

2005 Recap: Focus on Financial Stability

i2 had a very busy year in 2005, with one of its key initiatives to improve financial stability. The company closed 2005 with a much stronger balance sheet and renewed confidence in its financial future. It executed its financial and business turnaround in three quarters, improving its capital structure and easing fears surrounding its financial viability.

The turnaround got its start with a 1-for-25 reverse split of i2's common stock in February. The reverse split helped meet the requirements for re-listing on the NASDAQ National Market, and i2's stock was re-listed under the symbol ITWO on July 21, 2005.

In the second half of the year, i2 divested two non-core business units, Trade Service Corporation and Content and Data Services. Although these were both good businesses, they were no longer strategic to i2's plans to be the leader in next-generation supply chain management solutions. There was some minor dilution in i2's earnings stream, but additional cash proceeds of approximately \$32 million were realized as a result of these divestitures.

Some of the biggest changes to i2's balance sheet revolved around the restructuring of our capital structure. During the second half of 2005, i2 redeemed \$285 million of the remaining \$310 million of its 5.25 percent convertible subordinated notes and \$6.8 million promissory note. This was critical because these notes are due on December 15, 2006.

By the end of 2005, i2 had recorded three consecutive quarters of solid operating profit. Despite cutting operating expenses by approximately \$80 million over 2004, total operating revenue grew 2 percent year-over-year. The primary driver of this growth was from i2's software solutions revenue, which increased 67 percent over that of 2004.

All of these events were critical to i2's enhanced liquidity position. At the end of 2005, total cash balances, including restricted cash, were \$117.7 million. This cash balance is greater than total debt by \$17 million. Of current debt balances, only \$25 million is due by the end of 2006, and the remaining debt is due in 2015.

What a difference a year makes! While there are still challenges, i2 starts 2006 with a solid financial position, including a new capital structure, consecutive quarters of operating profitability, positive operating cash flow in the last quarter and a streamlined cost structure.

In 2006 i2 will continue to focus on operational excellence, increasing market share and becoming the leader in next-generation supply chain management solutions. i2 will seek continued efficiency in selling and strategic ways to grow the business, so that we can continue to deliver results that our customers, partners and employees deserve.

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