \$2.5 million and \$7.1 million for the nine months ended November 30, 2005 and 2004, respectively. Amortization expense was \$7.3 million and \$7.2 million for the nine months ended November 30, 2005 and 2004, respectively.

7. *Comprehensive Loss*

Other comprehensive loss relates primarily to foreign currency translation adjustments and unrealized gains (losses) on investments in marketable securities and long-term investments. The following table sets forth the comprehensive loss for the three and nine-month periods ended November 30, 2005 and 2004 (amounts in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
Net loss	\$ (4,644)	\$ (13,268)	\$ (15,678)	\$ (38,115)
Other comprehensive (loss) income, net of tax				
Unrealized gains (losses) on investments	35	(114)	155	(308)
Foreign currency translation adjustments	(681)	1,949	(1,852)	911
Total comprehensive loss	\$ (5,290)	\$ (11,433)	\$ (17,375)	\$ (37,512)

8. *Exit and Disposal Activities*

Summary: The Company has adjusted its cost structure and resource allocation several times in recent years to respond to business and market conditions. Each exit and disposal plan has included involuntary terminations across most functional areas throughout the Company and the reduction of excess office space.

The following table sets forth a summary of total exit and disposal charges, payments made against those charges and the remaining liabilities as of November 30, 2005 (amounts in thousands):

	Balance as of Feb. 28, 2005	Charges and adjustments to charges in three months ended May 31, 2005	Charges and adjustments to charges in three months ended August 31, 2005	Charges and adjustments to charges in three months ended November 30, 2005	Utilization of cash in the nine months ended November 30, 2005	Non-cash activity disposal losses in the nine months ended November 30, 2005	Balance as of November 30, 2005
Lease obligations and terminations (1) (2)	\$ 18,274	\$ 225	\$ (37)	\$ 1,534	\$ (5,058)		\$ 14,938
Severance and related benefits	2,312	227	1,339	(364)	(2,964)		550
Impairment charges and write-downs				89		(89)	
Other	83	(25)			(58)		
Subtotal	\$ 20,669	\$ 427	\$ 1,302	\$ 1,259	\$ (8,080)	\$ (89)	\$ 15,488
Reclassification of deferred rent	1,162						1,162
Total	\$ 21,831						\$ 16,650

- (1) Certain accrued lease obligations extend through fiscal year 2019.
- (2) Includes \$110 thousand and \$360 thousand of accretion expense in adjustments to charges in the three and nine months ended November 30, 2005.

The Company has outstanding lease obligations for facilities that have been entirely vacated which are located in Brussels, Belgium; Wayne, Pennsylvania; Detroit, Michigan and Ratingen and Munich, Germany. The Company has outstanding lease obligations for facilities for which a portion of the office space was vacated in certain facilities that are located in Rockville, Maryland; Atlanta, Georgia; Calabasas and San Carlos, California; and Bracknell, United Kingdom.

Exit and disposal activities: In order to further adjust the Company's cost structure and resource allocation to increase efficiencies and reduce excess office space in response to current business conditions, the Company announced and began implementing two exit and disposal plans, (the FY05 Q2 Plans) in the second quarter of fiscal 2005. Actions taken included the involuntary termination of employees across most business functions and the abandonment of excess office space.

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The following table summarizes the Company's exit and disposal activities since fiscal year 2003 (amounts in millions, except number of involuntarily terminated employees):

Period	Involuntary terminations		Office leases	Property and equipment	Other	Total
	Number of employees	\$ Amount				
Three months ended November 30, 2005	2(a)	\$ (0.4)(h)	\$ 1.5(g)	\$ 0.1		\$ 1.2
Three months ended August 31, 2005	31(b)	\$ 1.3				\$ 1.3
Three months ended May 31, 2005	13(c)	\$ 0.2	\$ 0.2(e)			\$ 0.4
Fiscal Year 2005	127(d)	\$ 6.1	\$ 8.1(f)	\$ 2.7	\$ 0.4	\$ 17.3
Fiscal Year 2004	79	\$ 0.9	\$ 12.9	\$ 4.2	\$ 0.6	\$ 18.6
Fiscal Year 2003	343	\$ 8.0	\$ 8.0	\$ 2.5	\$ 0.7	\$ 19.2

(a) US.

(b) 30 US, 1 Europe.

(c) 13 US.

(d) 96 US, 11 United Kingdom, 15 Other Europe, 4 Asia, 1 Canada.

(e) Completely vacated Brussels, Belgium.

(f) Partially vacated-Rockville, Maryland; San Carlos and Calabasas, California; Bracknell, United Kingdom and Tokyo, Japan. Completely vacated-Munich, Germany; Stockholm, Sweden and the Philippines.

