I2 TECHNOLOGIES INC
Form 10-K
March 12, 2009
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

or

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

Commission file number 0-28030

i2 Technologies, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

Common Stock, $0.00025 par value

Preferred Share Purchase Rights

(Title of Class)

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

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 x

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

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

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

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

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

The aggregate market value of the common equity held by non-affiliates (affiliates being, for these purposes only, directors, executive officers and holders of more than 5% of the registrant s Common Stock) on June 30, 2008, was $127.5 million.

As of March 9, 2009, the registrant had approximately 21,959,324 outstanding shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Selected designated portions of the registrant s definitive proxy statement to be filed on or before April 30, 2009 in connection with the registrant s 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report.

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i2 TECHNOLOGIES, INC.

ANNUAL REPORT ON FORM 10-K

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The disclosures set forth in this report are qualified by Item 1A, Risk Factors, and by the section captioned Forward-Looking Statements in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as other cautionary statements set forth elsewhere in this report.

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

All references to common stock and per share amounts for periods prior to February 17, 2005 have been retroactively restated to reflect the 1-for-25 reverse stock split we implemented on February 16, 2005. See Item 5, Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

ITEM 1. BUSINESS

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

- Visibility a clear and unobstructed view up and down the supply chain
- Planning supply chain optimization to match supply and demand considering system-wide constraints
- Collaboration interoperability with supply chain partners and elimination of functional silos
- Control management of data and business processes across the extended supply chain

Globally, we have approximately 500 customers in a variety of industries including:

- Technology
  - Computer & Electronics
  - Telecommunications Equipment and Services
  - Semiconductor
  - Consumer Electronics

- Contract Manufacturers

Automotive, Aerospace and Industrial

- Automotive Original Equipment Manufacturers
- Suppliers
- Aerospace and Defense
- Industrial Manufacturers

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- Process Industries
  - Metals
  - Energy, Chemical, Oil and Gas
- Consumer Industries & Retail
  - Retailers
  - Consumer Packaged Goods
  - Soft Goods (Textiles/Apparel & Footwear)
  - Consumer Durables

No individual customer accounted for more than 10% of our total revenues during 2008, 2007 or 2006.

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

Industry Background

Today s competitive business environment is driving companies to seek ways to make their businesses more agile and offer greater operating efficiency while improving flexibility and responsiveness to continuously changing market conditions. Many companies are facing higher competitive standards as the economy becomes more consumer-driven. At the same time, globalization is driving an on-going pressure to reduce costs. Consumers are increasingly more specific about when and where they want a product, what they want that product to be and do, and the price they will pay for a product. These demands impact the extended supply chain, leading businesses to seek improvements in asset utilization, lower the cost of goods, reduce inventories, shorten lead times and reduce the cost of fulfilling orders. Furthermore, a company s extended supply chain may span multiple continents, requiring suppliers in one part of the world to collaborate with a plant in another to serve customers in yet a third location. These forces are prompting companies to collaborate with a broad range of suppliers and customers to improve visibility and efficiency across multi-enterprise supply chains.

We believe that traditional enterprise resource planning (ERP) systems fail to provide both the forward visibility across divisions or enterprises and the high-speed decision-support capabilities that we believe are necessary to quickly plan and execute decisions. To increase competitiveness, we believe companies need solutions that can be integrated with their existing systems to provide tools for managing the variability in their supply chains, allowing them to monitor events throughout the life of a product, from the point of order, through manufacturing and distribution until it reaches a customer s hands. Companies need visibility into order, inventory and transportation systems so they can evaluate tradeoffs for fast and accurate decision-making and execute their plans across the critical processes in their supply chains.

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

Integration and business process management have become an increasingly important issue for enterprises to lower costs and realize value from their diverse environment of applications and distributed systems. Customers seek integration at several levels business process (design, execution and monitoring),

applications, user interface, data and technology. A wide variety of companies are pursuing the integration market opportunity, including ERP companies, leading Independent Software Vendors (ISVs), Enterprise Application Integration (EAI) vendors, Systems Integrators (SIs) and other information technology (IT) services organizations. i2 offers a solution unique and specific to the SCM market that provides a service oriented architecture for design, development, and integrations of SCM solutions.

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

Development of the i2 Solutions

Advanced Planning and Scheduling. We have offered a set of supply chain management solutions since our company was founded nearly 21 years ago. Our founders, Sanjiv Sidhu and Ken Sharma, sought to expand enterprise application software beyond traditional ERP systems, which were basically transaction accounting and processing systems that did not consider production constraints or offer more sophisticated monitoring, decision-support and execution capabilities. We took the first step beyond ERP with the development of an advanced planning and scheduling application that took into account actual constraints to improve the flow of materials within a factory. That solution, i2 Factory Planner, has assisted many of our customers in improving the efficiency and profitability of their factories while reducing their materials and inventory costs.

Supply Chain Planning/Supply Chain Management. Our applications evolved into solutions for supply chain planning that encompassed constraint-based planning and scheduling for multiple factories, distribution centers and warehouses. We acquired and developed technologies that help companies manage demand, design distribution and supply networks, and plan and manage fulfillment. The integration of those solutions with our factory and supply planning solutions made us a leader in enterprise solutions for supply chain management.

