SAP AKTIENGESELLSCHAFT SYSTEMS APPLICATIONS PRODUCTS IN DATA
Form 20-F/A
April 14, 2003

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A
(Amendment No. 1)

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002

o 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:

1-14251

SAP AKTIENGESELLSCHAFT

SYSTEME, ANWENDUNGEN, PRODUKTE IN DER DATENVERARBEITUNG
(Exact name of registrant as specified in its charter)

SAP CORPORATION

SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING
(Translation of Registrant s name into English)

Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Neurottstrasse 16
69190 Walldorf
Federal Republic of Germany
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one-fourth of one Ordinary Share, without nominal value	New York Stock Exchange
Ordinary Shares, without nominal value	Frankfurt Stock Exchange New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock at the close of the period covered by the annual report:

Ordinary Shares, without nominal value (as of December 31, 2002)**	314,962,606

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 o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

* Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares.
** Including 3,516,235 treasury shares.

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Explanatory Note

As stated in Item 18 of the Registrant s annual report on Form 20-F for the year ended December 31, 2002, this amendment is being filed to provide separate consolidated financial statements of Commerce One, Inc. (Commerce One) for the fiscal year ended December 31, 2002, as required by Rule 3-09 of Regulation S-X.

This amendment is being filed for the purpose of updating Item 18. Financial Statements, and Item 19. Exhibits and adding to the page reference in Item 8. Financial Information under the heading Consolidated Financial Statements the phrase and pages M-1 through M-36. The following exhibits are amended for the year ended December 31, 2002 on Form 20-F as set forth in the pages attached hereto:

(1) Exhibit 4.8 Strategic Alliance Agreement Amendment No. 4, effective as of January 1, 2002 by and between Commerce One Operations, Inc., SAP and SAP Markets, Inc.

(2) Exhibit 4.9 Strategic Alliance Agreement Amendment No. 5, effective as of December 20, 2002, by and between Commerce One Operations, Inc., SAP and SAP Markets, Inc.

(3) Exhibit 10.3 Independent Auditors Consent of Ernst & Young LLP, Walnut Creek, California.

In addition, the Registrant is including certain currently dated certifications and an updated consent of independent auditors. The remainder of the annual report on Form 20-F filed on March 21, 2003 remains unchanged.

Item 18. ***Financial Statements***

Reference is made to pages F-1 through F-60, incorporated herein by reference, to the annual report on Form 20-F filed on March 21, 2003.

The following consolidated financial statements are filed as part of this Annual Report on Form 20-F:

Reports of Independent Auditors.

Consolidated Statements of Income for the years ended 2002, 2001 and 2000.

Consolidated Balance Sheets as of December 31, 2002 and 2001.

Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2002, 2001 and 2000.

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000.

Notes to the Consolidated Financial Statements.

Schedule for the years ended December 31, 2002, 2001 and 2000:

Schedule II Valuation and Qualifying Accounts and Reserves.

Separate financial statements for Commerce One filed pursuant to Rule 3-09 of Regulation S-X reference is made to pages M-1 through M-36, incorporated herein by reference. Summarized financial information for Commerce One is set forth in note 16 to the consolidated financial statements.

Item 19. ***Exhibits***

The following documents are filed as exhibits to this Annual Report on Form 20-F:

1 Articles of Incorporation (Satzung) of SAP AG, as amended to date (English translation).[1]

2.1 Form of global share certificate for ordinary shares (English translation).[(2)]

2.2 Form of American Depositary Receipt.[(3)]

4.1 Form of Amended and Restated Deposit Agreement among SAP AG, The Bank of New York, as Depositary, and all owners and holders from time to time of American Depositary Receipts issued thereunder, including the form of American Depositary Receipts.[(4)]

4.2 Share Purchase Agreement by and among Commerce One, Inc., New Commerce One Holding Inc. and SAP AG, dated as of June 28, 2001.[(5)]

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4.3 Amended and Restated Standstill and Stock Restriction Agreement by and among Commerce One, Inc., New Commerce One Holding, Inc. and SAP AG, dated as of June 28, 2001.[6]

4.4 Investor Rights Agreement by and among Commerce One, Inc., New Commerce One Holding, Inc. and SAP AG, dated as of June 28, 2001.[7]

4.5 Strategic Alliance Agreement by and among Commerce One, Inc., SAPMarkets, Inc. and SAP AG, dated as of September 18, 2000.[8]

4.6 Strategic Alliance Agreement Amendment No. 2 by and among Commerce One, Inc., SAPMarkets, Inc. and SAP AG, dated as of June 29, 2001.[9]

4.7 Strategic Alliance Agreement Amendment No. 3 by and among Commerce One, Inc., SAPMarkets, Inc. and SAP AG, dated as of June 29, 2001.[9]

4.8 Strategic Alliance Agreement Amendment No. 4, effective as of January 1, 2002 by and between Commerce One Operations, Inc., SAP and SAP Markets, Inc.[10]

4.9 Strategic Alliance Agreement Amendment No. 5, effective as of December 20, 2002, by and between Commerce One Operations, Inc., SAP and SAP Markets, Inc.[11]

8 Subsidiaries, Associated Companies and Other Investments of SAP AG.[1]

10.1 Independent Auditors Consent of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Mannheim, Germany.

10.2 Statement regarding Auditors Consent.[1]

10.3 Independent Auditors Consent of Ernst & Young LLP, Walnut Creek, California.

10.4 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) Incorporated by reference to Form 20-F of SAP AG, filed on March 21, 2003.

(2) Incorporated by reference to Form 8-A12B of SAP AG, filed on May 3, 2001.

(3) Incorporated by reference to Form 8-A12B of SAP AG, filed on May 3, 2001.