(g) Partially vacated Rockville, Maryland and includes adjustments to estimated sublease income based upon actual signed subleases in San Carlos, California and Detroit, Michigan.

(h) Includes adjustments to previously established accruals.

Exit and disposal accounting policies and practices: The Company records exit and disposal costs in accordance with Statement of Financial Accounting Standards No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146).

SFAS 146 (excess office space): The Company records charges for excess office space once vacated based on the present value of the sum of expected remaining lease commitments offset by management's best estimate of expected sublease income and costs associated with subleasing the vacated space. The estimated sublease income amounts require judgment and include assumptions regarding the period of sublease and the price per square foot to be paid by sublessors. The Company reviews these estimates periodically and records appropriate adjustments, as necessary, to reflect management's best estimates. In certain cases, only a portion of the total office space within a property is

vacated when such excess office space allows appropriate physical separation.

SFAS 146 (severance costs): All terminated employees are notified within the requisite time period as prescribed by SFAS 146 and are typically not required to render service beyond the earlier of their termination date or a minimum retention period of 60 days, as defined by SFAS 146. When employees are required to render service beyond the earlier of their termination date or minimum retention period of 60 days, the severance cost for such employees is recognized and accrued over the required service period in accordance with SFAS 146. There were seven employees involuntarily terminated during the nine months ended November 30, 2005 and 23 during fiscal year 2005 who were required to render service beyond 60 days.

SFAS 88: Certain terminated employees had employment contracts that defined the amount of severance and related benefits received upon termination. The severance and related benefits for such employees are accounted for in accordance with Statement of Financial Accounting Standards No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (*SFAS 88*) when amounts are both probable and estimable. During fiscal year 2005, three employees with employment contracts were involuntarily terminated.

SFAS 144: In connection with permanently vacating excess office space, the Company records an impairment charge of certain property, plant and equipment and leasehold improvements in accordance with Statement of Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (*SFAS 144*).

9. *Warrant*

In March 2004, the Company entered into an amendment to an existing alliance agreement with International Business Machines Corporation (IBM) under which the companies will develop, market, sell and deliver demand and supply chain solutions globally. In connection with entering into the amendment to the alliance agreement, the Company issued a warrant (the Warrant) to IBM to acquire 250,000 shares of the Company's common stock at a per share purchase price of \$8.51, in reliance upon an exception provided under Section 4(2) of the Securities Act of 1933, as amended, for transactions not involving a public offering. The Warrant is immediately exercisable, expires March 12, 2009, and provides for customary registration and indemnification rights and certain limited transfer rights. The fair value of the Warrant of \$1.1 million is being recognized as operating expense over the three-year service period of the alliance agreement. The fair value of the Warrant was calculated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 2.79%; dividend yield of zero; volatility of 99%; and a Warrant life of five years. The Company recorded \$0.3 million in amortization expense associated with the Warrant for each of the nine months ended November 30, 2005 and November 30, 2004.

10. *Credit Facilities*

The Company 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, the Company 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, the Company 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 the Company 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) the Company's 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 Company was in compliance with all financial covenants as of November 30, 2005 and there were no cash draws outstanding. As of November 30, 2005, the Company had \$9.9 million in letters of credit outstanding under the Credit Facility to secure its lease obligations for certain office space.

The Credit Facility requires the Company to maintain \$50.0 million in funds with SVB Asset Management and its affiliates. The Credit Facility also restricts the amount of additional debt the Company can incur and restricts the amount of cash that the Company can use for acquisitions and for the repurchase of convertible debt. Under the terms of the Credit Facility, the Company retains 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 the Company's assets, other than intellectual property, upon an occurrence of default, unless the Company terminates the facility as provided above. The Credit Facility also provides that, upon an event of default, the Company is prohibited from paying a cash dividend to its shareholders.

The Credit Facility includes a provision for supplemental equipment advances, under which the Company may borrow up to an additional \$5.0 million for the purchase of equipment, office furniture and other capital expenditures. Amounts may be borrowed for such capital expenditures through December 31, 2005 and accrue interest at a fixed interest rate equal to 7.75% annually. Equipment advances will be repaid monthly over a 36-month period, beginning in the month following the advance. As of November 30, 2005, there were no borrowings outstanding for equipment advances under the Credit Facility. The financial covenants for the supplemental equipment advances are the same as the financial covenants for the Credit Facility.