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

Distributed Fulfillment and Revenue Management. Our distributed order execution technology has enabled us to develop integrated, closed-loop planning and execution solutions. These solutions are designed to help companies support an order from anywhere, fulfill from anywhere, return to anywhere strategy to meet the demands of dynamic multi-channel selling models. This technology, which provides a scalable and flexible framework for creating new solutions, is used by our customers across multiple entities for transaction processing, visibility and event management capabilities. We have also invested in solutions that help customers optimize merchandising, revenue and pricing.

Supply and Demand Synchronization. i2 s supply chain management solutions focus on the multi-echelon value chain, encompassing the customer s customer and the supplier s supplier. These solutions are designed to enable businesses to manage and tune their supply chains simultaneously so that they can quickly change parameters to meet their dynamic business needs. These solutions are built on a service-oriented architecture (SOA) that includes a layer of technology services for integration and data management, user interface development and a visual business process workflow.

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Products

Our software products and services are designed to help customers address various supply chain problems and opportunities, including:

- Linking certain aspects of planning and decision-making to execution and the monitoring of changing conditions across the supply chain
- Improving current business processes, return on assets and profitability
- Reduction of risks, cycle-times and cash needed in operations
- Increasing market share
- Improving customer service levels and delivering on commitments to customers
- Creating an environment for continuous process improvement
- Enhancing competitive advantage
- Enhancing time to value for process redesign and acquisition integration

In its early days, supply chain management solutions required a company to adapt its processes to its software. Today, the software adapts to the processes. We offer supply chain management solutions that enable companies to take control of their extended supply chain horizontally with their trading partners and vertically within their enterprise. Our primary products are focused on optimizing the following business processes: manufacturing and planning; transportation and distribution management; merchandising, assortment and allocation planning; execution, collaboration and visibility; supplier relationship management; as well as data management and business analytics. Our products are complemented by our business process consulting, implementation, outsourcing, development and related services.

Manufacturing and Planning: i2 solutions for manufacturing and planning help businesses coordinate the production and distribution of goods and materials throughout the supply chain to final delivery to the customer. They also help businesses analyze their revenues with merchandising, planning and pricing tools.

Solutions for supply planning are designed to provide multi-enterprise visibility, collaboration, decision-support and execution capabilities. Using these tools, a business may estimate future demand for its products to help planners more accurately estimate future supply needs. As a result, businesses can make better decisions about how much of what products to make, when and where to make them, and what parts to utilize to make those products. Solutions for supply planning include i2 Factory Planner, i2 Supply Chain Planner, i2 Inventory Optimization and various scheduling products.

Demand and Retail Management. Solutions for demand management and retail management provide tools designed to forecast and continuously manage demand, plan-merchandising strategies, manage markdowns and promotions pricing, and optimize price quoting. Using these products, companies can begin to optimize their revenues by selling products at prices set by analytic products. Demand management products and workflows include i2 Demand Manager, i2 Markdown Optimizer, i2 Merchandise Planner, i2 Inventory Optimization, i2 Sales and Operations Management, i2 Merchandise Financial Planning, i2 Buying and Assortment Management, and i2 Allocation and Replenishment.

Transportation and Distribution Management: Solutions for transportation and distribution management help businesses optimize the flow of goods between suppliers, enterprise supply chain locations and customers. These tools provide integrated products for planning and executing transportation and distribution activities, as well as tools for strategic supply chain design and transportation modeling. Using i2 solutions, a business can procure, plan, execute and monitor freight movements across multiple modes, borders and enterprises. As a result, businesses can make better decisions about where and how to ship products, reducing their transportation costs while executing supply chain plans and achieving customer service objectives. Transportation and distribution management products include i2 Supply Chain Strategist, i2 Transportation Bid Collaboration, i2 Transportation Planner, i2 Transportation Modeler and i2 Transportation Manager.

Execution, Collaboration and Visibility: Solutions to optimize plan execution and collaboration help businesses integrate planning and execution processes, creating a closed-loop environment. These solutions provide tools designed to stage inventory, plan replenishment, manage orders and provide visibility to lower fulfillment costs, improve on-time delivery performance and enhance customer satisfaction. The i2 Collaborative Supply Execution solution is designed to provide inventory and plan collaboration, transaction processing, visibility, event management, integration and workflow capabilities. Other solutions in this category include i2 Supply Chain Visibility, i2 Customer Order Management, i2 Collaborative Replenishment and i2 Pricer and Configurator.

Supplier Relationship Management: Supplier relationship management solutions help companies and their suppliers collaborate on sourcing and procurement for supply management. This solution is designed to bridge product development, sourcing, supply planning and procurement across the supply chain, providing the ability to create, execute and sustain global sourcing strategies. Sourcing products include i2 Strategic Sourcing, i2 Product Sourcing and i2 Negotiate.

Data Management: We offer a data management solution that is designed to provide customers with the ability to manage data from multiple sources including legacy, ERP and other applications. i2 Master Data Management can be deployed: to create and maintain application-specific data; to consolidate data from multiple disparate sources; to cleanse, transform, synchronize and validate data; as well as to filter unwanted data. Other data management products include i2 MDM Enterprise, i2 Product Management and i2 Vendor Management.

On-Demand and Software as a Service: i2 offers on-demand and hosted solutions as well as managed services offerings. With i2 supply chain operations management, a variety of on-demand services are provided to enable customers to better manage demand sensing, execution, order fulfillment and key account management. i2 FreightMatrix uses private branded internet marketplaces in which companies gain access to i2 s broad logistics footprint in a secure private-labeled, shared-hosting environment, allowing companies to reduce costs, increase efficiencies and manage their supply chain, or their customer s supply chain, on-line.