(4) Incorporated by reference to Form 8-A12B of SAP AG, filed on May 3, 2001.

(5) Incorporated by reference to the Current Report on Form 8-K of Commerce One, Inc., filed on July 10, 2001.

(6) Incorporated by reference to the Current Report on Form 8-K of Commerce One, Inc., filed on July 10, 2001.

(7) Incorporated by reference to the Current Report on Form 8-K of Commerce One, Inc., filed on July 10, 2001.

(8) Incorporated by reference to the Quarterly Report on Form 10-Q of Commerce One, Inc., filed on November 14, 2000.

(9) Incorporated by reference to the Quarterly Report on Form 10-Q of Commerce One, Inc., filed on August 14, 2001.

(10) Incorporated by reference to the Annual Report on Form 10-K of Commerce One, Inc., filed on April 1, 2002.

(11) Incorporated by reference to the Annual Report on Form 10-K of Commerce One, Inc., filed on March 31, 2003.

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SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing this Annual Report on Form 20-F and has duly caused this Annual Report to be signed on our behalf by the undersigned, thereunto duly authorized.

SAP AKTIENGESELLSCHAFT SYSTEME,
ANWENDUNGEN, PRODUKTE IN DER
DATENVERARBEITUNG
(Registrant)

By: /s/ HASSO PLATTNER

Name: Prof. Dr. .Hasso Plattner
Title: Co-Chairman and CEO

By: /s/ HENNING KAGERMANN

Name: Prof. Dr. Henning Kagermann
Title: Co-Chairman and CEO

By: /s/ WERNER BRANDT

Name: Dr. Werner Brandt
Title: CFO

Dated: April 14, 2003

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SAP AKTIENGESELLSCHAFT AND SUBSIDIARIES

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REPORT OF ERNST AND YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders

Commerce One, Inc.

We have audited the accompanying consolidated balance sheets of Commerce One, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commerce One, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 1 and 4 to the consolidated financial statements, in 2002 Commerce One, Inc. changed its method of accounting for goodwill and certain other purchased intangible assets.

/s/ Ernst & Young LLP

Walnut Creek, California

January 27, 2003

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COMMERCE ONE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share, and per share data)

	December 31,	
	2002	**2001**
Assets		
Current assets:		
Cash and cash equivalents	$ 73,753	$ 192,547
Short term investments	3,510	81,346
Accounts receivable, net of allowance for doubtful accounts of $6.0 million at December 31, 2002 and $24.1 million at December 31, 2001[1]	7,373	45,877
Prepaid expenses and other current assets	4,923	9,762
Total current assets	89,559	329,532
Restricted cash, cash equivalents and short term investments	35,630	14,260
Property and equipment, net	9,761	64,908
Goodwill, net		164,679
Other intangible assets, net	18,449	244,855
Investments and other assets	6,023	10,707
Total assets	$ 159,422	$ 828,941
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 3,104	$ 23,773
Accrued compensation and related expenses	8,338	17,960
Deferred revenue[2]	23,546	57,367
Other current liabilities[3]	29,997	50,021
Total current liabilities	64,985	149,121
Notes payable	25,000	19,000
Non-current accrued restructuring charges	21,947	37,005
Commitment and Contingencies		
Stockholders equity:		
Common stock, par value $0.0001, 95,000,000 shares authorized; 29,276,716 and 28,752,021 issued and outstanding at December 31, 2002 and 2001, respectively	3,674,645	3,723,419
Deferred stock compensation	(4,385)	(66,772)
Note receivable from stockholder	(129)	(129)
Accumulated other comprehensive loss	(1,203)	(1,101)
Accumulated deficit	(3,621,438)	(3,031,602)
Total stockholders equity	47,490	623,815
Total liabilities and stockholders equity	$ 159,422	$ 828,941

Amounts included above from related parties (Note 10):		
(1) Accounts receivable, net	$ 947	$ 1,669
(2) Deferred revenue	$ 11,138	$ 35,458
(3) Other current liabilities	$ 418	$ 4,114

See accompanying notes.

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COMMERCE ONE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Years ended December 31,		
	2002	2001	2000
Revenues:			
License fees	$ 28,597	$ 130,917	$ 223,277
Services	76,932	277,652	178,519
Total revenues[(1)]	105,529	408,569	401,796
Costs and expenses:			
Cost of license fees[(2)]	192,406	662,315	14,910
Cost of services	68,233	228,023	139,746
Sales and marketing	78,945	183,412	168,647
Product development	76,922	118,159	102,676
General and administrative	25,615	116,621	43,236
Purchased in-process research and development		4,548	5,142
Stock compensation	8,728	98,302	39,820
Restructuring costs and other	22,947	126,605	
Amortization of goodwill and other intangible assets	11,867	332,789	233,183
Impairment of intangible assets, fixed assets and equity investments	214,082	1,120,464	
Total costs and expenses	699,745	2,991,238	747,360
Loss from operations	(594,216)	(2,582,669)	(345,564)
Interest income and other, net	4,681	7,571	7,017
Net loss before income taxes	(589,535)	(2,575,098)	(338,547)
Provision for income taxes	301	9,001	6,400
Net loss	$ (589,836)	$ (2,584,099)	$ (344,947)
Basic and diluted net loss per share	$ (20.33)	$ (103.02)	$ (20.52)
Shares used in calculation of net loss per share	29,011	25,084	16,807
(1) Revenue from related parties (Note 10)	$ 32,022	$ 97,741	$ 52,512
(2) Includes charges for the impairment and amortization of the Technology Agreement with Covisint (Notes 4 and 11)	$ 190,396	$ 647,500	$ 5,700

See accompanying notes.