The Company had an additional credit agreement (the Equipment Line) with SVB, as amended, which expired March 31, 2003, under which the Company was permitted to borrow up to \$5.0 million for the purchase of equipment. Amounts borrowed under the Equipment Line accrue

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interest at a rate equal to the greater of the three-year Treasury note rate plus 5%, or 8.25%, and are repaid monthly over a 36-month period. During fiscal 2003, the Company borrowed \$2.9 million under the Equipment Line. The principal balance remaining as of November 30, 2005 was approximately \$0.1 million. The financial covenants for the Equipment Line are the same as the financial covenants for the Credit Facility. The Company was in compliance with all financial covenants as of November 30, 2005.

11. *Segment Information*

The Company and its subsidiaries are principally engaged in the design, development, marketing, licensing and support and implementation of supply chain, demand and revenue management software products and services. Substantially all revenue results from the licensing of the Company's software products and related consulting and support services. The Company's chief operating decision maker reviews financial information, presented on a consolidated basis, accompanied by disaggregated information about revenue by geographic region for purposes of making operating decisions and assessing financial performance. Accordingly, the Company considers itself to be in a single industry segment.

Revenue is attributable to geographic regions based on the location of the Company's customers. The following table presents total revenue by geographic region for the three and nine months ended November 30, 2005 and 2004, and total long-lived assets for the periods ended November 30, 2005 and February 28, 2005 (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
Revenue:				
United States	\$ 25,236	\$ 28,904	\$ 82,102	\$ 97,555
Europe	11,070	10,857	36,271	33,183
Asia/Pacific	2,883	3,626	9,333	11,694
Other	735	1,658	2,524	5,458
	\$ 39,924	\$ 45,045	\$ 130,230	\$ 147,890

	November 30, 2005	February 28, 2005
Long-lived Assets:		
United States	\$ 218,043	\$ 239,374
Europe	4,574	5,351
Asia/Pacific	578	770
Other	3,636	2,347
	\$ 226,831	\$ 247,842

Item 2. 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 unaudited Condensed Consolidated Financial Statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q as a result of specified factors, including those set forth under the caption "Factors that May Affect Future Results."

Executive Summary

Our unaudited Condensed Consolidated Financial Statements are included in Item 1 of this Quarterly Report on Form 10-Q. The following discussion is provided to allow the reader to have a better understanding of our operating results for the three and nine months ended November 30, 2005, including (i) a brief discussion of our business and products, (ii) the business environment and factors that affected our financial performance, (iii) our focus on future improvements in our financial performance and (iv) Key Financial Metrics – Third Quarter Fiscal 2006. 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 2, section titled, “Factors that May Affect Future Results” and our unaudited Condensed Consolidated Financial Statements, which are included in Item 1 of this Quarterly Report on Form 10-Q.

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 also 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 Enterprise Resource Planning (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.

Business Environment and Factors That Affected our Results for the Three and Nine Months Ended November 30, 2005

Our operating results for the three and nine months ended November 30, 2005 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 nine months ended November 30, 2005, 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 three and nine months ended November 30, 2005, 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, 2005 and for the three and nine months ended November 30, 2005 were also adversely affected by the ongoing consolidation in our industry, the pace of which has significantly increased over the past three quarters 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. See [Forward-Looking Statements](#) and [Factors that May Affect Future Results](#).

Over the past eighteen months, we have made substantial changes in our company, including reorganizing and downsizing our workforce, including our executive management team and our sales organization, narrowing our market focus, narrowing our product focus, moving a portion of our product development function to India, 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 three and nine months ended November 30, 2005, we continued the development of 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 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.

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 have recently hired a President of our Asia-Pacific region and 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 November 30, 2005, we had achieved quarterly cost savings of approximately \$7.0 million, compared to the three months ended November 30, 2004, as a result of our 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 by the end of fiscal 2006.

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 November 30, 2005, we had approximately 159 employees at our Hyderabad, India development center and expect that number to increase through the first quarter of fiscal 2007. For the three months ended November 30, 2005, amortization of previously capitalized software exceeded capitalization of software development costs by approximately \$1.5 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.

Key Financial Metrics – Third Quarter Fiscal 2006

We reported third quarter year-over-year revenue decreases in software license, services and total revenue. All other operating expenses decreased \$8.7 million, or 18%, to \$39.7 million for the three months ended November 30, 2005 compared to the three months ended November 30, 2004.