Product Development

We focus our ongoing product development efforts on meeting the requests of, and delivering on our commitments to, our current customers, enhancing our solutions and the underlying technology across our products, and developing or enhancing products that will enable us to enter new markets. In order to address customer recommendations, we have developed a User Enhancement Voting Process in collaboration with the i2 User Group. This process allows customers to provide input so that our solutions evolve to meet our customers business challenges and opportunities. In addition, we invest in solutions that help us more fully complete our solution offerings and enable cross-product workflows. We have continued to invest in products and technologies that we anticipate will be important and differentiated in the future.

Our solutions operations activities are primarily conducted in North America and India. Most product management and product marketing employees are based in North America, but many development and services teams are based in India. The India location offers many benefits to i2, including centralization of development efforts and cost structure advantages. For the years ended December 31, 2008, 2007 and 2006, our research and development expense totaled approximately \$29.2 million, \$33.5 million and \$35.2 million, respectively.

Services and Maintenance

Our customer service and support program includes software maintenance, the delivery of functional enhancements and updates, and around-the-clock availability for high severity issues.

We maintain a technical support team that operates through our service and support centers located in North America, Greater Asia Pacific, Europe and Africa. Our customer service and support activities consist of the following:

Consulting Services. We offer our customers both on-site and off-site consulting services for assisting in the implementation of our products and services and integration with the customers existing systems. In addition, we offer process and change management services support to key customers. We and our customers also use third-party consulting firms.

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

Managed Services. We offer our customers outsourced supply chain management planning services providing reports, analysis and recommendations in the on-going operation of business processes. We offer hosted software services on a subscription basis.

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

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

Sales and Marketing

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

We have a partner program with Value Added Resellers (VARs) to serve mid-market customers, provide increased coverage around the world and expand into new industries. We also have joint marketing agreements with software vendors and other industry-related firms, as well as alliances with top global and regional systems consulting and integration, hardware, software, and other relevant services firms. These alliances generally provide the vendors with the ability to market our products and access our marketing materials and product training. By using these indirect sales channels, we seek to capitalize on the installed base of other companies and obtain favorable product recommendations from the business partners, thereby increasing the market coverage of our products.

Competition

The markets in which we operate are highly competitive. Our competitors are diverse and offer a variety of solutions targeting various segments of the extended supply chain as well as the enterprise as a whole. Some competitors compete with suites of applications, while most offer solutions designed specifically to target particular functions or industries. We face strong competition across the entire competitive landscape, including competition on breadth and quality of product and service offerings, pricing, delivery times and after-sales support.

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We believe our principal competitors are as follows:

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

Other Software Vendors. These include companies such as Red Prairie, Manhattan Associates and JDA Software which compete with our transportation and distribution management products; companies such as JDA Software which compete primarily with our retail applications; and companies such as Manhattan Associates and Kinaxis which compete principally with our fulfillment and certain of our demand optimization products.

Custom and Offshore Development. Increasingly we compete with internal development efforts by corporate IT departments. Additionally, we also compete with independent developers of enterprise application software such as Infosys, Wipro and other entities in countries with relatively low wage structures.

Proprietary Rights and Licenses

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

Trademarks are important to our business as we use them in our marketing and promotional activities as well as with the delivery of our software products. Our registered trademarks include i2, i2 and the i2 logo and PLANET.

We hold 162 U.S. patents and have 141 pending patent applications. These patents predominantly relate to planning, scheduling optimization, demand fulfillment, collaboration, e-commerce and data management and reporting. These patents expire at various times through 2021. We also depend on trade secrets and proprietary know-how for certain unpatented aspects of our business. To protect our proprietary information, we enter into confidentiality agreements with our employees, consultants and licensees, and generally control access to and distribution of our proprietary information. We sublicense some software that we license from third parties and incorporate in, or license in conjunction with, our products.

In connection with our efforts to protect our proprietary rights, on September 5, 2006, we announced that we had filed a lawsuit against SAP AG, a German corporation and SAP Americas, Inc., a Delaware corporation. The lawsuit, filed in the United States District Court for the Eastern District of Texas, alleged infringement of seven patents related to supply chain management.

On June 23, 2008 we entered into a settlement agreement to settle existing patent litigation between us and the SAP companies. Under the terms of the settlement agreement, each party licensed to the other party certain patents in exchange for a one-time cash payment to i2 of $83.3 million, which was received in the third quarter of 2008. In addition, each party has agreed not to pursue legal action against the other party for its actions taken to enforce any of the licensed patents prior to the effective date of the agreement. The agreement also provides for general releases, indemnification for its violation, and dismisses the existing litigations between the parties with prejudice. The agreement also contains certain limitations on the patent licenses in the event of a change in control. We have satisfied all our obligations under the agreement and no additional contingencies exist with respect to receipt of the settlement proceeds. During the twelve months ended December 31, 2008, we recorded

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$79.9 million as Intellectual property settlement, net; representing the cash payment received by us of $83.3 million net of directly related external litigation expenses of $3.5 million. The patent licenses received by us in the settlement have no significant value.