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COMMERCE ONE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share data)

	Common Stock		Deferred Stock Compensation	Note Receivable from Shareholder	Accumulated Other Comprehensive Loss	Accumulate Deficit	Total
	Shares	Amount					
BALANCES AT DECEMBER 31, 1999	14,993,648	$ 423,839	$ (4,110)	$	$ (452)	$ (102,556)	$ 316,721
Issuance of common stock upon exercise of stock options	803,304	40,407					40,407
Issuance of common stock under employee stock purchase plan	198,534	11,221					11,221
Issuance of shares in connection with business combinations	2,988,970	1,774,339	(169,166)				1,605,173
Notes receivable from shareholder assumed in business combination				(133)			(133)
Payment of note receivable from stockholder assumed in business combination				4			4
Sale of common in connection with strategic partnerships, net of issuance cost	505,955	249,783					249,783
Contractual obligation to issue common stock in connection with Covisint agreement	2,880,000	880,200					880,200
Deferred stock compensation		20,174	(20,174)				
Amortization of deferred stock compensation			39,820				39,820
Issuance of warrants for services		1,524					1,524
Net loss						(344,947)	(344,947)
Foreign currency translation adjustment					(323)		(323)
Unrealized loss on investments					(39)		(39)
Comprehensive loss							(345,309)
BALANCES AT DECEMBER 31, 2000	22,370,411	3,401,487	(153,630)	(129)	(814)	(447,503)	2,799,411
Issuance of common stock upon exercise of stock options	429,331	6,961					6,961
Repurchase of common stock from terminated employees	(17,416)	(59)					(59)
Issuance of common stock under employee stock purchase plan	291,330	11,664					11,664
Issuance of common stock and assumption of stock options in connection with business combinations	807,858	74,768	(2,181)				72,587
Issuance of restricted common stock to employees	187,915	14,099	(14,099)				
Forfeiture of restricted common stock by employees upon termination	(65,885)	(4,836)	4,836				
Sale of common stock to SAP, net of issuance cost	4,748,477	219,335					219,335
Amortization of deferred stock compensation			98,302				98,302
Net Loss						(2,584,099)	(2,584,099)
					120		120

Foreign currency translation adjustment							
Unrealized loss on investments					(407)		(407)
Comprehensive loss							(2,584,386)
BALANCES AT DECEMBER 31, 2001	28,752,021	3,723,419	(66,772)	(129)	(1,101)	(3,031,602)	623,815
Issuance of common stock upon exercise of stock options	215,382	3,163					3,163
Repurchase of common stock from terminated employees	(9,661)	(53)					(53)
Issuance of common stock under employee stock purchase plan	358,760	2,275					2,275
Forfeiture of restricted common stock by employees upon termination	(39,786)	(2,958)	2,958				
Additional issuance cost on sale of common stock to SAP		(500)					(500)
Deferred compensation forfeited		(50,701)	50,701				
Amortization of deferred stock compensation			8,728				8,728
Net loss						(589,836)	(589,836)
Foreign currency translation adjustment					(490)		(490)
Unrealized gain on investments					388		388
Comprehensive loss							(589,938)
BALANCES AT DECEMBER 31, 2002	29,276,716	$ 3,674,645	$ (4,385)	$ (129)	$ (1,203)	$ (3,621,438)	$ 47,490

See accompanying notes.

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COMMERCE ONE OPERATIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31,		
	2002	**2001**	**2000**
Operating activities:			
Net loss	$ (589,836)	$ (2,584,099)	$ (344,947)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	30,733	45,375	15,339
Purchased in-process research and development		4,548	5,142
Amortization of cost of Technology Agreement with Covisint	10,428	55,188	5,689
Amortization of deferred stock compensation	8,728	98,302	39,820
Amortization of goodwill and other intangible assets	11,867	332,789	233,184
Impairment of goodwill and other intangible assets	189,344	1,098,869	
Impairment of Technology Agreement with Covisint	179,968	592,334	
Write down of investment in Covisint	4,255	21,595	
Loss on other investments	248	2,958	2,994
Loss on disposal of property and equipment		26,914	
Impairment of property and equipment	20,483		
Other	977		
Changes in operating assets and liabilities:			
Restricted cash and investments	(30,184)		
Accounts receivable, net	29,972	111,366	(91,043)
Prepaid and other current assets	7,980	8,221	(8,402)
Accounts payable	(20,014)	(5,075)	13,654
Accrued compensation and related expenses	(9,622)	(27,390)	26,612
Other current liabilities	(28,981)	(28,780)	29,967
Deferred revenue	(33,821)	(57,078)	71,894
Non-current accrued restructuring charges		37,005	
Net cash used in operating activities	(217,475)	(266,958)	(97)
Investing activities:			
Purchase of property and equipment, net	(6,503)	(39,491)	(79,158)
Proceeds from maturities of short term investments	130,550	204,709	82,880
Purchase of short term investments	(43,964)	(173,954)	(136,357)
Business combinations, net of cash acquired		(2,499)	8,773
Additional costs of Technology Agreement with Covisint, net		(2,815)	
Proceed from divestitures	10,734		
Other investments	1,569	3,191	(13,199)
Net cash provided by (used in) investing activities	92,386	(10,859)	(137,061)
Financing activities:			
Proceeds from issuance of common stock, net	4,885	237,901	301,411
Proceeds from borrowings on notes payable	25,423	19,000	
Payments on notes payable and capital lease obligations	(23,053)	(1,846)	(533)
Net cash provided by financing activities	7,255	255,055	300,878
Effect of foreign currency translation on cash and cash equivalents	(960)	120	(323)
Net (decrease) increase in cash	(118,794)	(22,642)	163,397