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
(in thousands, except number of employees and DSO)				
Revenue:				
Software license	\$ 4,093	\$ 6,664	\$ 17,552	\$ 28,143
Support	21,099	20,666	64,669	63,383
Services and reimbursed expenses	14,732	17,715	48,009	56,364
Total revenue	\$ 39,924	\$ 45,045	\$ 130,230	\$ 147,890
Operating expenses and employee headcount:				
Exit and disposal activities and acquisition-related expenses (1)	\$ 3,856	\$ 8,139	\$ 16,451	\$ 22,428
All other operating expenses (2)	39,690	48,366	127,538	157,028
Total operating expenses	\$ 43,546	\$ 56,505	\$ 143,989	\$ 179,456
Total employees (period end)	766	733	766	733
Total average employees	762	766	737	828
Total revenue per average employee	\$ 52	\$ 59	\$ 177	\$ 179

	November 30, 2005	August 31, 2005	May 31, 2005	February 28, 2005
Financial condition, liquidity and capital structure:				
Cash, cash equivalents, marketable securities and long-term investments	\$ 126,508	\$ 136,109	\$ 133,297	\$ 135,889
Days sales outstanding (DSO)	84	78	80	91
Convertible debt	175,500	175,500	175,500	175,500
Total stockholders' equity	149,164	154,005	159,279	164,746
Common shares outstanding (period end) (3)	84,133	83,780	83,819	83,869
Cash flows from operating activities (quarter ended)	(6,775)	5,260	591	7,865

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

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

(3) Includes the impact of restricted stock forfeitures

The following is a brief discussion of the above financial metrics and analysis of the reasons for the change between the fiscal periods ended November 30, 2005 and 2004 and recent trends.

Software license revenue

Our software license revenue decreased \$2.6 million, or 39%, to \$4.1 million and \$10.6 million, or 38%, to \$17.6 million for the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. Approximately 16% and 8% of our software license revenue was recognized on a percentage-of-completion basis or ratable basis for both the three and nine months ended November 30, 2005 and November 30, 2004, respectively. The following table highlights some of the significant trends affecting our software license revenue:

Quarter Ended	Average Significant Software Transactions (1)	Selling Price (ASP) (in thousands)	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	

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

Software license revenue by industry for the three and nine months ended November 30, 2005 and 2004 is as follows (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
Government, Aerospace & Defense	\$ 347	\$ 230	\$ 527	\$ 2,356
Consumer Goods	2,286	5,170	11,342	12,567
Revenue Management	478	523	1,854	2,014
Retail	173	117	2,059	8,621
Other	809	624	1,770	2,585
	\$ 4,093	\$ 6,664	\$ 17,552	\$ 28,143

The previous tables indicate the following trends affecting our software license revenue in the three and nine months ended November 30, 2005 and 2004:

The number of significant software license transactions completed decreased in the three and nine months ended November 30, 2005 compared to the three and nine months ended November 30, 2004.

ASP has fluctuated during the past five quarters, ranging from \$264,000 to \$976,000. The quarter ended May 31, 2005 included one software transaction which accounted for more than 10% of total revenue in that quarter, resulting in a higher ASP for that quarter. The quarter ended November 30, 2005 did not include any transactions greater than \$1 million, which had the impact of reducing the ASP.

There was only one significant software transaction in the Government, Aerospace & Defense industry during the current fiscal year, causing a significant decrease in the concentration of revenue from that industry for the nine months ended November 30, 2005 compared to the nine months ended November 30, 2004. Software license revenue from the Consumer Goods industry was lower in the three and nine months ended November 30, 2005 compared to the three and nine months ended November 30, 2004, due to fewer closed software transactions, lower ASP and fewer deals greater than \$1 million. Software license revenue from the Retail industry was significantly higher during the nine months ended November 30, 2004 compared to the nine months ended November 30, 2005 reflecting increased spending at that time by retail customers and the inclusion of one large software license deal during the three months ended May 31, 2004.

Support revenue

Our support revenue increased \$0.4 million, or 2%, to \$21.1 million and \$1.3 million, or 2%, to \$64.7 million for the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. The increase for the three months ended November 30, 2005 compared to the three months ended November 30, 2004 was due to new software license sales. The increase for the nine months ended November 30, 2005 compared to the nine months ended November 30, 2004 was due to new

software license sales and collections from certain customers for outstanding support for which the related revenue did not previously meet the criteria for recognition. These increases were partially offset by decreases in support revenue from non-renewals. Our percentage of annual support renewals by our clients remains over ninety percent.

Services and reimbursed expenses revenue

Our services and reimbursed expenses revenue decreased \$3.0 million, or 17%, to \$14.7 million and \$8.4 million, or 15%, to \$48.0 million for the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. Services revenue tends to track software license revenue in prior periods. We primarily attribute the decrease in services revenue to the decrease in number of size of completed software transactions in the first half of fiscal 2006 compared to the same periods in fiscal 2005 and due to the deferral of services revenue related to a previously closed transaction for which the criteria for revenue recognition has not yet been met. Additionally, we have experienced competitive rate pressures on our consulting engagements and lower demand for implementation services.