International Operations

We have international offices in Australia, Belgium, Canada, China, Finland, Germany, India, Japan, Korea, the Netherlands, Singapore, South Africa, Taiwan and the United Kingdom. Total assets related to our international operations accounted for 41% of our total consolidated assets as of December 31, 2008, 35% of our total consolidated assets as of December 31, 2007 and 34% of our total consolidated assets as of December 31, 2006. International revenue totaled $107.3 million, or 42% of total revenue, in 2008; $110.7 million, or 43% of total revenue, in 2007 and $120.3 million, or 43% of total revenue, in 2006. See *Note 14 Segment Information, International Operations and Customer Concentrations* in our Notes to Consolidated Financial Statements.

Employees

At December 31, 2008, we had approximately 1,280 full-time employees. Our future success depends upon the continued service of our key technical, sales and senior management personnel and our ability to attract, train, and retain other highly qualified personnel.

Our employees in Germany are represented by a Works Council. Although there are no formal employee representative bodies in other countries, the employees of certain of our foreign subsidiaries are covered by national, regional or sectoral collective agreements as required by statute or standard local practice. We have never experienced a work stoppage. We believe employee relations to be satisfactory.

Seasonality

We typically experience lower bookings and revenue during the first and third quarters of each year, and lower cash collections in the third quarter of each year. For additional discussion related to bookings, revenue and cash collections, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Repurchase of the Company s 5% Senior Convertible Notes

At December 31, 2008, we had outstanding approximately $86.3 million in face amount of our 5% Notes. On February 6, 2009, we entered into a Consent and Purchase Agreement (the Note Purchase Agreement) with the beneficial owner (the Majority Holder) of $58,146,000 in aggregate principal amount of our outstanding 5% Senior Convertible Notes due 2015 (the 5% Notes), to purchase all of the 5% Notes owned, beneficially or of record, by the Majority Holder. The 5% Notes were originally issued pursuant to an Indenture dated as of November 23, 2005, between the Company and The Bank of New York Mellon Trust Company, N.A., as successor in interest to JPMorgan Chase Bank, National Association, as trustee (the Trustee), which was amended and supplemented by that certain First Supplemental Indenture dated as of September 11, 2008 (collectively, the Indenture).

The closing for the purchase and sale of the Majority Holder s notes occurred on February 9, 2009. Our total payment for such notes was $58,670,929 (or $997.50 per $1,000.00 of original principal amount plus all accrued and unpaid interest thereon). Pursuant to the Note Purchase Agreement, the Majority Holder irrevocably consented to the amendments and supplements set forth in the form of Second Supplemental Indenture between us and the Trustee attached to the Note Purchase Agreement (the Second Supplemental Indenture). As a result of obtaining the Majority Holder s consent to the Second Supplemental Indenture, we received consents from a majority of the holders of the 5% Notes to the Second Supplemental Indenture. The Second Supplemental Indenture was executed by us and the Trustee on February 6, 2009 following execution of the Note Purchase

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Agreement and became effective at that time. The Second Supplemental Indenture provides for, among other things, the removal and deletion of certain restrictive covenants contained in the Indenture, including (but not limited to) restrictive covenants relating to the incurrence of indebtedness.

This summary of the Note Purchase Agreement and the Second Supplemental Indenture does not purport to be complete and is subject to, and is qualified in its entirety by, reference to all the provisions of the Note Purchase Agreement and the Second Supplemental Indenture, copies of which were attached as exhibits to a Form 8-K that we filed with the SEC on February 6, 2009.

In addition to the repurchase of the Majority Holder s notes (as discussed above), the Board of Directors authorized the Company to repurchase, from time to time, additional outstanding 5% Notes in privately-negotiated transactions. Pursuant to such authorization, the company repurchased an additional $24.6 million in face amount of 5% Notes in February 2009. With the completion of the purchase of the Majority Holder s notes and such additional repurchases from other parties, $3.5 million in aggregate principal amount of the 5% Notes remained outstanding as of February 28, 2009. (See *Note 16 Subsequent Events* in the financial statements included in this report regarding repurchases of 5% Notes that occurred after December 31, 2008.)

Termination of JDA Merger Agreement

As we previously reported in a Form 8-K that we filed with the SEC on August 12, 2008, on August 10, 2008, we entered into an Agreement and Plan of Merger (the Merger Agreement) with JDA Software Group, Inc. (JDA) and Igloo Acquisition Corp. (Merger Sub), under which i2 was to merge with and into Merger Sub (the Merger), with i2 to survive the Merger as a wholly-owned subsidiary of JDA. The Merger Agreement provided, among other things, that at the effective time of the Merger, each issued and outstanding share of the Company s common stock would be converted into the right to receive $14.86 in cash, without interest. On November 4, 2008, JDA notified us in writing that they wished to renegotiate the price of the consideration to be paid under the Merger Agreement and requested that we adjourn our stockholder meeting, previously scheduled for November 6, 2008, the purpose of which was to approve and adopt the Merger Agreement (the Special Meeting). We proceeded to hold the Special Meeting and the Merger Agreement was approved and adopted by our stockholders. Following the Special Meeting, we received a written proposal from JDA to amend the consideration to be paid to the common stockholders to an amount significantly below $14.86 per share. Our board of directors reviewed JDA s proposal and concluded that it was not in the best interests of i2 s stockholders to pursue it as proposed.