Cash balance at beginning of period	192,547	215,189	51,792
Cash balance at end of period	$ 73,753	$ 192,547	$ 215,189
Supplemental disclosures:			
Interest paid	$ 946	$ 351	$ 235
Cash paid for income taxes	$ 2,620	$ 4,307	$ 4,590
Non-cash investing and financing activities:			
Deferred stock compensation	$	$ 9,263	$ 20,174
Unrealized loss on investments	$ 388	$ 407	$ 39
Issuance of preferred stock, common stock and assumption of stock options in connection with business combinations	$	$ 74,768	$ 1,774,339
Deferred stock compensation related to stock option grants and options assumed in business combinations	$	$ 2,181	$ 12,821
Valuation of common stock to be issued in connection with Technology Agreement with Covisint	$	$	$ 849,350
Common stock warrant issued in connection with services provided	$	$	$ 1,524
Common stock issued in connection with equity interest in Covisint	$	$	$ 30,850

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE COMPANY

The Company was founded as Distrivision in 1994, and changed its name to Commerce One in 1997, and re-incorporated into Delaware in 1999. On July 11, 2001, the Company completed its reorganization into a holding company structure. Commerce One is a technology company that specializes in software and services that allow companies to conduct business more efficiently through business process automation and web services solutions. The Company s software provides the technology and infrastructure that enable companies to conduct business processes via the Internet or Intranets and to manage their supplier, partner and customer relationships more effectively. Commerce One s services operations support these software solutions and help companies take maximum advantage of the efficiencies that these solutions can offer. Together, the Company s software and services allow companies to automate business functions that traditionally involved costly and time-consuming phone calls and paperwork.

BASIS OF PRESENTATION

At December 31, 2002, the Company has $112.9 million cash and cash equivalents and investments, of which $77.3 million is unrestricted and available to fund operations, $24.6 million working capital and $3,621.4 million accumulated deficit. Furthermore, the Company expects to use approximately $39 million in cash to fund its operations in the first quarter of 2003. To date, the Company has funded its operations from revenue and equity financing. The Company plans to fund its current level of operations from a combination of available unrestricted cash and cash equivalents, investments and revenue. However, plans and future events are inherently uncertain. Therefore, should the Company s levels of revenue and cash, cash equivalents and investments fall short of the Company s expectations, the Company will take action to further reduce its operating expenses, primarily through reductions of personnel-related costs, and the Company believes such action, if needed, will allow the Company to have sufficient cash to finance its expected operating losses and working capital requirements through the 2003 calendar year.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain previously reported amounts have been reclassified to conform to the current presentation format.

The functional currency of the Company s foreign subsidiaries is the local currency. The Company translates all assets and liabilities to U.S. dollars at the current exchange rates as of the applicable balance sheet date. Revenue and expenses are translated using the average exchange rate for the period. Gains and losses resulting from the translation of the foreign subsidiaries financial statements are reported as a separate component of accumulated comprehensive other income (loss) in stockholders equity. Net gains and losses resulting from foreign exchange transactions, which are recorded in the statement of operations, were not significant during any of the periods presented.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates and assumptions made by management involve revenue recognition, the establishment of provisions for bad debts and warranty, the determination of the fair value of stock awards to employees for purposes of the pro forma disclosures. the valuation of goodwill, other intangible assets, fixed assets, and equity investments, and the restructuring accruals related to office closures.

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CASH AND CASH EQUIVALENTS

Cash equivalents are highly liquid investments with insignificant interest rate risk and maturities of 90 days or less at the date of purchase and are stated at amounts that approximate fair value. Cash equivalents consist principally of investments in short-term money market instruments and certificates of deposit.

SHORT TERM INVESTMENTS

Short-term investments consist principally of commercial paper, corporate notes and bonds, government notes and bonds and certificates of deposit with maturities greater than 90 days and are stated at amounts that approximate fair value.

The Company accounts for its short term investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date.

The Company has classified its short-term investments as available-for-sale. Available-for-sale investments are recorded at fair value based on quoted market prices at December 31, 2002 and 2001, with unrealized gains and losses reported as other comprehensive income (loss) and included within accumulated other comprehensive income (loss) in the statement of stockholders equity. Realized gains and losses, which have been immaterial to date, are included in interest and other income and are derived using the specific identification method for determining the cost of investments sold. Dividend and interest income is recognized when earned.

As of December 31, 2002, all of the Company s short-term investments have a contractual maturity date that is less than one year from December 31, 2002. The following summarizes the fair value of the Company s short-term investments at December 31, 2002 (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government notes and bonds	$8,928	$ 2	$	$8,930
Certificates of deposit	26			26
	$8,954	$ 2	$	$8,956

Short-term investments as of December 31, 2002 included approximately $26,000 and $5.4 million in certificates of deposit and government notes and bonds, respectively, which collateralized certain of the Company s obligations related to operating lease agreements for office facilities.

The following summarizes the fair value of the Company s short-term investments at December 31, 2001 (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$30,916	$ 28	$	$30,944
Government notes and bonds	32,973	13	(2)	32,984
Corporate notes and bonds	20,648	27		20,675
Certificates of deposit	11,003			11,003
	$95,540	$ 68	$(2)	$95,606

Short-term investments as of December 31, 2001 included approximately $8.0 million and $6.3 million in certificates of deposit and government notes and bonds, respectively, which collateralized certain of the Company s obligations related to operating lease agreements for office facilities, potential workers compensation claims and guarantees of a personal home mortgage for an executive officer.