Total revenue per average employee

Our total revenue per average employee decreased \$7,000, or 12%, to \$52,000 and decreased \$2,000, or 1%, to \$177,000 for the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. Total revenue per average employee is calculated as total revenue for the quarter divided by average number of employees for the quarter. The decrease during the three months ended November 30, 2005 compared to the three months ended November 30, 2004 was primarily due to the decrease in total revenue, which was proportionately higher than the decrease in average headcount, in addition to an increase in employee headcount in India as we migrate our product development function to our new product development center. This trend will have a negative effect on total revenue per average employee as we increase headcount in India to take advantage of the lower wage scale unless we can grow revenue at a faster rate than we increase headcount.

Total operating expenses

Our total operating expenses decreased by \$13.0 million, or 23% to \$43.5 million and \$35.5 million, or 20% to \$144.0 million during the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. Exit and disposal activities and acquisition-related expenses decreased \$4.3 million, or 53% to \$3.9 million and \$6.0 million, or 27% to \$16.5 million during the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. This decrease was the result of lower exit and disposal costs of \$1.3 million and \$3.0 million in the three and nine months ended November 30, 2005, respectively, compared to \$2.9 million and \$6.6 million in the three and nine months ended November 30, 2004. Additionally, we had lower amortization costs for the three and nine months ended November 30, 2005 compared to the three and nine months ended November 30, 2004 related to the completion of amortization of acquired technology related to the STG Holdings, Inc., Talus Solutions, Inc. and SpaceWorks, Inc. acquisitions. The decrease in the nine months ended November 30, 2005 was partially offset by a \$3.7 million impairment charge recognized related to the impairment of acquisition-related intangible assets from the PartMiner CSD, Inc. acquisition.

All other operating expenses decreased 18% to \$39.7 million and 19% to \$127.5 million during the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. This decrease was primarily the result of lower office and travel expenses and salary costs due to a 1% and 11% decrease in average employee headcount during the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004, and reduced office space costs as a result of exit and disposal plans executed during the second half of fiscal 2005 and the nine months ended November 30, 2005. Additionally, the

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decrease was the result of lower commissions and incentives in the nine months ended November 30, 2005 compared to the nine months ended November 30, 2004 related to decreased software license revenue and a \$1.5 million benefit related to the reversal of a previously recorded provision for anticipated losses on a contract for which the Company's obligation to provide services expired in the nine months ended November 30, 2005, partially offset by increased marketing expenses related to our enVISION 2005 client conference held in May 2005. Additionally, our amortization of previously capitalized software development costs exceeded capitalization of software development costs by \$1.5 million and \$4.8 million in the three and nine months ended November 30, 2005, respectively, compared to capitalized software development costs in excess of amortization by \$0.2 for the three months ended November 30, 2004 and amortization in excess of capitalized software development costs by \$0.1 million in the nine months ended November 30, 2004. The increase in amortization of previously capitalized software development costs in excess of capitalized software development costs is primarily the result of changes in the development life cycle of our products as we shift operations to our development center in Hyderabad, India.

Financial condition, liquidity and capital structure

During the three months ended November 30, 2005, we had a net decrease in cash. Activity included the following:

Cash, cash equivalents, marketable securities and long-term investments decreased \$9.6 million, or 7%, to \$126.5 million as of November 30, 2005 compared to \$136.1 million as of August 31, 2005. This decrease is primarily the result of cash usage for operating activities, including the \$4.4 million semi-annual interest payment on our long-term debt, \$2.8 million in payments related to exit and disposal activities and capital expenditures of \$1.0 million.

Cash flows from operating activities decreased by \$12.0 million to \$(6.8) million for the three months ended November 30, 2005 compared to \$5.3 million for the three months ended August 31, 2005. We made a semi-annual interest payment on our convertible debt in the three months ended November 30, 2005 with no corresponding payment in the three months ended August 31, 2005.

Use of Estimates and Critical Accounting Policies

The accompanying discussion and analysis of our financial condition and results of operations are based upon our Condensed 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 believe that the following accounting policies are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and relate to the more significant areas involving management's judgments and estimates:

- revenue recognition and deferred revenue;
- allowance for doubtful accounts;
- capitalized software development costs;
- valuation and impairment review of long-lived assets;
- income taxes;

exit and disposal activities; and

stock option-based compensation plans.

Our management has reviewed our critical accounting policies, our critical accounting estimates and the related disclosures with our Disclosure and Audit Committees. These policies and our procedures related to these policies are described further in our Annual Report on Form 10-K for the year ended February 28, 2005 in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading Use of Estimates and Critical Accounting Policies.