On November 7, 2008, we received a letter from JDA in which JDA provided notice to us that additional time was required to arrange the Debt Financing (as defined in the Merger Agreement) and that the closing of the merger should be delayed to a date to be specified by JDA, but in no event later than January 9, 2009, on no less than three business days prior written notice to us. On December 3, 2008, we terminated the Merger Agreement. Our board of directors did not believe the Merger or an acceptable alternative transaction with JDA could be finalized. On December 8, 2008, we received the non-refundable termination fee of $20 million from JDA. The external fees and expenses associated with the merger in fiscal 2008, including proxy and shareholder meeting expenses and legal and investment banker fees, were approximately $8.5 million.

Chief Executive Officer Succession

As we previously reported in a Form 8-K that we filed on December 19, 2008, effective December 17, 2008 our Board of Directors appointed Jackson L. Wilson, Jr., our Executive Chairman, as new Chief Executive Officer (CEO) to replace Dr. Pallab K. Chatterjee, who left the Company effective December 31, 2008. Dr. Chatterjee was appointed as i2 s CEO on May 13, 2008 and prior to that had been i2 s interim CEO since July 31, 2007. Mr. Wilson has been i2 s Executive Chairman of the Board since May 5, 2008. Mr. Wilson has served as a director of i2 since April 2005. Prior to being appointed as the Executive Chairman of the Board, Mr. Wilson served as a member of the Audit Committee and the Strategic Review Committee. On January 19,

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2009, we entered into an employment agreement (the Employment Agreement) with respect to Mr. Wilson s appointment as CEO and President, in addition to his role as Chairman of our Board of Directors. The Employment Agreement is effective from December 17, 2008, the date that Mr. Wilson was appointed as CEO, and supersedes his prior employment agreement. The Employment Agreement was attached as an exhibit to a Form 8-K that we filed with the SEC on January 21, 2009.

Available Information

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

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

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

ITEM 1A. RISK FACTORS

Any investment in our company will be subject to risks inherent to our business. Before making an investment decision, you should carefully consider the risks described below together with all of the other information included in this report. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties that we are not aware of or focused on or that we currently deem immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, they could have a material adverse effect on our business, financial condition, cash flow or results of operations. In that case, the trading price of our securities could decline and you may lose all or part of your investment.

Risks Related To Our Business

Periods of Sustained Economic Adversity and Uncertainty Could Negatively Affect Our Business, Results of Operations and Financial Condition.

Demand for our products depends in large part upon the level of capital and maintenance expenditures by many of our customers. Economic downturns, such as the one presently underway, could cause many of our customers to reduce their levels of capital and maintenance expenditures. Decreased capital and maintenance spending could have a material adverse effect on the demand for our products and our business, results of operations, cash flow and overall financial condition.

The current unprecedented disruptions in the financial markets may adversely impact the availability of credit already arranged and the availability and cost of credit in the future, which could result in the delay or cancellation of projects or capital programs on which our business depends. In addition, the disruptions in the financial markets may have an adverse impact on regional and world economies and credit markets, which could negatively impact the capital and maintenance expenditures of our customers. These conditions may reduce the willingness or ability of our customers and prospective customers to commit funds to purchase our products and services, or their ability to pay for our products and services after purchase. These conditions could result in bankruptcy or insolvency for customers, which would impact our revenue and cash collections. These conditions could also result in pricing pressure and less favorable financial terms in our contracts. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and other countries.

The Failed Merger with JDA Could Negatively Affect Our Business.

On August 10, 2008, we entered into the Merger Agreement with JDA under which i2 would merge with and into Merger Sub, with i2 to survive the Merger as a wholly-owned subsidiary of JDA. On December 3, 2008, we terminated the Merger Agreement because our board of directors did not believe the Merger or an acceptable alternative transaction with JDA could be finalized. See Item 1. Business Recent Developments Termination of JDA Merger Agreement.

The termination of the Merger Agreement with JDA and the failure to complete the Merger may result in, among other things, downward pressure on our stock; lawsuits; employee turnover and continued uncertainty for our management, sales staff, and other employees; uncertainty for existing and potential customers regarding our ability to meet our contractual obligations; and potential additional calls by shareholders to continue to pursue the public sale of the Company. Beginning in the third quarter and continuing into the fourth quarter of fiscal 2008, we experienced purchasing delays by some customers attributable to the Merger. Continued uncertainty regarding any future strategic transaction involving the Company could cause additional customer delays, potential customer losses, lower bookings, revenue, and cash flow and/or employee attrition. These distractions could harm our business, the results of operations, cash flow, and our overall financial condition.

Certain Large Stockholders Have Called For the Public Sale of the Company, and May Continue to Call for Such a Sale Following the Failure to Complete the Merger with JDA.

On September 13, 2007, Amalgamated Gadget, L.P. (Amalgamated), a beneficial owner of all of our Series B Preferred Stock (which was convertible into approximately 17.7% of our common stock as of December 31, 2008), filed an amendment to its Schedule 13D announcing that it was exercising rights under the terms of our Series B preferred stock to name two persons to our Board of Directors and stating, among other things, that i2 should explore strategic options, including a possible outright sale of i2 or its assets. Michael J. Simmons and David L. Pope were elected to the Board of Directors in September 2007 by the holders of our Series B preferred stock. On October 3, 2007, S.A.C. Capital Advisors, LLC filed a Schedule 13D announcing that it was at that time a beneficial owner of approximately 8.9% of our common stock and stating, among other things, that the value of i2 s assets is not appropriately reflected in the price of our common stock and that the best way to increase stockholder value would be a public sale of i2. On November 1, 2007, the Company announced that, in connection with an ongoing review of i2 s management, operations and strategy which was initiated early in 2007, the Board of Directors of i2 was forming a Strategic Review Committee comprised of three independent directors to consider and evaluate the merits of the various strategic options available to i2 to enhance stockholder value. The strategic options that were subsequently considered by the Strategic Review Committee included: changes to our operations; actions or transactions intended to enhance the value or utilization of our existing assets; joint ventures or strategic partnerships; selective acquisitions, dispositions or other capital transactions; and a merger, sale or other extraordinary business transaction involving the Company.