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RESTRICTED CASH, CASH EQUIVALENTS, AND SHORT TERM INVESTMENTS

Restricted cash, cash equivalents, and short-term investments totaled $35.6 million and $14.3 million as of December 31, 2002 and 2001, respectively. In 2002, these amounts collateralize the Company s obligations related to operating lease agreements for office facilities and a bank note payable. In 2001, these amounts collateralized the Company s obligations related to operating lease agreements for office facilities, potential worker compensation claims, and the guarantee of a personal home mortgage for an executive officer.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows: computer equipment, office equipment, furniture and fixtures are depreciated over three years, and leasehold improvements are depreciated over the shorter of the remaining term of the related lease or the estimated economic useful life of the improvement. Equipment acquired under capital leases is depreciated over the shorter of the expected useful life or the related lease term.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets result from business combinations accounted for under the purchase method and intellectual property that is comprised of the cost incurred filing for original patents. Intangible assets related to acquired technology, trademarks, patents and other intangible assets acquired through business combinations are being amortized on a straight-line method over the estimated useful life of the related asset, generally one to five years, and intellectual property related to original patents is being amortized over an estimated useful life of ten years. Effective July 1, 2001 the Company adopted certain provisions of SFAS 141, Business Combinations , and on January 1, 2002, the Company adopted the full provisions of SFAS 141 and SFAS 142, Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and also specifies the criteria for the recognition of intangible assets separately from goodwill. Under the new rules, goodwill is no longer amortized but is subject to an impairment test at least annually. SFAS 141 specifically identified assembled workforce as an intangible asset that is not to be recognized apart from goodwill and it was subsumed into goodwill on January 1, 2002. Other intangible assets that meet the new criteria continue to be amortized over their useful lives. In 2002, goodwill was evaluated for impairment and deemed to be fully impaired as of December 31, 2002. The Company also evaluates potential impairments of its long-lived assets, including intangibles. When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more indicators of impairment, the Company evaluates the expected undiscounted cash flows related to the assets. If these cash flows are less than the carrying value of the assets, the Company measures the impairment using discounted cash flows.

LONG-LIVED ASSETS

The Company adopted SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, on January 1, 2002. SFAS 144 supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The primary objectives of SFAS 144 are to develop one accounting model based on the framework established in SFAS 121 for long-lived assets to be disposed of by sale, and to address significant implementation issues.

Long-lived assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. The Company does not perform a periodic assessment of assets for impairment in the absence of such information or indicators. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference

between the carrying amount and fair value. Long-lived assets held for sale are reported at the lower of cost or fair value less costs to sell.

SOFTWARE DEVELOPMENT COSTS

The Company accounts for software development costs in accordance with the Financial Accounting Standards Board (referred to as FASB) No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, under which certain software development costs incurred subsequent to the establishment of technological feasibility are capitalized and amortized over the estimated lives of the related products. Technological feasibility is established upon completion of a working model. Development costs incurred subsequent to the establishment of technological feasibility have not been significant, and all software development costs have been charged to product development expense in the accompanying consolidated statements of operations.

CONCENTRATION OF CREDIT RISK AND CREDIT EVALUATIONS

Financial instruments which potentially subject the Company to concentrations of risk include cash, cash equivalents, short-term investments and accounts receivable. The Company s investment policies limit cash equivalents and short-term investments to short-term, low risk investments. Cash and cash equivalents, short-term investments are held with a domestic financial institution with high credit standing. For the year ended December 31, 2002, transactions with SAP AG (SAP) accounted for approximately 24.8% of the Company s total revenues. For the year ended December 31, 2002, one other customer accounted for more than 11% of the Company s total revenues. For the year ended December 31, 2001, transactions with SAP accounted for approximately 19.4% of the Company s total revenues. For the years ended December 31, 2001 and 2000, no other customer accounted for more than 10% of the Company s total revenues. At December 31, 2002, no customers accounted for more than 10% of the Company s gross accounts receivable balance. At December 31, 2001, two customers accounted for 13% and 12% of the Company s gross accounts receivable balance. The Company performs ongoing credit evaluations of its customers and does not typically require collateral or guarantees. Management maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company s customers to make required payments. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make such payments, increases in the allowance may be required.

REVENUE RECOGNITION

The Company s revenue recognition policies are consistent with Statement of Position 97-2 Software Revenue Recognition, as modified by Statement of Position 98-9.

Revenues from license agreements for software products are recognized upon delivery of the software if there is persuasive evidence of an arrangement, collection is probable and the fee is fixed or determinable. When software is licensed to third parties through indirect sales channels, generally license fees are recognized as revenue under the sell-through method, when the criteria described above have been met and the reseller has sold the software to an end-user customer. While the Company generally does not license software under barter or concurrent arrangements, whenever software has been licensed under such arrangements the Company has recognized revenue equal to the net monetary amounts to be received by the Company.

The Company reduces license revenue to reflect estimated product returns. While as a matter of contract and general practice, the Company does not accept the return of software products after the expiration of any acceptance period, unforeseen contractual disputes with customers may require us to accept the return of a product. Should actual product returns differ from estimates, revisions to the product return allowance would be required.

The Company charges estimated product warranty costs to cost of licenses at the time revenue is recognized. While the Company engages in extensive product quality programs and processes prior to the release of software, unforeseen product errors may exist in our products that may require us to incur costs to correct or replace the

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affected products. Should actual costs differ from its estimates, revisions to the estimated warranty costs would be required.

Revenues from professional services contracts are generally recognized on a time and material basis. However, when contracts have a fixed price revenue is recognized on the percentage-of-completion method, with costs and estimated profits recorded as work is performed. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in contract performance and estimated profitability, including final contract settlements, may result in revisions to costs and revenues, which are recognized in the period in which the revisions are determined.