Results of Operations

The following table includes the Condensed Consolidated Statements of Operations data for the three and nine months ended November 30, 2005 and 2004 expressed as a percentage of total revenue:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
Revenue:				
Software license	10.3%	14.8%	13.4%	19.0%
Support	52.8%	45.9%	49.7%	42.9%
Services	33.0%	35.9%	33.1%	33.9%
Reimbursed expenses	3.9%	3.4%	3.8%	4.2%
Total revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Cost of software license	9.0%	7.8%	8.6%	7.3%
Amortization of acquired technology	2.3%	7.9%	3.6%	7.2%
Cost of services and support	36.4%	40.8%	35.4%	37.6%
Cost of reimbursed expenses	3.9%	3.4%	3.8%	4.2%
Sales and marketing	23.3%	25.3%	22.1%	28.3%
Product development	16.3%	18.3%	16.9%	17.0%
General and administrative	10.5%	11.7%	11.1%	11.7%
Amortization of intangibles	4.2%	3.7%	3.8%	3.4%
Asset impairment			2.9%	
Exit and disposal activities	3.2%	6.5%	2.3%	4.5%
Non-cash stock option compensation expense				0.1%
Total operating expenses	109.1%	125.4%	110.5%	121.3%
Loss from operations	(9.1)%	(25.4)%	(10.5)%	(21.3)%
Other expense net	(3.0)%	(3.5)%	(3.4)%	(3.8)%
Loss before income taxes	(12.1)%	(28.9)%	(13.9)%	(25.1)%
(Benefit) provision for income taxes	(0.5)%	0.5%	(1.9)%	0.6%
Net loss	(11.6)%	(29.4)%	(12.0)%	(25.7)%

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.

Revenue:

Software License Revenue. Software license revenue decreased \$2.6 million, or 39%, to \$4.1 million and \$10.6 million, or 38%, to \$17.6 million for the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. We believe the decrease in software license revenue and software license revenue as a percentage of total revenue is due to cautious capital spending for supply chain software purchases, concerns about consolidation in our industry and about our financial viability and to effects resulting from changes in

our workforce, including our executive management and sales organization, difficulties in sales execution and a highly competitive environment. These factors resulted in a decrease in the number of significant software license transactions with a value of \$100,000 or greater (excluding those recognized on a percentage-of-completion or ratable basis), the number of software license transactions of \$1 million or greater and our ASP for the three and nine months ended November 30, 2005 compared to the three and nine months ended November 30, 2004.

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The following table summarizes significant software license transactions completed during the three and nine months ended November 30, 2005 and 2004:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
Significant Software License Transactions (1)				
Number of transactions \$100,000 to \$999,999	10	10	28	37
Number of transactions \$1.0 million or greater	0	1	2	5
Total number of transactions	10	11	30	42
Average selling price (in thousands)	\$ 288	\$ 491	\$ 438	\$ 572

(1) Significant software 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 quarter.

Support Revenue. Support revenue increased \$0.4 million, or 2%, to \$21.1 million and \$1.3 million, or 2%, to \$64.7 million for the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004, respectively. The increase for the three months ended November 30, 2005 compared to the three months ended November 30, 2004 was due to new software license sales. The increase for the nine months ended November 30, 2005 compared to the nine months ended November 30, 2004 was due to new software license sales and collections from certain customers for outstanding support for which the related revenue did not previously meet the criteria for recognition. These increases were partially offset by decreases in support revenue from non-renewals. Our percentage of annual support renewals by our clients remains over ninety percent. There can be no assurance that our historical renewal rate will continue. See Forward-Looking Statements and Factors That May Affect Future Results.

Services Revenue. Services revenue decreased \$3.0 million, or 18%, to \$13.2 million and \$7.0 million, or 14%, to \$43.1 million for the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. Services revenue tends to track software license revenue in prior periods. The decrease in services revenue for the three and nine months ended November 30, 2005 compared to the three and nine months ended November 30, 2004 was primarily due to decreases in the number and size of completed software transactions in the first half of fiscal 2006 and due to the deferral of services revenue related to a previously closed transaction for which the criteria for revenue recognition has not yet been met. Additionally, we have experienced competitive rate pressures on our consulting engagements and lower demand for implementation services. See Forward-Looking Statements and Factors That May Affect Future Results.

Geographic Revenue. We market and sell our software and services internationally, primarily in Europe, Asia-Pacific, Canada, Central America and South America. Total revenue outside of the U.S. decreased \$1.5 million, or 9%, to \$14.7 million and \$2.2 million, or 4%, to \$48.1 million for the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. Total revenue by geographic area is determined on the basis of the geographic area in which transactions are consummated. Total revenue outside of the

U.S. as a percentage of total revenue was 37% for the three and nine months ended November 30, 2005, respectively, compared to 36% and 34% for the three and nine months ended November 30, 2004, respectively. The increase in the percentage of total revenue outside of the U.S. for the nine months ended November 30, 2005 compared to the nine months ended November 30, 2004 is due to a European software license transaction in our first fiscal quarter of 2006 which accounted for more than 10% of the total revenue for that quarter.