The evaluation of strategic options by the Strategic Review Committee led to, among other things, the proposed Merger with JDA. In light of the failure of that merger to be completed, the Strategic Review Committee will continue to consider and evaluate other possible strategic options involving the Company. However, continued pressure by activist stockholders for the sale of the Company (especially in light of the Company s termination of the Merger Agreement with JDA and the failure of that merger to be completed), and/or the Company s ongoing exploration of other strategic options, could create distractions for our management, sales staff and other employees and create uncertainty in existing and potential customers regarding our ability to meet our contractual obligations. Such distractions and uncertainty could lead to the Company incurring significant costs and expenses as well as increased employee turnover and a substantial diversion of

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management s time and resources and, accordingly, could harm our business, results of operations, cash flow and financial condition. There can be no assurance as to what other strategic option, if any, the Board of Directors will decide to pursue to enhance stockholder value or if and when such decision will be made. Regardless of the decision of the Board of Directors, there can be no assurance that such decision will enhance stockholder value or be agreed to or supported by all of our stockholders.

Upon a change of control, unless otherwise agreed to by a majority of the holders of outstanding Series preferred stock, we are required to exchange outstanding shares of Series B preferred stock for cash at 110% of face value plus all accrued but unpaid dividends. The exchange amount pursuant to this provision as of December 31, 2008 was approximately $120.2 million. The fixed payment due to the holders of our Series B preferred stock upon a change of control may cause a holder of Series B preferred stock to be in favor of a change of control event at a lower value than would be favored by holders of common stock.

Additionally, upon a change of control, at the election of the holders, we would be required to repurchase our convertible notes for cash at the higher of (a) 100% of the principal amount plus accrued and unpaid interest or (b) the conversion value of the convertible notes together with a make-whole premium designed to approximate the lost option time value if the event occurs prior to November 15, 2010. However, as of February 28, 2009 (after giving effect to the repurchases of the 5% Notes that occurred in February 2009), the unpaid principal amount of the convertible notes was $3.5 million. The conversion value and make whole payment would depend upon the price of i2 s common stock at the time of a change of control and would exceed the principal amount of the convertible notes if the price were greater than $13.45 per share. (See Item 1. Business Recent Developments Repurchase of the Company s 5% Senior Convertible Notes and *Note 16 Subsequent Events* in the financial statements included in this report regarding repurchases of convertible notes which occurred after December 31, 2008.)

Our Financial Results Have Varied And May Continue To Vary Significantly From Quarter To Quarter And We May Fail To Meet Analysts And Investors Expectations.

Our operating results have varied significantly from quarter to quarter in the past, and we expect our operating results to continue to vary from quarter to quarter in the future due to a variety of factors, some of which are outside of our control. Although our revenues are subject to fluctuation, significant portions of our expenses are not variable in the short term, such as our lease and purchase commitments. If we cannot reduce expenses quickly to respond to decreases in revenues, a revenue shortfall is likely to adversely and disproportionately affect our operating results. These factors have caused our operating results to be below the expectations of securities analysts and investors in the past and may do so again in the future.

We Have In The Past Experienced Negative Cash Flows. A Failure To Maintain Profitability And Achieve Consistent Positive Cash Flows Would Have A Significant Adverse Effect On Our Business, Impair Our Ability To Support Our Operations And Adversely Affect Our Liquidity.

We experienced negative cash flows during the quarters ended March 31, 2007, September 30, 2006, March 31, 2006 and each of the five years ended December 31, 2005, primarily due to sharp declines in our revenues and our historical inability to reduce our expenses to a level at or below the level of our revenues. A failure to maintain profitability and achieve consistent positive cash flows could impair our ability to support our operations, adversely affect our liquidity and threaten our ability to repay our debts when they come due. Negative cash flows and the adverse market perception associated therewith may negatively affect our ability to sell our products and maintain existing customer relationships, and may adversely affect our ability to obtain additional debt or equity financing on advantageous terms. There can be no assurance that we will be successful in obtaining or maintaining an adequate level of cash resources and we may be forced to act more aggressively in the future in the area of expense reduction in order to conserve cash resources.

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We May Require Additional Private Or Public Debt Or Equity Financing to Support Our Operations. Such Financing May Only Be Available On Disadvantageous Terms, Or May Not Be Available At All. Any New Financing Could Have A Substantial Dilutive Effect On Our Existing Stockholders.

At December 31, 2008, we had cash and cash equivalents of $238 million and a working capital balance of $187.4 million. Our cash position may decline in the future, and we may not be successful in maintaining an adequate level of cash resources.

We may be required to seek private or public debt or equity financing in order to support our operations, satisfy the conversion obligation with respect to our senior convertible notes, repurchase our senior convertible notes and/or repay our senior convertible notes. (See Note 6 Borrowing and Debt Issues Costs in the financial statements included in this report.) We may not be able to obtain additional debt or equity financing on satisfactory terms, or at all, and any new financing could have a substantial dilutive effect on our existing stockholders. The indenture governing our 5% senior convertible notes contained a debt incurrence covenant that placed restrictions on the amount and type of additional indebtedness that we can incur; however, this covenant was eliminated in conjunction with the repurchase of convertible notes and amendment of the indenture that occurred in February 2009. (See Item 1. Business Recent Developments Repurchase of the Company s 5% Senior Convertible Notes .)