If a customer transaction includes both software license and services elements or the rights to multiple software products, the total arrangement fee is allocated to each of the elements using the residual method, under which revenue is allocated to undelivered elements based on vendor specific objective evidence of the fair values of such undelivered elements and the residual amounts of revenue are allocated to the delivered elements.

Revenue is recognized using contract accounting for arrangements involving significant customization or modifications of the software or where professional services are considered necessary to the functionality of the software. Revenue from these software and services arrangements is recognized using the percentage of completion method.

Software maintenance revenues, subscription and hosting fees are recognized ratably over the term of the related contract, typically one year, in accordance with revenue recognition criteria.

Network service fees (transaction fees and revenue sharing), which have not been significant, are recognized as earned based on customer transactions.

Deferred revenue consists of license fees for which revenue recognition criteria have not been met and prepaid fees for services, subscription fees, and maintenance and support agreements.

STOCK-BASED COMPENSATION

The Company generally has three categories of employee stock-based awards: restricted stock, stock options and a stock purchase plan, which are more fully described in Note 11 Stockholders Equity. The Company accounts for employee stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25) and has adopted the disclosure-only alternative of SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Under the intrinsic value method, the Company has only recorded stock-based compensation resulting from restricted stock issued and options assumed in various prior period acquisitions.

Restricted stock is measured at fair value on the date of grant based on the number of shares granted and the quoted price of the Company s common stock. Such value is recognized as an expense ratably over the corresponding employee service period. To the extent restricted stock or restricted stock units are forfeited prior to vesting, the corresponding previously recognized expense is reversed as an offset to Stock-based compensation. Stock-based compensation associated with restricted stock was $2.7 million during 2002.

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The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 as amended by SFAS 148 to stock-based employee compensation (in thousands except per share data):

	Years ended December 31,		
	2002	2001	2000
Net income as reported	$ (589,836)	$ (2,584,099)	$ (344,947)
Add: Stock-based compensation cost, included in the determination of net income as reported	8,728	98,302	39,820
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards	(42,344)	120,723	(543,710)
Proforma net loss	$ (623,452)	$ (2,365,074)	$ (848,837)
Loss per share:			
Basic and diluted as reported	(20.33)	(103.02)	(20.52)
Basic and diluted pro forma	(21.49)	(94.29)	(50.50)

The weighted average fair value of stock options granted during 2002, 2001 and 2000 was $4.33, $40.80 and $470.60, respectively. The weighted-average fair value for stock options granted were calculated using the Black-Scholes option-pricing model based on the following assumptions:

	2002	2001	2000
Volatility	148%	146%	135%
Weighted-average estimated life	3 years	3 years	3 years
Weighted-average risk-free interest rate	4.6%	5.0%	6.2%
Dividend yield			

The weighted average fair value of shares issued under the employee stock purchase plan during 2002, 2001, and 2000 was $5.26, $68.06, and $273.65, respectively. The weighted-average fair value of shares issued under the employee stock purchase plan was calculated using the Black-Scholes option-pricing model based on the following assumptions:

	2002	2001	2000
Volatility	148%	146%	135%
Weighted-average estimated life	6 months	6 months	6 months
Weighted-average risk-free interest rate	4.6%	5.0%	6.2%
Dividend yield			

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense was approximately $779,000, $5,981,000 and $9,368,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, which requires the use of the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

NET LOSS PER SHARE

Basic and diluted net loss per share information for all periods is presented under the requirements of SFAS No. 128, Earnings per Share. Basic earnings per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase and forfeiture, and

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excludes any dilutive effects of options, warrants, and convertible securities. Potentially dilutive securities have also been excluded from the computation of diluted net loss per share as their inclusion would be antidilutive.

The calculation of basic and diluted net loss per share is as follows (in thousands, expect per share data):

	Years ended December 31,		
	2002	**2001**	**2000**
Net loss	$(589,836)	$(2,584,099)	$(344,947)
Weighted average shares of common stock outstanding	29,074	25,250	16,964
Less: weighted average shares subject to repurchase and forfeiture	(63)	(166)	(157)
Weighted average shares of common stock outstanding used in computing basic and diluted net loss per share	29,011	25,084	16,807
Basic and diluted net loss per share	$ (20.33)	$ (103.02)	$ (20.52)

If the Company had reported net income, the calculation of diluted earnings per share would have included, approximately, an additional 584,000, 2,327,300, and 2,223,100 common equivalent shares related to outstanding stock options and warrants not included above (determined using the treasury stock method) for the years ended December 31, 2002, 2001 and 2000, respectively.

COMPREHENSIVE LOSS

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in stockholders equity that are excluded from net loss. Other comprehensive income (loss) includes unrealized gains and losses and currency translation adjustments. At December 31, 2002 and 2001 cumulative unrealized losses totaled $0.1 million and $0.4 million, respectively, and cumulative currency translation adjustments totaled $1.1 million and $0.7 million, respectively. Comprehensive income (loss) for the years ended December 31, 2002, 2001 and 2000 has been reflected in the Consolidated Statements of Stockholders Equity.

EFFECTS OF NEW ACCOUNTING STANDARDS

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (referred to as EITF) Issue No. 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) . SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity s commitment to an exit plan as required under EITF Issue No. 94-3. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 may affect the timing of recognizing future restructuring costs and the amounts recognized under such costs. SFAS No. 146 is not expected to have a material impact on the Consolidated Financial Statements.