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 and nine months ended November 30, 2005 and 2004 (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
Amortization of capitalized software	\$ 2,298	\$ 2,435	\$ 7,266	\$ 7,224
Percentage of software license revenue	56.1%	36.5%	41.4%	25.7%
Other costs of software license	1,301	1,090	3,915	3,637
Percentage of software license revenue	31.8%	16.4%	22.3%	12.9%
Total cost of software license	\$ 3,599	\$ 3,525	\$ 11,181	\$ 10,861
Percentage of software license revenue	87.9%	52.9%	63.7%	38.6%

The increase in the total cost of software license during the nine months ended November 30, 2005 compared to the nine months ended November 30, 2004 was the result of an increase in other costs of software license.

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 solutions. Acquired technology is amortized over periods ranging from four to six years. We expect annual amortization of acquired technology to be approximately \$5.7 million in fiscal 2006.

Cost of Services and Support. Cost of services and support includes primarily 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 \$3.9 million, or 21%, to \$14.5 million, and \$9.5 million, or 17%, to \$46.2 million while the cost of services and support as a percentage of related revenue decreased to 42% and 43% for the three and nine months ended November 30, 2005, respectively, compared to 50% and 49% for the three and nine months ended November 30, 2004, respectively. The decrease in cost of services and support was attributable to an overall decrease in the average number of services and support employees to 285 and 280 during the three and nine months ended November 30, 2005, compared to 292 and 310 during the three and nine months ended November 30, 2004, respectively. This was primarily the result of the exit and disposal initiatives that we approved and began implementing in the second half of fiscal 2005 and continued to implement during the nine months ended November 30, 2005. The decrease in the cost of services and support as a percentage of related revenue in the three and nine months ended November 30, 2005 compared to the three and nine months ended November 30, 2004 was primarily a result of lower outside contractor costs and a \$1.5 million benefit related to the reversal of a previously recorded provision for anticipated losses on a contract for which the Company's obligation to provide services expired in the nine months ended November 30, 2005.

Sales and Marketing. Sales and marketing expense consists primarily of personnel costs, sales commissions, and promotional events such as user conferences, trade shows and technical conferences, advertising and public relations programs. Sales and marketing expense decreased \$2.1 million, or 18%, to \$9.3 million and \$13.0 million, or 31%, to \$28.8 million during the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004, respectively. The decrease during the three and nine months ended November 30, 2005 was due to:

an overall decrease in the average number of sales, marketing and business development employees to 119 and 122 during the three and nine months ended November 30, 2005, respectively, compared to 153 and 181 during the three and nine months ended November 30, 2004, respectively. This was the result of our exit and disposal initiatives that we approved and began implementing in the second half of fiscal 2005 and continued to implement in the nine months ended November 30, 2005 and some voluntary attrition;

a decrease in sales commissions in the nine months ended November 30, 2005 compared to the nine months ended November 30, 2004 due to lower software license revenue; and

a decrease in promotional spending, travel and public relations spending resulting from cost containment and cost reduction measures implemented in the second half of fiscal 2005 and the first half of fiscal 2006.

These decreases were partially offset by marketing expenses in the nine months ended November 30, 2005 related to our enVISION 2005 client conference held in May 2005.

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 and nine months ended November 30, 2005 and 2004 (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
Gross product development costs	\$ 7,355	\$ 10,853	\$ 24,434	\$ 32,291
Percentage of total revenue	18.4%	24.1%	18.8%	21.8%
Less: Capitalized software development costs	832	2,596	2,457	7,140
Percentage of total revenue	2.1%	5.8%	1.9%	4.8%
Product development costs, as reported	\$ 6,523	\$ 8,257	\$ 21,977	\$ 25,151
Percentage of total revenue	16.3%	18.3%	16.9%	17.0%

Gross product development costs decreased \$3.5 million, or 32%, to \$7.4 million and decreased \$7.9 million, or 24%, to \$24.4 million during the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004, respectively. The decrease in gross product development costs for the three and nine months ended November 30, 2005 was due to:

an overall change in the average number of product development employees to 253 and 232 for the three and nine months ended November 30, 2005 compared to 217 and 227 for the three and nine months ended November 30, 2004. The increase in the average number of product development employees for the three and nine months ended November 30, 2005 compared to the three and nine months ended November 30, 2004 was a result of increased headcount at our Hyderabad, India product development facility;

an overall decrease in the average number of product development contractors in the U.S. during the three and nine months ended November 30, 2005 compared to the three and nine months ended November 30, 2004; and

despite increased headcount, we have experienced lower personnel costs as we continue to migrate more product development efforts to our product development center in Hyderabad, India and take advantage of the lower wage resources located in that region.