If We Are Unable To Develop And Generate Additional Demand For Our Products, Serious Harm Could Result To Our Business.

We have invested significant resources in developing and marketing our products and services. The demand for, and market acceptance of, our products and services is subject to a high level of uncertainty. Adoption of software solutions, particularly by those individuals and enterprises that have historically relied upon traditional means of commerce and communication, requires a broad acceptance of substantially different methods of conducting business and exchanging information. Our products and services are often considered complex and may involve a new approach to the conduct of business by our customers. As a result, intensive marketing and sales efforts may be necessary to educate prospective customers regarding the uses and benefits of these products and services in order to generate additional demand. The market for our products and services may weaken, competitors may develop superior products and services or we may fail to develop acceptable solutions to address new market conditions. Any one of these events could have a material adverse effect on our business, results of operations, cash flow and financial condition.

We May Not Be Competitive, And Increased Competition Could Seriously Harm Our Business.

Relative to us, some of our competitors have one or more of the following advantages:

- Longer operating history
- Greater financial, technical, marketing, sales and other resources
- More consistent positive cash flows
- Longer history of profitable operations
- Greater name recognition
- A broader range of products to offer
- Better product functionality and performance in certain areas

A larger installed base of customers

Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to enhance their products, which may result in increased competition. In addition, we expect to experience increasing price competition as we compete for market share. We understand

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that some competitors are offering enterprise application software at no charge as components of product bundles. Further, traditional enterprise resource planning vendors have focused more resources on the development and marketing of enterprise application software, particularly in the product and industry segments in which we compete, and, increasingly, corporate information technology departments are undertaking internal development efforts. As a result of these and other factors, we may be unable to compete successfully with our existing or new competitors.

We Have Been And Continue To Be Subject To Product Quality And Performance Claims And Other Litigation (including Shareholder Derivative and Class Action Litigation), Which Could Seriously Harm Our Business.

From time to time, customers make claims pertaining to the quality and performance of our software and services, citing a variety of issues. Whether customer claims regarding the quality and performance of our products and services are founded or unfounded, they may adversely impact customer demand and affect the market perception of our company, our products and our services. Any such damage to our reputation could have a material adverse effect on our business, results of operations, cash flow and financial condition.

Our software products generally are used by our customers in mission-critical applications where component failures or software errors could cause significant damages. Although we conduct testing and quality assurance through a release management process, we may not discover errors until our customers install and use a given product or until the volume of services that a product provides increases. Errors could result in loss of customers and reputation, adverse publicity, loss of revenues, delays in market acceptance, diversion of development and consulting resources and claims against us by customers. To mitigate this exposure, our license agreements typically seek to limit our exposure to product liability claims from our customers. However, these contract provisions may not preclude all potential claims. Additionally, our insurance policies may be inadequate to protect us from all liability that we may face. Product liability claims could require us to spend significant time and money in litigation or to pay significant damages. As a result, any claim, whether or not successful, could harm our reputation and have a material adverse effect on our business, results of operations, cash flow and financial condition.

On March 7, 2007, a purported shareholder derivative lawsuit was filed in the Delaware Chancery Court against certain of our current and former officers and directors, naming the Company as a nominal defendant. The complaint, entitled *George Keritsis and Mark Kert v. Michael E. McGrath, Michael J. Berry, Pallab K. Chatterjee, Robert C. Donohoo, Hiten D. Varia, M. Miriam Wardak, Sanjiv S. Sidhu, Stephen P. Bradley, Harvey B. Cash, Richard L. Clemmer, Lloyd G. Waterhouse, Jackson L. Wilson, Jr., Robert L. Crandall and i2 Technologies, Inc.*, alleges breach of fiduciary duty and unjust enrichment in connection with stock option grants to certain of the defendant officers and directors on three dates in 2004 and 2005. The complaint states that those stock option grants were manipulated so as to work to the recipients favor when material non-public information about the Company was later disclosed to positive or negative effect. The complaint is derivative in nature and does not seek relief from the Company, but does seek damages and other relief from the defendant officers and directors. We have entered into indemnification agreements in the ordinary course of business with certain of the defendant officers and directors and may be obligated throughout the pendency of this action to advance payment of legal fees and costs incurred by the defendants pursuant to our obligations under the indemnification agreements and/or applicable Delaware law. The Company reached a settlement agreement with plaintiffs, which was approved by the Court on November 6, 2008. The settlement required the Company to adopt certain policies regarding the granting of stock options. These policies were implemented prior to the settlement. The settlement does not require the Company to pay any sum to the plaintiffs except for $200,000 in attorneys fees and costs. These costs have been previously accrued and were paid in the fourth quarter of 2008.