In November 2002, the FASB issued FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others . FIN 45 requires that the Company recognize the fair value for guarantee and indemnification arrangements issued or modified by the Company after December 31, 2002, if these arrangements are within the scope of the Interpretation. In addition, the Company must continue to monitor the conditions that are subject to the guarantees and indemnifications, as required under previously existing generally accepted accounting principles, in order to identify if a loss has occurred. If the Company determines it is probable that a loss has occurred then any such estimable loss would be recognized under those guarantees and indemnifications. Some of the software licenses granted by the Company contain provisions that indemnify licensees of the Company s software from damages and costs resulting from claims alleging that the Company s software infringes the intellectual property rights of a third party. The Company has historically received only

a limited number of requests for indemnification under these provisions and has not been required to make material payments pursuant to these provisions. Accordingly, the Company has not

recorded a liability related to these indemnification provisions. The Company does not have any guarantees or indemnification arrangements other than the indemnification clause in some of its software licenses. The Company will be required to implement the provisions of FIN 45 as of January 1, 2003 and does not believe that FIN 45 will have a material impact on its financial position, results of operations or cash flows.

REVERSE STOCK SPLIT

On September 16, 2002, the Company completed a reverse stock split where ten shares of common stock outstanding were converted into one share of common stock. All references in the consolidated financial statements and notes thereto with respect to the number of shares, per share amounts and market prices of the Company s common stock have been restated to reflect the effect of the reverse stock split.

2. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following (in thousands):

	December 31,	
	2002	**2001**
Accounts receivable	$10,347	$59,390
Unbilled accounts receivable	3,027	10,564
	13,374	69,954
Less accounts receivable allowances	6,001	24,077
	$ 7,373	$45,877

Unbilled accounts receivable result from professional services provided to customers that have not yet been formally invoiced as of the reporting date. Such amounts are generally invoiced within fifteen business days of the end of the period in which services are provided.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	December 31,	
	2002	**2001**
Computer and office equipment	$7,417	$ 74,825
Furniture and fixtures	2,344	24,635
Leasehold improvements		15,660
Work in process		674
	9,761	115,794
Less accumulated depreciation and amortization		50,886
	$9,761	$ 64,908

Depreciation expense was approximately $30.7 million in 2002, $45.4 million in 2001 and $15.3 million in 2000. In accordance with SFAS 144 (See Note 4), an impairment charge was recorded for all long-lived assets whose carrying value exceeded their estimated fair value. As a result, the Company recorded impairment charges of $20.5 million for property and equipment during the year ended December 31, 2002 to reduce the book value to the estimated fair value.

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4. GOODWILL, LONG LIVED ASSETS AND OTHER INTANGIBLE ASSETS

Other intangible assets, which result from acquisitions accounted for under the purchase method and the Covisint Technology Agreement entered into in December 2000, consists of the following (in thousands):

	December 31,	
	2002	**2001**
Covisint Technology Agreement	$15,943	$ 267,215
Core and developed technology	1,431	34,742
Assembled workforce		29,273
Customer contracts		7,900
Other	1,075	16,519
	18,449	355,649
Less accumulated amortization		(110,794)
Other intangible assets, net	$18,449	$ 244,855

Changes in the net carrying amount of goodwill in 2002 are as follows (in thousands):

Balance as of December 31, 2001	$ 164,679
Reclassification of intangible asset assembled workforce into goodwill, net	15,700
Exterprise goodwill adjustment for final purchase accounting	(545)
Impairment	(179,834)
Balance as of December 31, 2002	$

Changes in the net carrying amount of goodwill in 2001 are as follows (in thousands):

Balance as of December 31, 2000	$ 1,511,035
Goodwill recorded from the purchase of Exterprise	54,786
Appnet goodwill adjustment for final purchase accounting	(687)
Impairment	(1,095,335)
Goodwill amortization	(305,120)
Balance as of December 31, 2001	$ 164,679

Amortization expense of our goodwill and other intangible assets are as follows (in thousands):

	December 31,		
	2002	**2001**	**2000**

Goodwill amortization	$	$305,120	$212,993
Covisint technology agreement amortization	10,428	55,188	5,689
Acquisition related intangible asset amortization	11,824	27,669	20,190
Intellectual property amortization	43		
Total	$22,295	$387,977	$238,872

Intangible assets related to acquired technology, trademarks, patents and other intangible assets acquired through business combinations are being amortized on a straight-line basis over the estimated useful life of the related asset, generally one to five years, and intellectual property related to original patents is being amortized over an estimated useful life of ten years.

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The expected future annual amortization expense of our other intangible assets is as follows (in thousands):

For the Year Ending December 31,	Amortization Expense
2003	$ 2,584
2004	2,584
2005	2,584
2006	2,107
Thereafter	8,590
Total expected future amortization	$18,449

In accordance with SFAS 141 and 142, the Company discontinued the amortization of goodwill and assembled workforce beginning January 1, 2002. A reconciliation of previously reported net income (loss) and earnings per share to the amounts adjusted for the exclusion of goodwill amortization and the amortization of assembled workforce is as follows (in thousands, except per share amounts):

	For the years ended December 31,		
	2002	2001	2000
Net Loss:			
Reported net loss	$(589,836)	$(2,584,099)	$(344,947)
Goodwill amortization		305,120	212,993
Assembled workforce amortization		9,959	4,189
Adjusted net loss	$(589,836)	$(2,269,020)	$(127,765)

	For the years ended December 31,		
	2002	2001	2000
Basic and diluted loss per share:			
Reported net loss	$(20.33)	$(103.02)	$(20.52)
Goodwill amortization		12.16	12.67
Assembled workforce amortization		0.40	0.25
Adjusted basic and diluted net loss per share	$(20.33)	$ (90.46)	$ (7.60)

Under SFAS No. 142, intangible assets with finite lives that continue to be amortized should be reviewed for impairment in accordance with SFAS No. 144. An impairment assessment is required whenever events or changes in circumstances indicate that the carrying value may not be recoverable. During the quarter ended March 31, 2002, the Company identified indicators of possible impairment relating to the Technology Agreement with Covisint. The impairment indicators included, but were not limited to, significant negative industry and economic trends, which resulted in a reduction of forecasted cash flows related to the Technology Agreement.

In accordance with SFAS No. 144, the Company performed, with the assistance of independent valuation experts, an impairment test of the carrying value of the Technology Agreement to determine whether any impairment existed. The Company determined that the sum of the expected undiscounted cash flows attributable to the Technology Agreement was less than its carrying value and that an impairment write-down was required. Accordingly, the Company calculated the estimated fair value of the intangible asset by summing the present value of the expected cash flows over its life. The impairment was calculated by deducting the present value of the expected cash flows from the carrying value. This assessment resulted in an impairment write-down of $145.8 million in relation to the Technology Agreement, which was charged to cost of license fees during the quarter ended March 31, 2002.

During the quarter ended December 31, 2002, the Company identified indicators of possible impairment relating to property, plant, and equipment and intangible assets other than goodwill. These indicators included but were not limited to a history of negative cash flows and operating losses and significant negative industry and economic trends. The Company performed, with the assistance of independent valuation experts, an impairment test of the carrying value of these long-lived and intangible assets to determine whether any impairment existed.

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The Company determined that the sum of the expected undiscounted cash flows attributable to the assets was less than the carrying value of the assets and that an impairment existed. The Company determined fair value for long-lived assets by using market values when available. If no market existed for the asset, the Company used independent valuation experts to calculate fair value as the sum of the discounted cash flows attributable to the assets. The impairment was calculated by deducting the established fair value from the carrying value. As a result, the Company recorded impairment charges of $20.5 million for property and equipment, $9.5 million for intangible assets other than goodwill, and $34.2 million for the Covisint Technology agreement during the year ended December 31, 2002.

Effective July 1, 2001, the Company adopted certain provisions of Statement of Financial Standards (SFAS) No. 141, and effective January 1, 2002, the Company adopted the full provisions of SFAS No. 141 and SFAS No. 142. SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets apart from goodwill. The Company evaluated its goodwill and other intangible assets acquired prior to June 30, 2001 using the transition criteria of SFAS No. 141, which resulted in $15.7 million of other intangible assets (comprised entirely of assembled workforce) being subsumed into goodwill as of January 1, 2002. SFAS No. 142 requires that purchased goodwill and certain indefinite-lived intangible assets no longer be amortized, but instead be tested for impairment at least annually.

During the fourth quarter of 2002, the Company prepared its required SFAS 142 impairment test. The Company s fair value, established using the market method, was below its carrying value as of December 31, 2002, indicating that a potential impairment to goodwill existed. The Company then calculated the potential impairment by establishing the fair value of goodwill and subtracting this fair value from the carrying value of goodwill. In accordance with FAS No. 142, the fair value of goodwill is an implied value and is calculated by subtracting the fair value of the net assets of the Company (other than goodwill) from the fair value of the Company. The fair value of net assets includes determining the fair value of any unrecognized intangible assets. The Company engaged an independent valuation firm in order to establish fair values for any unrecognized intangible assets. The impairment was then calculated by deducting the fair value of goodwill from the carrying value of goodwill. This calculation resulted in an impairment charge of $179.8 million, which brought the carrying value of goodwill to zero.

During 2001, in accordance with the provisions of SFAS No. 121, Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed of, the Company performed, with the assistance of independent valuation experts, impairment tests to determine whether any impairment existed. The Company determined that the sum of the expected undiscounted cash flows attributable to certain of its intangible assets was less than the carrying value of those intangible assets. Accordingly, the Company calculated the estimated fair value of the assets by summing the present value of the expected cash flows over the life of the assets. The impairment was calculated by deducting the present value of the expected cash flows from the carrying value of the intangible assets. Based on the results of these tests, the Company determined that the carrying values of goodwill and other intangible assets related to AppNet, the Technology Agreement with Covisint, and CommerceBid were not recoverable and therefore had suffered impairment.

This assessment resulted in write-downs during the second quarter of 2001 of $1,098.9 million to record the amount by which the carrying amounts of the goodwill and other intangible assets related to AppNet and CommerceBid exceeded their respective fair values. Further, an impairment write-down of $592.3 million was recorded in relation to the Technology Agreement with Covisint, and this amount was charged to cost of license fees.

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5. INVESTMENTS AND OTHER ASSETS

Investments and other assets consists of the following (in thousands):

	December 31,	
	2002	2001
Investment in Covisint	$5,000	$ 9,255
Non-current prepaid software licenses	308	592
Other	715	860
	$6,023	$10,707

The Company has made several strategic investments in privately held companies and two publicly traded companies and has an investment in Covisint (Note 11). The Company owns less than a 5% interest in these companies and does not have a significant influence over these companies. Investments in publicly traded companies are carried at fair value, based on quoted market prices, with unrealized gains and losses recorded in equity. Investments in private companies are recorded at cost. These investments are periodically evaluated for declines in value that are considered other than temporary. During the fiscal year 2002, the Company recorded an investment loss of $4.3 million related to the investment in Covisint. This loss was partially offset by an approximate $0.4 million gain from the sale of the investments in publicly traded companies. As a result, the Company recorded total investment losses of approximately $3.9 million.

6. OTHER CURRENT LIABILITIES

Other accrued liabilities consist of the following (in thousands):

	December 31,	
	2002	2001
Accrued restructuring costs	$14,423	$18,839
Income taxes payable	4,688	10,055
Royalty, referral, and marketing commitment payable	1,821	5,225
Accruals related to business combinations		5,112
Professional fees (legal, tax, and accounting)	1,040	1,189
Customer deposits	157	
Deferred rent	2,578	1,786
Other	5,290	7,815