General and Administrative. General and administrative expenses decreased \$1.1 million, or 21%, to \$4.2 million and \$2.8 million, or 16%, to \$14.5 million for the three and nine months ended November 30, 2005, respectively, compared to the three and nine months ended November 30, 2004. General and administrative expenses include personnel and other costs of our legal, finance, accounting, human resources, facilities and information systems functions. The decrease for the three and nine months ended November 30, 2005 compared to the three and nine months ended November 30, 2004 was the result of a decrease in the average number of general and administrative employees and decreased outside professional fees.

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 acquired. Other intangible assets are amortized over periods ranging from four to seven years. Amortization of intangibles was \$1.7 million for the three months ended November 30, 2005 and 2004. We continue to monitor our performance and the useful lives of our intangible assets in view of declining revenue.

Impairment of Long-Lived Assets. During the nine months ended November 30, 2005, we performed an impairment test of our long-lived assets and concluded that, although we continue to sell the products acquired in the PartMiner CSD, Inc. asset acquisition, we do not believe that future operating cash flows will be sufficient to support the related asset balance. Therefore, we wrote-off the remaining asset balance which resulted in a net reduction in acquisition-related intangible assets of \$3.7 million.

Goodwill Impairment. During the three months ended May 31, 2005, we experienced adverse changes in our stock price. We performed a test for goodwill impairment at May 31, 2005 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, there was no impairment of goodwill.

During the three months ended November 30, 2005, our Chief Financial Officer left the Company to take a position at another company. As a result, we performed a test for goodwill impairment. 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.

Exit and Disposal Charges. During the three and nine months ended November 30, 2005, we continued to implement the FY05 Q2 Plans designed to further adjust our cost structure and resource allocation to increase efficiencies and reduce excess office space. For the nine months ended November 30, 2005, we involuntarily terminated 32 employees located in the U.S. and one located in Europe and recorded a charge for severance and related benefits of approximately \$1.2 million. Additionally, we vacated additional space at our Headquarters located in Rockville, Maryland, signed sublease agreements for our previously vacated space located in San Carlos, California and Detroit, Michigan and entered into two lease amendments for our office space in Calabasas, California. Total charges related to lease obligations and terminations were approximately \$1.7 million for the nine months ended November 30, 2005. Other impairment and miscellaneous charges were approximately \$0.1 million.

On April 14, 2004, we signed a lease termination agreement with the landlord of our facility in metropolitan Chicago, Illinois. As part of the lease termination agreement, we paid approximately \$3.3 million in cash in exchange for terminating our lease agreement which would have expired in fiscal 2009. We recorded an exit and disposal benefit of approximately \$2.8 million related to the lease termination during the three months ended May 31, 2004.

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The following table sets forth a summary of exit and disposal charges, net of adjustments, for the three and nine months ended November 30, 2005 and 2004 (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2005	2004	2005	2004
Lease obligations and terminations	\$ 1,534	\$ 578	\$ 1,722	\$ 1,118
Severance and related benefits	(364)	2,647	1,202	4,569
Impairment charges	89	(370)	89	562
Other		76	(25)	387
Total exit and disposal activities	\$ 1,259	\$ 2,931	\$ 2,988	\$ 6,636

The impact to reported basic and diluted loss per share as a result of the exit and disposal charges was \$(0.02) and \$(0.04) for the three and nine months ended November 30, 2005, respectively, compared to \$(0.04) and \$(0.08) for the three and nine months ended November 30, 2004, respectively.

In response to the challenges 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 four fiscal years to better align our cost structure with expected revenue. Specifically, we took the following actions:

1. We reduced our workforce by 173, 79 and 343 employees through involuntary terminations under the exit and disposal plans approved during fiscal 2005, 2004 and 2003, 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 approved during fiscal 2004 and 2003. This included the relocation of certain employees from Wayne, Pennsylvania; San Carlos, California; Atlanta, Georgia; Denver, Colorado and Ottawa, Canada to our headquarters in 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 ceased to utilize the then-vacated office space. The facilities entirely vacated during the first quarter of fiscal 2006, fiscal 2005, 2004 and 2003 were located in Brussels, Belgium; Wayne, Pennsylvania; Irving, Texas; Detroit, Michigan; Denver, Colorado; Ratingen and Munich, Germany; Milan, Italy and Stockholm, Sweden. A portion of the office space was vacated in certain facilities located in Rockville, Maryland; Atlanta, Georgia; Calabasas and San Carlos, California; Tokyo