On October 23, 2007, a purported shareholder derivative lawsuit was filed in the Delaware Chancery Court against certain of our current and former officers and directors, naming the Company as a nominal defendant. The complaint, entitled *John McPadden, Sr. v. Sanjiv S. Sidhu, Stephen Bradley, Harvey B. Cash, Richard L.*

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Clemmer, Michael E. McGrath, Lloyd G. Waterhouse, Jackson L. Wilson, Jr., Robert L. Crandall and Anthony Dubreville and i2 Technologies, Inc., alleges breach of fiduciary duty and unjust enrichment based upon allegations that the Company sold its wholly-owned subsidiary, Trade Services Corporation, for an inadequate price in 2005. The complaint is derivative in nature and does not seek relief from the Company, but does seek damages and other relief from the defendant officers and directors. The defendants moved to dismiss the complaint on December 28, 2007. On August 29, 2008, the court granted the motion to dismiss as to all defendants but Mr. Dubreville (one of our former officers).

On August 11, 2008, two suits were filed in state district court in Texas against (among others) the Company and certain members of its Board of Directors. Each of the two suits sought injunctive relief prohibiting the closing of the sale of the Company s common stock pursuant to the Merger with JDA, and each of the named plaintiffs purported to represent a class of holders of the Company s common stock. One of the two suits was thereafter dismissed by the plaintiff. The other, styled *John D. Norsworthy, on Behalf of Himself and All Others Similarly Situated, v. i2 Technologies, Inc., et al.*, remains pending in the 134th District Court of Dallas County, Texas. On November 5, 2008, the District Court held a hearing on plaintiff Norsworthy s motion for a temporary restraining order, and at the conclusion of the hearing denied the motion in its entirety. To date, the plaintiff has not requested monetary relief other than his attorneys fees and costs. Based on the stage of the litigation, it is not known whether he may hereafter do so, nor is it possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of this matter. Despite the termination of the Merger Agreement with JDA, the plaintiff has not dismissed nor amended his petition as of the date of this report.

We may face other claims and litigation in the future that could harm our business and impair our liquidity. Defending against existing and potential litigation and other proceedings may continue to require us to spend significant time and money and to pay significant damages. We cannot assure you that the time, effort and financial resources that could be required will not adversely affect our business, results of operations, cash flow and financial condition.

The Loss Of Key Personnel Or Our Failure To Attract Additional Personnel Could Seriously Harm Our Company.

We rely upon the continued service of a relatively small number of key technical, sales and senior management personnel, and we have recently experienced higher turnover than desired among our key personnel. While we place a high emphasis on retention of key personnel, we nonetheless face intense competition for these qualified individuals from numerous technology and software companies, many of whom may be able to offer more competitive compensation packages than us. In addition, our employees can typically resign with little or no previous notice, which often gives us a limited opportunity to discuss possible retention with such employees. Our future success depends on our ability to retain our key employees and to attract, train and retain other highly qualified personnel. The loss of any of our key employees, our inability to reduce the increased turnover of key employees or our inability to attract, train and retain other highly qualified personnel could have a material adverse effect on our business, results of operations, cash flow and financial condition.

Effective December 17, 2008, our Board of Directors appointed Jackson L. Wilson Jr., our Executive Chairman, as new Chief Executive Officer (CEO) to replace Dr. Pallab K. Chatterjee, who left the Company effective December 31, 2008. Dr. Chatterjee was appointed as our CEO on May 13, 2008 and prior to that, had been our interim CEO since July 31, 2007. Mr. Wilson has been our Executive Chairman of the Board since May 5, 2008. Mr. Wilson has served as a director of our company since April 2005. Any further turnover in our CEO position or our other senior management positions could have a material adverse effect on our business, results of operations, cash flow and financial condition.

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Restructuring and Reorganization Initiatives Pose Significant Risks To Our Business

We have implemented and continue to evaluate restructuring initiatives involving reducing our workforce in an effort to achieve our profitability objectives. This includes a reduction in our workforce of approximately 85 personnel in the first quarter of 2009. These activities pose significant risks to our business, including the risk that key employees whom we desire to retain will leave because they disagree with our initiatives; that terminated employees will disparage the company, file legal claims against us related to their termination of employment, become employed by competitors or share our intellectual property or other sensitive information with others; and that the reorganization will not achieve targeted efficiencies. The failure to retain and effectively manage our remaining employees or achieve our targeted efficiencies through the reorganization could increase our costs, adversely affect our development efforts and adversely affect the quality of our products and customer service. If customers become dissatisfied with our products or service, our maintenance renewals may decrease, our customers may take legal action against us and our sales to existing customers could decline, leading to reduced revenues. Failure to achieve the desired results of our restructuring and reorganization initiatives could increase employee turnover and harm our business, results of operations, cash flow and financial condition.

Because Our Software Products Are Intended To Work Within Complex Business Processes, Implementation Or Upgrades Of Our Products Can Be Difficult, Time-Consuming And Expensive, And Customers May Be Unable To Implement Or Upgrade Our Products Successfully Or Otherwise Achieve The Benefits Attributable To Our Products. This May Result In Customer Dissatisfaction, Harm To Our Reputation And Cause Non-Payment Issues.

Our products typically must integrate with the many existing computer systems and software programs of our customers. This can be complex, time-consuming and expensive, and may cause delays in the deployment of our products. As a result, some customers may have difficulty implementing our products successfully or otherwise achieving the benefits attributable to our products. Delayed or ineffective implementation or upgrades of our software and services may limit our future sales opportunities, impact revenues, result in customer dissatisfaction and harm to our reputation, or cause non-payment issues.

Failure To Complete Development Projects As Planned Could Harm Our Operating Results And Create Business Distractions And Negative Publicity That Could Harm Our Business.

Risks associated with our software solutions and other development projects include, but are not limited to: